



## **CITY OF POLK CITY, FLORIDA**

T.I.N. No. 59-6151760

**FINANCIAL STATEMENTS AND AUDITORS' REPORTS**

**September 30, 2009**

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## **MANAGEMENTS' DISCUSSION AND ANALYSIS**

**City of Polk City  
Management's Discussion and Analysis  
September 30, 2009**

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The City of Polk City's discussion and analysis (MD&A) is designed to provide an objective and easy to read analysis of the City's financial activities.

Since the Management's Discussion and Analysis is designed to focus on the current year's activities, resulting changes, and currently known facts, please read it in conjunction with the City's financial statements and auditor's report (beginning on Page 1).

## **UNDERSTANDING THE BASIC FINANCIAL STATEMENTS**

### **Government-wide Financial Statements**

The government-wide financial statements (pages 3-4) consist of a Statement of Net Assets and a Statement of Activities. Both statements represent an overview of the City as a whole, separating its operations between Governmental and Business-type activities. The governmental activities of the City include general government, library, law enforcement, building and zoning, code enforcement, streets, parks and recreation, sanitation and storm water utility. The business-type activities of the City consist of water and wastewater services. All information is presented utilizing the economic resource measurement focus and accrual basis of accounting.

The Statement of Net Assets presents information on all the City's assets and liabilities, with the difference between the two reported as net assets. The focus of the Statement of Net Assets (the "unrestricted net assets") is designed to be similar to bottom line results for the City and its governmental and business-type activities.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year, focusing on both the gross and net cost of various activities, both governmental and business-type, that are supported by the government's general tax and other revenues.

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**Fund Financial Statements**

The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. Traditional users of governmental financial statements will find the fund financial statements presentation more familiar.

**Governmental Funds.**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statement. 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. The basic Governmental Funds financial statements can be found on pages 5-8.

The City maintains one governmental fund – the General Fund. Information is presented separately for each fund in the governmental fund Balance Sheet and the governmental fund Statement of Revenue, Expenditures and Change in Fund Balances for the General Fund.

**Proprietary Funds.**

The City maintains only one of the two proprietary fund types. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The City uses enterprise funds to account for its water and wastewater activities. The basic proprietary fund financial statements can be found on pages 9-11 of this report.

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Management's Discussion and Analysis  
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**Notes to the financial statements.**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. They can be found on pages 12-26 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Summary of Net Assets.**

The following table reflects a summary of Net Assets compared to prior year. For more detailed information see the Statement of Net Assets on page 3.

**Statement of Net Assets (Summary)  
as of September 30, 2009**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2009	2008	2009	2008	2009
Current and other assets	\$ 576,090	\$ 341,053	\$ 1,328,226	\$ 347,538	\$ 1,904,316	\$ 688,591
Capital assets	3,362,726	3,403,600	13,891,458	15,167,322	17,254,184	18,570,922
<b>Total assets</b>	<b>\$ 3,938,816</b>	<b>\$ 3,744,653</b>	<b>\$ 15,219,684</b>	<b>\$ 15,514,860</b>	<b>\$ 19,158,500</b>	<b>\$ 19,259,513</b>
Long-term liabilities outstanding	\$ 1,758,022	\$ 1,741,443	\$ 1,868,477	\$ 9,478,058	\$ 3,626,499	\$ 11,219,501
Other liabilities	634,303	611,544	8,604,025	683,039	9,238,328	1,294,583
<b>Total liabilities</b>	<b>\$ 2,392,325</b>	<b>\$ 2,352,987</b>	<b>\$ 10,472,502</b>	<b>\$ 10,161,097</b>	<b>\$ 12,864,827</b>	<b>\$ 12,514,084</b>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	\$ 1,654,529	\$ 1,727,029	\$ 4,863,923	\$ 5,689,727	\$ 6,518,452	\$ 7,416,756
Restricted	39,956	43,446	57,147	66,924	97,103	110,370
Unrestricted	(147,994)	(378,809)	(173,888)	(402,888)	(321,882)	(781,697)
<b>Total net assets</b>	<b>\$ 1,546,491</b>	<b>\$ 1,391,666</b>	<b>\$ 4,747,182</b>	<b>\$ 5,353,763</b>	<b>\$ 6,293,673</b>	<b>\$ 6,745,429</b>

Over one hundred percent of the City's net assets reflect its investment in capital assets (land, buildings, improvements, infrastructure, vehicles, and equipment) less any related debt used to acquire those assets that is still outstanding due to the deficit unrestricted net assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

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Management's Discussion and Analysis  
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Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Three percent of the City's net assets represent resources that are subject to external restrictions on how they may be used which is the same as the prior year. The remaining balance of unrestricted net assets is normally available to meet the City's ongoing obligations to citizens and creditors but the balance is a deficit of (\$378,809) or -27% of net assets. This represents a increase in the deficit of approximately 156% from 2008. The city has invested considerable sums in capital assets and the maintenance of them during the previous year, however corrections are now in place to rebuild the city's reserves and place the city in stronger financial footing.

**City of Polk City  
Management's Discussion and Analysis  
September 30, 2009**

**Statement of Activities**

The following table reflects the condensed Statement of Activities for the current and previous year. For more detailed information see the Statement of Activities on page 4.

**Statement of Activities (Summary)  
For the year ended September 30, 2009**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2009	2008	2009	2008	2009
<b>Revenues:</b>						
Program Revenues:						
Charges for services	502,422	312,757	725,797	1,206,178	1,228,219	1,518,935
Operating grants and contributions	1,008	27,767	-	73,944	1,008	101,711
Capital grants and contributions	424,421	90,506	4,203,997	858,267	4,628,418	948,773
General revenues:						
Property taxes	550,240	600,972	-	-	550,240	600,972
Franchise/Public Ser. Tax	295,601	314,163	-	-	295,601	314,163
State shared revenues	155,401	160,757	-	-	155,401	160,757
Fuel taxes	-	92,831	-	-	-	92,831
Other	21,313	33,285	80,548	1,256	101,861	34,541
<b>Total revenues</b>	<b>1,950,406</b>	<b>1,633,038</b>	<b>5,010,342</b>	<b>2,139,645</b>	<b>6,960,748</b>	<b>3,772,683</b>
<b>Expenses:</b>						
General government	824,907	789,645	-	-	824,907	789,645
Library	62,452	109,416	-	-	62,452	109,416
Police	278,709	310,188	-	-	278,709	310,188
Building and zoning	54,109	85,075	-	-	54,109	85,075
Code Enforcement	37,046	42,934	-	-	37,046	42,934
Sanitation	182,652	179,086	-	-	182,652	179,086
Streets	282,605	258,787	-	-	282,605	258,787
Parks and recreation	22,978	40,487	-	-	22,978	40,487
Stormwater	1,891	1,891	-	-	1,891	1,891
Interest on long-term debt	89,436	70,354	-	-	89,436	70,354
Public utilities	-	-	1,144,868	1,433,064	1,144,868	1,433,064
<b>Total expenses</b>	<b>1,836,785</b>	<b>1,887,863</b>	<b>1,144,868</b>	<b>1,433,064</b>	<b>2,981,653</b>	<b>3,320,927</b>
<b>Increase (decrease) in net assets before transfers</b>						
	113,621	(254,825)	3,865,474	706,581	3,979,095	451,756
<b>Transfers</b>						
	75,000	100,000	(75,000)	(100,000)	-	-
<b>Increase (decrease) in net assets</b>						
	188,621	(154,825)	3,790,474	606,581	3,979,095	451,756
<b>Net assets - October 1</b>	<b>1,357,870</b>	<b>1,546,491</b>	<b>956,708</b>	<b>4,747,182</b>	<b>2,314,578</b>	<b>6,293,673</b>
<b>Net assets - September 30</b>	<b>1,546,491</b>	<b>1,391,666</b>	<b>4,747,182</b>	<b>5,353,763</b>	<b>6,293,673</b>	<b>6,745,429</b>

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Management's Discussion and Analysis  
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**Governmental activities**

Governmental activities decreased the City's net assets by \$154,825 after a transfer of \$100,000 from the business-type activities. In the prior year, net assets increased by \$188,621 after a \$75,000 transfer from business-type activities. Total expenses increased by \$51,078 or approximately 3%. The cause of this increase was due to general increases due to workload requirements or contractual obligations.

**Business-type activities**

Business-type activities increased the City's net assets by \$606,581 compared to an increase of \$3,865,474 in the prior year. There was a \$100,000 transfer of funds to support governmental activities.

- There were significant improvements and expansions to the utility systems.
- The City continued construction of a wastewater treatment plant.
- In the prior year the City received capital contributions totaling \$4,203,997 due to donations of infrastructure from Polk County and developers.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.**

As of September 30, 2009, the City's governmental funds reported combined ending fund balances deficit of (\$264,728) which can be found on page 5. This is up from (\$52,341) last year. Approximately (\$478,180) constitutes unreserved fund balance deficit, which is an increase in the deficit of (\$376,788) from last year, and is not available for spending. Because the total fund balance of the governmental funds is a deficit, there is no amount available for appropriation in subsequent years.

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In the General Fund, the City's expenditures exceeded its revenues by \$323,721. The cause of this deficiency or revenues over expenditures is as follows.

- The City under budgeted the expenditures related to the law enforcement contract with the Polk County Sheriff's office by over \$100,000
- Operational costs were under budgeted in FY09
- Expected revenue received was less than the forecasted amount
- Debt service expenditures were greater than anticipated

For further analysis, the budgetary comparison schedule is presented on pages 27.

**Proprietary Funds**

These services combined to generate operating income of \$127,578. Compare that to the prior year operating loss of \$111,842. As stated elsewhere in this report, the city has expended significant resources to expand the city's infrastructure to position itself for future growth.

**ANALYSIS OF SIGNIFICANT BUDGET VARIANCES**

The City adopts an annual appropriated budget each year in September. Budgetary comparison statements have been provided to demonstrate compliance with the budget (page 27). Budget comparison reporting is included for the General Fund.

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Management's Discussion and Analysis  
September 30, 2009**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets.**

The investment in capital assets includes land, buildings, improvements, infrastructure, vehicles, and equipment. The City elected to record and depreciate its infrastructure, rather than use the optional "modified approach".

The following table presents a comparison of the capital assets for the current and previous year.

**Capital Assets Activity**  
(net of depreciation)  
as of September 30, 2009

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>
<b>Assets not depreciated</b>						
Land	412,543	412,543	1,027,000	1,868,587	1,439,543	2,281,130
Construction in progress	49,118	186,019	3,456,480	4,090,990	3,505,598	4,277,009
<b>Total</b>	<b>461,661</b>	<b>598,562</b>	<b>4,483,480</b>	<b>5,959,577</b>	<b>4,945,141</b>	<b>6,558,139</b>
<b>Depreciated Assets</b>						
Buildings and improvements	2,672,166	2,672,166	-	-	2,672,166	2,672,166
Recreational facilities	242,444	272,916	-	-	242,444	272,916
Vehicles and equipment	369,885	372,890	158,327	227,567	528,212	600,457
Infrastructure	187,478	187,478	-	-	187,478	187,478
Utility plants	-	-	9,834,466	9,834,466	9,834,466	9,834,466
<b>Subtotal</b>	<b>3,471,973</b>	<b>3,505,450</b>	<b>9,992,793</b>	<b>10,062,033</b>	<b>13,464,766</b>	<b>13,567,483</b>
Accumulated depreciation	(570,908)	(700,412)	(584,815)	(888,109)	(1,155,723)	(1,588,521)
<b>Total</b>	<b>2,901,065</b>	<b>2,805,038</b>	<b>9,407,978</b>	<b>9,173,924</b>	<b>12,309,043</b>	<b>11,978,962</b>

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2009, amounts to \$18,537,101 (net of accumulated depreciation) compared to \$17,254,184 last year. That is an increase of \$1,282,917 from the prior year. As stated throughout this report the city has invested significant resources into capital assets and expansions to accommodate the current and planned growth.

**City of Polk City  
Management's Discussion and Analysis  
September 30, 2009**

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Significant investments in capital assets for 2009 are as follows:

- Planning and design for the new Regional MBR Wastewater Treatment Plant.
- Land purchased for the new Regional MBR Wastewater Treatment Plant

Additional information on the City's capital assets can be found In Note 6 on pages 19-20 of the Notes to the Financial Statements in this report.

**Long-term debt.**

The following table presents a comparison of revenue bonds and notes payable for the current and previous year.

**Revenue Notes and Notes Payable**  
as of September 30, 2009

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>
Revenue notes	\$ -	\$ -	\$5,681,800	\$5,658,500	\$ 5,681,800	\$ 5,658,500
Notes payable	\$1,708,197	\$1,676,571	\$2,920,615	\$3,819,095	\$ 4,628,812	\$ 5,495,666
<b>Total</b>	<b>\$1,708,197</b>	<b>\$1,676,571</b>	<b>\$8,602,415</b>	<b>\$9,477,595</b>	<b>\$10,310,612</b>	<b>\$11,154,166</b>

At the end of the current fiscal year, the Governmental Activities had total debt outstanding of \$1,741,443 of which \$64,872 pertains to compensated absences. This compares to \$49,825 in the prior year.

As shown in Note 7, beginning on page 21, the Business-type Activities had total debt outstanding of \$9,478,058 which consists primarily of the Water Bond Series 2004, Sewer Bonds Series 1999, Water and Sewer Bond Series 2005 and the installment loans from Florida Department of Environmental Protection and Polk County. For additional information, see Note 7, page 21.

**City of Polk City  
Management's Discussion and Analysis  
September 30, 2009**

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**CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS**

The planning and design for the regional 1.5 mgd Wastewater Treatment Plant was completed in 2009. However, the expected growth of the City of Polk City slowed significantly causing the planned Regional Wastewater Treatment Plant execution to be put on hold in 2009. Decreases in operating expenses were executed including reducing staff hours from 40 hours/week to 36 hours/week. The Fiscal Year 2008 audit showed that the City of Polk City owed Polk County impact fees amounting to \$531,000 and this is currently being addressed. The City of Polk City defaulted on the first loan payment to Polk County for \$175,000 for the Mount Olive spray field and ribs properties due to lack of funds.

**REQUEST FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City of Polk City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the City of Polk City, 123 Broadway Boulevard SE, Polk City, FL 33868 or call 863-984-1375.

## **FINANCIAL SECTION**

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council  
**City of Polk City, Florida**

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of **City of Polk City, Florida** as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of **City of Polk City, Florida'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 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, the business-type activities, and each major fund of the **City of Polk City, Florida** as of September 30, 2009, and the respective changes in financial position and cash flows, where applicable, 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 July 27, 2010 on our consideration of **City of Polk City, Florida's** internal control structure 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 read in conjunction with this report in considering the results of our audit.

## INDEPENDENT AUDITOR'S REPORT

(cont...)

The management's discussion and analysis and the budgetary comparison schedule on pages M1 through M10 and page 27, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **City of Polk City, Florida's** basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is present for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 218.97, *Florida Statutes*, and Chapter 10.550, *Rules of the Auditor General*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Brynjulfson CPA, P.A.

Brynjulfson CPA, P.A.  
Lakeland, Florida  
July 27, 2010

**CITY OF POLK CITY, FLORIDA  
GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
AS OF SEPTEMBER 30, 2009**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 14,107	\$ 223,992	\$ 238,099
Receivables, current:			
Customer accounts, net	40,101	98,456	138,557
Intergovernmental	44,524	-	44,524
Franchise and public service taxes	28,868	-	28,868
Internal balances	169,155	(169,155)	-
Restricted assets:			
Cash and cash equivalents	43,447	194,127	237,574
Capital assets:			
Non-depreciable	598,562	5,959,577	6,558,139
Depreciable, net	2,805,038	9,173,924	11,978,962
Deferred charges	851	118	969
Unamortized bond issue costs	-	33,821	33,821
<b>TOTAL ASSETS</b>	<b>3,744,653</b>	<b>15,514,860</b>	<b>19,259,513</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 53,743	\$ 29,536	\$ 83,279
Accrued payroll	15,298	2,155	17,453
Accrued interest payable	5,763	230,396	236,159
Due to other governments	536,740	-	536,740
Deferred revenue	-	299,310	299,310
Customer deposits	-	121,642	121,642
Long-term liabilities:			
Due within one year	71,817	424,609	496,426
Due in more than one year	1,669,626	9,053,449	10,723,075
<b>TOTAL LIABILITIES</b>	<b>2,352,987</b>	<b>10,161,097</b>	<b>12,514,084</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,727,029	5,689,727	7,416,756
Restricted for:			
Building code enforcement	5,404	-	5,404
Transportation infrastructure	27,477	-	27,477
Debt service	10,565	66,924	77,489
Unrestricted	(378,809)	(402,888)	(781,697)
<b>TOTAL NET ASSETS</b>	<b>\$ 1,391,666</b>	<b>\$ 5,353,763</b>	<b>\$ 6,745,429</b>

See Accompanying Notes to Financial Statements

CITY OF POLK CITY, FLORIDA  
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

FUNCTIONS/PROGRAMS PRIMARY GOVERNMENT:	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 789,645	\$ 43,088	\$ 2,767	\$ 11,969	\$ (731,821)	\$ -	\$ (731,821)
Library	108,416	4,064	25,000	-	(80,352)	-	(80,352)
Police	310,188	3,318	-	5,059	(301,811)	-	(301,811)
Building and zoning	85,075	24,522	-	-	(60,553)	-	(60,553)
Code enforcement	42,934	-	-	-	(42,934)	-	(42,934)
Sanitation	179,086	203,035	-	-	23,949	-	23,949
Streets	258,787	17,942	-	-	(240,845)	-	(240,845)
Parks and recreation	40,487	-	-	73,478	32,991	-	32,991
Stormwater utility	1,891	16,788	-	-	14,897	-	14,897
Interest on long term debt	70,354	-	-	-	(70,354)	-	(70,354)
Total governmental activities	1,887,863	312,757	27,767	90,506	(1,456,833)	-	(1,456,833)
Business-type Activities:							
Water utility	563,046	736,815	-	8,735	-	182,504	182,504
Sewer utility	870,018	469,363	73,944	849,532	-	522,821	522,821
Total business-type activities	1,433,064	1,206,178	73,944	858,267	-	705,325	705,325
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 3,320,927</b>	<b>\$ 1,518,935</b>	<b>\$ 101,711</b>	<b>\$ 948,773</b>	<b>(1,456,833)</b>	<b>705,325</b>	<b>(751,508)</b>

**GENERAL REVENUES:**

Taxes:							
Property taxes, levied for general purposes					600,972		600,972
Franchise taxes					91,145		91,145
Public service taxes					223,018		223,018
Fuel taxes levied for transportation					92,831		92,831
State shared revenue					160,757		160,757
Investment earnings					747	1,256	2,003
Transfers					100,000	(100,000)	-
Miscellaneous					32,538	-	32,538
Total General Revenues, Special Items, and Transfers					1,302,008	(98,744)	1,110,433
<b>CHANGE IN NET ASSETS</b>					(154,825)	606,581	358,925
<b>NET ASSETS - beginning of year</b>					1,546,491	4,747,182	6,293,673
<b>NET ASSETS - end of year</b>					\$ 1,391,666	\$ 5,353,763	\$ 6,652,598

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA  
BALANCE SHEET - GOVERNMENTAL FUNDS  
AS OF SEPTEMBER 30, 2009**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 14,107
Receivables, net:	
Customer accounts, net	40,101
Intergovernmental	44,524
Franchise and public service taxes	28,868
Due from other funds	169,155
Restricted assets:	
Cash and cash equivalents	43,447
Deferred charges	851
<b>TOTAL ASSETS</b>	<u>\$ 341,053</u>
<b>LIABILITIES AND FUND BALANCE</b>	
Accounts payable	\$ 53,743
Accrued payroll	15,298
Due to other governments	536,740
<b>TOTAL LIABILITIES</b>	<u>605,781</u>
<b>FUND BALANCE:</b>	
Reserved for:	
Deferred charges	851
Due from other funds	169,155
Building code enforcement	5,404
Transportation infrastructure	27,477
Debt service	10,565
Unreserved	(478,180)
<b>TOTAL FUND BALANCE</b>	<u>(264,728)</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 341,053</u>

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA  
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS -  
GOVERNMENTAL FUNDS  
AS OF SEPTEMBER 30, 2009**

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**FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ (264,728)

**Amounts reported for governmental activities in the statement of net assets  
are different because:**

Capital assets used in governmental activities are not current financial resources  
and therefore are not reported in the Governmental Funds Balance Sheet. 3,403,600

Interest payable on long-term debt does not require current financial resources.  
Therefore, interest payable is not reported as a liability in governmental funds. (5,763)

Long-term liabilities (including compensated absences)  
are not due and payable in the current period and therefore they are not reported  
in the Governmental Funds Balance Sheet. (1,741,443)

**NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ 1,391,666

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS  
for the year ended September 30, 2009**

	<u>General Fund</u>
<b>REVENUES:</b>	
Taxes	\$ 1,043,556
Licenses and permits	25,068
Intergovernmental revenue	270,655
Charges for services	242,654
Fines and forfeitures	3,404
Other	36,367
Total revenues	<u>1,621,704</u>
<b>EXPENDITURES:</b>	
General government	765,128
Public safety	352,719
Physical environment	179,086
Transportation	245,204
Culture/recreation	107,883
Debt service	193,316
Capital outlay	102,089
Total expenditures	<u>1,945,425</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(323,721)</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Impact fees	11,334
Transfers in	100,000
Total other financing sources	<u>111,334</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(212,387)</u>
<b>FUND BALANCE, beginning of year</b>	<u>(52,341)</u>
<b>FUND BALANCE, end of year</b>	<u>\$ (264,728)</u>

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

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**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ (212,387)

**Amounts reported for governmental activities in the statement of activities are different because:**

Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

This is the amount of capital assets additions in the current period	170,378
This is the amount of depreciation recorded in the current period	(129,504)

Long-term obligations including bonds and notes payable and compensated absences are reported as liabilities in the government-wide statement of activities but are not reported as liabilities in the governmental funds because they do not require the use of current financial resources:

This amount represents long-term debt repayments	31,626
This amount represents the change in accrued interest payable	109
This amount represents the change in compensated absence liability	<u>(15,047)</u>

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ (154,825)

**CITY OF POLK CITY, FLORIDA  
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
BUSINESS TYPE ACTIVITIES  
AS OF SEPTEMBER 30, 2009**

	<b>Business Type Activities - Enterprise Funds</b>		
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 221,487	\$ 2,505	\$ 223,992
Customer accounts receivable, net	58,309	40,147	98,456
Due from water fund		71,346	71,346
Total current assets	<u>279,796</u>	<u>113,998</u>	<u>393,794</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	160,628	33,499	194,127
Capital assets, net:			
Non-depreciable		5,959,577	5,959,577
Depreciable, net	3,316,671	5,857,253	9,173,924
Deferred charges	118		118
Unamortized bond issue costs	24,752	9,069	33,821
Total noncurrent assets	<u>3,502,169</u>	<u>11,859,398</u>	<u>15,361,567</u>
<b>TOTAL ASSETS</b>	<u>3,781,965</u>	<u>11,973,396</u>	<u>15,755,361</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	14,590	14,946	29,536
Accrued payroll	2,155	-	2,155
Bonds and notes payable, current portion	48,771	375,838	424,609
Accrued interest payable	8,877	221,519	230,396
Deferred revenues	56,785	242,525	299,310
Due to sewer fund	71,346	-	71,346
Due to general fund	32,496	136,659	169,155
Total current liabilities	<u>235,020</u>	<u>991,487</u>	<u>1,226,507</u>
Noncurrent liabilities:			
Customer deposits	121,642	-	121,642
Compensated absences	463	-	463
Bonds and notes payable, noncurrent portion	1,624,604	7,428,382	9,052,986
Total noncurrent liabilities	<u>1,746,709</u>	<u>7,428,382</u>	<u>9,175,091</u>
<b>TOTAL LIABILITIES</b>	<u>1,981,729</u>	<u>8,419,869</u>	<u>10,401,598</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,668,048	4,021,679	5,689,727
Restricted for:			
Debt service	35,304	31,620	66,924
Unrestricted	96,884	(499,772)	(402,888)
<b>TOTAL NET ASSETS</b>	<u>\$ 1,800,236</u>	<u>\$ 3,553,527</u>	<u>\$ 5,353,763</u>

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS**  
**BUSINESS TYPE ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	Business Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 736,815	\$ 469,363	\$ 1,206,178
Total operating revenues	736,815	469,363	1,206,178
<b>OPERATING EXPENSES:</b>			
Personal services	85,063	-	85,063
Operating expenses	307,032	383,211	690,243
Depreciation	114,525	188,769	303,294
Total operating expenses	506,620	571,980	1,078,600
<b>OPERATING INCOME (LOSS)</b>	230,195	(102,617)	127,578
<b>NONOPERATING REVENUE (EXPENSE):</b>			
Interest revenue	250	1,006	1,256
Interest expense	(56,426)	(298,038)	(354,464)
Other nonoperating revenue	-	73,944	73,944
Total nonoperating revenues (expenses)	(56,176)	(223,088)	(279,264)
Income (loss) before contributions	174,019	(325,705)	(151,686)
<b>CAPITAL GRANTS AND CONTRIBUTIONS:</b>			
State grant	-	836,287	836,287
Impact fees	8,735	13,245	21,980
Total capital grants and contributions	8,735	849,532	858,267
<b>TRANSFERS IN (OUT)</b>	(100,000)	-	(100,000)
Change in net assets	82,754	523,827	606,581
<b>TOTAL NET ASSETS - beginning of year</b>	1,717,482	3,029,700	4,747,182
<b>TOTAL NET ASSETS - end of year</b>	\$ 1,800,236	\$ 3,553,527	\$ 5,353,763

See Accompanying Notes to Financial Statements

CITY OF POLK CITY, FLORIDA  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
BUSINESS TYPE ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Business Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers	\$ 757,174	\$ 501,611	\$ 1,258,785
Payments to suppliers	(301,379)	(310,634)	(612,013)
Payments for salaries and benefits	(86,153)	-	(86,153)
Net cash flows from operating activities	369,642	190,977	560,619
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Increase (decrease) in customer deposits	19,671	-	19,671
Increase (decrease) in due to (from) other funds	8,904	10,320	19,224
Transfers (to) from other funds	(100,000)	-	(100,000)
Net cash flows from noncapital financing activities	(71,425)	10,320	(61,105)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets, net of related payables	(33,235)	(1,978,855)	(2,012,090)
Capital contributions received	8,735	13,245	21,980
State grant proceeds	-	239,899	239,899
Bond proceeds, net of costs	33,235	871,202	904,437
Principal paid on notes, bonds and lease obligations	(17,860)	(11,397)	(29,257)
Interest paid on borrowings	(58,634)	(188,160)	(246,794)
Net cash flows from capital and related financing activities	(67,759)	(1,054,066)	(1,121,825)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest on invested funds	250	1,006	1,256
Net cash flows from investing activities	250	1,006	1,256
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	230,708	(851,763)	(621,055)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	151,407	887,767	1,039,174
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 382,115	\$ 36,004	\$ 418,119
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ 230,195	\$ (102,617)	\$ 127,578
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	114,525	188,769	303,294
(Increase) decrease in accounts receivable	20,359	32,248	52,607
(Increase) decrease in deferred charges	3,269	6,387	9,656
Increase (decrease) in accounts payable	(1,344)	(8,452)	(9,796)
Increase (decrease) in compensated absences	(1,147)	-	(1,147)
Increase (decrease) in accrued payroll	57	-	57
Non-cash lease expense	-	73,944	73,944
Non-cash bond cost amortization	728	698	1,426
Net cash flows from operating activities	\$ 366,642	\$ 190,977	\$ 557,619
<b>Noncash financing and investing activities:</b>	\$ -	\$ -	\$ -

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its Statements and Interpretations. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 for its business-type activities funds that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities (enterprise funds), the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

**A. REPORTING ENTITY**

The City of Polk City, Florida is a political subdivision of the State of Florida created in 1925 by Chapter 11016, Laws of the State of Florida. The City operates under a council/manager form of municipal government and provides general municipal services, including public safety, public works, culture, recreation, community development, and water and sewer services. These financial statements include all of the funds, organizations, agencies, departments and account groups of the City (the "primary government") and any "legally" separate entities ("component units") required by generally accepted accounting principles to be included in the reporting entity.

The accompanying financial statements present the City's primary government and component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships). Certain component units, although legally separate, are presented in the financial statements as "blended" components. Blending refers to the fact that the component unit's funds and account groups are combined with those of the primary government for financial reporting purposes. There are no entities that meet the criteria for inclusion as either blended or discreetly presented component units.

**B. BASIC FINANCIAL STATEMENTS**

The basic financial statements consist of the government-wide financial statements and fund financial statements.

**Government-wide Financial Statements** - The required government-wide financial statements are the Statement of Net Assets and the Statement of Activities, which report information on all of the nonfiduciary activities of the City. The effects of interfund activity have been removed from these statements. The City has no fiduciary funds, however if it did they would be excluded from the government-wide financial statements since by definition these assets are being held for the benefit of a third party and cannot be used to fund activities or obligations of the government. *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.

**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont...)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment, including depreciation. The City does not allocate the interest expense of governmental fund debt or indirect costs such as finance, personnel, legal, etc. *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*.

**Fund Financial Statements** - The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues and expenditures/expenses. The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. Non-major funds by category are summarized into a single column. Due to the City's fund structure, there were no non-major funds. The various funds are reported by type within the financial statements.

The following fund types and funds are used and reported by the City:

- a) **Governmental Funds:** The focus of the governmental fund's measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:
- **General Fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- b) **Proprietary Funds:** The focus of the proprietary fund's measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City:
- **Enterprise Funds** - are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. The City has the following Enterprise Funds:
    - **Water Fund** is used to account for the operations associated with potable water supply, treatment, transmission and distribution services to area residents.
    - **Sewer Fund** is used to account for the operations associated with sewer collection, treatment and disposal services for area residents.

**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2009

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)**

**C. MEASUREMENT FOCUS, AND BASIS OF ACCOUNTING**

The government-wide financial statements and the proprietary fund 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 revenue as soon as all eligibility requirements imposed by the provider have been met.

Operating revenues shown for proprietary operations generally result from producing or providing goods and services such as water and sewer. Operating expenses for these operations include all costs related to providing the service or product. These costs include billing and collection, personnel and purchased services, repairs and maintenance, depreciation, materials and supplies, and other expenses directly related to costs of services.

All other revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

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 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 claims and judgments, 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 as revenue of the current period. Grant revenues are considered earned and are accrued simultaneously with the grant expenditure. In applying the susceptibility-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and substantially irrevocable; i.e. revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if they meet the availability criteria. All other revenue items are considered to be measurable and available only when cash is received by the government.

**D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY**

**CASH AND CASH EQUIVALENTS** - Includes all short-term highly liquid investments with a maturity of three months or less when purchased, and all bank demand deposits, certificates of deposit, money-market and savings accounts. At September 30, 2009, all of the City's cash and investments met this definition.

**INVESTMENTS** - Debt securities owned are reported at cost plus accrued interest which approximates market. Purchases and sales of investments are reflected on trade dates. Net realized gains or losses on sales of investments are based on the cost of investments applied on a first-in, first-out basis and are reflected in current operating results.

**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont...)

**CUSTOMER ACCOUNTS RECEIVABLE** - The City accrues its unbilled utility service fees. This represents the estimated value of service from the last billing date to year end and totaled \$114,098 at September 30, 2009. A reserve for doubtful accounts is maintained in each fund equal to the value of the utility customer receivables that are not expected to be collected. As of September 30, 2009, such reserves for all funds totaled \$6,138. Receivables are reported in the financial statements net of the reserve for doubtful accounts.

**INTERFUND RECEIVABLES AND PAYABLES** - To the extent any interfund balances exist, management anticipates they will be settled in cash as opposed to a permanent transfer.

**INVENTORIES** - Supply inventories of the general fund and the enterprise funds are immaterial and not recorded as assets. Such items are charged to expense when purchased.

**CAPITAL ASSETS** - In the government-wide financial statements capital assets include land, buildings, improvements, utility plant, and furniture and equipment with an individual cost of \$500 or more and an estimated useful life in excess of two years as defined by City resolution. Such assets are recorded at historical cost, if purchased and at fair market value at date of gift, if donated. Major additions are capitalized while maintenance and repairs which do not improve or extend the life of the respective assets are charged to expense. Governmental fund infrastructure assets (e.g., roads, bridges, sidewalks, streets, drainage systems and lighting system), acquired prior to October 1, 2003, have not been reported.

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Capital asset depreciation is recognized using the straight-line method over the estimated useful lives of the related assets, as follows:

<u>Type</u>	<u>Years</u>
Utility plant in service	40
Buildings and improvements	10 - 30
Infrastructure	40
Machinery and equipment	3 - 10
Vehicles	5 - 7

**RESTRICTED ASSETS** - Includes cash and investments that are legally restricted to specific uses by external parties. The City generally uses restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

**INTEREST COSTS** - Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of enterprise fund capital assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. No net interest cost were capitalized for the year ended September 30, 2009.

**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont...)

**LONG-TERM OBLIGATIONS** - In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the bonds outstanding method. Bond issuance costs are reported as assets, net of amortization. Bond premiums and discounts are reported, net of amortization, in the related debt balances shown in the financial statements. Long-term debt for governmental funds is not reported as liabilities in the fund financial statements; rather the debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures when due. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

**COMPENSATED ABSENCES** - Sick leave is credited to an employee on the basis of eight hours per month of service not to exceed ninety days. Accumulated sick leave does not vest and is not paid upon termination of employment. Vacation leave is credited to an employee depending on years of service, ranging from five to 20 days per year. Vacation leave accumulation is limited to 160 hours for hourly employees and 240 hours for salaried employees. Eligible employees accumulate two personal days a year not to exceed ten days. The City Manager is entitled to accrue all unused leave, including vacation, sick and personal leave, without limit. Upon termination, the City pays for all unused vacation leave and personal days subject to the above limits on benefit accumulation except for the City Manager who will be compensated for all unused leave, including sick leave, upon termination. The liability for these compensated absences is recorded as long-term in the government-wide statements and in the proprietary fund financial statements because the maturities are not determinable. In the fund financial statements, the governmental funds do not report the compensated absence liability because it is generally not payable from expendable available financial resources.

**CONNECTION FEES AND IMPACT FEES** - Connection fees represent reimbursement of the costs incurred to perform the connection of the respective utilities, and are recorded as operating revenue when received. Impact fees, which are not considered connection fees since they substantially exceed the cost of connection, are recorded as capital contributions when received. Prepaid impact fees received which reserve capacity in the City's future water or sewer facilities are deferred and reported as capital contributions when the requirements of the Developer agreements are met by the City.

**INTERFUND TRANSFERS** - Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For purposes of the Government-wide Statement of Activities, all interfund transfers between individual enterprise funds, when applicable, are eliminated.

**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont...)

**EQUITY CLASSIFICATIONS -**

**Government-wide Statements** - Equity is classified as net assets and displayed in three components:

- a) Invested in capital assets, net of related debt - Consists of capital assets including restricted assets from debt proceeds, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports \$110,370 of restricted net assets of which \$32,881 is restricted by enabling legislation.
- c) Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**Fund Statements** - Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Reserved fund balance represents amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Proprietary fund equity is classified the same as in the government-wide statements.

**NOTE 2 - PROPERTY TAX CALENDAR**

Under Florida Law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the Polk County Property Appraiser and Polk County Tax Collector. The tax levy of the City is established by the City Council prior to October 1 of each year and the Polk County Property Appraiser incorporates the millage into the total tax levy, which includes the municipalities, the County, independent districts and the Polk County School Board tax requirements. State statutes permit municipalities to levy property taxes at a rate of up to 10 mills. The City's millage rate in effect for the fiscal year ended September 30, 2009 was 6.7425.

All taxes are due and payable on November 1 (levy date) of each year and unpaid taxes become delinquent on April 1 following the year in which they are assessed. Discounts are allowed for early payment as follows: 4% in of November, 3% in December, 2% in January, 1% in February. The taxes paid in March are without discount. Delinquent taxes on real and personal property bear interest of 18% per year. On or prior to June 1 following the tax year, certificates are sold for all delinquent taxes on real property.

**NOTE 3 - BUDGETARY LAW AND PRACTICE**

The budget is adopted by Ordinance on a City-wide basis for all City funds on or before October 1 of each year as required by State Statute. City Ordinance establishes the legal level of budgetary control at the individual fund level. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations subject to notification of the City Council.

**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**NOTE 4 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

- A. Compliance With Finance Related Legal and Contractual Provisions - The City was not in compliance with the debt service reserve or sinking fund monthly deposit requirements of the 1999 sewer revenue bonds or the 2004 water revenue bonds. The City was not in compliance with the monthly sinking fund deposit requirements of the 2007 capital improvement revenue bonds. The City was not in compliance with the rate covenant of the 1999 sewer revenue bonds.
- B. Deficit fund balance or Net Assets of Individual Funds - As of September 30, 2009, the general fund had a deficit fund balance of \$478,180.

**NOTE 5 - DEPOSITS AND INVESTMENTS**

**DEPOSITS IN FINANCIAL INSTITUTIONS** - Municipalities in Florida are required by State Statute Chapter 280 - "Security for Public Deposits Act", to deposit operating funds only with financial institutions who are members of the State of Florida collateral pool ("qualified public depositories"). The State of Florida collateral pool is a multiple financial institution collateral pool with the ability to make additional assessments to satisfy the claims of governmental entities if any member financial institution fails. This ability provides protection which is similar to depository insurance.

The captions on the government-wide statement of net assets for "cash and cash equivalents" both restricted and unrestricted, are summarized below:

Cash and cash equivalents:	
Cash on hand	\$ 100
Deposits in financial institutions:	
Insured or fully collateralized bank deposits	<u>475,573</u>
Total cash and cash equivalents	<u>\$ 475,673</u>

**INVESTMENTS** - The types of investments in which the City may invest are governed by State Statutes. According to the State Statutes, the City is authorized to invest in the following instruments: Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized through the Florida Inter-local Cooperation Act; S.E.C. registered money market funds with the highest credit quality rating from a nationally recognized rating company; interest-bearing time deposits and savings accounts in qualified public depositories; direct obligations of the U.S. Treasury and federal agencies and instrumentalities or repurchase agreements fully collateralized by such securities; and interest in an entity registered under the Investment Company net of 1940 whose investments are limited to U.S. Governments. The City maintained no investments during the year other than deposits in financial institutions.

**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

**NOTE 6 - CAPITAL ASSETS**

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

	Beginning Balance	Additions	Reductions	Ending Balance
<b>Governmental Activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 412,543	\$ -	\$ -	\$ 412,543
Construction in Progress	49,118	136,901	-	186,019
<b>Total</b>	<b>\$ 461,661</b>	<b>\$ 136,901</b>	<b>\$ -</b>	<b>\$ 598,562</b>
<b>Capital assets being depreciated:</b>				
Buildings and Improvements	\$ 2,672,166	\$ -	\$ -	\$ 2,672,166
Recreational Facilities	242,444	30,472	-	272,916
Equipment	369,885	3,005	-	372,890
Infrastructure:				
Sidewalk Systems	111,852	-	-	111,852
Drainage Systems	75,626	-	-	75,626
<b>Total</b>	<b>3,471,973</b>	<b>33,477</b>	<b>-</b>	<b>3,505,450</b>
<b>Less, Accumulated Depreciation:</b>				
Buildings and Improvements	(291,930)	(62,126)	-	(354,056)
Recreational Facilities	(70,835)	(15,990)	-	(86,825)
Equipment	(197,889)	(46,700)	-	(244,589)
Infrastructure:				
Sidewalk Systems	(4,206)	(2,796)	-	(7,002)
Drainage Systems	(6,048)	(1,892)	-	(7,940)
<b>Total Accumulated Depreciation</b>	<b>(570,908)</b>	<b>(129,504)</b>	<b>-</b>	<b>(700,412)</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 2,901,065</b>	<b>\$ (96,027)</b>	<b>\$ -</b>	<b>\$ 2,805,038</b>
<b>Business-Type Activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 1,027,000	\$ 841,587	\$ -	\$ 1,868,587
Construction in Progress	3,456,480	634,510	-	4,090,990
<b>Total</b>	<b>\$ 4,483,480</b>	<b>\$ 1,476,097</b>	<b>\$ -</b>	<b>\$ 5,959,577</b>
<b>Capital assets being depreciated:</b>				
Utility Plant	\$ 9,834,466	\$ -	\$ -	\$ 9,834,466
Equipment	158,327	69,240	-	227,567
<b>Total</b>	<b>9,992,793</b>	<b>69,240</b>	<b>-</b>	<b>10,062,033</b>
<b>Less, Accumulated Depreciation:</b>				
Utility Plant	(560,065)	(269,977)	-	(830,042)
Equipment	(24,750)	(33,317)	-	(58,067)
<b>Total Accumulated Depreciation</b>	<b>(584,815)</b>	<b>(303,294)</b>	<b>-</b>	<b>(888,109)</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 9,407,978</b>	<b>\$ (234,054)</b>	<b>\$ -</b>	<b>\$ 9,173,924</b>

**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**NOTE 6 - CAPITAL ASSETS** (cont...)

Depreciation expense was charged to the following programs and functions:

**Governmental Activities:**

General government	\$ 97,029
Library	1,707
Building and zoning	232
Code enforcement	232
Streets	11,574
Parks and recreation	16,839
Stormwater utility	<u>1,891</u>
Total depreciation expense - governmental activities	<u>\$ 129,504</u>

**Business-type Activities:**

Water	\$ 114,525
Sewer	<u>188,769</u>
Total depreciation expense - business-type activities	<u>\$ 303,294</u>

**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2009

**NOTE 7 - LONG-TERM OBLIGATIONS**

The following is a summary of changes in long-term obligations for the year ended September 30, 2009:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
<b>Governmental Activities</b>					
Long-Term Debt:					
Notes Payable:					
Series 2007 Capital Improvement Revenue Bonds	\$ 1,708,197	\$ -	\$ (31,626)	\$ 1,676,571	\$ 32,930
Total Bonds and Notes Payable	<u>1,708,197</u>	<u>-</u>	<u>(31,626)</u>	<u>1,676,571</u>	<u>32,930</u>
Other Liabilities:					
Compensated Absences	49,825	15,047	-	64,872	38,887
Total Other Liabilities	<u>49,825</u>	<u>15,047</u>	<u>-</u>	<u>64,872</u>	<u>38,887</u>
Total Long-Term Liabilities	<u>\$ 1,758,022</u>	<u>\$ 15,047</u>	<u>\$ (31,626)</u>	<u>\$ 1,741,443</u>	<u>\$ 71,817</u>
Less Amount Due in One Year				<u>\$ (71,817)</u>	
Net Long-Term Debt Due After One Year				<u>\$ 1,669,626</u>	
<b>Business-Type Activities</b>					
Long-Term Debt:					
Notes Payable:					
Installment Note to Polk County	\$ 1,027,000	\$ -	\$ -	\$ 1,027,000	\$ 129,588
Installment Note to Florida Department of Environmental Protection	1,893,615	835,198	-	2,728,813	43,787
Installment Note to Old National Leasing	-	69,240	(5,958)	63,282	12,512
Total Notes Payable	<u>2,920,615</u>	<u>904,438</u>	<u>(5,958)</u>	<u>3,819,095</u>	<u>185,887</u>
Revenue Certificates:					
Series 1999 Sewer Revenue Bonds	523,800	-	(8,300)	515,500	8,600
Series 2004 Water Revenue Bonds	1,158,000	-	(15,000)	1,143,000	16,000
Series 2005 Water / Sewer Revenue Notes	4,000,000	-	-	4,000,000	214,122
Total Revenue Certificates	<u>5,681,800</u>	<u>-</u>	<u>(23,300)</u>	<u>5,658,500</u>	<u>238,722</u>
Other Liabilities:					
Compensated Absences	1,610	-	(1,147)	463	-
Total Other Liabilities	<u>1,610</u>	<u>-</u>	<u>(1,147)</u>	<u>463</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 8,604,025</u>	<u>\$ 904,438</u>	<u>\$ (30,405)</u>	<u>9,478,058</u>	<u>\$ 424,609</u>
Less Amount Due in One Year				<u>(424,609)</u>	
Net Long-Term Debt Due After One Year				<u>\$ 9,053,449</u>	

**Notes to Long-Term Obligations Table**

**Governmental Activities:**

- Series 2007 Revenue Bonds - The USDA Rural Utilities Service Series 2007 Revenue Bonds are secured primarily by the communication services tax and the half cent sales Tax. The Series 2007 bonds bear interest at 4.41% with a final maturity of December 1, 2023. The bond proceeds were used to retire the Series 2006 Capital Improvement Revenue Bond Anticipation Note which was used to construct the new City administration facilities. The Series 2007 bonds require the maintenance of sinking and reserve fund.

**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**NOTE 7 - LONG-TERM OBLIGATIONS** (cont...)

**Notes to Long-Term Obligations Table** (cont...)

**Business-Type Activities:**

- Series 1999 Revenue Bonds - The USDA Rural Utilities Service Series 1999 Revenue Bonds are secured by the sewer revenues as well as the public service taxes reported as revenue in the general fund. The Series 1999 bonds bear interest at 4.375% with a final maturity of September 30, 2039. The 1999 bond proceeds were used to construct a sewer transmission system. The bonds require the maintenance of sinking, reserve, and renewal and replacement funds.
- Series 2004 Revenue Bonds - The USDA Rural Utilities Service Series 2004 Revenue Bonds are secured by net revenues of the water system. The Series 2004 bonds bear interest at 4.25% with a final maturity of September 1, 2043. The Series 2004 bond proceeds were used to retire the 2002 bonds which were used to purchase a water system. The bonds require the maintenance of sinking, reserve, and renewal and replacement funds.
- Series 2005 Capital Improvement Revenue Note - The Capital Improvement Revenue Note, Series 2005 is secured by sewer impact fees and a subordinate lien and pledge of the net revenues of the sewer and water systems. The Series 2005 Note was a line of credit that was converted to a term loan in December 2008. The Series 2005 Note bears interest at 3.06% with semi-annual principal and interest payments of \$83,749 on June 1 and December 1 with a final maturity on December 1, 2023. The note proceeds were used to fund water and sewer system improvements.
- Installment Note to Florida Department of Environmental Protection (WW 51201P) - This note is secured by the net revenues of the sewer system and sewer impact fees. The note bears interest at 2.41%, with semi-annual principal and interest payments of \$35,629 on March 15 and September 15, and continuing to maturity in September 2049. The note proceeds were used to fund the planning, administrative, and engineering costs for construction of wastewater transmission, collection, reuse and treatment facilities. The Note requires the maintenance of a sinking fund.
- Installment Note Payable to Polk County - This note payable bears interest at 11%. Annual payments begin on February 12, 2009 with a final maturity on February 12, 2019. Interest and principal are payable monthly with a final maturity of August 1, 2008. The note financed the purchase of two tracts of real property totaling 45 acres that were used for disposal of wastewater effluent.
- Installment Note Payable to Old National Bank - This note payable bears interest at 6.5%. Monthly interest and principal payments begin on April 4, 2009 with a final maturity on December 4, 2012. The note financed the purchase of three trucks used by the water and sewer funds.

**CITY OF POLK CITY, FLORIDA  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2009**

**NOTE 7 - LONG-TERM OBLIGATIONS** (cont...)

**Notes to Long-Term Obligations Table** (cont...)

**Maturities:**

Annual requirements to repay all long-term bonds and notes payable as of September 30, 2009, were as follows:

Fiscal Year Ending September 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2010	\$ 32,930	\$ 69,159	\$ 424,609	\$ 476,194
2011	34,289	67,800	376,708	338,951
2012	35,703	66,386	395,103	330,780
2013	37,176	64,913	414,704	311,337
2014	38,709	63,380	426,385	290,625
2015-2019	218,858	291,587	2,270,839	1,100,650
2020-2024	267,877	242,567	2,014,561	656,192
2025-2029	327,877	182,568	555,265	453,604
2030-2034	401,316	109,129	653,290	356,457
2035-2039	281,836	23,528	772,170	240,389
2040-2044	-	-	674,353	115,489
2045-2049	-	-	500,071	33,910
<b>Total</b>	<b>\$ 1,676,571</b>	<b>\$ 1,181,017</b>	<b>\$ 9,478,058</b>	<b>\$ 4,704,578</b>

**NOTE 8 - FUTURE REVENUES THAT ARE PLEDGED**

The City has pledged various future revenue sources for various debt issues. For the water and sewer systems, the City has pledged future revenues, net of certain operating expenses. The following table provides a summary of the pledged revenues for the City's outstanding debt issues. Additional information regarding the City's pledged revenue can be found in Note 7.

Pledged Revenue	Total Principal and Interest Outstanding	Current Year Principal and Interest Paid	Current Year Revenue	% of Revenues to Principal and Interest Paid
Communication services tax pursuant to Section 202.19, Florida Statutes and the half cent sales tax pursuant to part VI of Chapter 218, Florida Statutes	\$ 2,857,588	\$ 102,089	\$ 193,540	189.58%
Water and sewer system net revenue and sewer impact fees	12,375,152	156,651	444,117	283.51%

**CITY OF POLK CITY, FLORIDA  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2009**

**NOTE 9 - INTERFUND TRANSACTIONS**

Interfund transactions are summarized below:

**Interfund receivables and payables as of September 30, 2009 consisted of:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Sewer Fund	\$ 136,659
General Fund	Water Fund	\$ 32,496
Sewer Fund	Water Fund	\$ 71,346

The above interfund balances arose from the fund with the receivable incurring cost on behalf of the fund with the payable which were not repaid prior to year end.

**Interfund transfers for the year ending September 30, 2009 consisted of:**

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
General Fund	Water Fund	\$ 100,000

**NOTE 10 - PENSION PLAN**

The City has elected to participate in The Florida Retirement System (FRS), by authority of Ordinance 95-1 dated January 3, 1995. The FRS is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). FRS provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Membership is compulsory for all full-time and part-time employees working in a regularly established position of one of the participating employers. Elected officials may elect not to participate. Participating employees are assigned to one of five membership classes. The membership class determines the retirement contribution rate for the employee, the retirement age, and the amount of retirement benefits to be paid.

FRS plan benefits include retirement, disability, survivor and an optional retiree health insurance subsidy which the City participates in at an additional contribution rate of .94% of gross pay. Benefits in the Plan vest at 6 years of service. All members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before his or her normal retirement date. Benefits are computed on the basis of age, average final compensation and service credit. Any changes in the benefits must be approved by the Florida legislature. Assets of the FRS are managed by the State Board of Administration which consists of the Governor, State Treasurer and State Comptroller. The portfolio consists of a highly diversified mix of investments which includes government and corporate bonds, stocks, income-producing real estate and short-term money market investments. The FRS issues an annual report each year containing further details which may be obtained by contacting the Division of Retirement, 2639-C N. Monroe Street, Tallahassee, Florida 32399-1560.

**CITY OF POLK CITY, FLORIDA  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2009**

**NOTE 10 - PENSION PLAN** (cont...)

The Plan's policy is to fund, from monthly employer contributions, actuarially determined amounts expressed as a percentage of covered payroll necessary to pay benefits when due, including amortizing the unfunded liability over 30 years. The City made all of its required contributions for the year ended September 30, 2009, which totaled \$57,777. Actual contribution rates expressed as a percentage of gross pay, which include the optional health insurance subsidy, were as follows:

<u>Class</u>	<u>Prior to July 1, 2009</u>	<u>After July 1, 2009</u>
Regular	9.85%	9.85%
Senior Management	13.12%	13.12%

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

- The City is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations and, therefore, liabilities from the lease agreements are not reflected in the City's account groups. Remaining minimum lease payments are not significant.
- Effective March 1, 2007, the City contracted with the Polk County Sheriff to provide police services within the City. Under the agreement, the City shall pay \$421,335 for base services for the fiscal year ended September 30, 2010 which is the final year of the current contract. The City paid \$309,061 for the year ended September 30, 2009.
- The City has entered into a lease agreement with Cardinal Hill, LLC to lease a parcel of land to be utilized for a temporary wastewater treatment package plant. In lieu of a cash lease payment, the City credits the property owner with one water and sewer impact fee per month of the six year lease which began on February 1, 2006. The City guaranteed complete removal of the wastewater treatment plant operation no later than July 1, 2012. If the City has not removed the wastewater treatment operation as of July 1, 2012, the City will continue to credit the owner with one water and sewer impact fee per month plus an additional monthly cash payment of \$1,000 until the operation has been removed.
- The City participates in several programs that are fully or partially funded by grants received from Federal, state, or county agency sources. Expenditures financed by grants are subject to audit by the appropriate grantor government/agency. If expenditures are disallowed due to non-compliance with grant program regulations, the City may be required to reimburse the grantor government/agency. As of September 30, 2009, the City believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.

**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**NOTE 11 – RISK MANAGEMENT AND LITIGATION**

During the ordinary course of its operations, the City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees, and natural disasters. The City maintains commercial insurance coverage in amounts management feels is adequate to protect and safeguard the assets of the City. There have been no significant reductions in coverage nor have settlement amounts exceeded the City's coverage during the year ended September 30, 2009. In the opinion of the City's management and legal counsel, legal claims and litigation are not anticipated to have material impact on the financial position of the City. The City's workers compensation coverage is provided through a nonassessable, nonprofit, tax-exempt risk sharing pool. Settled claims resulting from these risks have not exceeded insurance coverage.

**NOTE 12 - SUBSEQUENT EVENTS**

The amount due to Polk County for impact fees collected but not remitted as of September 30, 2009 was \$537,673. This amount had not been remitted to the county as of July 1, 2010. This liability is reported on the statement of net assets as *due to other governments*.

The City was unable to make the February 12, 2009 and February 12, 2010 scheduled annual debt service payments of approximately \$174,386 each on the installment note payable to Polk County. The debt service payments due of \$348,772 has not been paid to the county as of July 1, 2010.

As of June 16, 2010, the City manager resigned her position and entered into an employment separation agreement with the City. Pursuant to the employment separation agreement, the City has agreed to pay separation benefits totaling \$68,145 in seven equal monthly payments of \$9,735 beginning on June 16, 2010. The separation benefits consist of accrued vacation and sick leave plus six months' salary and vehicle allowance. Furthermore, the City will continue to make retirement contributions and pay the former City manager's life, health and disability insurance premiums through December 16, 2010.

**NOTE 13 – NEW PRONOUNCEMENTS**

In June 2004, the GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The basic premise of the statement is that Other Postemployment Benefits (OPEB) are earned by employees and should be recognized by the employer as the employee provides services. GASB 45 requires employers to account for and report the annual cost of OPEB and the outstanding obligations and commitments related to them in the same manner as they currently do for pensions. The City does not provide retirees a health insurance benefit at the City's cost. Retirees have the option to pay an amount equal to the actual premium for health and life insurance charged by the insurance carrier, but there is an implied subsidy in the insurance premiums for retirees because the premium charged for these retirees is the same as the premium charged for active employees, who are younger in age. Accounting for OPEB under GASB No. 45 will result in the City reporting an actuarially-based liability for the cost of these benefits. The City will be required to implement GASB No. 45 in the fiscal year beginning October 1, 2009 and has not yet determined the impact on the financial statements of implementing this statement.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF POLK CITY, FLORIDA  
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RESOURCES (inflows):</b>				
Taxes	\$ 977,474	\$ 977,474	\$ 1,043,556	\$ 66,082
Licenses and permits	77,700	77,700	25,068	(52,632)
Intergovernmental revenue	751,009	751,009	270,655	(480,354)
Charges for services	216,800	216,800	242,654	25,854
Fines and forfeitures	10,200	10,200	3,404	(6,796)
Other	24,300	24,300	36,367	12,067
Amounts available for appropriations	<u>2,057,483</u>	<u>2,057,483</u>	<u>1,621,704</u>	<u>(435,779)</u>
<b>CHARGES TO APPROPRIATIONS (outflows):</b>				
General government	636,868	636,868	765,128	(128,260)
Public safety	361,288	361,288	352,719	8,569
Physical environment	180,781	180,781	179,086	1,695
Transportation	201,592	201,592	245,204	(43,612)
Culture/recreation	107,713	107,713	107,883	(170)
Debt service	102,089	102,089	193,316	(91,227)
Capital outlay	595,824	595,824	102,089	493,735
Total charges to appropriations	<u>2,186,155</u>	<u>2,186,155</u>	<u>1,945,425</u>	<u>240,730</u>
<b>EXCESS (DEFICIENCY) OF RESOURCES OVER CHARGES TO APPROPRIATIONS</b>	<u>(128,672)</u>	<u>(128,672)</u>	<u>(323,721)</u>	<u>(195,049)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Impact fees	90,000	90,000	11,334	(78,666)
Transfers in	100,000	100,000	100,000	-
Total other financing sources	<u>190,000</u>	<u>190,000</u>	<u>111,334</u>	<u>(78,666)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 61,328</u>	<u>\$ 61,328</u>	<u>\$ (212,387)</u>	<u>\$ (273,715)</u>

# COMPLIANCE

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

Honorable Mayor and Members of the City Commission  
**City of Polk City, Florida**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund of **City of Polk City, Florida**, as of and for the year ended September 30, 2009, and have issued our report thereon dated July 27, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **City of Polk City, Florida'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings questioned costs as items 09-09 and 09-10.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **City of Polk City, Florida'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 **City of Polk City, Florida's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **City of Polk City, Florida'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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

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(cont...)

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects **City of Polk City, Florida's** ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of **City of Polk City, Florida's** financial statements that is more than inconsequential will not be prevented or detected by **City of Polk City, Florida's** internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. [Findings 09-01, 09-02, 09-03, 09-04, 09-05, 09-06, 09-07, and 09-08.]

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by **City of Polk City, Florida's** internal control.

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 significant deficiencies or material weaknesses. We believe that all of the significant deficiencies described above are material weaknesses.

We noted certain matters that we reported to management of **City of Polk City, Florida** in a separate management letter dated July 27, 2010.

**City of Polk City, Florida's** response to the findings identified in our audit is described in the accompanying letter of management's response and the accompanying schedule of findings and questioned costs. We did not audit **City of Polk City, Florida's** response and, accordingly, we express no opinion on it

This report is intended solely for the information and use of the City Commission, management, others within the organization, 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.

*Brynjulfson CPA, P.A.*

Brynjulfson CPA, P.A.  
Lakeland, Florida  
July 27, 2010

**INDEPENDENT AUDITOR'S MANAGEMENT  
LETTER**

## INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Honorable Mayor and Members of the City Council  
City of Polk City, Florida

We have audited the financial statements of the **City of Polk City, Florida**, as of and for the fiscal year ended September 30, 2009, and have issued our report thereon dated July 27, 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Section 215.97, *Florida Statutes*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Report of Independent Certified Public Accountant on Compliance With Requirements Applicable to Each Major Federal Program and State Financial Assistance Project and On Internal Control Over Compliance in Accordance With OMB Circular A-133, Section 215.97, *Florida Statutes*, which are dated July 27, 2010. Disclosures in those reports should be considered and have not been duplicated in 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 governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

- 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.

Prior year audit findings that have not been resolved are detailed in the accompanying schedule of findings and questioned costs as findings 09-01, 09-02, 09-03, 09-04, 09-05, 09-09, 09-10, and in this independent auditor's management letter as finding 09-01M.

- 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 **City of Polk City, 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 have no recommendations other than those reported in the accompanying schedule of findings and questioned costs.

- 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. For the legal authority of the **City of Polk City, Florida**, see footnote A of the summary of significant accounting policies in the notes to the financial statements of the basic financial statements.
- 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. Our audit disclosed the following matters required to be disclosed. In connection with our audit, we have no recommendations other than those reported in the accompanying schedule of findings and questioned costs.
- 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 are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors: (1) violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, and (2) 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 annual financial statements); (b) failures to properly record financial transactions; and (c) inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we have the following recommendation.

**09-01M: Polk County Impact Fee Receipts and Remittances**

For the past several years we have reported that Polk County impact fees of approximately \$531,000 were collected by the City during their 2007 and 2008 fiscal years that had not been remitted to the county. During our current audit, we noted that the county impact fees collected during the 2009 fiscal year were being remitted to the county on a monthly basis; however, the long outstanding balance of \$531,000 has not been paid. Accordingly, we recommend that management contact the county to discuss payment options.

*Management's response: We concur and a meeting with the county has been scheduled.*

**09-02M: Vacation Benefit Policy**

Pursuant to section 317 of the City employee handbook, vacation time is available to regular full and part-time employees based upon the length of their employment as follows:

- After six months of service the employee is entitled to five vacation days.
- After one year of service the employee is entitled to ten vacation days each year.
- Employees who are considered exempt employees earn five vacation days in addition to those prescribed above.

The current City policy is to award an exempt employee with ten vacation days after the first six months service and fifteen days at their one year anniversary. This results in an exempt employee receiving five weeks of vacation time in their first year and then three weeks each year thereafter until they reach five years of service. Based upon our audit, we feel the employee handbook is written to allow an exempt employee to receive an additional five days of vacation per year and not an additional five days at six months and an additional five days after one year of service. Accordingly, we recommend management review section 317 of the employee handbook and to make the necessary changes to clarify vacation time accrual guidelines for exempt employees.

*Management's response: We concur and will implement the auditor's recommendations.*

- 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 **City of Polk City, Florida** met one of the conditions of Section 218.503(1), Florida Statutes as of September 30, 2009 whereby the City had a negative combined (1) total general fund unreserved fund balance and (2) total combined enterprise funds unrestricted net assets (general fund negative \$478,180 and a combined enterprise funds negative \$402,888), for which resources were not available to cover the deficit. We determined this condition is a result of deteriorating financial conditions reported in prior and current audits.
- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the **City of Polk City, Florida** for the fiscal year ended September 30, 2009, 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, 2009. In connection with our audit, we determined that these two reports were in agreement.

Honorable Mayor and Members of the City Council  
City of Polk City, Florida  
Page Four...

- 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 **City of Polk City, Florida'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.

The result of our assessment indicates the City is experiencing an overall deterioration in its financial condition. The general fund's total liabilities exceed the general fund's total assets by \$264,728. The enterprise funds owed the general fund \$169,155 as of September 30, 2009 for which resources were not available for current repayment. Furthermore, the enterprise funds' current liabilities of \$1,226,507 far exceed its current assets of \$393,794. The two enterprise funds are not generating enough operating revenues to sustain themselves which is contributing to a decline in the general fund's resources. Other causes of this deteriorating financial condition included a lack of short-term and long-term financial plans to guide the City, a lack of cash analysis and forecasts and various control deficiencies as reported in prior audits.

For the last several years we have recommend the City take immediate corrective actions in response to our audit findings and to develop short-term and long-term financial plans that include steps to strengthen the City's financial condition. During our current audit we noted that management is performing cash analysis and forecasting while developing a financial plan to strengthen the City's financial condition. We continue to recommend that City management should analyze the existing rate structures for the enterprise funds' operations to determine their adequacy in covering expenses and should explore all available options to increase their revenues and/or decrease expenses.

We would like to take this opportunity to thank the City Councilors for allowing us the privilege to be of service, and the City's staff and management for the courtesies and cooperation extended to us during our audit

Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of the City Council, management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

*Brynjulfson CPA, P.A.*

Brynjulfson CPA, P.A.  
Lakeland, Florida  
July 27, 2010

## **SINGLE AUDIT SECTION**

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND STATE  
FINANCIAL ASSISTANCE PROJECT AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, SECTION 215.97,  
FLORIDA STATUTES, AND CHAPTER 10.550, RULES OF THE AUDITOR GENERAL**

Honorable Mayor and Members of the City Council  
**City of Polk City, Florida**

### **Compliance**

We have audited the compliance of **City of Polk City, Florida** with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the requirements described in the Executive Office of the Governor's State Projects compliance supplement, that are applicable to each of its major federal programs and state financial assistance projects for the year ended September 30, 2009. **City of Polk City, Florida's** major federal programs and state financial assistance projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs and state financial assistance projects is the responsibility of **City of Polk City, Florida's** management. Our responsibility is to express an opinion on **City of Polk City, Florida's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Section 215.97, *Florida Statutes*; and Chapter 10.550, *Rules of the Auditor General*. Those standards and OMB Circular A-133, Section 215.97, *Florida Statutes*, and Chapter 10.550, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state financial assistance project occurred. An audit includes examining, on a test basis, evidence about **City of Polk City, Florida's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of **City of Polk City, Florida's** compliance with those requirements.

In our opinion, **City of Polk City, Florida** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and state financial assistance projects for the year ended September 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133, Section 215.97, *Florida Statutes*, and Chapter 10.550, *Rules of the Auditor General* and which are described in the accompanying schedule of findings and questioned costs as item 09-09 and 09-10.

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND STATE  
FINANCIAL ASSISTANCE PROJECT AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, SECTION 215.97,  
FLORIDA STATUTES, AND CHAPTER 10.550, RULES OF THE AUDITOR GENERAL**

(cont...)

**Internal Control Over Compliance**

The management of **City of Polk City, Florida** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs and state financial assistance projects. In planning and performing our audit, we considered **City of Polk City, Florida's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program or a state financial assistance project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **City of Polk City, Florida's** internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 09-02, 09-03, 09-04 and 09-05 and to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider all of the significant deficiencies in internal control over compliance described the accompanying schedule of findings and questioned costs to be material weaknesses.

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND STATE  
FINANCIAL ASSISTANCE PROJECT AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, SECTION 215.97,  
FLORIDA STATUTES, AND CHAPTER 10.550, RULES OF THE AUDITOR GENERAL**

(concluded)

**City of Polk City, Florida's** responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit **City of Polk City's** response and, accordingly, we express no opinion on it.

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

*Brynjulfson CPA, P.A.*

Brynjulfson CPA, P.A.  
Lakeland, Florida  
July 27, 2010

**CITY OF POLK CITY, FLORIDA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**  
for the year ended September 30, 2009

Federal Grants Funding Source and Grant Program	Federal CFDA #	Pass-thru Entity Identifying Number	Federal Expenditures
Federal Environmental Protection Agency			
Pass-through programs from:			
Florida Department of Environmental Protection Capitalization Grants for State Revolving Funds	66.458	WW51201P	\$ 781,119
Total Federal Environmental Protection Agency			<u>781,119</u>
U.S. Department of Housing and Urban Development:			
Pass-through programs from:			
Polk County, Florida - Community Development Block Grant: Polk City Skate Park Project	14.218	C090006	26,288
Total U.S. Department of Housing and Urban Development:			<u>26,288</u>
U.S. Department of Justice:			
Direct programs:			
Bureau of Justice Assistance Grant	16.738	2009-JAGC- POLK-6-T7-004	2,089
Total U.S. Department of Justice			<u>2,089</u>
Total expenditures of Federal awards			<u>\$ 809,496</u>
State Grants			
Funding Source and Grant Program	State CSFA #	Grant Number	State Expenditures
State of Florida Department of Environmental Protection			
FRDAP - Van Fleet Trail expansion	37.017	C070007	\$ 70,358
Polk City Wastewater Treatment System - Phase I	37.039	LP6855	836,287
Total State of Florida Department of Environmental Protection			<u>906,645</u>
Total expenditures of State awards			<u>\$ 906,645</u>

**Notes to the Schedule of Expenditures of Federal Awards and State Financial Assistance**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance includes the federal and state grant activity of the City of Polk City, Florida, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 215.97, *Florida Statutes*, and Chapter 10.550, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE B – MAJOR PROGRAMS**

Major federal programs and major state projects are identified in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs.

**CITY OF POLK CITY, FLORIDA**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE**  
**FINANCIAL ASSISTANCE (continued)**  
**for the year ended September 30, 2009**

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**NOTE C – CONTINGENCY**

The grant revenue received is subject to audit and adjustment. If any expenditures are disallowed by the grantor agencies as a result of such an audit, any claim for reimbursement to the grantor agencies would become a liability of the City. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal and state laws and regulations

**CITY OF POLK CITY, FLORIDA**  
**T.I.N. 59-6151760**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**for the year ended September 30, 2009**

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**Section I: Summary of Audit Results**

***Financial Statements***

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be a material weakness?	None reported
Noncompliance material to the financial statements noted?	Yes

***Federal Awards and State Projects Section***

Internal control over major federal award programs:	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be a material weakness?	None reported
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a) and/or Section 215.97, <i>Florida Statutes</i> and Chapter 10.550, <i>Rules of the Auditor General</i> ?	Yes

**Major federal program:**

66.458 - Environmental Protection Agency - Capitalization Grants  
for State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as a low-risk auditee?	No

**Major state project:**

37.039 - Polk City Wastewater Treatment System – Phase I

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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**CITY OF POLK CITY, FLORIDA**  
**T.I.N. 59-6151760**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**for the year ended September 30, 2009**

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**Section II: Financial Statement Findings**

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

**Finding 09-01: *Utility Billing Subledgers Should be reconciled to the General Ledger***

Condition: For the last several years, we have reported that management does not periodically reconcile the utility accounts receivable and the customer deposit subsidiary ledgers to the general ledger control accounts. We noted that this condition continues to exist.

Criteria: Good internal control requires that a periodic reconciliation be performed that would agree the utility accounts receivable and customer deposit subsidiary ledgers to the amounts posted to the general ledger control accounts.

Effect: Due to the lack of periodic reconciliations between the aforementioned subsidiary ledgers and the general ledger, the City's financial statements could contain material misstatements that would not be detected by employees in the ordinary course of performing their assigned functions.

Cause: There are no procedures in place to reconcile the aforementioned subsidiary ledgers to the general ledger control accounts.

Recommendation: We recommend that management implement procedures to require monthly reconciliations between the utility accounts receivable and customer deposit subsidiary ledgers to the general ledger control accounts.

*Management's response: We concur and this has been implemented in FY2010.*

**Finding 09-02: *Restricted Cash Monitoring Needs Improvement***

Condition: For the last several years, we have reported that management does not monitor the sources and uses of resources restricted by enabling legislation or contract or compliance with debt related covenants. We noted that this condition continues to exist.

Criteria: Internal controls should be in place that provides reasonable assurance that the City is in compliance with restrictions placed upon certain resources by enabling legislation or contract and to monitor compliance with debt related covenants.

Effect: Without timely monitoring, there is no assurance that restricted funds are being used for allowable uses and that the City is in compliance with debt related covenants.

**CITY OF POLK CITY, FLORIDA**  
**T.I.N. 59-6151760**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**for the year ended September 30, 2009**

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**Section II: Financial Statement Findings** (cont...)

**09-02: Restricted Cash Monitoring Needs Improvement** (cont...)

**Cause:** There are no procedures in place to track the sources and uses of restricted resources or to monitor compliance with debt related covenants.

**Recommendation:** We continue to recommend that management segregate and monitor the sources and uses of restricted funds and compliance with debt related covenants in a timely manner.

*Management's response: We concur and have implemented changes to the our budgeting and monitoring of restricted cash.*

**Finding 09-03: Failure to Correct Internal Control Deficiencies**

**Condition:** The City has not corrected several significant deficiencies reported from previous audits. While we have found some improvements in this area, there are still some reported deficiencies from prior audits that have not been corrected.

**Criteria:** City management or those charged with governance should assess the effect of reported significant deficiencies previously communicated to them and correct them.

**Effect:** Failure to correct reported significant deficiencies is a problem which, in itself, is a material weakness in internal control. Failure to take corrective action in response to recommendations contained in audit reports increases the chance of errors or irregularities occurring without detection.

**Cause:** City management has not addressed previously reported significant deficiencies in internal control.

**Recommendation:** The failure to correct significant deficiencies in internal control must be addressed immediately.

*Management's response: We have begun several reconciliations in order to correct our internal control inefficiencies.*

**CITY OF POLK CITY, FLORIDA**  
**T.I.N. 59-6151760**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**for the year ended September 30, 2009**

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**Section II: Financial Statement Findings (cont...)**

**Finding 09-04: Internal Control Over Financial Reporting**

**Condition:** Last year we reported that the City's internal controls over financial reporting failed to detect several misstatements resulting in material audit adjustments. During our current year audit, we noted several misstatements resulting in material audit adjustments.

**Criteria:** The City's internal control over financial reporting should provide reasonable assurance that all transactions are properly recorded to the general ledger.

**Effect:** The City's yearend financial statements contained material misstatements that were subsequently identified by the auditors who proposed correcting entries which were accepted and posted by the City's management.

**Cause:** The review process at year end was not adequate to ensure that financial statements were materially correct.

**Recommendation:** Last year we recommended that management employ experienced accounting personnel to provide adequate internal controls over financial reporting. While we noted management has utilized experienced accounting personnel for the year-end closing procedures as well as other accounting functions, due to the extent of the current year audit adjustments, we recommend that management design and implement adequate internal controls over external financial reporting to adequately review the general ledgers and prepare financial statements that are free of material misstatements.

*Management's response: In FY 2009 the City of Polk City hired more qualified personnel to address this issue.*

**Finding 09-05: Long Term Debt Issue Compliance**

**Condition:** We noted the following instances of non-compliance with long term debt issue covenants.

- a) Series 1999 Sewer Revenue Bond
  - (1) Audit report issuance deadline of 180 days after year-end not met
  - (2) While the City had enough cash in the sewer fund to meet the sinking fund and reserve fund requirements of the Series 1999 bonds as of September 30, 2009, management was not making monthly deposits into the sinking fund which is not in compliance with the Series 1999 bonds.

*Management's response: We will have the FY09 audit to the state by the deadline of 9/30/09 and are implementing a sinking fund in FY10.*

**CITY OF POLK CITY, FLORIDA**  
**T.I.N. 59-6151760**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**for the year ended September 30, 2009**

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**Section II: Financial Statement Findings** (cont...)

**Finding 09-05: Long Term Debt Issue Compliance** (cont...)

- b) Series 2007 Capital Improvement Revenue Bonds
  - (1) Audit report issuance deadline of 180 days after year-end not met.
  - (2) While the City had enough cash in the general fund to meet the sinking fund and reserve fund requirements of the Series 2007 bonds as of September 30, 2009, management was not making monthly deposits into the sinking fund which is not in compliance with the Series 2007 bonds.

*Management's response: We will have the FY09 audit to the state by the deadline of 9/30/09 and are implementing a sinking fund in FY10.*

- c) Series 2005 Capital Improvement Revenue Note
  - (1) Audit report issuance deadline of 210 days after year-end not met
  - (2) Last year we reported that pursuant to Ordinance 1089, the City shall not issue additional debt secured by the Series 2005 Capital Improvement Revenue Note's pledged revenues without approval of the note owner. The Series 2005 pledged revenues include the net revenues of the water and sewer system as well as sewer impact fees. We noted the City had entered into a state revolving fund loan agreement with the Florida Department of Environmental Protection that pledges sewer net revenues and sewer impact fees. This agreement was entered without approval of the owner of the Series 2005 note. During the current year audit we noted that this has not been addressed.

*Management's response: We will have the FY09 audit to the state by the deadline of 9/30/09 and are implementing a sinking fund in FY10. It is known to the City of Polk City that this did not occur in FY09. However, current staff has not been advised that this will not adversely affect our loans.*

- d) Series 2004 Water Revenue Bond Compliance
  - (1) Audit report issuance deadline of 180 days after year-end not met.
  - (2) While the City had enough cash in the water fund to meet the sinking fund and reserve fund requirements of the Series 2004 bonds as of September 30, 2009, they were not making monthly deposits into the sinking fund which is not in compliance with the Series 2004 bonds.

*Management's response: We will have the FY09 audit to the state by the deadline of 9/30/09 and are implementing a sinking fund in FY10.*

**CITY OF POLK CITY, FLORIDA**  
**T.I.N. 59-6151760**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**for the year ended September 30, 2009**

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**Section II: Financial Statement Findings (cont...)**

**Finding 09-05: Long Term Debt Issue Compliance (concluded...)**

- e) Installment Note to Polk County  
(1) As of July 2010, the City had not made their annual debt service payments of \$174,386 to Polk County that was due on February 12, 2009 and 2010 resulting in an amount due to Polk County of \$348,772 related to this installment note.

*Management's response: The City and County are still in discussions over this expense.*

Criteria: Good internal control over compliance with long term debt issue related covenants require timely monitoring of restrictions placed upon the City by their outstanding issues.

Effect: Material violations of loan covenants could result in unfavorable market credit ratings, an accelerated repayments schedule or increased interest rates.

Recommendation: We recommend the City enhance its controls to ensure that monthly deposits into the required sinking funds are made, required reserves are properly maintained and to take appropriate action to increase rate coverage ratios as required. We also recommend management take steps to rectify the violation of the Series 2005 Capital Improvement Revenue Notes related to the pledge of sewer impact fees and to remedy the amounts past due related to the installment note with Polk County.

**Finding 09-06: Cash Disbursements**

Condition: Based upon our audit procedures, we noted the following conditions where the internal control procedures over cash disbursements have not been adequately designed or were not operating properly.

- Segregation of duties over the cash disbursement function have not been adequately developed and implemented. The accounts payable clerk has access to the vendor master file and has the ability to create purchase orders, enter invoices and print signed checks with no required authorizations or compensating internal controls.
- Blank check stock is not adequately safeguarded.
- Blank check stock does not employ a "VOID" pantograph that prints "VOID" on any copy of the check stock but is not visible on the check itself.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
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**Section II: Financial Statement Findings** (cont...)

**Finding 09-06: Cash Disbursements** (concluded)

Criteria: Adequate internal controls, including segregation of duties, are required to be designed and implemented to provide reasonable assurance that cash disbursements are for valid transactions and are approved by management.

Effect: The internal control deficiencies noted above could result in material misstatements due to errors or fraud which could remain undetected by management.

Cause: Improper design of internal control over cash disbursements.

Recommendation: Management must design and implement adequate internal controls over the purchasing and cash disbursement transaction cycle. The accounts payable clerk should not have the ability to create and modify vendor information without compensating internal controls. When a facsimile signature is utilized, the internal controls over the ability to create checks as well as internal controls over the check stock become critical. We recommend that management utilize check stock with a "VOID" pantograph and when the blank check stock arrives, the package should be examined to ensure that it has not been tampered with and then immediately stored in a secure location to which only the authorized custodian has access.

*Management's response: We concur and the check stock will be reordered as required. Other cash disbursement will be reviewed for possible changes. We will review the segregation of duties.*

**Finding 09-07: Payroll**

Condition: Based upon our audit procedures, we noted the following conditions where internal control procedures over payroll processing and human resources have not been adequately designed or were not operating properly.

- There was inadequate documentation in the employee personnel files to support status changes and pay rate increases making it difficult to validate employees' rate of pay.
- The City's contract with the City manager provides for a monthly vehicle allowance of \$400 per month. We found the City was paying the City manager \$200 a pay period rather than \$400 per month. This would result in two extra payments of \$200 over the course of a calendar year.
- Salaried employees are not required to submit any documentation substantiating the hours worked and are paid for a full work week unless the employee submits an absentee form related to sick, vacation or personal time used.

Criteria: Adequate internal controls, including segregation of duties, are required to be designed and implemented to provide reasonable assurance that payroll related transactions are properly calculated and recorded, agree to authorized pay rates, supported by sufficient documentation and approved by management.

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**Section II: Financial Statement Findings** (cont...)

**Finding 09-07: Payroll** (concluded)

**Effect:** The internal control deficiencies noted above could result in material misstatements due to errors or fraud which could remain undetected by management.

**Cause:** Improper design, operation and monitoring of internal controls over the payroll processing and human resources function.

**Recommendation:** Management must design and implement adequate internal controls over the payroll processing transaction cycle and the human resources function. Management should require all employee status changes and pay rate increases to be documented in the individual employees' personnel files and signed by the City manager and the employee. Employees should not be paid for vacation, sick or personal leave unless their time is supported by a leave request form completed and signed by the employee and their supervisor.

*Management's response: The error related to the City manager vehicle allowance occurred when the City moved from weekly to biweekly payroll. We are not requiring salaried employees to submit documentation for each pay period.*

**Finding 09-08: Computer Access Controls**

**Condition:** We noted several instances of computer passwords posted on an employee's computer.

**Criteria:** Proper internal control over computer access requires users to be assigned an independent user name and unique password that is too safeguarded by the employee. Furthermore, passwords should be changed on a regular basis.

**Effect:** Without adequate computer access controls over the computer system, unauthorized changes could be made increasing the risk of errors or other irregularities occurring without detection.

**Cause:** Inadequately monitoring of the internal control over computer access.

**Recommendation:** All active users of the computer system should be assigned unique passwords and management should remind employees of the importance of keeping their passwords secure and instruct them to remove visible postings of their passwords.

*Management's Response: We concur and we have removed access to computer passwords.*

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**Section III: Findings Related to Federal Awards**

**Finding 09-09: *Timely Filing of Federal Single Audit***

Condition: The City did not file their completed single audit report for the year ended September 30, 2009, within the required 9 months from year-end.

Criteria: Pursuant to Section 320, *OMB Circular A-133 Audits of States, Local Governments and Non-Profit Organizations*, the City is required to submit a completed single audit report within nine months after the end of its fiscal year.

Cause: For the year ended September 30, 2009, the accounting records were not closed in time for timely filing of the single audit reports.

Effect: Failure to comply with the reporting requirements could result in a reduction or loss of Federal funds.

Recommendation: We recommend that City staff take measures to ensure that the single audit information is compiled and audited within the required time frame.

*Management's response: We concur and this will be resolved in FY 10. The audits are now current.*

**Section IV: Findings Related to State Awards**

**Finding 09-10: Florida Department of Environmental Protection  
CFSA# 37.039: Polk City Wastewater Treatment System – Phase I**

Condition: Last year we noted that in November 2007, the City applied for and received advance funding in the amount of \$1,250,000. The City deposited the funds into an interest bearing account but did not remit the interest earned to the Department as required by the agreement. The City made one payment to the Department seven months after the initial deposit. Based upon our review of the bank account detail, the City remitted approximately \$5,570 less than the amount earned on the advance funding. During our current audit we noted that the \$5,570 has not been remitted to the Department.

Criteria: Pursuant to the State Financial Assistance Agreement LP6855 between the City of Polk City and the State of Florida Department of Environmental Protection (the "Department") dated July 20, 2007, the Department may provide an advance to the City of Polk City. Such advance must be temporarily invested and any interest earned on the advance funds must be returned to the Department quarterly.

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**Section IV: Findings Related to State Awards**

**Finding 09-10: Florida Department of Environmental Protection**  
**CFSA# 37.039: Polk City Wastewater Treatment System – Phase I (concluded)**

Cause: Interest earned on the advance funding was not remitted to the Department in accordance with the agreement.

Effect: Failure to comply with the reporting requirements could result in a reduction or loss of State funds.

Recommendation: We recommend management review the City's internal control over state financial assistance to ensure adequacy of controls and to contact the Department to discuss payment options for the \$5,570.

*Management's response: We believe that this amount has been forgiven and further research is being done.*

**Section IV: Summary Schedule of Prior Audit Findings**

Finding reference: 08-02: Restricted Cash Monitoring Needs Improvement  
Comment: See current year finding 09-02

Finding reference: 08-03: Bank Reconciliation Procedures Needs Improvement  
Comment: This has been corrected as of May 2010.

Finding reference: 08-04: General Ledger Not Being Maintained Current  
Comment: This has been corrected.

Finding reference: 08-05: Failure to Correct Internal Control Deficiencies  
Comment: See current year finding 09-04

Finding reference: 08-06: Greater Segregation of Duties Over Cash Disbursements is Desirable  
Comment: This has been corrected.

Finding reference: 08-12: Timely filing of Single Audit  
Comment: See current year finding 09-10

Finding reference: 08-13: Timely filing of State Single Audit  
Comment: This has been corrected

Finding reference: 08-14: Florida Department of Environmental Protection  
Comment: See current year finding 09-11