

TOWN OF WELAKA,
FLORIDA

AUDIT REPORT

SEPTEMBER 30, 2009

**Town of Welaka, Florida
Audit Report
September 30, 2009**

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Independent Auditors' Report

The Honorable Mayor and
Members of the Town Council
Town of Welaka, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Welaka, Florida (the "Town"), as of and for the year ended September 30, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town as of September 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2010 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Honorable Mayor and Members of the Town Council
Town of Welaka, Florida
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Management's Discussion and Analysis and the budgetary comparison schedule listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Carr, Riggs & Ingram LLC

March 1, 2010
Palatka, Florida

Management's Discussion and Analysis

This discussion and analysis of the Town of Welaka's financial performance provides an overview of the Town's financial activities for the fiscal year ended September 30, 2009. Please read it in conjunction with the Town's financial statements, which follow this section.

The following are various financial highlights for fiscal year 2008/2009:

- The Town's overall net assets increased by \$280,508. Net assets of business-type activities decreased by \$43,871, while net assets of governmental activities increased by \$324,379.
- Total ending unrestricted net assets were \$1,105,154.
- The Town had total expenses for the year of \$1,341,502, compared to revenues of \$1,622,010.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This annual report contains government-wide financial statements that report on the Town's activities as a whole and fund financial statements that report on the Town's individual funds.

Government-wide Financial Statements

The first financial statement is the Statement of Net Assets. This statement includes all of the Town's assets and liabilities using the accrual basis of accounting. Accrual accounting is similar to the accounting used by most private-sector companies. All of the current year revenues and expenditures are recorded, regardless of when cash is received or paid. Net assets-the difference between assets and liabilities-can be used to measure the Town's financial position.

The second financial statement is the Statement of Activities. This statement is also shown using the accrual basis of accounting. It shows the increases and decreases in net assets during the fiscal year. Over time, the increases or decreases in net assets are useful indicators of whether the Town's financial health is improving or deteriorating. However, other non-financial factors, such as road conditions or changes in the tax base, must also be considered when assessing the overall health of the Town.

In these statements, the Town's activities are divided as follows:

- **Governmental activities** – Most of the Town's basic services are reported here, including administration, law enforcement, roads, and maintenance. Taxes and grants finance most of these activities.
- **Business-type activities** – These activities are financed in whole or in part by fees charged to external parties for good or services. The activities of the utility system are reported as business-type activities.

Fund Financial Statements

Following the government-wide financial statements are the fund financial statements. They provide more detailed information about the Town's funds.

- Governmental funds – The Town's only governmental fund is the general fund. This fund is accounted for using modified accrual accounting. Modified accrual accounting focuses on available cash and other financial assets that can readily be converted to cash. This provides a shorter-term view of the governmental fund's financial position. A reconciliation is provided with these statements, which helps to explain the difference between the fund financial statements and the government-wide financial statements.
- Proprietary funds – The Utilities fund is considered to be a proprietary fund. Proprietary funds are reported using the accrual basis of accounting and, accordingly, there is a correlation between the amounts reported in the fund financial statements and the amounts reported in the government-wide financial statements.

CONDENSED FINANCIAL INFORMATION

The following table presents condensed, government-wide comparative data about net assets and changes in net assets.

	Net Assets					
	Governmental Activities 2008/2009	Business-Type Activities 2008/2009	Total 2008/2009	Governmental Activities 2007/2008	Business-Type Activities 2007/2008	Total 2007/2008
Assets:						
Non-capital Assets	\$ 511,725	\$ 810,102	\$ 1,321,827	\$ 315,665	\$ 728,760	\$ 1,044,425
Capital Assets	1,536,075	6,257,668	7,793,743	1,440,101	6,419,956	7,860,057
Total Assets	2,047,800	7,067,770	9,115,570	1,755,766	7,148,716	8,904,482
Liabilities:						
Current Liabilities	44,771	117,484	162,255	189,897	79,448	269,345
Long-term Liabilities	121,000	1,258,950	1,379,950	8,219	1,334,061	1,342,280
Total Liabilities	165,771	1,376,434	1,542,205	198,116	1,413,509	1,611,625
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	1,382,130	4,926,873	6,309,003	1,251,578	5,038,546	6,290,124
Restricted	-	159,208	159,208	-	150,693	150,693
Unrestricted	499,899	605,255	1,105,154	306,072	545,968	852,040
Total Net Assets	\$ 1,882,029	\$ 5,691,336	\$ 7,573,365	\$ 1,557,650	\$ 5,735,207	\$ 7,292,857

	Governmental Activities 2008/2009	Business-Type Activities 2008/2009	Total 2008/2009	Governmental Activities 2007/2008	Business-Type Activities 2007/2008	Total 2007/2008
Program Revenues:						
Charges for Services	\$ 28,446	\$ 608,112	\$ 636,558	\$ 17,836	\$ 653,336	\$ 671,172
Operating Grants & Contributions	21,165	120,089	141,254	24,362	-	24,362
Capital Grants & Contributions	268,161	-	268,161	79,714	60,033	139,747
General Revenues:						
Property Taxes	404,097	-	404,097	350,656	-	350,656
Other Taxes & Shared Revenues	147,593	-	147,593	148,993	-	148,993
Interest Income	4,998	13,964	18,962	4,018	15,748	19,766
Miscellaneous	3,877	1,508	5,385	7,877	3,220	11,097
Transfers	3,703	(3,703)	-	3,698	(3,698)	-
Total Revenues	882,040	739,970	1,622,010	637,154	728,639	1,365,793
Program Expenses:						
General Government	226,945	-	226,945	273,547	-	273,547
Public Safety	82,193	-	82,193	81,958	-	81,958
Transportation	94,049	-	94,049	86,460	-	86,460
Human Services	26,459	-	26,459	18,290	-	18,290
Culture & Recreation	128,015	-	128,015	77,647	-	77,647
Utilities	-	783,841	783,841	-	669,827	669,827
Total Expenses	557,661	783,841	1,341,502	537,902	669,827	1,207,729
Change in Net Assets	324,379	(43,871)	280,508	99,252	58,812	158,064
Beginning Net Assets	1,557,650	5,735,207	7,292,857	1,458,398	5,676,395	7,134,793
Ending Net Assets	<u>\$ 1,882,029</u>	<u>\$ 5,691,336</u>	<u>7,573,365</u>	<u>\$ 1,557,650</u>	<u>\$ 5,735,207</u>	<u>7,292,857</u>

OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

Governmental Activities

The governmental activities generated \$317,772 in program revenues and \$560,565 of general revenues, transferred in \$3,703 and incurred \$557,661 of program expenses. This resulted in a \$324,379 increase in net assets.

Business-type Activities

Total revenues of the Utilities Fund were \$743,673, compared to expenses and transfers out of \$783,841 and \$3,703, respectively. This resulted in a loss for the year of \$43,871.

THE TOWN'S INDIVIDUAL FUNDS

General Fund

The General Fund's fund balance increased by \$192,227 from \$314,072 to \$506,299.

Utilities Fund

The Utilities Fund net assets decreased by \$43,871, from \$5,735,207 to \$5,691,336 due to the reduction in hook-up fees and the reduction of minimum utility bills.

Budgetary Highlights

Revenues of the General Fund were \$182,834 below the budgeted amounts. The largest variances between final budget amounts and actual results occurred with intergovernmental revenues, due to less grant proceeds being received than anticipated.

General Fund expenditures were below budgeted amounts. This was primarily due to grant projects budgeted but not spent.

Capital Assets

The Town had significant capital asset activity during the year due to grant money received for park improvements. Please refer to a note to the accompanying financial statements entitled ***Capital Asset Activity*** for more detailed information about the Town's capital asset activity.

Debt Administration

Please refer to a note to the accompanying financial statements entitled ***Long-term obligations*** for more detailed information about the Town's long-term debt activity.

ECONOMIC FACTORS

We are not currently aware of any other conditions that are expected to have a significant effect on the Town's financial position or operations.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Welaka Town Hall at P.O. Box 1098, Welaka, Florida, 32193.

Town of Welaka, Florida
Statement of Net Assets
September 30, 2009

	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Cash and Equivalents	\$ 403,307	\$ 308,525	\$ 711,832
Investments	85,285	280,151	365,436
Accounts Receivable	-	56,959	56,959
Due From Other Governments	22,292	-	22,292
Other Assets	841	-	841
Restricted Investments	-	164,467	164,467
Capital Assets:			
Non-Depreciable	19,258	102,260	121,518
Depreciable, Net	<u>1,516,817</u>	<u>6,155,408</u>	<u>7,672,225</u>
TOTAL ASSETS	<u>2,047,800</u>	<u>7,067,770</u>	<u>9,115,570</u>
<u>LIABILITIES</u>			
Accounts Payable and Accrued Liabilities	5,426	11,695	17,121
Deposits	-	23,639	23,639
Noncurrent Liabilities:			
Due Within One Year	39,345	82,150	121,495
Due in More Than One Year	<u>121,000</u>	<u>1,258,950</u>	<u>1,379,950</u>
TOTAL LIABILITIES	<u>165,771</u>	<u>1,376,434</u>	<u>1,542,205</u>
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	1,382,130	4,926,873	6,309,003
Restricted	-	159,208	159,208
Unrestricted	<u>499,899</u>	<u>605,255</u>	<u>1,105,154</u>
TOTAL NET ASSETS	<u>\$ 1,882,029</u>	<u>\$ 5,691,336</u>	<u>\$ 7,573,365</u>

See accompanying notes.

**Town of Welaka, Florida
Statement of Activities
For the Year Ended September 30, 2009**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
GOVERNMENTAL ACTIVITIES:							
General Government	\$ 226,945	\$ 5,343	\$ -	\$ -	\$ (221,602)	\$ -	\$ (221,602)
Public Safety	82,193	6,101	-	13,747	(62,345)	-	(62,345)
Physical Environment	-	16,562	3,115	-	19,677	-	19,677
Transportation	94,049	-	17,332	41,629	(35,088)	-	(35,088)
Human Services	26,459	-	-	-	(26,459)	-	(26,459)
Culture and Recreation	128,015	440	718	212,785	85,928	-	85,928
TOTAL GOVERNMENTAL ACTIVITIES	557,661	28,446	21,165	268,161	(239,889)	-	(239,889)
BUSINESS-TYPE ACTIVITIES:							
Utilities	783,841	608,112	120,089	-	-	(55,640)	(55,640)
TOTAL	\$ 1,341,502	\$ 636,558	\$ 141,254	\$ 268,161	(239,889)	(55,640)	(295,529)
GENERAL REVENUES:							
Property Taxes					404,097	-	404,097
Shared Revenues					38,870	-	38,870
Franchise Fees					48,176	-	48,176
Utility Taxes					17,251	-	17,251
Communications Service Tax					43,296	-	43,296
Interest Income					4,998	13,964	18,962
Miscellaneous					3,877	1,508	5,385
Transfers					3,703	(3,703)	-
TOTAL GENERAL REVENUES AND TRANSFERS					564,268	11,769	576,037
CHANGE IN NET ASSETS					324,379	(43,871)	280,508
NET ASSETS – BEGINNING OF YEAR					1,557,650	5,735,207	7,292,857
NET ASSETS – END OF YEAR					\$ 1,882,029	\$ 5,691,336	\$ 7,573,365

See accompanying notes.

**Town of Welaka, Florida
Balance Sheet
Governmental Funds
September 30, 2009**

	General Fund
<u>ASSETS</u>	
Cash and Equivalents	\$ 403,307
Investments	85,285
Due From Other Governments	22,292
Other Assets	<u>841</u>
TOTAL ASSETS	<u><u>\$ 511,725</u></u>
<u>LIABILITIES</u>	
Accounts Payable and Accrued Liabilities	\$ 5,426
<u>FUND BALANCES</u>	
Unreserved	<u>506,299</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 511,725</u></u>

See accompanying notes.

Town of Welaka, Florida
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
September 30, 2009

FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$ 506,299
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
<p>Capital assets used in governmental activities are not reported in the governmental funds.</p>	
Capital Assets – Net.....	1,536,075
<p>Long-term liabilities are not reported in the governmental funds.</p>	
Notes Payable.....	(150,000)
Capital Leases.....	(3,945)
Compensated Absences.....	<u>(6,400)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 1,882,029</u></u>

See accompanying notes.

Town of Welaka, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2009

	General Fund
<u>REVENUES</u>	
Taxes	\$ 530,152
Licenses and Permits	11,944
Intergovernmental	311,842
Fines and Forfeitures	623
Miscellaneous	<u>23,776</u>
TOTAL REVENUES	<u>878,337</u>
<u>EXPENDITURES</u>	
Current:	
General Government	213,255
Public Safety	78,909
Transportation	77,480
Culture and Recreation	277,121
Debt Service:	
Principal Retirement	184,578
Interest and Fiscal Charges	<u>8,470</u>
TOTAL EXPENDITURES	<u>839,813</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>38,524</u>
<u>OTHER FINANCING SOURCES (USES)</u>	
Debt Issuance	150,000
Transfers In	5,000
Transfers Out	<u>(1,297)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>153,703</u>
NET CHANGE IN FUND BALANCES	192,227
FUND BALANCES – BEGINNING OF YEAR	<u>314,072</u>
FUND BALANCES – END OF YEAR	<u><u>\$ 506,299</u></u>

See accompanying notes.

Town of Welaka, Florida
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances to the Statement of Activities
Governmental Funds
For the Year Ended September 30, 2009

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$ 192,227
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is depreciated over their estimated useful lives.	
Acquisitions of Capital Assets.....	226,680
Current Year Depreciation Expense.....	(130,706)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment does not effect net assets of governmental activities.	
Principal Payments.....	184,578
Issuance of debt provides current financial resouces to governmental funds, but increases long-term liabilities in the statement of net assets.....	
	(150,000)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Compensated Absences.....	1,600
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 324,379

See accompanying notes.

Town of Welaka, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2009

	<u>Utilities Fund</u>
<u>CURRENT ASSETS</u>	
Cash and Equivalents	\$ 308,525
Investments	280,151
Accounts Receivable	<u>56,959</u>
TOTAL CURRENT ASSETS	<u>645,635</u>
<u>NONCURRENT ASSETS</u>	
Restricted Investments	164,467
Capital Assets, Net	<u>6,257,668</u>
TOTAL NONCURRENT ASSETS	<u>6,422,135</u>
TOTAL ASSETS	<u>7,067,770</u>
<u>CURRENT LIABILITIES</u>	
Accounts Payable and Accrued Liabilities	11,695
Deposits	23,639
Current Portion of Long-Term Liabilities	<u>82,150</u>
TOTAL CURRENT LIABILITIES	117,484
<u>NONCURRENT LIABILITIES</u>	
Long-Term Liabilities	<u>1,258,950</u>
TOTAL LIABILITIES	<u>1,376,434</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	4,926,873
Restricted	159,208
Unrestricted	<u>605,255</u>
TOTAL NET ASSETS	<u><u>\$ 5,691,336</u></u>

See accompanying notes.

Town of Welaka, Florida
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2009

	<u>Utilities</u> <u>Fund</u>
<u>OPERATING REVENUES</u>	
Water Fees	\$ 250,204
Sewer Fees	357,158
Other Operating Fees	750
TOTAL OPERATING REVENUES	608,112
<u>OPERATING EXPENSES</u>	
Personal Services - Water	114,429
Personal Services - Sewer	114,436
Operating Expenses - Water	83,187
Operating Expenses - Sewer	200,587
Depreciation and Amortization - Water	43,610
Depreciation and Amortization - Sewer	174,660
TOTAL OPERATING EXPENSES	730,909
OPERATING INCOME (LOSS)	(122,797)
<u>NONOPERATING REVENUES (EXPENSES)</u>	
Operating Grant and Contributions	120,089
Investment Earnings	13,964
Interest Expense	(52,932)
Other Nonoperating Revenue	1,508
TOTAL NONOPERATING REVENUES (EXPENSES)	82,629
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(40,168)
Transfers In	1,297
Transfers Out	(5,000)
CHANGE IN NET ASSETS	(43,871)
NET ASSETS - BEGINNING OF YEAR	5,735,207
NET ASSETS - END OF YEAR	\$ 5,691,336

See accompanying notes.

Town of Welaka, Florida
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2009

	Utilities Fund
<u>OPERATING ACTIVITIES</u>	
Receipts From Customers	\$ 632,315
Payments to Suppliers	(291,163)
Payments to Employees	(223,627)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>117,525</u>
<u>NONCAPITAL FINANCING ACTIVITIES</u>	
Operating Grants	120,089
Other Nonoperating Revenue	1,508
Transfers In	1,297
Transfers Out	(5,000)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>117,894</u>
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Acquisitions of Capital Assets	(55,982)
Principal Paid on Debt	(50,615)
Interest Paid on Debt	(53,427)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(160,024)</u>
<u>INVESTING ACTIVITIES</u>	
Interest Received	400
Proceeds from Sale of Investments	463,815
Purchase of Investments	(527,910)
NET CASH USED BY INVESTING ACTIVITIES	<u>(63,695)</u>
CHANGE IN CASH AND EQUIVALENTS	11,700
CASH AND EQUIVALENTS – BEGINNING OF YEAR	<u>296,825</u>
CASH AND EQUIVALENTS – END OF YEAR	<u>\$ 308,525</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
OPERATING INCOME (LOSS)	\$ (122,797)
Depreciation and Amortization	218,270
Change In:	
Accounts Receivable	17,317
Due From Other Governments	(9,300)
Accounts Payable and Accrued Liabilities	7,149
Customer Deposits	6,886
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 117,525</u>

See accompanying notes.

Town of Welaka, Florida
Notes to Financial Statements
September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Town of Welaka (the “Town”) is a Florida municipality, established by Section 24975 (1947), Laws of Florida, which operates under a Mayor-Council form of government.

As required by generally accepted accounting principles, the accompanying financial statements present the Town as a primary government. Component units, if any, would also be presented. Component units are entities for which a primary government is considered to be financially accountable.

There are no component units included in the Town’s financial reporting entity.

Joint Ventures

The Town did not participate in any joint ventures during the 2008-2009 fiscal year.

Basis of Presentation

The financial statements of the Town have been prepared in accordance with generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting principles. The more significant of the Town’s accounting policies are hereafter described.

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees charged to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include: charges for services that are directly related to a given function; and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements, but any nonmajor funds are aggregated and displayed in a single column. The governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

Town of Welaka, Florida
Notes to Financial Statements
September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town reports the following major governmental fund:

General Fund – the primary operating fund, used to account for all activities except those required to be accounted for in another fund.

The Town reports the following major enterprise fund:

Utilities Fund – to account for the assets, operation and maintenance of the Town-owned water and sewer system.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Certain intergovernmental revenues constitute the most significant sources of revenue considered susceptible to accrual. In governmental funds, expenditures are generally recognized when the related liability is incurred. However, debt service expenditures, and expenditures for compensated absences and claims and judgments, are recorded only when payment is due.

Application of FASB Pronouncements

For its enterprise fund, the Town applies all applicable GASB pronouncements. Additionally, the Town applies pronouncements of the FASB and its predecessor bodies issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

For purpose of the Statement of Cash Flows, the Town considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**Town of Welaka, Florida
Notes to Financial Statements
September 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Receivables

Receivables are stated at net realizable value, reduced by an allowance for uncollectable accounts, where appropriate. Accounts receivable of the Utilities enterprise fund are net of a \$3,000 allowance.

Capital Assets

Capital assets are recorded at historical cost or estimated historical cost, except for contributed assets which are recorded at fair value at the date of contribution. The Town uses a capitalization threshold of \$750 for all classes of capital assets.

In accordance with GASB Statement No. 34, the Town has elected not to record general infrastructure assets acquired prior to October 1, 2003.

Depreciation of capital assets is provided using the straight-line method over the estimated useful lives of the assets, which range as follows:

	<u>Years</u>
Infrastructure	30-40
Buildings	40
Improvements other than buildings	10-40
Machinery and equipment	5 – 10
Plant assets and equipment	5 – 40

For its business-type activities, the Town's policy is to capitalize construction period interest costs on projects funded specifically through debt financing. Interest earnings are offset against construction costs for qualified projects financed with tax-exempt debt. No interest costs were capitalized during 2009.

Compensated Absences and Claims and Judgments

For governmental funds, a fund liability is reported to account for the portion of the liability that will be liquidated with expendable available financial resources. The liability is accrued when incurred in the government-wide and proprietary fund financial statements.

Property Taxes

The Putnam County Tax Collector bills and collects property taxes for the Town.

Town of Welaka, Florida
Notes to Financial Statements
September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Details of the Town's tax calendar are presented below:

Lien Date	January 1
Levy Date	October 1
Discount Period	November - February
No Discount Period	March
Delinquent Date	April 1

Operating Revenues and Expenses

The enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Restricted Net Assets

In the accompanying government-wide and proprietary fund statements of net assets, *restricted net assets* are subject to restrictions beyond the Town's control. The restriction is either externally imposed (for instance, by creditors, grantors, contributors, or laws/regulations of other governments) or is imposed by law through constitutional provisions or enabling legislation.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make various estimates. Actual results could differ from those estimates.

Town of Welaka, Florida
Notes to Financial Statements
September 30, 2009

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

All of the Town's demand deposits and certificates of deposit are held in qualified public depositories pursuant to Chapter 280, Florida Statutes, and are entirely insured by Federal depository insurance or collateralized pursuant to the Florida Security for Public Deposits Act.

Investments

The Town invests excess public funds pursuant to the guidelines established in Section 218.415, Florida Statutes. Accordingly, the Town is authorized to invest excess public funds in the following instruments: the Local Government Surplus Funds Trust Funds or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act; Securities and Exchange Commission registered money market funds with the highest credit quality rating; savings accounts and certificates of deposit in qualified public depositories; and direct obligations of the U.S. Treasury.

Deposits and investments are classified in the accompanying financial statements as follows:

Statement of Net Assets:

Cash and Equivalents	\$ 711,832
Investments	365,436
Restricted Investments	<u>164,467</u>
Total Deposits and Investments	<u><u>\$ 1,241,735</u></u>

For purposes of risk disclosures, deposits and investments are comprised of the following:

Deposits with Financial Institutions including Certificates of Deposit	\$ 1,225,752
Investments	<u>15,983</u>
Total Deposits and Investments	<u><u>\$ 1,241,735</u></u>

Town of Welaka, Florida
Notes to Financial Statements
September 30, 2009

NOTE 2 – DEPOSITS AND INVESTMENTS

The Town’s investments at September 30, 2009 are summarized in the following table:

<u>Fund</u>	<u>Total</u>	<u>Governmental Activities</u>	<u>Business Activities</u>	<u>S & P Rating</u>
Florida PRIME	\$ 736	\$ 134	\$ 602	AAAm
Fund B	<u>15,247</u>	<u>2,817</u>	<u>12,430</u>	Not Rated
Total	<u>\$ 15,983</u>	<u>\$ 2,951</u>	<u>\$ 13,032</u>	

State Pool – The Town invests temporarily idle resources in the Local Government Investment Pool (“State Pool”). The State Pool is administered by the Florida State Board of Administration (“SBA”), who provides regulatory oversight. Last year, the SBA reported that the State Pool was exposed to potential risks due to indirect exposure in the sub-prime mortgage financial market. Consequently, the SBA placed some restrictions on how participants could access portions of their surplus funds and ultimately restructured the State Pool into two separate pools (“Florida PRIME” and “Fund B”).

The Florida PRIME has adopted operating procedures consistent with the requirements for a 2a7-like fund. The Town’s investment in the Florida PRIME is stated at amortized cost. The fair value of the position in the pool is equal to the value of the pool shares.

The Fund B is reported at fair value, determined by the fair value per share of the pool’s underlying portfolio. The weighted average life (WAL) of Fund B at September 30, 2009 was 9.36 years. A portfolio’s WAL is the dollar weighted average length of time until securities held reach maturity. Since Fund B consists of restructured or defaulted securities, there is considerable uncertainty regarding the WAL.

Investment Risks

The Town is exposed to the following risks associated with its investment portfolio:

Credit Risk – the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Interest Rate Risk – the risk that changes in interest rates will adversely affect the fair value of an investment.

The Town does not have a formal investment policy relating to the aforementioned risks, other than Section 218.415, Florida Statutes, for investing public funds. That statute limits the Town’s exposure to credit risk and interest rate risk by limiting authorized investment options as previously described.

Town of Welaka, Florida
Notes to Financial Statements
September 30, 2009

NOTE 3 – INTERFUND TRANSFERS

Interfund transfers for the year ended September 30, 2009 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 5,000	\$ 1,297
Utilities Fund	1,297	5,000
Totals	<u>\$ 6,297</u>	<u>\$ 6,297</u>

The transfers were made in the normal course of operations and are consistent with the activities of the fund making the transfer.

NOTE 4 – CAPITAL ASSET ACTIVITY

	<u>Balance October 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance September 30, 2009</u>
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 19,258	\$ -	\$ -	\$ 19,258
Capital Assets Being Depreciated:				
Infrastructure	481,054	-	-	481,054
Buildings	332,398	-	-	332,398
Improvements Other Than Buildings	837,270	218,007	-	1,055,277
Machinery and Equipment	284,415	8,673	13,601	279,487
Equipment Under Capital Lease	18,900	-	-	18,900
Total Capital Assets Being Depreciated	<u>1,954,037</u>	<u>226,680</u>	<u>13,601</u>	<u>2,167,116</u>
Less Accumulated Depreciation for:				
Infrastructure	62,903	14,539	-	77,442
Buildings	100,712	8,310	-	109,022
Improvements Other Than Buildings	179,767	75,764	-	255,531
Machinery and Equipment	177,842	3,780	13,601	168,021
Equipment Under Capital Lease	11,970	28,313	-	40,283
Total Accumulated Depreciation	<u>533,194</u>	<u>130,706</u>	<u>13,601</u>	<u>650,299</u>
Total Capital Assets Being Depreciated, Net	<u>1,420,843</u>	<u>95,974</u>	<u>-</u>	<u>1,516,817</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,440,101</u>	<u>\$ 95,974</u>	<u>\$ -</u>	<u>\$ 1,536,075</u>
Business-type Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 72,615	\$ 29,645	\$ -	\$ 102,260
Capital Assets Being Depreciated:				
Plant Assets and Equipment	7,935,021	26,337	7,595	7,953,763
Less Accumulated Depreciation for:				
Plant Assets and Equipment	1,587,680	218,270	7,595	1,798,355
Total Capital Assets Being Depreciated, Net	<u>6,347,341</u>	<u>(191,933)</u>	<u>-</u>	<u>6,155,408</u>
Business-type Activities Capital Assets, Net	<u>\$ 6,419,956</u>	<u>\$ (162,288)</u>	<u>\$ -</u>	<u>\$ 6,257,668</u>

**Town of Welaka, Florida
Notes to Financial Statements
September 30, 2009**

NOTE 4 – CAPITAL ASSET ACTIVITY

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General Government	\$ 68,916
Public Safety	14,414
Transportation	4,348
Human Services	16,569
Culture and Recreation	26,459
Total Depreciation Expense – Governmental Activities	<u>\$ 130,706</u>
Business-type Activities:	
Water and Sewer Utilities	<u>\$ 218,270</u>

NOTE 5 – LONG-TERM OBLIGATIONS

Governmental Activities

Long-term obligations of the governmental activities are hereafter summarized:

Note Payable, \$150,000, Road paving; Payable in annual principal payments of \$30,000 for five years, plus accrued interest at 4.90%.	\$ 150,000
Capital lease obligation for computer hardware and software, payable \$421 monthly, including interest at 12.8%.	3,945
Compensated Absences	<u>6,400</u>
Total	<u>\$ 160,345</u>

Business-Type Activities

Long-term obligations of the business-type activities are hereafter summarized:

Town of Welaka, Florida
Notes to Financial Statements
September 30, 2009

NOTE 5 – LONG-TERM OBLIGATIONS

Business-type Activities

<p>Water and Sewer Revenue Bonds, 5.25%, Series 1992 and 1992A, dated June 25, 1993, were issued in the amount of \$1,028,800 to finance the costs of improvements to the water and sewer system. The bonds are payable entirely from net revenues of the water and sewer system. The approximate amount of the pledge is equal to the remaining principal and interest of \$1,449,528. During the current year, the Town recognized net revenues, as defined by the lender, of \$165,040 and made \$63,073 principal and interest payments. Principal and interest are due annually on September 1, through 2032.</p>	<p>\$ 830,500</p>
<p>Less, Unamortized Discount</p>	<p>(7,957)</p>
<p>Note Payable, \$221,488 for improvements to the Utility system outside of the Town limits. Payable in semi-annual installments of \$6,721 on March and September 15, including interest at 1.76%, Payable beginning March 15, 2008, and maturing in 2027, from the revenues of the plant replacement 20% surcharge after payments of the Operation and Maintenance expense and the satisfaction of any senior obligations. Senior obligations include the Series 1992 and 1992A Revenue Bonds. The approximate amount of the pledge is equal to the remaining principal and interest of \$242,045. During the current year, the Town recognized revenues, as defined by the lender, of \$123,175 and made \$13,441 principal and interest payments.</p>	<p>206,591</p>
<p>Note Payable, \$259,564 for improvements to the Utility system outside of the Town limits. Payable in semi-annual installments of \$7,854 on January and July 15, including interest at 1.70%, Payable beginning July 15, 2009, from the revenues of the plant replacement 25% surcharge, after satisfaction of a senior obligation. Debt senior to this obligation is the Series 1992 and 1992A Revenue Bonds and the Note Payable for \$221,488. The approximate amount of the pledge is equal to the remaining principal and interest of \$300,152 . During the current year, the Town recognized \$26,207 in plant replacement surcharge revenue, and made \$7,867 principal and interest payments.</p>	<p>255,211</p>
<p>Note Payable, \$47,670, for two generators, Payable in annual installments of \$10,960 on November 15, through 2011, including interest at 4.6%.</p>	<p>20,482</p>
<p>Capital lease obligation for a backhoe, Payable in monthly installments of \$833, Interest of 4.75%, with a balloon payment of \$24,960 in December 2009.</p>	<p>25,968</p>
<p>Compensated Absences</p>	<p>10,305</p>
<p>Total</p>	<p><u>\$ 1,341,100</u></p>

Town of Welaka, Florida
Notes to Financial Statements
September 30, 2009

NOTE 5 – LONG-TERM OBLIGATIONS

Aggregate maturities of revenue bonds and notes payable are as follows:

Year Ending September 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 30,000	\$ 7,517	\$ 50,736	\$ 52,475
2011	30,000	6,014	52,595	50,611
2012	30,000	4,510	43,486	48,664
2013	30,000	3,007	45,069	47,153
2014	30,000	1,504	46,559	45,571
2015-2019	-	-	259,178	201,659
2020-2024	-	-	310,587	150,220
2025-2029	-	-	333,774	86,395
2030-2032	-	-	170,800	18,134
Totals	<u>\$ 150,000</u>	<u>\$ 22,552</u>	<u>\$ 1,312,784</u>	<u>\$ 700,882</u>

Capital Lease Obligations

Future capital lease payments, together with the present value of the minimum lease payments, are summarized in the following tabulation:

Year Ending September 30,	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2010	\$ 4,626	\$ 26,268
Less: Amount Representing Interest	681	300
Present Value of Net Minimum Lease Payments	<u>\$ 3,945</u>	<u>\$ 25,968</u>

Governmental Activities

	Balance October 1, <u>2008</u>	<u>Additions</u>	<u>Deductions</u>	Balance September 30, <u>2009</u>	Due Within <u>One Year</u>
Notes Payable	\$ 180,000	\$ 150,000	\$ 180,000	\$ 150,000	\$ 30,000
Capital Lease Obligations	8,523	-	4,578	3,945	3,945
Compensated Absences	8,000	7,800	9,400	6,400	5,400
Total	<u>\$ 196,523</u>	<u>\$ 157,800</u>	<u>\$ 193,978</u>	<u>\$ 160,345</u>	<u>\$ 39,345</u>

Town of Welaka, Florida
Notes to Financial Statements
September 30, 2009

NOTE 5 – LONG-TERM OBLIGATIONS

Business-type Activities

	Balance October 1, <u>2008</u>	<u>Additions</u>	<u>Deductions</u>	Balance September 30, <u>2009</u>	Due Within <u>One Year</u>
Water and Sewer Revenue Bonds					
Series 1992 and 1992A	\$ 849,000	\$ -	\$ 18,500	\$ 830,500	\$ 19,500
Less: Unamortized Discount	<u>(7,957)</u>	-	-	<u>(7,957)</u>	-
Total Revenue Bonds	841,043	-	18,500	822,543	19,500
Notes Payable	505,871	-	23,587	482,284	31,236
Capital Lease Obligations	34,496	-	8,528	25,968	25,968
Compensated Absences	<u>6,881</u>	<u>8,410</u>	<u>4,986</u>	<u>10,305</u>	<u>5,446</u>
Total	<u>\$ 1,388,291</u>	<u>\$ 8,410</u>	<u>\$ 55,601</u>	<u>\$ 1,341,100</u>	<u>\$ 82,150</u>

NOTE 6 – LINE-OF-CREDIT

The Town has a line-of-credit available to provide cash flows to finance grant projects prior to receiving reimbursements from grantors. The line-of-credit is \$250,000, at 3.6 percent. Changes in the line are summarized below:

	Balance October 1, <u>2008</u>	<u>Additions</u>	<u>Deductions</u>	Balance September 30, <u>2009</u>
Line-of-Credit	<u>\$ -</u>	<u>\$ 82,000</u>	<u>\$ 82,000</u>	<u>\$ -</u>

NOTE 7 – RESTRICTED NET ASSETS

Restricted net assets are summarized below:

Bond Covenants:	
Reserve Account	\$ 63,050
Surcharge for Utility Improvements	<u>96,158</u>
Total Restricted Net Assets	<u>\$ 159,208</u>

Restricted net assets of \$159,208 includes \$96,158 restricted by enabling legislation.

Town of Welaka, Florida
Notes to Financial Statements
September 30, 2009

NOTE 8 – PENSION PLAN

The Town has established a defined contribution pension plan for general and utilities' employees, administered by the Florida League of Cities, Inc. The Plan requires non-elective contributions from the Town of 7.5% of the employees' base pay up to a maximum of 40 hours per week. Employees fully vest after five years of service. The Town's contribution was approximately \$19,700. Employees did not contribute to the plan.

NOTE 9 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. To manage its risks, the Town participates in the Florida League of Cities Self Insurance Fund (the "Fund") a public entity risk pool currently operating as a common risk management and insurance program for member cities. The Town pays an annual premium to the Fund for its coverage. The premiums are designed to fund the liability risks assumed by the Fund and are based on certain actual exposures of each member.

NOTE 10 – SUBSEQUENT EVENTS

Subsequent to year-end, the Town obtained another \$250,000 line-of-credit to fund expenditures until reimbursement is received from the grantor. This line-of-credit replaced the credit line described in Note 6, which had expired.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Welaka, Florida
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – General Fund
For the Year Ended September 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>with Final</u> <u>Budget</u>
<u>REVENUES</u>				
Taxes	\$ 496,869	\$ 496,869	\$ 530,152	\$ 33,283
Licenses and Permits	3,700	3,700	11,944	8,244
Intergovernmental	545,602	545,602	311,842	(233,760)
Fines and Forfeitures	2,600	2,600	623	(1,977)
Miscellaneous	12,400	12,400	23,776	11,376
TOTAL REVENUES	1,061,171	1,061,171	878,337	(182,834)
<u>EXPENDITURES</u>				
Current:				
General Government	271,590	271,590	213,255	58,335
Public Safety	87,448	87,448	78,909	8,539
Transportation	105,705	105,705	77,480	28,225
Culture and Recreation	530,039	530,039	277,121	252,918
Reserve for Contingencies	70,000	70,000	-	70,000
Debt Service:				
Principal Retirement	42,000	42,000	184,578	(142,578)
Interest and Fiscal Charges	-	-	8,470	(8,470)
TOTAL EXPENDITURES	1,106,782	1,106,782	839,813	266,969
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(45,611)	(45,611)	38,524	84,135
<u>OTHER FINANCING SOURCES (USES)</u>				
Debt Issuance	-	-	150,000	150,000
Transfers In	5,000	5,000	5,000	-
Transfers Out	(1,400)	(1,400)	(1,297)	103
TOTAL OTHER FINANCING SOURCES (USES)	3,600	3,600	153,703	150,103
NET CHANGE IN FUND BALANCES	(42,011)	(42,011)	192,227	234,238
FUND BALANCES – BEGINNING OF YEAR	42,011	42,011	314,072	272,061
FUND BALANCES – END OF YEAR	\$ -	\$ -	\$ 506,299	\$ 506,299

Town of Welaka, Florida
Notes to Required Supplementary Information
September 30, 2009

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

- ❖ During July, informal budget workshops are held to determine proposed expenditures and the means of financing them.
- ❖ By August 1, the Council adopts the proposed property tax millage rate and sets the date, time, and place of the first public hearing. Within fifteen (15) days of the first public hearing, the Town advertises its intention to finalize its budgets and millage rate and a date, time, and place for a public hearing. The second public hearing is convened two to five (2-5) days after the final advertisement, at which time the final budget and millage are adopted by the Council.
- ❖ Changes to budgeted line items during the fiscal year are approved by the Town Council.
- ❖ Florida Statutes stipulate that expenditures may not legally exceed budgeted appropriations. The fund is the legal level of control.
- ❖ Appropriations lapse at year end.

**ADDITIONAL ELEMENTS REQUIRED BY THE
RULES OF THE AUDITOR GENERAL**

Management Letter

To the Honorable Mayor and
Members of the Town Council
Town of Welaka, Florida

We have audited the financial statements of the Town of Welaka (the "Town") as of and for the fiscal year ended September 30, 2009, and have issued our report thereon dated March 1, 2010.

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

Prior Audit Findings

The Rules of the Auditor General require that we comment as to whether or not corrective actions have been taken to address findings and recommendations made in the preceding audit. In that regard, prior audit findings 08-1 and 08-2 are once again addressed in the accompanying Schedule of Findings as items 09-1 and 09-2.

Financial Condition

As required by the Rules of the Auditor General, the scope of our audit included a review of the provisions of Section 218.503, Florida Statutes, "Determination of Financial Emergency". In connection with our audit, we determined that the Town has not met one or more of the conditions described in Section 218.503(1), Florida Statutes, that are indicative of a state of financial emergency.

Also, as required by the Rules of the Auditor General, we applied financial condition assessment procedures, as of the end of the fiscal year, pursuant to Rule 10.556(7). It is management's responsibility to monitor 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 application of such procedures did not reveal evidence of "deteriorating financial condition" as that term is defined in Rule 10.554.

To the Honorable Mayor and Members of the Town Council
Town of Welaka, Florida
Page 2

Annual Financial Report

As required by the Rules of the Auditor General, we determined that the Town's annual financial report for the fiscal year ended September 30, 2009, filed with the Department of Financial Services pursuant to Section 218.32, Florida Statutes, is in substantial agreement with the audit report for the fiscal year ended September 30, 2009.

Investment of Public Funds

As required by the Rules of the Auditor General, the scope of our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. Our audit did not reveal any noncompliance with the provisions of Section 218.415, Florida Statutes.

Other Matters

Our audit did not reveal any other matters that we are required to include in this management letter.

This management letter is intended solely for the information and use of the Honorable Mayor and members of the Town Council, management, and oversight audit agencies, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to take this opportunity to thank you and your staff for the cooperation and courtesies extended to us during the course of the audit. Please let us know if you have any questions or comments concerning this letter, our accompanying reports, or other matters.

Car, Riggs & Ingram LLC

March 1, 2010
Palatka, Florida

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

The Honorable Mayor and Members of the Town Council
Town of Welaka, Florida

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Welaka, Florida (the "Town") as of and for the year ended September 30, 2009, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated March 1, 2010. 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 Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control over financial reporting that we consider to be material weaknesses.

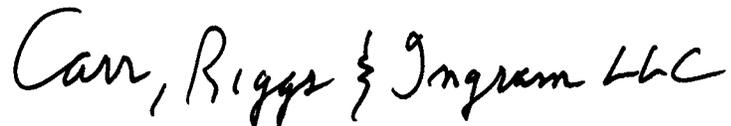
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items 09-1 and 09-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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*.

The Town's response to the findings identified in our audit is described in the accompanying letter. We did not audit the response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Honorable Mayor and members of the Town Council, management and oversight audit agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Carr, Riggs & Ingram LLC". The signature is written in a cursive, flowing style.

March 1, 2010
Palatka, Florida

Town of Welaka, Florida
Schedule of Findings
For the Year Ended September 30, 2009

09-1 *Condition* – Certain incompatible duties and responsibilities were not completely segregated. Consequently, it is possible that misstatements could occur and not be detected in a timely manner.

Recommendation – Duties should be separated to the extent possible.

09-2 *Condition* – As part of the audit process, we proposed material adjustments to the Town's financial statements. Additionally, it was necessary for us to assist with the preparation of your financial statements, enabling the financial statements to be fairly presented in conformity with generally accepted accounting principles.

Recommendation – We recommend that you consider and evaluate the cost and benefits of improving internal controls relative to the financial reporting process.



Town of Welaka

P.O. Box 1098
WELAKA, FLORIDA 32193-1098

386-467-9800
386-467-2303

FAX
1-386-467-8863

UTILITIES DEPARTMENT
386-467-8677

March 1, 2010

The Honorable David W. Martin, CPA
Florida Auditor General
P.O. Box 17358
Tallahassee, FL 32302

Re: Corrective action plan for current audit findings for the fiscal year ended September 30, 2009.

Dear Mr. Martin:

We are providing this letter in connection with financial audit for the fiscal year 2008/2009 for the Town of Welaka.

We have reviewed the financial statement standings, and offer the following reply concerning conditions.

Condition 09-1: Council has reviewed this finding during the year and especially at budget time. It has been determined to completely eliminate this finding it would cost nearly \$150,000 for three additional employees. This is beyond reasonable and prudent management of the municipality. However, we continue to seek specific areas that can be brought into compliance. This is a matter that will be considered at each and every budgetary process meeting.

Condition 09-2: The audit committee will seek outside review other than the annual audit. Advertisement is in progress for bidding for this service. Hopefully this will remove the condition as noted.

Sincerely,

Gordon Sands
Mayor