

TOWN OF ORCHID, FLORIDA

INDEPENDENT AUDITORS' REPORT,
FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION

SEPTEMBER 30, 2009

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Independent Auditors' Report

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

We have audited the accompanying financial statements of governmental activities of the Town of Orchid, 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 an opinion 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 the 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Town of Orchid, Florida as of September 30, 2009 and the respective changes in financial position 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 July 22, 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.



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The Honorable Mayor and Members of the Town Council
Town of Orchid, Florida
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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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 do 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.

Harris, Cotherman, Jones, Price & Associates
Certified Public Accountants - Chartered

Vero Beach, Florida
July 22, 2010

TOWN OF ORCHID, FLORIDA
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
(UNAUDITED)

The purpose of Management’s Discussion and Analysis (MD&A) is to give an objective and easily readable analysis of the Town of Orchid’s (the “Town”) financial performance for the fiscal year ended September 30, 2009, and to serve as an introduction to the audited financial statements. The MD&A also includes information on significant variations from budget and prior year actual.

Overview of the Financial Statements

The Town’s basic financial statements are comprised of fund financial statements and government-wide financial statements, which are presented in a single statement format, and notes to the financial statements. The statements provide a reconciliation to facilitate a comparison between governmental funds and governmental activities. This report contains other supplemental information in addition to the basic financial statements.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds are used to account for the same functions reported as government activities in the government-wide financial statements. But, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. The focus of governmental funds is narrower than that of government-wide financial statements.

The Town’s one operating fund is the General Fund. The Town adopts an annual appropriated budget for the General Fund, and the annual budget serves as the foundation for the Town’s financial planning and control.

Government-wide financial statements

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These financial statements are designed to provide readers with a broad overview of the Town’s finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Town’s assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the Town’s financial position is improving or deteriorating.

**TOWN OF ORCHID, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(UNAUDITED)**

Government-wide financial statements - continued

The Statement of Activities presents information showing how the Town's net assets changed during fiscal year 2008-2009. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs. Thus, expenses are reported in this statement for some items that will not result in changes to cash flows until future periods.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements and the government-wide financial statements.

Financial Analysis

The following is a summary of the Statement of Net Assets as of September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Current assets	\$ 764,770	\$ 791,548
Noncurrent assets	<u>123,363</u>	<u>127,253</u>
Total assets	<u>888,133</u>	<u>918,801</u>
Current liabilities	<u>35,245</u>	<u>18,654</u>
Net assets		
Investment in capital assets	123,363	127,253
Unrestricted fund balance	<u>729,525</u>	<u>772,894</u>
Total net assets	<u>\$ 852,888</u>	<u>\$ 900,147</u>

As of September 30, 2009, the Town's assets exceeded liabilities by \$852,888. The Town's net investment in capital assets as of September 30, 2009 was \$123,363 or 14.46% of net assets. None of the Town's assets are encumbered by debt, and no external legal restrictions are in place to specify how net assets may be used. With regard to capital assets of the Town, infrastructure assets consist of the street lights along the roads within the Town. The Notes to Financial Statements provide detail on the Town's capital asset activity for the year.

**TOWN OF ORCHID, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(UNAUDITED)**

The following is a summary of Statement of Activities for the years ended September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
REVENUES		
Property taxes	\$ 232,528	\$ 234,452
Intergovernmental	92,369	89,313
Licenses and permits	35,783	43,523
Investment earnings	6,632	23,544
Miscellaneous	1,725	1,897
Total revenues	<u>369,037</u>	<u>392,729</u>
 EXPENDITURES		
Employment costs	212,878	164,001
Waste collection	39,092	40,435
Contractual services, planning and inspecting	19,984	25,708
Legal fees	15,898	12,311
Town hall expenses	51,806	55,499
Other	76,638	80,277
Total expenditures	<u>416,296</u>	<u>378,231</u>
 Increase (decrease) in net assets	 (47,259)	 14,498
Net assets, beginning of year	<u>900,147</u>	<u>885,649</u>
 Net assets, end of year	 <u>\$ 852,888</u>	 <u>\$ 900,147</u>

Property taxes

Each year during the budget process, the millage rate is adjusted to ensure anticipated expenditures are covered by total revenues. The Town's millage rate rose slightly for fiscal year 2008-2009 to .4550 from .4494 in the prior fiscal year. Property tax revenues decreased modestly by \$1,924, due to a 2.20% decrease in the gross taxable value.

At the close of fiscal year 2008-2009, the Town had taxes due it on eight properties that remained unpaid in the amount of \$979.31. As the Town operates on a cash basis, funds will be noted when received either when taxes are brought current, through tax sale, or lien on house.

TOWN OF ORCHID, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(UNAUDITED)

Intergovernmental

There was a slight increase in intergovernmental revenue from the previous year in spite of State projected declines. The Town's population, which is a factor in some formulas for state revenue distribution, did not change significantly.

Licenses and permits

Licenses and permits revenue decreased \$7,740 from the prior year. Licenses and permits revenue includes building permit revenue (\$31,298) and contractor registration fees (\$4,485). Building permits are issued for new construction, additions, renovations and demolitions. During the year ended September 30, 2009, the number of building permits processed was approximately 18% less than the previous year, but included one new permitted home.

Investment earnings

During fiscal year 2008-2009, the Town's interest earnings decreased \$16,912 from fiscal year 2007-2008. The decrease was due entirely to a decrease in federal funds rates as invested funds increased slightly. The Town uses a preferred rate checking account at SunTrust Bank and an interest bearing account at Riverside National Bank (now TD Bank) as its operating accounts. The SunTrust Bank and Riverside accounts pay interest at the average federal funds rate for the week less .25%. The result is that all of the Town's deposited funds are earning modest rates of interest and are readily available while protected under the Florida Security for Public Deposits Act.

Employment costs

	<u>2009</u>	<u>2008</u>
Salaries, wages and payroll taxes	\$ 163,483	\$ 129,105
Insurance benefits	27,319	19,964
Pensions	21,661	14,537
Other	<u>415</u>	<u>395</u>
	<u>\$ 212,878</u>	<u>\$ 164,001</u>

During fiscal year 2008-2009, Town staff positions consisted of three full-time positions (Town Manager, Town Clerk, and Building Permit Clerk) and one part-time position (Chief of Police).

The Town pays 100% of a qualified employee's portion of health, dental and life insurance premiums. Expenditures in fiscal year 2008-2009 for employee insurance benefits increased \$7,355 from fiscal year 2007-2008 expenditures, and expenditures for pension increased \$7,124.

**TOWN OF ORCHID, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(UNAUDITED)**

Employment costs - continued

The liability for employee compensated absences (vacation accrual) at September 30, 2009 increased \$6,103 from \$2,810 to \$8,913. The corresponding expenditure was reflected in the applicable salaries, wages, payroll tax, and pension expense accounts in the general ledger instead of in a separate expense account.

The increase from 2008 to 2009 in salaries, wages and payroll taxes and pension reported are due to the fact that the Town Manager and Town Clerk positions were not filled for parts of 2008.

Contractual services, planning and inspecting

	<u>2009</u>	<u>2008</u>
Planning/Engineering	\$ 3,000	\$ 210
Contract Building Official	16,984	25,498
Waste Collection	<u>39,092</u>	<u>40,435</u>
	<u>\$ 59,076</u>	<u>\$ 66,143</u>

During the course of fiscal year 2008-2009, the Town began work on the State-mandated Evaluation and Appraisal Report of the Town's Comprehensive Plan which required mapping and expertise from a planner.

On June 25, 2009, the Town renewed its contract for one year with Independent Inspections Limited, LLC, as a pass-through for permitting, inspections, and plan review two days per week. The decrease in costs for the contract building official was due to a decline in permit applications. The contract expires June 25, 2010. It is anticipated the Town will renew the contract.

The Town continues in its contract with Harris Sanitation, Inc. d/b/a Waste Management through October 1, 2010. Due to the fact that residents cannot pay for trash removal they did not generate, fees for non-residential entities are billed directly through the Town. As of September 30, 2009, there was an outstanding fourth quarter balance of non-residential fees totaling \$5,090.

Legal fees

	<u>2009</u>	<u>2008</u>
Legal fees	<u>\$ 15,898</u>	<u>\$ 12,311</u>

During fiscal year 2008-2009, issues facing the Town were not significant and expenditures for legal fees remained in line with fiscal year 2007-2008.

**TOWN OF ORCHID, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(UNAUDITED)**

Town Administrative Facility expenses

	<u>2009</u>	<u>2008</u>
Office rent	\$ 39,000	\$ 39,000
Telephone	5,064	6,156
Office repairs	3,499	6,389
Utilities	<u>4,243</u>	<u>3,953</u>
	<u>\$ 51,806</u>	<u>\$ 55,498</u>

For fiscal year 2008 – 2009, the Town continued to lease office space outside the limits of the Town at the same location as the prior year. Overall, Administrative Facility expenses decreased slightly due to deletion of an incoming telephone line and less general office repairs.

Program revenues and expenditures

Expenditures related to building department activities are included in various operating expenses. In determining program expenditures for building department activities to match against building department revenues, the Town includes 100% of expenditures for the contract building official plus 30% of the various operating expenses. Fiscal year 2008-2009 building department revenue (registration fees plus building permit revenue) totaled \$35,783, and related expenditures, computed as indicated, exceeded revenues by \$86,004.

General Fund Budgetary Highlights

Review of budget to actual numbers for fiscal year 2008-2009 shows that actual revenues fell short of budgeted revenues by \$22,378. The shortfall was compounded by higher than budgeted expenditures of \$20,991. The net result was an excess of expenditures over revenues of \$43,369.

Revenue shortfalls occurred in intergovernmental revenues, investment earnings, and licenses and permits. The Town's revenue from intergovernmental sources was \$3,926 lower than budget. Revenue derived from state and intergovernmental sources is affected by national and state economic activity and conditions. Investment earnings were \$13,074 lower than budget due to the sharp decline in 2009 interest rates.

Revenue from licenses and permits, of which \$6,202 was from building permits, was \$6,517 lower than budget.

Expenditure items resulting in over budget amounts were in the Other category at \$8,089 (\$5,574 of which was payment to Piper Aircraft in support of the State and County's program to keep that employer from relocating); the Streetlight maintenance category which was \$4,074 over budget as a result of unexpected mechanical failures; Office expenses which were \$5,359 over

**TOWN OF ORCHID, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(UNAUDITED)**

budget and, although there were no significant legal issues, Legal fees which were \$3,898 over budget. Also, there was an unbudgeted Capital Outlay of \$7,801, all of which was streetlight related.

See the Budgetary Comparison Schedule for the General Fund included in the full report for more details.

Economic Factors and Next Year's Budgets and Rates

In spite of a slight deficit in fiscal year 2008 – 2009 and current national, state and local economic conditions, the overall financial position of the Town of Orchid and results of operations continue to remain positive. Property taxes and intergovernmental revenues for fiscal year 2009-2010 should be at similar levels to fiscal year 2008-2009. The Town anticipates no real change in revenue from building permit fees even though the Town is essentially built-out. Reductions in building permit revenue for new construction continues to be partially offset as residents make renovations and build additions.

Issues related to a permanent town administrative facility (i.e., need, location, size, and construction financing) have been addressed by the Town Council and continue to remain unresolved. Until a final determination is made whether or not the Town will build a permanent town administrative facility, future facility costs and related expenditures are not presently determinable. The Town continued throughout the current fiscal year in the operating lease for temporary office space until December 31, 2009, at a rental of \$39,000 per year. The Town had an option to renew for an additional one year operating lease on December 31, 2009 at the then current rental rate of \$39,000. Subsequent to the close of the fiscal year, the Town chose not to exercise that option and moved early in 2010 to a smaller facility. Details of that new lease will be discussed in next year's report.

In fiscal year 2008-2009, the Town continued its limited work registration program in full compliance with Florida Statutes. The program maintained the lower contractor registration fees set in place for fiscal year 2007-2008. In prior years the work registration fees had been higher. It is anticipated this fee will be adjusted to a higher rate in the future.

The Town continues to evaluate staffing needs as it looks toward the future. However, no changes are foreseen in the composition of Town of Orchid staff at this time.

TOWN OF ORCHID, FLORIDA
GOVERNMENTAL FUND BALANCE SHEET / STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009

	Balance Sheet	Reconciliation	Statement of Net Assets
ASSETS			
Cash	\$ 742,645		\$ 742,645
Due from other governments	5,730		5,730
Accounts receivable	10,719		10,719
Prepaid items	5,676		5,676
Capital assets, net of accumulated depreciation		\$ 123,363	123,363
Total assets	764,770		888,133
LIABILITIES			
Accounts payable and accrued expenses	24,112		24,112
Compensated absences	8,913		8,913
Deferred revenues	2,220		2,220
Total liabilities	35,245		35,245
FUND BALANCE/NET ASSETS			
Fund balance:			
Unreserved for:			
Emergency	154,525		
Capital/Contingency	75,000		
Town Hall building	500,000		
Total fund balance	729,525		
Total liabilities and fund balance	\$ 764,770		
Net assets:			
Investment in capital assets, net of accumulated depreciation		\$ 123,363	123,363
Unrestricted			729,525
Total net assets			\$ 852,888

Reconciliation

The Fund balance of \$729,525 differs from Net assets of \$852,888 by \$123,363 which represents the amount of net investment in capital assets which has been expensed as Fund outlays but capitalized and included as Net assets.

The accompanying notes are an integral part of these financial statements.

TOWN OF ORCHID, FLORIDA
STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE [FUND]/ STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Fund	Reconciliation	Statement of Activities
REVENUES			
Property taxes	\$ 232,528		\$ 232,528
Intergovernmental	92,369		92,369
Licenses and permits	35,783		35,783
Investment earnings	6,632		6,632
Miscellaneous	1,725		1,725
Total revenues	369,037		369,037
 EXPENDITURES			
Employment costs	212,878		212,878
Waste collection	39,092		39,092
Contractual services, planning and inspecting	19,984		19,984
Legal fees	15,898		15,898
Rent, office	39,000		39,000
Insurance	13,451		13,451
Office expenses	18,185		18,185
Office equipment lease	-		-
Street light maintenance	11,394		11,394
Utilities	4,243		4,243
Telephone	5,064		5,064
Audit fees	10,500		10,500
Auto and travel	1,436		1,436
Dues and education	1,705		1,705
Advertising	3,588		3,588
Other	8,187		8,187
Capital outlay	7,801	\$ (7,801)	-
Depreciation		11,641	11,641
Loss on disposal of assets		50	50
Total expenditures	412,406	\$ 3,890	416,296
Deficit of revenue over expenditures	(43,369)		
Change in net assets			(47,259)
 FUND BALANCE/NET ASSETS:			
Beginning of year	772,894		900,147
End of year	\$ 729,525		\$ 852,888

Reconciliation

Fund reports capital outlays as expense. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation and any gain or loss is recorded on their disposal. As shown above, the change in Fund Balance of (\$43,369) differs from the change in Net Assets of (\$47,259) by \$3,890 as a result of these reporting differences.

The accompanying notes are an integral part of these financial statements.

TOWN OF ORCHID, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town conform to accounting principles generally accepted in the United States of America applicable to governmental units. This report, the accounting systems, and the classification of accounts conform to standards of the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies:

Financial Reporting Entity

The Town of Orchid, Florida is a political subdivision of the state of Florida, created by special legislative act Chapter 65-20021 in 1965 in Florida and organized under section 166.031, Florida Statutes, and is located in Indian River County. The legislative branch of the Town is composed of a five-member elected council, including a Mayor elected by the Council. The Town Council is governed by the Town Charter and by state and local laws and regulations. The Town Council is responsible for the establishment and adoption of policy. The execution of such policy is the responsibility of the Council-appointed Town Manager.

There are no other organization structures that should be included in the Town's basic financial statements.

Measurement focus, basis of accounting and financial statement presentation

The basic financial statements of the Town are composed of the following:

- Fund financial statements
- Government-wide financial statements
- Notes to financial statements

Fund Financial Statements - Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting* and display information about major funds individually and non-major funds in the aggregate for governmental funds. The Town has only one fund, the *General Fund*, which is the Town's primary operating fund. It accounts for all financial resources of the general government.

Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues available if they are collected within 60 days of the end of the current fiscal period.

TOWN OF ORCHID, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenditures generally are recorded when a liability is incurred, if measurable. Amounts expended to acquire capital assets are recorded as expenses in the year that resources are expended, rather than as fund assets.

Property taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

Under the *current financial resources measurement focus*, only current assets and current liabilities are generally included on the balance sheet. The reported unreserved fund balance is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Government-wide Financial Statements - Government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Amounts expended to acquire capital assets are capitalized as assets.

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 and charges for support. The Town does not have any business-type activities.

Property Taxes

Property values are assessed as of January 1 each year, at which time taxes become an enforceable lien on property. Tax bills are mailed for the Town by Indian River County (the "County") on or about October 1 of each year and are payable with discounts of up to 4% offered for early payment. Taxes become delinquent on April 1 of the year following the year of assessment and State law provides for enforcement of collection of property taxes by seizure of the real property or by the sale of interest-bearing tax certificates to satisfy unpaid property taxes.

TOWN OF ORCHID, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assessed values are established by the Indian River County Property Appraiser. In November 1992, a Florida constitutional amendment was approved by the voters which provides for limiting the increases in homestead property valuations for ad valorem tax purposes to a maximum of 3%, or the CPI Index, whichever is lower, annually and also provides for reassessment of market values upon changes in ownership. The County bills and collects all property taxes and remits the Town's proportionate share to the Town. In 2008, Florida Amendment One, also known as the "Portability of Save Our Homes," was a legislatively-referred constitutional amendment. The measure passed. This measure closed a loophole in the original 1992 amendment that would not allow homeowners to take their property tax cap with them when they moved. It doubled the amount of homestead exemption from \$25,000 to \$50,000 on all but the least expensive homes, and created a 10% annual cap on the assessed value increase of non-homesteaded property.

State statutes permit municipalities to levy property taxes at a rate of up to 10 mills (\$10 per \$1,000 of assessed taxable valuation). The tax levy of the Town is established by the Town Council, and the Indian River County Property Appraiser incorporates the Town's millage into the total tax levy, which includes the County and the County School Board tax requirements. The millage rate assessed by the Town for the year ended September 30, 2009 was .4550 mills (\$0.4550 per \$1,000 of taxable assessed valuation).

Capital Assets (Government-wide Financial Statements)

Capital assets are defined by the Town as property and equipment with an estimated useful life in excess of one year. Assets are recorded at cost if purchased or constructed. Contributed assets are recorded at fair value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Costs for repairs and maintenance are expensed as incurred. Depreciation is calculated on the straight-line basis over the following estimated useful lives:

	<u>Years</u>
Furniture and fixtures	10-20
Machinery and equipment	5-20
Street lights	20

When capital assets are sold or disposed of, the related cost and accumulated depreciation are removed from the accounts and a resulting gain or loss is recorded in the government-wide financial statements.

TOWN OF ORCHID, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund/Net Assets

Fund balance - represents unreserved funds. While Town management may have designated unreserved funds for various purposes, the Town Council has the authority to revisit or alter these managerial decisions.

Investment in capital assets - represents the portion of net assets which are capitalized, net of accumulated depreciation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

NOTE B - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets and Budgetary Information

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

- Annually, the Town Manager submits to the Town Council a proposed operating budget for the ensuing fiscal year, commencing October 1. The operating budget includes proposed expenditures and the means of funding them.
- Public hearings are conducted to obtain taxpayer comments regarding the Town's budget and millage rate in accordance with Chapter 200 of the Florida Statutes.
- Prior to October 1, the budget is legally enacted through passage of an ordinance.
- Upon request of the Town Manager, the Town Council may transfer, by ordinance, at any time, any part of an unencumbered balance of an appropriation between expenditure line items. During the fiscal year ended September 30, 2009, the budget was not amended.
- Annual appropriated budgets are adopted for the General Fund on a basis consistent with accounting principles generally accepted in the United States of America.
- The Town Council may make, by ordinance, supplemental appropriations during the fiscal year. There were no supplemental appropriations for the fiscal year ended September 30, 2009.

TOWN OF ORCHID, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C - CASH AND CERTIFICATES OF DEPOSIT

In addition to insurance provided by the Federal Deposit Insurance Corporation, significant deposits held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds are insured under Florida Statutes Chapter 280, *Florida Security for Public Deposits Act*. This Act provides that if a loss at a public depository is not covered by deposit insurance and the proceeds from the sale of securities pledged by the defaulting depository, the difference will be provided by an assessment levied against other public depositories of the same type as the depository in default. Accordingly, all deposits are deemed as insured or collateralized with securities held by the entity or its agent in the entity's name. Therefore, management does not feel depositing funds in excess of FDIC amounts with an approved institution is a risk. At September 30, 2009, the carrying amount of the Town's deposits was \$742,545 with a bank balance of \$746,062. The difference in these amount is due to the fact that there were three outstanding checks in the amount of \$3,517.

NOTE D - CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2009 was as follows:

	Balance <u>September 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>September 30, 2009</u>
Capital assets:				
Street lights	\$ 139,432	\$ 2,311	\$ (332)	\$ 141,411
Street light inventory	9,359	5,490	-	14,849
Furniture and fixtures	22,747	-	-	22,747
Machinery and equipment	<u>24,924</u>	<u>-</u>	<u>-</u>	<u>24,924</u>
Total capital assets	196,462	7,801	(332)	203,931
Less accumulated depreciation:				
Street lights	49,529	7,078	(282)	56,325
Furniture and fixtures	4,995	1,818	-	6,813
Machinery and equipment	<u>14,685</u>	<u>2,745</u>	<u>-</u>	<u>17,431</u>
Total accumulated depreciation	69,209	11,641	-	80,569
Capital assets, net	<u>\$ 127,253</u>	<u>\$ (3,840)</u>	<u>\$ (507)</u>	<u>\$ 123,363</u>

TOWN OF ORCHID, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE E - DEFINED CONTRIBUTION PLAN

Effective March 5, 2003, the Town established a defined contribution plan for the Town Manager in accordance with the Internal Revenue Service Code Section 401(a) and Resolution Number 2003-02. On February 4, 2004 under Resolution Number 2004-02, all full-time employees became eligible for this plan. The Plan members do not contribute to the Plan. The Town's required contribution is fifteen percent of each plan member's gross salary. Full-time employees are fully vested in the Plan after six months of service. For the fiscal year ended September 30, 2009, the Town contributed \$21,661 to the Plan. If a participant separates from service and subsequently becomes employed with another unit of a state or local government, then the participant may rollover the benefits into his/her new employer's pension plan providing said plan permits rollovers. Provisions of the Plan may be amended by the Town Council. The Plan is held in a trust for the exclusive benefit of the participants and their beneficiaries, and consequently, the Town has no fiduciary responsibility. The net assets of the Plan, therefore, are not included in the Town's financial statements.

NOTE F - COMMITMENTS AND CONTINGENCIES

Operating Leases

The Town has executed an operating lease for temporary office space. This lease requires monthly payments through the end of the lease terms. The Town exercised its option to renew the operating lease for temporary office space until December 31, 2009, at a rental of \$39,000 with a one-year renewal. Expenditures under this lease totaled \$39,000 for the fiscal ended September 30, 2009.

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, for which the Town carries commercial insurance. The Town also provides employee medical benefits through commercial insurance coverage. There were no claims or reductions in insurance coverage from the prior year.

Effective February 18, 2005, the Town executed a Combined Voluntary Cooperation and Operational Assistance Mutual Aid Agreement with the Indian River County Sheriff's Office for law enforcement assistance. The agreement does not require payments between the parties for this assistance. The term of the agreement expired on December 31, 2008. On January 14, 2009, this Agreement was renewed until December 31, 2010.

REQUIRED SUPPLEMENTAL INFORMATION

TOWN OF ORCHID, FLORIDA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the year ended September 30, 2009
(UNAUDITED)

	General Fund		
	Budgeted	Actual	Variance
	Amounts		Favorable
	Original/Final		(Unfavorable)
REVENUES			
Property taxes	\$ 231,494	\$ 232,528	\$ 1,034
Intergovernmental	96,295	92,369	(3,926)
Licenses and permits	42,300	35,783	(6,517)
Investment earnings	19,706	6,632	(13,074)
Miscellaneous	1,620	1,725	105
Total revenues	391,415	369,037	(22,378)
EXPENDITURES			
Employment costs	211,678	212,878	(1,200)
Waste collection	36,300	39,092	(2,792)
Contractual services, planning and inspecting	25,510	19,984	5,526
Legal fees	12,000	15,898	(3,898)
Rent, office	39,000	39,000	-
Insurance	20,828	13,451	7,377
Office expenses	12,826	18,185	(5,359)
Street light maintenance	7,320	11,394	(4,074)
Utilities	4,385	4,243	142
Telephone	4,380	5,064	(684)
Audit fees	12,000	10,500	1,500
Auto and travel	1,400	1,436	(36)
Dues and education	2,076	1,705	371
Advertising	1,200	3,588	(2,388)
Other	512	8,187	(7,675)
Capital outlay	-	7,801	(7,801)
Total expenditures	391,415	412,406	(20,991)
Deficit of revenues over expenditures	\$ -	\$ (43,369)	\$ (43,369)



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**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

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

We have audited the financial statements of the Town of Orchid, Florida (the “Town”) as of and for the year ended September 30, 2009 and issued our report thereon dated July 22, 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 opinion 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.

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 misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



The Honorable Mayor and Members of the Town Council
Town of Orchid, Florida
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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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Town of Orchid, Florida in a separate letter dated July 22, 2010.

This report is intended solely for the information and use of the Town Council, management, federal and state awarding agencies, and the Auditor General of the State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

Harris, Cotherman, Jones, Price & Associates
Certified Public Accountants - Chartered

Vero Beach, Florida
July 22, 2010



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Management Letter

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

We have audited the basic financial statements of the Town of Orchid, Florida as of and for the year ended September 30, 2009 and have issued our report thereon dated July 22, 2010.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters. Disclosures in this report, which is dated July 22, 2010, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, *Rules of the Auditor General*, which governs the conduct of local government entity audits performed in the state of Florida. This letter includes the following information which is not included in the aforementioned Auditors' Report:

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. We are satisfied that the Town of Orchid, Florida has taken corrective action to address all recommendations made in the preceding audit report.

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Town of Orchid, Florida complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that we address violations of laws, regulations, contracts or grant agreements or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statement amounts that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., *Rules of the Auditor General*, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of contracts or grant agreements, or fraud, illegal acts, or abuse and (2) control deficiencies that are not significant deficiencies. In connection with our audit, we have made the recommendations listed in the attached Recommendations pages.



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The Honorable Mayor and Members of the Town Council
Town of Orchid, Florida
Page two

Section 10.554(1)(i)6., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is disclosed in the notes to the financial statements.

Section 10.554(1)(i)7.a., *Rules of the Auditor General*, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Town of Orchid, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.b., *Rules of the Auditor General*, requires that we determine whether the annual financial report for the Town of Orchid, Florida for the fiscal year ended September 30, 2009, filed with the Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2009. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), *Rules of the Auditor General*, we applied financial condition assessment procedures. It is management's responsibility to monitor the Town of Orchid's financial condition, and our financial condition assessment was based in part on representations made by management and review of financial information provided by same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to individuate that this letter is intended solely for the information and use of management, the Town Council, federal and state awarding agencies, and the Auditor General of the State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

Harris, Cotherman, Jones, Price & Associates
Certified Public Accountants - Chartered

Vero Beach, Florida
July 22, 2010

Town of Orchid, Florida
RECOMMENDATIONS

YEAR-END CLOSING PROCEDURES

Control issue: Through review of beginning net assets and prior year journal entries, we noted that not all entries for the September 30, 2008 fiscal year were entered into the accounting software. During testing of receivables, accrued expenses and lease expense, we also noted that several journal entries from the prior fiscal year were not reversed properly in the current fiscal year. This results in revenues and expenditures being overstated in the current fiscal year. We also noted that a common closing technique used in the accounting software is not being utilized. QuickBooks has a feature in the software that allows the Administrator to set a closing date. When set, the software would require a password to allow entries to be made prior to the closing date. This “soft close” feature allows the user to prohibit entries in prior periods and, after agreeing the accounting software amounts to the issued financial statements, is helpful in protecting the software from unauthorized or unwanted changes to previously reported fiscal year amounts.

Recommended actions: We recommend that the Town develop procedures that require all journal entries generated from the audit to be entered into the Quickbooks file and ending net assets per the issued financial statements to be tied out to the Quickbooks file to ensure agreement. Once the file is in agreement with the financial statements, we recommend that the Administrator use the soft close feature in Quickbooks to set the closing date for the fiscal year end matching the issued financial statements. In order to ensure that all journal entries are properly recorded in all fiscal years impacted, we also recommend that the Town review each year end entry and clearly identify which entries impact the subsequent fiscal year and to properly make the adjustment. We also recommend that a member of Town Council with accounting knowledge review and approve this procedure.

Management’s Response: Management has no issue with the suggested recommended actions.

COUNCIL OVERSIGHT AND SEGREGATION OF DUTIES

Control issue: The Town lacks proper segregation of duties in its accounting function due to the small office environment in which it operates. The Town Council provides active review and oversight of the accounting function to mitigate the potential for material misstatement from fraud or error. While a lack of segregation of duties is considered a material weakness, we feel the additional controls provided by the Council mitigate the risk of misstatement.

Recommended actions: We recommend that the Town Council maintain its vigilance and oversight of the accounting and reporting functions. Because we consider this to be the most critical control over the Town's accounts and financial statements, any change in the Council's oversight could result in a material weakness and the risk of material misstatement. We urge the Council to adopt formal procedures to ensure this oversight is consistent and complete. Such procedures should include a review and approval of critical activities performed by management during the period, such as bank reconciliations, month-end accruals and subsequent month reversal of such accruals, monthly financial reporting of actual and/or budget activity, and payroll transactions. We also urge the Council to consider performing occasional and random inspections and/or observations of accounting functions such as bank reconciliations, journal entries, inventory counts, credit card statements, deposits and checks, and general ledger posting. Adding an element of unpredictability in its oversight allows the Council to communicate to management its commitment to provide this control and to ensure management override of controls does not occur.

Management's Response: Management has no issue with the suggested recommended actions.