

TOWN OF WINDERMERE, FLORIDA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2010

INTRODUCTORY SECTION

TOWN OF WINDERMERE, FLORIDA

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TOWN OF WINDERMERE, FLORIDA

LIST OF PRINCIPAL OFFICIALS

September 30, 2010

ELECTED OFFICIALS

Mayor

Gary Bruhn

Town Council Members:

Norma Sutton
Richard Irwin
Molly Rose
Cecil Robinson
Burns Hovey

TOWN OFFICIALS

Town Manager

Cecilia Bernier

Town Attorney

Tom Wilkes

FINANCIAL SECTION

This section contains the following subsections:

- . Independent Auditor's Report
- . Management's Discussion and Analysis
- . Basic Financial Statements
- . Schedules

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Town Council
Town of Windermere, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of the *Town of Windermere, Florida* (the Town), as of and for the year ended September 30, 2010, 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Town, as of September 30, 2010, and the respective changes in financial position and the respective budgetary comparison for the General Fund, the Special Revenue Fund and the 5K Run Special Revenue Fund, 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 10, 2011, 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 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.

MCDIRMIT DAVIS & COMPANY, LLC
605 E. ROBINSON STREET, SUITE 635 • ORLANDO, FLORIDA 32801
TELEPHONE 407-843-5406 • FAX 407-649-9339 • EMAIL: INFO@MCDIRMITDAVIS.COM

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 15 through 17, respectively, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements as a whole. The introductory section and schedule of capital assets used in the operation of governmental funds are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of capital assets used in the operation of governmental funds and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

McDiernit Davis & Company, LLC

March 10, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Windermere, Florida (the Town) we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended September 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$5,884,138 (net assets). Of this amount, \$769,155 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$816,079.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$831,938, a decrease of \$37,277 in comparison with the prior year. Unreserved fund balance for the general fund was \$740,859 or 23% of total general fund expenditures.
- The Town's total debt decreased by \$150,076 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide 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 the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Since the Town has no business-type activities such as water and sewer systems, the government-wide financial statements include only governmental activities. The governmental activities of the Town include general government, public safety, physical environment and culture and recreation.

The government-wide financial statements can be found on pages 10-11 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Town has three governmental funds - the General Fund, a Special Revenue Fund and the 5k Run Special Revenue Fund.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town adopts an annual appropriated budget for the General Fund and Special Revenue Funds. A budgetary comparison statement has been provided for the General Fund and Special Revenue Funds on pages 15-17 to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 12-17 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-Wide Financial Analysis

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$5,884,138 at the close of the most recent fiscal year. The following table reflects the condensed Statement of Net Assets for the current year. For more detail see the Statement of Net Assets on page 10.

Town of Windermere
Statement of Net Assets

	Governmental Activities 2010	Governmental Activities 2009
Current and other assets	\$ 1,253,173	\$ 1,071,128
Capital assets (net of accumulated depreciation)	<u>7,523,189</u>	<u>6,819,907</u>
Total assets	<u>8,776,362</u>	<u>7,891,035</u>
Long-term liabilities outstanding	2,470,989	2,621,063
Other liabilities	<u>421,235</u>	<u>201,913</u>
Total liabilities	<u>2,892,224</u>	<u>2,822,976</u>
Net assets:		
Invested in capital assets, net of related debt	5,114,983	4,244,541
Unrestricted	<u>769,155</u>	<u>823,518</u>
Total net assets	<u>\$ 5,884,138</u>	<u>\$ 5,068,059</u>

The largest portion of the Town's net assets of \$5,114,983 (87%) reflects its investment in capital assets (e.g., land, buildings, improvements, infrastructure and equipment) less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The remaining balance of unrestricted net assets, \$769,155, may be used to meet the Town's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town is able to report positive balances in all categories of net assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-Wide Financial Analysis (Continued)

Statement of Activities

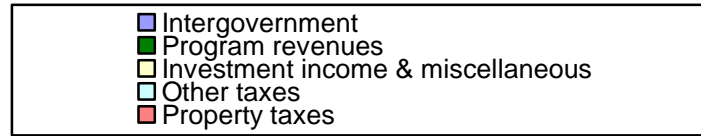
The following table reflects the condensed Statement of Activities for the current year. For more detailed information see the Statement of Activities on page 11.

Governmental activities increased the Town's net assets by \$816,079. Key elements of this increase are as follows:

<u>Town of Windermere</u>		
<u>Changes in Net Assets</u>		
	Governmental Activities 2010	Governmental Activities 2009
	<u>2010</u>	<u>2009</u>
Revenues:		
Program revenues:		
Charges for services	\$ 411,380	\$ 374,980
Operating grants and contributions	88,633	89,210
Capital grants and contributions	<u>777,811</u>	<u>353,988</u>
	1,277,824	818,178
General revenues:		
Property taxes	1,626,581	1,676,783
Franchise and utility taxes	827,448	833,432
Intergovernmental	392,832	408,832
Investment income and miscellaneous	50,402	68,015
Gain on sale of capital assets	<u>4,364</u>	<u>-</u>
Total revenues	<u>4,179,451</u>	<u>3,805,240</u>
Expenses:		
General government	1,326,646	1,397,717
Public safety	1,023,986	1,028,748
Physical environment	869,104	757,524
Culture and recreation	24,385	77,708
Interest on long-term debt	<u>119,251</u>	<u>126,347</u>
Total expenses	<u>3,363,372</u>	<u>3,388,044</u>
Increase in net assets	816,079	417,196
Net assets - beginning of year	<u>5,068,059</u>	<u>4,650,863</u>
Net assets - end of year	<u>\$ 5,884,138</u>	<u>\$ 5,068,059</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Revenues by Source – Governmental Activities



Financial Analysis of the Government's Funds

As noted earlier, the Town used fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds - The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Town's net resources available for spending at the end of the fiscal year.

As of September 30, 2010, the Town governmental funds reported combined ending fund balances of \$831,938.

The general fund is the chief operating fund of the Town. At September 30, 2010, the unreserved fund balance of the general fund was \$740,859. The fund balance of the general fund decreased by \$44,370, primarily because of decreased property tax revenue, as well as increase in transfers out to special revenue fund for the Town's match requirement on various grants.

General Fund Budgetary Highlights

During the year, there was an increase in appropriations between the original budget and the final amended budget for \$300,000 transfer out to a special revenue fund for the Town's match requirement on various grants. There was also a budget amendment which moved appropriations between departments.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Asset and Debt Administration

Capital Assets - The Town's investment in capital assets for its governmental activities as of September 30, 2010 amounts to \$7,523,189 net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements, equipment and machinery, infrastructure and construction in progress. The total increase in the Town's investment in capital assets for the current fiscal year was 10%. This increase was primarily due to additions to construction in progress for various projects.

Town of Windermere
Capital Assets
(Net of Depreciation)

	Governmental Activities 2010	Governmental Activities 2009
	<u> </u>	<u> </u>
Land	\$ 197,135	\$ 197,135
Buildings	467,436	486,082
Improvements other than buildings	710,801	473,857
Equipment and machinery	250,582	335,896
Infrastructure	4,717,167	3,549,855
Construction in progress	<u>1,180,068</u>	<u>1,777,082</u>
 Total	 <u>\$ 7,523,189</u>	 <u>\$ 6,819,907</u>

Additional information on the Town's capital assets can be found in Note 7 of this report.

Long-Term Debt - At the end of the current fiscal year, the Town had total debt outstanding of \$2,416,631. This debt includes capital leases on vehicles and equipment and a note payable related to downtown development. Additional information on long-term debt can be found in Note 10 of this report.

Town of Windermere
Long-term Debt

	Governmental Activities 2010	Governmental Activities 2009
	<u> </u>	<u> </u>
Capital lease payable	\$ 44,631	\$ 85,367
Note payable	<u>2,372,000</u>	<u>2,490,000</u>
	<u>\$ 2,416,631</u>	<u>\$ 2,575,367</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Next Year's Budget and Rates

During the current fiscal year, the unreserved fund balance in the General fund decreased to \$737,856. None of this was appropriated for spending in the 2010 budget since the Town plans to maintain this as a reserve.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the Town's finances. Questions concerning any of the information should be addressed to the office of the Finance Director, Town of Windermere, P.O. Drawer 669, Windermere, FL 34786.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

TOWN OF WINDERMERE, FLORIDA

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2010

Note 1 - Summary of Significant Accounting Policies:

Reporting Entity - The Town was created by the laws of Florida 59-1614. The Town operates under a Mayor-Council form of government and provides the following services as authorized by its charter: public safety, streets and roads, sanitation, culture and recreation, and general administrative services. The accompanying financial statements include all those separately administered departments and funds for which the Town has financial accountability. There are no potential component units or related organizations of the Town.

Government-Wide and Fund 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. Since the Town has no business-type activities, only governmental activities are reported on the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The Town has no fiduciary funds, which would be excluded from the government-wide financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2010

Note 1 - Summary of Significant Accounting Policies (Continued):

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued) - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. 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 to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

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

The Town reports the following major governmental funds:

The *General Fund* is the Town's primary operating fund. It accounts for all financial resources of the general Town, except those required to be accounted for in another fund.

The *Special Revenue Fund* accounts for financial resources segregated for various grants.

The *5k Run Special Revenue Fund* accounts for financial resources segregated for the annual 5k Run.

Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided, as well as fines. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Deposits and Investments - The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition.

Investments of the Town are reported at fair value. The Town's investments consist of investments authorized per their investment policy adopted in accordance with Section 218.415, Florida Statutes.

Receivables - All receivables are shown net of an allowance for uncollectible accounts.

TOWN OF WINDERMERE, FLORIDA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2010

Note 1 - Summary of Significant Accounting Policies (Continued):

Capital Assets - Capital assets, which include property, plant equipment and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Infrastructure assets acquired prior to October 1, 2003 have not been recorded since Governmental Accounting Standards Board (GASB) No. 34 does not require a Town the size of Windermere to retroactively record infrastructure. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$750 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the Town is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Improvements	10-30
Infrastructure	20
Equipment & machinery	5-15

Compensated Absences - Employees may accumulate vacation and sick leave with certain limitations as to the number of hours of accumulation. Employees are paid 100% of their accumulated vacation and sick pay when they terminate for any reason. Since the Town's policy is to pay both vacation and sick pay when employees separate from service, all vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. For governmental activities, compensated absences are generally liquidated by the General fund.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriations or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

TOWN OF WINDERMERE, FLORIDA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2010

Note 2 - Reconciliation of Government-Wide and Fund Financial Statements:

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation includes the net effect of differences in the treatment of long-term debt and related items. The detail of this \$158,736 difference is as follows:

Principal repayments	\$ 158,736
Net adjustment to increase net changes in fund balances- total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 158,736</u>

Another element of the reconciliation states that "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." The detail of this \$(8,660) difference is as follows:

Compensated absences	\$ (8,660)
Net adjustment to decrease net changes in fund balances- total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (8,660)</u>

Note 3 - Stewardship, Compliance and Accountability:

- A. **Budgetary Information** - The Town follows these procedures set forth below in establishing the budgetary data reflected in the financial statements:
1. At least 90 days prior to the beginning of each budget year, the Town Manager shall submit to the Town Council a budget.
 2. Public hearings are conducted to obtain taxpayer comments.
 3. The Budget shall be finally adopted no later than the last day of the last month of the fiscal year.
 4. Formal budgetary accounting is employed as a management control for the General Fund and Special Revenue Funds of the Town. Annual operating budgets are adopted each fiscal year through passage of an annual budget resolution and amended as required for the General Fund and Special Revenue Funds. Budgeted amounts presented in the accompanying financial statements have been adjusted for legally authorized revisions.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2010

Note 3 - Stewardship, Compliance and Accountability (Continued):

5. The Town Manager may transfer part or all of any unencumbered appropriation balance among programs within a department and upon written request by the Town Manager, the Town Council may be resolution transfer part or all of any unencumbered appropriation balance from one department to another.
6. All unexpected budget appropriations lapse at the end of each fiscal year.
7. The Town does not utilize an encumbrance system of accounting.

The General fund budget is prepared on a budgetary basis, whereby the Town includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior periods' excess of revenues over expenditures. Also, the Town does not budget for capital outlay expenditures and other financing sources related to the acquisition of assets through capital leases.

For the 2010 fiscal year, no adjustments were necessary to convert General Fund expenditures on the GAAP basis to the budgetary basis.

- B. **Budget Amendment** - The final budget amounts reflected in the general fund include amendment approved at November 9, 2010 Town Council meeting. Florida Statutes Section 166.241 requires the budget to be amended within 60 days following the end of the fiscal year.
- C. **Excess of Expenditures over Appropriations** - For the year ended September 30, 2010, expenditures exceeded appropriations in the General Fund public safety department.

Note 4 - Cash and Investments:

Deposits - At year-end, the carrying amount of the Town's deposits was \$425,153 and the bank balance was \$575,241. All bank deposits were fully covered by federal depository insurance or by collateral held in banks that are members of the State of Florida's Collateral Pool as specified under Florida law.

Investments - The Town's investment policies are governed by State Statutes and Town ordinances. Town ordinance allows investments in any financial institution that is a qualified public depository of the State of Florida as identified by the State Treasurer, in accordance with Chapter 280 of the Florida Statutes. Authorized investments are:

1. The State Board of Administration Local Government Investment Pool (SBA);
2. Repurchase Agreements collateralized by U.S. Government Securities;

TOWN OF WINDERMERE, FLORIDA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2010

Note 4 - Cash and Investments (Continued):

Investments (continued):

3. Interest bearing savings accounts, money market accounts and certificates of deposits at banks certified as a Qualified Public Depository by the State of Florida;
4. The Florida Municipal Investment Trust, administered by the Florida League of Cities, Inc.
5. Direct obligations of the U.S. Government and its agencies;
6. Fixed interest mutual funds.

The SBA is not a registrant with the Securities and Exchange Commission (SEC); however, the Board has adopted operating procedures consistent with the requirements for a 2a-7 fund. Therefore, the pool account balance can be used as fair value for financial reporting.

The Town's investment policy limits credit risk by restricting authorized investments to those described above. These policies also control concentration of credit risk by setting limits on the maximum percentage that certain investments may comprise in the portfolio. Since the Town has no investments at September 30, 2010, it has no exposure to credit risk, concentration of credit risk, custodial credit risk, or interest rate risk. However, all deposits are potentially subject to custodial credit risk. The Town's investment policy requires that bank deposits be secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida, and creates the Public Deposits Trust Fund, a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred. At September 30, 2010, all of the Town's bank deposits were in qualified public depositories.

Note 5 - Property Tax:

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and payable by March 31. Orange County Government, Florida (the County) bills and collects property taxes. Collections of the property taxes by the County and remittance of them to the Town are accounted for in the General fund. Town property tax revenues are recognized when levied to the extent that they result in current receivables.

The Town is permitted by the Municipal Finance Law of the State to levy taxes up to \$10 per \$1,000 of assessed valuation for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on long-term debt. The combined tax rate to finance general governmental services for the year ended September 30, 2010 was \$3.2280 per \$1,000 which means the Town has a tax margin of \$6.7720 per \$1,000 and could raise up to \$3,541,004 (before discount) additional a year from the present assessed valuation of \$522,888,956 before the limit is reached.

TOWN OF WINDERMERE, FLORIDA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2010

Note 6 - Receivables:

The accounts receivable and allowance for uncollectibles at September 30, 2010 were as follows:

	<u>Accounts Receivable</u>	<u>Allowance for Uncollectible</u>	<u>Net Receivable</u>
General fund	\$ 59,774	\$ 16,000	\$ 43,774

Note 7 - Capital Assets:

Capital asset activity for the year ended September 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 197,135	\$ -	\$ -	\$ 197,135
Construction in progress	<u>1,777,082</u>	<u>1,030,887</u>	<u>(1,627,901)</u>	<u>1,180,068</u>
Total capital assets, not being depreciated	<u>1,974,217</u>	<u>1,030,887</u>	<u>(1,627,901)</u>	<u>1,377,203</u>
Capital assets, being depreciated:				
Buildings	1,351,047	-	-	1,351,047
Improvements	659,366	271,654	(4,500)	926,520
Equipment & machinery	972,716	8,000	(23,797)	956,919
Infrastructure	<u>4,131,580</u>	<u>1,375,386</u>	<u>-</u>	<u>5,506,966</u>
Total capital assets, being depreciated	<u>7,114,709</u>	<u>1,655,040</u>	<u>(28,297)</u>	<u>8,741,452</u>
Less accumulated depreciation for:				
Buildings	(864,965)	(18,646)	-	(883,611)
Improvements	(185,509)	(32,234)	2,024	(215,719)
Equipment & machinery	(636,820)	(91,728)	22,211	(706,337)
Infrastructure	<u>(581,725)</u>	<u>(208,074)</u>	<u>-</u>	<u>(789,799)</u>
Total accumulated depreciation	<u>(2,269,019)</u>	<u>(350,682)</u>	<u>24,235</u>	<u>(2,595,466)</u>
Total capital assets being depreciated, net	<u>4,845,690</u>	<u>1,304,358</u>	<u>(4,062)</u>	<u>6,145,986</u>
Governmental activities capital assets, net	<u>\$ 6,819,907</u>	<u>\$ 2,335,245</u>	<u>\$ (1,631,963)</u>	<u>\$ 7,523,189</u>

TOWN OF WINDERMERE, FLORIDA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2010

Note 7 - Capital Assets (Continued):

Depreciation expense was charged to functions of the Town as follows:

Governmental Activities:

General government	\$ 72,065
Public safety	40,212
Physical environment	228,839
Culture and recreation	<u>9,566</u>
	<u>\$ 350,682</u>

The Town has no capital assets that meet the definition of intangible assets per GASB Statement No. 51.

Note 8 - Retirement Plans:

The Town adopted the Town of Windermere Employee Retirement Plan effective October 1, 2001. The plan is a money purchase defined contribution plan which was established and can be amended by the Town Council. The Town is required to contribute 10% of eligible employee compensation each year. Total contributions made by the Town during the year ended September 30, 2010 amounted to \$55,018.

Note 9 - Other Postemployment Benefits:

Pursuant to Resolution 2010-15, the Town has elected not to make continuation of group health insurance through the Town's current provider available to retirees and eligible dependents.

Note 10 - Noncurrent Liabilities:

A summary of noncurrent liability activity for the year ended September 30, 2010 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital Leases	\$ 85,369	\$ -	\$ 40,736	\$ 44,633	\$ 33,773
Note Payable	2,490,000	-	118,000	2,372,000	124,000
Compensated Absences	<u>45,696</u>	<u>8,660</u>	<u>-</u>	<u>54,356</u>	<u>-</u>
	<u>\$ 2,621,065</u>	<u>\$ 8,660</u>	<u>\$ 158,736</u>	<u>\$ 2,470,989</u>	<u>\$ 157,773</u>

TOWN OF WINDERMERE, FLORIDA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2010

Note 10 - Noncurrent Liabilities (Continued):

Capital Leases - The Town has entered into lease agreements as lessee for financing the acquisition of vehicles and a water tanker. These lease agreements qualify as capital leases for accounting purposes, and therefore has been recorded at the present value of the minimum lease payments at the inception date. A summary of equipment acquired through capital leases are as follows:

Governmental Activities:

Equipment	\$ 135,446
Less: accumulated depreciation	<u>(69,936)</u>
	<u>\$ 65,510</u>

The present value of future minimum capital lease payments as of September 30, 2010 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>
2011	\$ 33,773
2012	<u>13,716</u>
Total minimum lease payments	47,489
Less: amount representing interest	<u>(2,856)</u>
Present value of net minimum capital lease payments	<u>\$ 44,633</u>

Revenue Note - During fiscal year 2004, the Town entered into a note agreement with a bank for the amount of \$3,000,000. This Communication Services Tax Revenue Note, Series 2004, is secured by the local communication services tax revenues received by the Town. Principal and interest payments are due on April 1 and October 1 until the maturity date of October 1, 2024. Interest rate on the note is 4.63%. Annual debt service requirements to maturity are as follows:

TOWN OF WINDERMERE, FLORIDA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2010

Note 10 - Noncurrent Liabilities (Continued):

Revenue Note (Continued):

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 124,000	\$ 108,411
2012	129,000	102,641
2013	136,000	96,559
2014	142,000	90,192
2015	149,000	83,548
2016-2020	853,000	306,645
2021-2024	839,000	89,660
	<u>\$ 2,372,000</u>	<u>\$ 877,657</u>

The Town has implemented GASB No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB No. 48 establishes criteria for government agencies on the reporting of receivables, and provides guidance in recognizing other assets and liabilities for sales of receivables or future revenues. The Town has pledged future communication services tax revenues to repay \$3 million in Communication Services Tax Revenue Note, Series 2004. Proceeds from the note provided financing for various Town capital projects. The note is payable solely from the communication services tax revenues. To the extent that communication services tax revenues are insufficient to pay principal of and interest on the note, the Town will, in each year while the note is outstanding, budget and appropriate sufficient Non-Ad Valorem Revenues to make payments of the principal of and interest on the note as it becomes due. Total principal and interest remaining on the note as of September 30, 2010 is \$3,249,657 with annual requirements ranging from \$232,411 in 2011 to \$231,802 in the final year. For the twelve month period ended September 30, 2010, principal and interest paid was \$231,944 and total communication services tax revenues pledged for the year was \$230,779.

Note 11 - Leases:

As Lessee

The Town has entered into operating leases for police and Town Hall copiers which contain cancellation provisions and are subject to annual appropriations. For fiscal year 2010, rentals approximated \$11,700 for such leases. These leases support governmental activities.

As Lessor

The Town leases certain space to tenants pursuant to operating lease agreements. For fiscal year 2010, rental income totaled \$64,435.

TOWN OF WINDERMERE, FLORIDA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2010

Note 12 - 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; job-related illnesses or injuries to employees; and natural disasters. Risk of loss from the above is transferred by the Town to various commercial insurers through the purchase of insurance. There has been no significant reduction in insurance coverage from the previous year. There have been no settlements in excess of insurance coverage in any of the prior three fiscal years.

Note 13 - Contingencies:

During the ordinary course of its operations, the Town is a party to various claims, legal actions, and complaints. In addition, although the outcome of these lawsuits is not presently determinable, in the opinion of the Town's management and legal counsel, these matters are not anticipated to have a material financial impact on the Town.

Note 14 - Interfund Receivables, Payables and Transfers:

At September 30, 2010, the Special Revenue Fund owes the General Fund \$442,242, which resulted from the General Fund paying for certain expenditures of the Special Revenue Fund until grant revenue is received.

Interfund transfers are as follows:

	<u>Transfer In</u>		
	<u>Special Revenue</u>	<u>5K Run Special Revenue</u>	<u>Total</u>
Transfer out:			
General fund	\$ <u>254,577</u>	\$ <u>-</u>	\$ <u>254,577</u>

Note 15 - Subsequent Events:

The Town has evaluated subsequent events through January 21, 2011, the date which the accompanying financial statements were available to be issued.

INDIVIDUAL FUND SCHEDULE

**CAPITAL ASSETS USED IN THE
OPERATION OF GOVERNMENTAL FUNDS**

OTHER REPORTS

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

Honorable Mayor and Town Council
Town of Windermere, Florida

We have audited the financial statements of the governmental activities of the Town of Windermere, Florida (the Town), as of and for the year ended September 30, 2010, which collectively comprise the Town's basic financial statements and have issued our report thereon dated March 10, 2011. 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 below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 deficiency described below to be a material weakness.

Material Weakness

The Town of Windermere, Florida does not have controls over preparation of the financial statements which would prevent or detect a misstatement in the financial statements.

MCDIRMIT DAVIS & COMPANY, LLC
605 E. ROBINSON STREET, SUITE 635 • ORLANDO, FLORIDA 32801
TELEPHONE 407-843-5406 • FAX 407-649-9339 • EMAIL: INFO@MCDIRMITDAVIS.COM

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*.

We noted certain other matters that we reported to management of the Town in a separate letter dated March 10, 2011. The Town's response to our findings identified in our audit is included in this report. We did not audit the Town's response, and accordingly, we express no opinion on it.

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

McDermitt Davis & Company, LLC

March 10, 2011

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

McDiernit Davis & Company, LLC

March 10, 2011

TOWN OF WINDERMERE, FLORIDA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2010

Note 1 - Basis of Presentation:

The purpose of the accompanying schedule of expenditures of federal awards (the Schedule) is to present, in summary form, total federal award expenditures of the Town of Windermere, Florida (the Town) for the year ended September 30, 2010 which have been financed under the various federal programs. The Schedule is presented on the accrual basis of accounting and in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

TOWN OF WINDERMERE, FLORIDA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
FEDERAL AWARD PROGRAMS**

Year Ended September 30, 2010

Part A - Summary of Auditor's Results:

1. The auditor's report expresses an unqualified opinion on the financial statements of the Town of Windermere, Florida (the Town)
2. A material weakness disclosed during the audit of the financial statements is reported in the 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*.
3. No instances of noncompliance material to the financial statements of the Town, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the Town expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) OF OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included: Highway Planning and Construction (Federal-aid highway program (CFDA 20.205))
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The Town did not qualify as a low-risk auditee.

Part B - Findings – Financial Statement Audit:

None

Part C - Findings and Questioned Costs – Major Federal Award Programs Audit:

None

- Section 10.554(1)(i)5., Rules of the Auditor General, requires based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failure to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. This information has been disclosed in Appendix A to this report.
- 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 has been 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 Windermere, 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 Windermere, Florida* for the fiscal year ended September 30, 2010, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2010. We determined that these two reports are in agreement.
- Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

This management letter is intended solely for the use of Town management, the Town Council 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.

McDiernit Davis & Company, LLC

March 10, 2011

TOWN OF WINDERMERE, FLORIDA

**APPENDIX A - CURRENT YEAR VIOLATIONS OF LAWS,
RULES, REGULATIONS AND CONTRACTUAL PROVISIONS**

For the Year Ended September 30, 2010

ML10-01 – Excess of Expenditures over Appropriations

Criteria

Expenditures may not legally exceed appropriations at the department level.

Condition

There are expenditures in excess of appropriations in the General Fund public safety department. These occurred due to audit adjustments for accrued salaries at year end.

Cause

The budget for expenditures was not amended within 60 days of year end as required by Florida Statutes.

Effect

Town is not in compliance with budget.

Recommendation

We recommend that the budget be amended within 60 days of year end and that it take into account possible accruals.

TOWN OF WINDERMERE, FLORIDA

**APPENDIX B - CURRENT YEAR RECOMMENDATIONS TO
IMPROVE THE TOWN'S FINANCIAL MANAGEMENT, ACCOUNTING
PROCEDURES AND INTERNAL CONTROL**

For the Year Ended September 30, 2010

ML10-02 – General Ledger Reconciliations

Criteria

Accounts receivable on the general ledger should be reconciled to the detail.

Condition

We observed that accounts receivable balance on the general ledger is not being reconciled to the detail.

Cause

There have been problems with receivables because of adjustments on current software.

Effect

Audit adjustments are necessary in order for accounts receivable detail to reconcile to the general ledger.

Recommendation

We recommend that the finance department perform reconciliations of general ledger to detail at least quarterly with proper second review being performed.

ML10-03 – Inadequate Segregation of Duties over Cash Receipts

Criteria

Separate individuals should receive cash, record it in the general ledger, and make the deposit.

Condition

We observed that the same individual is receiving cash, recording it in the general ledger, and making the deposit, with no review or reconciliation.

Cause

The Finance Department has a limited amount of staff and therefore, segregation of duties is limited.

Effect

Misappropriation of assets is possible.

Recommendation

We recommend that an individual other than the individual handling cash reconcile the receipt book to the deposit.

TOWN OF WINDERMERE, FLORIDA

APPENDIX C - PRIOR YEAR RECOMMENDATIONS

For the Year Ended September 30, 2009

<u>No.</u>	<u>Prior Year's Observations</u>	<u>Observation is Still Relevant</u>	<u>Observation Addressed or No Longer Relevant</u>
ML09-01	General ledger reconciliations	x	
ML09-02	Payroll rate changes and W-2 wages		x
ML09-03	Inadequate segregation of duties over cash receipts	x	
ML09-04	Plans review deposits		x

Honorable Mayor and Town Council
Town of Windermere, Florida

We have audited the financial statements of the governmental activities, and each major fund, of *the Town of Windermere, Florida* (the Town) for the year ended September 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 12, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the Town during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the *Town of Windermere, Florida's* basic financial statements was:

Management's estimate for the allowance for doubtful accounts is based on historical loss levels, and an analysis of the individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for depreciation is based on the estimated useful lives of the capital assets. We evaluated the reasonableness of the useful lives as well as the depreciation methods in determining that it is reasonable in relation to the basic financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Correct and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 10, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Town management, the Town Council 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.

Very truly yours,

McDiernit Davis & Company, LLC

March 10, 2011

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