



CITY OF POLK CITY, FLORIDA

T.I.N. No. 59-6151760

FINANCIAL STATEMENTS AND AUDITORS' REPORTS

September 30, 2008

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MANAGEMENTS' DISCUSSION AND ANALYSIS

**City of Polk City
Management's Discussion and Analysis
September 30, 2008**

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

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activities, both governmental and business-type, that are supported by the government's general tax and other revenues.

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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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, 2008						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2008	2007	2008	2007	2008
Current and other assets	\$ 1,222,058	\$ 576,090	\$ (75,560)	\$ 1,328,226	\$ 1,146,498	\$ 1,904,316
Capital assets	2,766,516	3,362,726	7,689,710	13,891,458	10,456,226	17,254,184
Total assets	\$ 3,988,574	\$ 3,938,816	\$ 7,614,150	\$ 15,219,684	\$ 11,602,724	\$ 19,158,500
Long-term liabilities outstanding	\$ 1,784,497	\$ 1,758,022	\$ 5,585,614	\$ 1,868,477	\$ 7,370,111	\$ 3,626,499
Other liabilities	846,207	634,303	1,071,828	8,604,025	1,918,035	9,238,328
Total liabilities	\$ 2,630,704	\$ 2,392,325	\$ 6,657,442	\$ 10,472,502	\$ 9,288,146	\$ 12,864,827
Net assets:						
Invested in capital assets, net of related debt	\$ 1,458,537	\$ 1,654,529	\$ 1,125,367	\$ 4,863,923	\$ 2,583,904	\$ 6,518,452
Restricted	62,207	39,956	51,129	57,147	113,336	97,103
Unrestricted	(162,874)	(147,994)	(219,788)	(173,888)	(382,662)	(321,882)
Total net assets	\$ 1,357,870	\$ 1,546,491	\$ 956,708	\$ 4,747,182	\$ 2,314,578	\$ 6,293,673

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. 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

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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, down from 5% in 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 (\$147,994) or -10% of net assets. This represents a decrease in the deficit of approximately 9% from 2007. 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.

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.

**City of Polk City
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Statement of Activities (Summary) For the year ended September 30, 2008						
	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Revenues:						
Program Revenues:						
Charges for services	545,661	502,422	382,374	725,797	928,035	1,228,219
Operating grants and contributions	-	1,008	-	-	-	1,008
Capital grants and contributions	168,510	424,421	339,621	4,203,997	508,131	4,628,418
General revenues:						
Property taxes	329,176	550,240	-	-	329,176	550,240
Franchise/Public Ser. Tax	254,722	295,601	-	-	254,722	295,601
State shared revenues	153,798	155,401	-	-	153,798	155,401
Other	128,334	21,313	861	80,548	129,195	101,861
Total revenues	1,580,201	1,950,406	722,856	5,010,342	2,303,057	6,960,748
Expenses:						
General government	461,155	824,907	-	-	461,155	824,907
Library	45,498	62,452	-	-	45,498	62,452
Police	209,157	278,709	-	-	209,157	278,709
Building and zoning	67,728	54,109	-	-	67,728	54,109
Code Enforcement	32,912	37,046	-	-	32,912	37,046
Sanitation	158,035	182,652	-	-	158,035	182,652
Streets	263,705	282,605	-	-	263,705	282,605
Parks and recreation	24,363	22,978	-	-	24,363	22,978
Stormwater	1,749	1,891	-	-	1,749	1,891
Interest on long-term debt	84,304	89,436	-	-	84,304	89,436
Public utilities			518,233	1,144,868	518,233	1,144,868
Total expenses	1,348,606	1,836,785	518,233	1,144,868	1,866,839	2,981,653
Increase (decrease) in net assets before transfers	231,595	113,621	204,623	3,865,474	436,218	3,979,095
Transfers	-	75,000	-	(75,000)	-	-
Increase (decrease) in net assets	231,595	188,621	204,623	3,790,474	436,218	3,979,095
Net assets - October 1	1,126,275	1,357,870	752,085	956,708	1,878,360	2,314,578
Net assets - September 30	1,357,870	1,546,491	956,708	4,747,182	2,314,578	6,293,673

Governmental activities

Governmental activities increased the City's net assets by \$188,621 including a transfer of \$75,000 from the business-type activities. In the prior year, net assets increased by \$231,595 with no transfer from business-type activities. Total expenses increased by \$488,179 or approximately 36%. The cause of this increase is as follows:

- Increased costs for sanitation services.
- Increased costs for law enforcement services.
- Increase of interest payments on long term debt

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Many of the increases in the budget were due to workload requirements or contractual obligations.

Business-type activities

Business-type activities increased the City's net assets by \$3,865,474 compared to an increase of \$204,623 in the prior year. There was a \$75,000 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.
- 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, 2008, the City's governmental funds reported combined ending fund balances deficit of (\$52,341) which can be found on page 5. This is down from \$399,191 last year. Approximately (\$101,392) constitutes unreserved fund balance deficit, which is down (\$392,341) 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.

In the General Fund, the City's expenditures exceeded its revenues by \$673,893. These expenditures were for the capital investment of the new city government center. For further analysis, the Budget Comparison Schedule is presented on pages 27.

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Proprietary Funds

These services combined to generate operating loss of \$111,842. Compare that to the prior year operating loss of \$40,728. 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. There were no significant variances in the Final Budget.

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.

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Capital Assets Activity (net of depreciation) as of September 30, 2008						
	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Assets not depreciated						
Land	410,301	412,543	-	1,027,000	410,301	1,439,543
Construction in progress	1,936,911	49,118	4,770,766	3,456,480	6,707,677	3,505,598
Total	<u>2,347,212</u>	<u>461,661</u>	<u>4,770,766</u>	<u>4,483,480</u>	<u>7,117,978</u>	<u>4,945,141</u>
Depreciated Assets						
Buildings and improvements	242,568	2,672,166	-	-	242,568	2,672,166
Recreational facilities	205,481	242,444	-	-	205,481	242,444
Vehicles and equipment	234,233	369,885	55,949	158,327	290,182	528,212
Infrastructure	187,478	187,478	-	-	187,478	187,478
Utility plants	-	-	3,271,762	9,834,466	3,271,762	9,834,466
Subtotal	<u>869,760</u>	<u>3,471,973</u>	<u>3,327,711</u>	<u>9,992,793</u>	<u>4,197,471</u>	<u>13,464,766</u>
Accumulated depreciation	(450,456)	(570,908)	(408,767)	(584,815)	(859,223)	(1,155,723)
Total	<u>419,304</u>	<u>2,901,065</u>	<u>2,918,944</u>	<u>9,407,978</u>	<u>3,338,248</u>	<u>12,309,043</u>
Combined Asset Totals	<u>2,766,516</u>	<u>3,362,726</u>	<u>7,689,710</u>	<u>13,891,458</u>	<u>10,456,226</u>	<u>17,254,184</u>

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2008, amounts to \$17,254,184 (net of accumulated depreciation) compared to \$10,456,226 last year. That is an increase of \$6,797,958 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. Foremost are the Polk City Government Center, the Cardinal Hill Wastewater Treatment Plant and the Mt. Olive Water and wastewater Plants. The Cardinal Hill treatment plant is the major portion of the Construction in progress monies and will accommodate the Mt. Olive Shores North and Fountain Park developments. In addition, these monies include the planning and design 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.

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September 30, 2008**

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, 2008						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Revenue notes	\$ -	\$ -	\$3,386,300	\$5,681,800	\$3,386,300	\$ 5,681,800
Notes payable	\$1,738,570	\$1,708,197	\$ -	\$2,920,615	\$1,738,570	\$ 4,628,812
Total	\$1,738,570	\$1,708,197	\$3,386,300	\$8,602,415	\$5,124,870	\$10,310,612

At the end of the current fiscal year, the Governmental Activities had total debt outstanding of \$1,708,197 of which \$49,825 pertains to compensated absences. This compares to \$45,927 in the prior year.

As shown in Note 7, beginning on page 21, the Business-type Activities had total debt outstanding of \$10,310,612 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.

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

The city is investing substantial monies in the expansion of the utilities systems. A \$3,500,000 Wastewater Treatment Facility has completed construction in November of 2007. In addition, the planning and design for additional water and sewer lines is underway. The planning and design for a regional 1.5 mgd Wastewater Treatment Plant has also continued. Aggressive annexations and growth have been the focus of the city and plans to accommodate these both with utilities and facilities expansions are underway.

**City of Polk City
Management's Discussion and Analysis
September 30, 2008**

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, 2008, 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, 2008, 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 March 11, 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
March 11, 2010

**CITY OF POLK CITY, FLORIDA
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2008**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 255,845	\$ 232,843	\$ 488,688
Receivables, current:			
Customer accounts, net	43,170	151,063	194,233
Intergovernmental	48,873	239,899	288,772
Franchise and public service taxes	29,220	-	29,220
Internal balances	149,931	(149,931)	-
Restricted assets:			
Cash and cash equivalents	39,956	806,331	846,287
Capital assets:			
Non-depreciable	461,661	4,483,480	4,945,141
Depreciable, net	2,901,065	9,407,978	12,309,043
Deferred charges	9,095	12,774	21,869
Unamortized bond issue costs	-	35,247	35,247
TOTAL ASSETS	<u>3,938,816</u>	<u>15,219,684</u>	<u>19,158,500</u>
LIABILITIES			
Accounts payable	\$ 77,029	\$ 39,332	\$ 116,361
Construction payable	-	466,753	466,753
Accrued payroll	19,442	2,098	21,540
Accrued interest payable	5,872	122,726	128,598
Due to other governments	531,960	-	531,960
Deferred revenue	-	1,135,597	1,135,597
Customer deposits	-	101,971	101,971
Long-term liabilities:			
Due within one year	31,626	84,716	116,342
Due in more than one year	1,726,396	8,519,309	10,245,705
TOTAL LIABILITIES	<u>2,392,325</u>	<u>10,472,502</u>	<u>12,864,827</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,654,529	4,863,923	6,518,452
Restricted for:			
Building code enforcement	30,420	-	30,420
Debt service	9,536	57,147	66,683
Unrestricted	(147,994)	(173,888)	(321,882)
TOTAL NET ASSETS	<u>\$ 1,546,491</u>	<u>\$ 4,747,182</u>	<u>\$ 6,293,673</u>

See Accompanying Notes to Financial Statements

CITY OF POLK CITY, FLORIDA
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental Activities:							
General government	\$ 824,907	\$ 17,746	\$ 1,008	\$ 345,578	\$ (460,575)	\$ -	\$ (460,575)
Library	62,452	26,467	-	-	(35,985)	-	(35,985)
Police	278,709	9,037	-	37,624	(232,048)	-	(232,048)
Building and zoning	54,109	93,340	-	-	39,231	-	39,231
Code enforcement	37,046	-	-	-	(37,046)	-	(37,046)
Sanitation	182,652	205,160	-	-	22,508	-	22,508
Streets	282,605	135,403	-	-	(147,202)	-	(147,202)
Parks and recreation	22,978	-	-	41,219	18,241	-	18,241
Stormwater utility	1,891	15,269	-	-	13,378	-	13,378
Interest on long term debt	89,436	-	-	-	(89,436)	-	(89,436)
Total governmental activities	<u>1,836,785</u>	<u>502,422</u>	<u>1,008</u>	<u>424,421</u>	<u>(908,934)</u>	<u>-</u>	<u>(908,934)</u>
Business-type Activities:							
Water utility	512,992	485,944	-	1,342,601	-	1,315,553	1,315,553
Sewer utility	631,876	239,853	-	2,861,396	-	2,469,373	2,469,373
Total business-type activities	<u>1,144,868</u>	<u>725,797</u>	<u>-</u>	<u>4,203,997</u>	<u>-</u>	<u>3,784,926</u>	<u>3,784,926</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 2,981,653</u>	<u>\$ 1,228,219</u>	<u>\$ 1,008</u>	<u>\$ 4,628,418</u>	<u>(908,934)</u>	<u>3,784,926</u>	<u>2,875,992</u>
GENERAL REVENUES:							
Taxes:							
Property taxes, levied for general purposes					550,240	-	550,240
Franchise taxes					96,140	-	96,140
Public service taxes					199,461	-	199,461
State shared revenue					155,401	-	155,401
Investment earnings					6,993	6,604	13,597
Transfers					75,000	(75,000)	-
Miscellaneous					14,320	73,944	88,264
Total General Revenues, Special Items, and Transfers					<u>1,097,555</u>	<u>5,548</u>	<u>1,103,103</u>
CHANGE IN NET ASSETS					188,621	3,790,474	3,979,095
NET ASSETS - beginning of year					<u>1,357,870</u>	<u>956,708</u>	<u>2,314,578</u>
NET ASSETS - end of year					<u>\$ 1,546,491</u>	<u>\$ 4,747,182</u>	<u>\$ 6,293,673</u>

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA
BALANCE SHEET - GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2008**

	General Fund
ASSETS	
Cash and cash equivalents	\$ 255,845
Receivables, net:	
Customer accounts, net	43,170
Due from other governments	78,093
Due from other funds	149,931
Restricted assets:	
Cash and cash equivalents	39,956
Deferred charges	9,095
TOTAL ASSETS	\$ 576,090
LIABILITIES AND FUND BALANCE	
Accounts payable	\$ 77,029
Accrued payroll	19,442
Due to other governments	531,960
TOTAL LIABILITIES	628,431
FUND BALANCE:	
Reserved for:	
Deferred charges	9,095
Building code enforcement	30,420
Debt service	9,536
Unreserved	(101,392)
TOTAL FUND BALANCE	(52,341)
TOTAL LIABILITIES AND FUND BALANCE	\$ 576,090

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, 2008**

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (52,341)
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.	3,362,726
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in governmental funds.	(5,872)
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.	<u>(1,758,022)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,546,491</u>

**CITY OF POLK CITY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
for the year ended September 30, 2008**

	General Fund
REVENUES:	
Taxes	\$ 944,802
Licenses and permits	103,561
Intergovernmental revenue	471,220
Charges for services	245,998
Fines and forfeitures	9,037
Other	28,427
Total revenues	<u>1,803,045</u>
EXPENDITURES:	
General government	585,351
Public safety	366,730
Physical environment	210,975
Transportation	273,371
Culture/recreation	60,705
Debt service	137,277
Capital outlay	842,529
Total expenditures	<u>2,476,938</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(673,893)</u>
OTHER FINANCING SOURCES (USES)	
Impact fees	147,361
Transfers in	75,000
Total other financing sources	<u>222,361</u>
NET CHANGE IN FUND BALANCE	<u>(451,532)</u>
FUND BALANCE, beginning of year	<u>399,191</u>
FUND BALANCE, end of year	<u><u>\$ (52,341)</u></u>

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
BUSINESS TYPE ACTIVITIES
AS OF SEPTEMBER 30, 2008**

	Business Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 16,987	\$ 215,856	\$ 232,843
Customer accounts receivable, net	78,668	72,395	151,063
Due from other governments	-	239,899	239,899
Total current assets	<u>95,655</u>	<u>528,150</u>	<u>623,805</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	134,420	671,911	806,331
Capital assets, net:			
Non-depreciable	-	4,483,480	4,483,480
Depreciable, net	3,397,961	6,010,017	9,407,978
Deferred charges	6,387	6,387	12,774
Unamortized bond issue costs	25,480	9,767	35,247
Total noncurrent assets	<u>3,564,248</u>	<u>11,181,562</u>	<u>14,745,810</u>
TOTAL ASSETS	<u>3,659,903</u>	<u>11,709,712</u>	<u>15,369,615</u>
LIABILITIES			
Current liabilities:			
Accounts payable	15,934	23,398	39,332
Construction payable	-	466,753	466,753
Accrued payroll	2,098	-	2,098
Bonds and notes payable, current portion	15,000	69,716	84,716
Accrued interest payable	11,085	111,641	122,726
Deferred revenues	56,785	1,078,812	1,135,597
Due to other funds	94,938	54,993	149,931
Total current liabilities	<u>195,840</u>	<u>1,805,313</u>	<u>2,001,153</u>
Noncurrent liabilities:			
Customer deposits	101,971	-	101,971
Compensated absences	1,610	-	1,610
Bonds and notes payable, noncurrent portion	1,643,000	6,874,699	8,517,699
Total noncurrent liabilities	<u>1,746,581</u>	<u>6,874,699</u>	<u>8,621,280</u>
TOTAL LIABILITIES	<u>1,942,421</u>	<u>8,680,012</u>	<u>10,622,433</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,765,441	3,098,482	4,863,923
Restricted for:			
Debt service	28,767	28,380	57,147
Unrestricted	<u>(76,726)</u>	<u>(97,162)</u>	<u>(173,888)</u>
TOTAL NET ASSETS	<u>\$ 1,717,482</u>	<u>\$ 3,029,700</u>	<u>\$ 4,747,182</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, 2008**

	Business Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
OPERATING REVENUES:			
Charges for services	\$ 485,944	\$ 239,853	\$ 725,797
Total operating revenues	485,944	239,853	725,797
OPERATING EXPENSES:			
Personal services	77,655	-	77,655
Operating expenses	276,551	307,385	583,936
Depreciation	89,990	86,058	176,048
Total operating expenses	444,196	393,443	837,639
OPERATING INCOME (LOSS)	41,748	(153,590)	(111,842)
NONOPERATING REVENUE (EXPENSE):			
Interest revenue	551	6,053	6,604
Interest expense	(68,797)	(238,431)	(307,228)
Other nonoperating income	-	73,943	73,943
Total nonoperating revenues (expenses)	(68,246)	(158,435)	(226,681)
Income (loss) before contributions	(26,498)	(312,025)	(338,523)
CAPITAL GRANTS AND CONTRIBUTIONS:			
State grant	1,400	613,713	615,113
Federal grant	-	39,899	39,899
County contributions	1,098,824	1,594,093	2,692,917
Developer contributions	213,085	482,988	696,073
Impact fees	29,292	130,703	159,995
Total capital grants and contributions	1,342,601	2,861,396	4,203,997
TRANSFERS IN (OUT)	296,850	(371,850)	(75,000)
Change in net assets	1,612,953	2,177,521	3,790,474
TOTAL NET ASSETS - beginning of year	104,529	852,179	956,708
TOTAL NET ASSETS - end of year	\$ 1,717,482	\$ 3,029,700	\$ 4,747,182

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, 2008**

	Business Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 448,885	\$ 183,032	\$ 631,917
Payments to suppliers	(269,114)	(221,102)	(490,216)
Payments for salaries and benefits	(73,947)	-	(73,947)
Net cash flows from operating activities	105,824	(38,070)	67,754
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Increase (decrease) in customer deposits	67,205	-	67,205
Increase (decrease) in due to (from) other funds	73,244	(198,696)	(125,452)
Transfers (to) from other funds	(75,000)	-	(75,000)
Net cash flows from noncapital financing activities	65,449	(198,696)	(133,247)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets, net of related payables	(39,130)	(1,746,997)	(1,786,127)
Capital contributions received	21,957	108,628	130,585
State grant proceeds	-	1,250,000	1,250,000
Bond proceeds, net of costs	-	1,989,546	1,989,546
Principal paid on notes, bonds and lease obligations	(46,861)	(7,900)	(54,761)
Interest paid on borrowings	(68,797)	(150,778)	(219,575)
Net cash flows from capital and related financing activities	(132,831)	1,442,499	1,309,668
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on invested funds	551	6,053	6,604
Net cash flows from investing activities	551	6,053	6,604
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	38,993	1,211,786	1,250,779
CASH AND CASH EQUIVALENTS, beginning of year	112,414	(324,009)	(211,595)
CASH AND CASH EQUIVALENTS, end of year	\$ 151,407	\$ 887,777	\$ 1,039,184
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 41,748	\$ (153,590)	\$ (111,842)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	89,990	86,058	176,048
(Increase) decrease in accounts receivable	(37,059)	(56,821)	(93,880)
(Increase) decrease in deferred charges	(6,387)	(6,387)	(12,774)
Increase (decrease) in accounts payable	13,096	14,012	27,108
Increase (decrease) in compensated absences	1,610	-	1,610
Increase (decrease) in accrued payroll	2,098	-	2,098
Non-cash lease expense	-	73,943	73,943
Non-cash bond cost amortization	728	4,715	5,443
Net cash flows from operating activities	\$ 105,824	\$ (38,070)	\$ 67,754
Noncash financing and investing activities:			
Infrastructure donations from county and developers	\$ 1,311,909	\$ 2,077,081	\$ 3,388,990
Infrastructure transferred from sewer fund	\$ 371,850	\$ (371,850)	\$ -
Interest expense added to capital assets	\$ -	\$ 44,562	\$ 44,562

See Accompanying Notes to Financial Statements

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

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.

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

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

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, 2008

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, 2008, 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, 2008

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 \$118,955 at September 30, 2008. 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, 2008, such reserves for all funds totaled \$17,151. 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. Net interest cost capitalized for the year ended [September 30, 2008](#) totaled [\\$44,562](#).

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

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.

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.

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

- 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 \$97,103 of restricted net assets of which \$30,420 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, 2008 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.

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.

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

- B. Deficit fund balance or Net Assets of Individual Funds - As of September 30, 2008, the general fund had a deficit fund balance of \$52,341
- C. Excess of Expenditures Over Budget Appropriations in Individual Funds - For the year ended September 30, 2008, no budgetary fund had an excess of expenditures over appropriations.

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>1,334,875</u>
Total cash and cash equivalents	<u><u>\$ 1,334,975</u></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, 2008

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended **September 30, 2008**, was as follows:

	Beginning Balance	Reclassifications	Additions	Reductions	Ending Balance
Governmental Activities:					
Capital assets not being depreciated:					
Land	\$ 410,302	\$ -	\$ 2,241	\$ -	\$ 412,543
Construction in Progress	1,936,911	(2,429,599)	560,260	(18,454)	49,118
Total	\$ 2,347,213		\$ 562,501	\$ (18,454)	\$ 461,661
Capital assets being depreciated:					
Buildings and Improvements	\$ 242,567	\$ 2,429,599	\$ -	\$ -	\$ 2,672,166
Recreational Facilities	206,705	-	35,739	-	242,444
Equipment	233,010	-	136,875	-	369,885
Infrastructure:					
Sidewalk Systems	111,852	-	-	-	111,852
Drainage Systems	75,626	-	-	-	75,626
Total	869,760	2,429,599	172,614	-	3,471,973
Less, Accumulated Depreciation:					
Buildings and Improvements	(234,948)	-	(56,982)	-	(291,930)
Recreational Facilities	(56,644)	-	(14,191)	-	(70,835)
Equipment	(153,297)	-	(44,592)	-	(197,889)
Infrastructure:					
Sidewalk Systems	(1,410)	-	(2,796)	-	(4,206)
Drainage Systems	(4,157)	-	(1,891)	-	(6,048)
Total Accumulated Depreciation	(450,456)	-	(120,452)	-	(570,908)
Total Depreciable Capital Assets, Net	\$ 419,304	\$ -	\$ 52,162	\$ -	\$ 2,901,065
Business-Type Activities:					
Capital assets not being depreciated:					
Land	\$ -	\$ -	\$ 1,027,000	\$ -	\$ 1,027,000
Construction in Progress	4,770,766	(3,121,570)	1,807,284	-	3,456,480
Total	\$ 4,770,766	\$ (3,121,570)	\$ 2,834,284	\$ -	\$ 4,483,480
Capital assets being depreciated:					
Utility Plant	\$ 3,271,762	\$ 3,121,570	\$ 3,441,134	\$ -	\$ 9,834,466
Equipment	55,949	-	102,378	-	158,327
Total	3,327,711	3,121,570	3,543,512	-	9,992,793
Less, Accumulated Depreciation:					
Utility Plant	(394,528)	-	(165,537)	-	(560,065)
Equipment	(14,239)	-	(10,511)	-	(24,750)
Total Accumulated Depreciation	(408,767)	-	(176,048)	-	(584,815)
Total Depreciable Capital Assets, Net	\$ 2,918,944	\$ 3,121,570	\$ 3,367,464	\$ -	\$ 9,407,978

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

Depreciation expense was charged to the following programs and functions:

Governmental Activities:

General government	\$ 90,757
Library	367
Building and zoning	1,054
Code enforcement	999
Streets	11,232
Parks and recreation	14,152
Stormwater utility	<u>1,891</u>
Total depreciation expense - governmental activities	<u>\$ 120,452</u>

Business-type Activities:

Water	\$ 89,990
Sewer	<u>86,058</u>
Total depreciation expense - business-type activities	<u>\$ 176,048</u>

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 7 - LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended [September 30, 2008](#):

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Governmental Activities					
Long-Term Debt:					
Notes Payable:					
Series 2006 Revenue Bond					
Anticipation Note	\$ 1,738,570	\$ -	\$ (1,738,570)	\$ -	\$ -
Series 2007 Capital Improvement					
Revenue Bonds	-	1,738,570	(30,373)	1,708,197	31,626
Total Bonds and Notes Payable	<u>1,738,570</u>	<u>1,738,570</u>	<u>(1,768,943)</u>	<u>1,708,197</u>	<u>31,626</u>
Other Liabilities:					
Compesated Absences	45,927	3,898	-	49,825	-
Total Other Liabilities	<u>45,927</u>	<u>3,898</u>	<u>-</u>	<u>49,825</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 1,784,497</u>	<u>\$ 1,742,468</u>	<u>\$ (1,768,943)</u>	<u>\$ 1,758,022</u>	<u>\$ 31,626</u>
Less Amount Due in One Year				<u>\$ (31,626)</u>	
Net Long-Term Debt Due After One Year				<u>\$ 1,726,396</u>	
Business-Type Activities					
Long-Term Debt:					
Notes Payable:					
Installment Purchase Payable	\$ 31,861	\$ -	\$ (31,861)	\$ -	\$ -
Installment Note to Polk County	-	1,027,000	-	1,027,000	61,416
WW51201P Installment Note to DEP	1,849,053	44,562	-	1,893,615	-
Total Notes Payable	<u>1,880,914</u>	<u>1,071,562</u>	<u>(31,861)</u>	<u>2,920,615</u>	<u>61,416</u>
Revenue Certificates:					
Series 1999 Sewer Revenue Bonds	531,700	-	(7,900)	523,800	8,300
Series 2004 Water Revenue Bonds	1,173,000	-	(15,000)	1,158,000	15,000
Series 2005 Water / Sewer Revenue Notes	2,000,000	2,000,000	-	4,000,000	-
Total Revenue Certificates	<u>3,704,700</u>	<u>2,000,000</u>	<u>(22,900)</u>	<u>5,681,800</u>	<u>23,300</u>
Other Liabilities:					
Compesated Absences	-	1,610	-	1,610	-
Total Other Liabilities	<u>-</u>	<u>1,610</u>	<u>-</u>	<u>1,610</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 5,585,614</u>	<u>\$ 3,073,172</u>	<u>\$ (54,761)</u>	<u>8,604,025</u>	<u>\$ 84,716</u>
Less Amount Due in One Year				<u>(84,716)</u>	
Net Long-Term Debt Due After One Year				<u>\$ 8,519,309</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, 2008

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 bears interest at a variable interest rate calculated at 67% of 180-Day LIBOR plus 100 basis points and is recalculated every 180 days. The Series 2005 Note is a line of credit not to exceed \$4,000,000, of which all \$4,000,000 had been drawn as of September 30, 2008. The Note is convertible into a term loan on any interest payment date at the discretion of the City. As of September 30, 2008, the loan had not been converted into a term loan. The Series 2005 note matures on December 1, 2008 unless it has been converted to a term loan at which time the maturity date will be fifteen years after conversion. The Note proceeds were used to fund water and sewer system improvements. As more fully discussed in Note 12, the Series 2005 Note was converted to a term loan in December of 2008.
- Installment Note to DEP (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.

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

Maturities:

Annual requirements to repay all long-term bonds and notes payable as of [September 30, 2008](#), were as follows:

Fiscal Year Ending September 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 31,626	\$ 70,463	\$ 84,716	\$ 247,000
2010	32,930	69,159	335,384	342,163
2011	34,289	67,800	350,529	326,262
2012	35,703	66,386	369,587	309,298
2013	37,176	64,913	386,044	291,130
2014-2018	210,187	300,258	2,247,034	1,132,539
2019-2023	257,265	253,179	1,872,707	636,025
2024-2028	314,888	195,557	772,645	405,158
2029-2033	385,418	125,027	528,416	318,121
2034-2038	368,715	38,738	627,947	219,379
2039-2043	-	-	615,445	108,559
2044-2048	-	-	339,104	31,819
2049-2052	-	-	72,857	1,326
Total	\$ 1,708,197	\$ 1,251,480	\$ 8,602,415	\$ 4,368,779

NOTE 8 - INTERFUND TRANSACTIONS

Interfund transactions are summarized below:

Interfund receivables and payables as of September 30, 2008 consisted of:

Receivable Fund	Payable Fund	Amount
General Fund	Sewer Fund	\$ 120,364
General Fund	Water Fund	\$ 29,567
Sewer Fund	Water Fund	\$ 65,371

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.

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

Interfund transfers for the year ending September 30, 2008 consisted of:

Receivable Fund	Payable Fund	Amount
General Fund	Water Fund	\$ 75,000
Water Fund	Sewer Fund	\$ 371,850

NOTE 9 - 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.

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, 2008](#), which totaled [\\$53,409](#). Actual contribution rates expressed as a percentage of gross pay, which include the optional health insurance subsidy, were as follows:

Class	Prior to July 1, 2008	After July 1, 2008
Regular	9.85%	9.85%
Senior Management	13.12%	13.12%

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 10 – 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. 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.

In the normal course of conducting operations, the City may become party to various legal actions and proceedings. In the opinion of management, the ultimate resolution of such legal matters will not have a significant adverse effect on financial operations. The City carries various forms of liability insurance to limit exposure to losses.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

- The City has outstanding construction commitments on contracts in process for sewer treatment expansion projects of approximately \$3,475,410 and approximately \$8,700 for Van Fleet trail expansion.
- 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.

NOTE 12 - SUBSEQUENT EVENTS

In December of 2008, the City converted the Series 2005 Capital Improvement Revenue Note line of credit into a term loan that bears interest of 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 amount due to Polk County for impact fees collected but not remitted as of September 30, 2008 was \$531,199. This amount had not been remitted to the county as of September 30, 2009. 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 scheduled annual debt service payment of approximately \$174,386 on the installment note payable to Polk County. The debt service payment due on February 12, 2009 has not been paid to the county as of September 30, 2009.

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

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.

NOTE 14 – 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.

<u>Pledged Revenue</u>	<u>Total Principal and Interest Outstanding</u>	<u>Current Year Principal and Interest Paid</u>	<u>Current Year Revenue</u>	<u>% of Revenues to Principal and Interest Paid</u>
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	\$ 2,959,677	\$ 81,655	\$ 183,580	224.82%
Water and sewer system net revenue and sewer impact fees	11,227,334	249,317	194,909	78.18%

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF POLK CITY, FLORIDA
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RESOURCES (inflows):				
Taxes	\$ 874,197	\$ 874,197	\$ 944,802	\$ 70,605
Licenses and permits	73,300	73,300	103,561	30,261
Intergovernmental revenue	479,359	1,729,359	471,220	(1,258,139)
Charges for services	228,142	228,142	245,998	17,856
Fines and forfeitures	11,550	11,550	9,037	(2,513)
Other	41,850	41,850	28,427	(13,423)
Amounts available for appropriations	<u>1,708,398</u>	<u>2,958,398</u>	<u>1,803,045</u>	<u>(1,155,353)</u>
CHARGES TO APPROPRIATIONS (outflows):				
General government	533,091	588,790	585,351	3,439
Public safety	323,057	346,085	366,730	(20,645)
Physical environment	153,000	170,400	210,975	(40,575)
Transportation	265,047	284,047	273,371	10,676
Culture/recreation	74,853	74,853	60,705	14,148
Debt service	106,133	138,398	137,277	1,121
Capital outlay	328,217	1,430,825	842,529	588,296
Total charges to appropriations	<u>1,783,398</u>	<u>3,033,398</u>	<u>2,476,938</u>	<u>556,460</u>
EXCESS (DEFICIENCY) OF RESOURCES OVER CHARGES TO APPROPRIATIONS	<u>(75,000)</u>	<u>(75,000)</u>	<u>(673,893)</u>	<u>(598,893)</u>
OTHER FINANCING SOURCES (USES):				
Impact fees	75,000	75,000	147,361	72,361
Transfers In	-	-	75,000	75,000
Total other financing sources	<u>75,000</u>	<u>75,000</u>	<u>222,361</u>	<u>147,361</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (451,532)</u>	<u>\$ (451,532)</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, 2008, and have issued our report thereon dated March 11, 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 08-11 and 08-12.

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

(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 08-01, 08-02, 08-03, 08-04, 08-05, 08-06, 08-07, 08-08, 08-09, and 08-10.]

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 March 11, 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
March 11, 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, 2008, and have issued our report thereon dated March 11, 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 March 11, 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 08-01, 08-02, 08-03, 08-04, 08-05, 08-06, 08-07, 08-08, 08-09, 08-11, 08-12 and in this independent auditor's management letter as findings 08-01M, 08-02M and 08-03M.

- 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.

08-01M: Accounting for Law Enforcement Education Funds Needs Improvement

Pursuant to section 7.1 of the law enforcement contract with the Polk County Sheriffs Office, the law enforcement education funds levied and collected by the Clerk of the Court are required to be transferred to the Sheriff's office on an annual basis. During our audit we noted the City received \$686 of law enforcement education funds during the fiscal year ended September 30, 2007 and \$514 during the fiscal year ended September 30, 2008 that had not been remitted to the Sheriff's office. Accordingly, we recommend the City remit the law enforcement education funds to the Sheriff's office on an annual basis.

Management's response: We concur and are currently implementing the auditor's recommendation and should be current as of April 2010.

08-02M: Audit Completion Date

As required by Florida Statutes section 218.39(1), the City is required to have an annual financial audit of its accounts and records completed within twelve months after the end of its fiscal year. The annual financial audit for the year ended September 30, 2008 was not completed within twelve months of the end of the fiscal year.

Management's response: We concur and are currently implementing the auditor's recommendations during the 08-09 fiscal year.

- 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.

08-03M: Internal Control over Polk County Impact Fee Receipts and Remittances

New development within the corporate limits of the City requires the City to collect Polk County impact fees prior to the issuance of a building permit. These receipts should be recorded as a liability and remitted to Polk County on a monthly basis.

During our audit we noted county impact fees of approximately \$531,960 were collected and had not been remitted to the county as of September 30, 2008. There are no policies requiring timely remittances of Polk County impact fees and there are no internal control procedures in place to assure the accuracy and completeness of the payments and to assure the correct balance is recorded in the accounting records. Accordingly we recommend that management, on a monthly basis, reconcile the amounts remitted to Polk County to the amount recorded as a liability in the accounting records.

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, 2008 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 \$101,392 and a combined enterprise funds negative \$173,888), 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, 2008, 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, 2008. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the **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 \$52,341. The enterprise funds owed the general fund \$149,931 as of September 30, 2008 for which resources were not available for current repayment. Furthermore, the enterprise funds' current liabilities of \$2,001,153 far exceed its current assets of \$623,805. 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 the accompanying schedule of findings and questioned costs as findings 08-01 to 08-11.

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

We recommend the City take immediate corrective actions as discussed in the accompanying schedule of findings and questioned costs as findings 08-01, 08-02, 08-03, 08-04, 08-05, 08-06, 08-07, 08-08, 08-09, 08-10, 08-11 and 08-13. Furthermore, we feel the City should develop short-term and long-term financial plans that include steps to strengthen the City's financial condition. 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 Commissioners 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

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of the City Commission, 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
March 11, 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, 2008. **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, 2008. 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 08-12, 08-13 and 08-14.

**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 08-02, 08-03, 08-04, 08-05 and 08-06 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
March 11, 2010

CITY OF POLK CITY, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
for the year ended September 30, 2008

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	\$ 1,938,750
Total Federal Environmental Protection Agency			<u>1,938,750</u>
U.S. Department of Housing and Urban Development:			
Pass-through programs from:			
Polk County, Florida - Community Development Block Grant:			
Stormwater control system	14.219	DRI0609	39,937
Railroad Heights pocket park	14.218	C0800006	<u>27,595</u>
Total U.S. Department of Housing and Urban Development:			<u>67,532</u>
Total expenditures of Federal awards			<u>\$ 2,006,282</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	\$ 24,559
Polk City Wastewater Treatment System - Phase I	37.039	LP6855	<u>613,713</u>
Total State of Florida Department of Environmental Protection			<u>638,272</u>
Total expenditures of State awards			<u>\$ 638,272</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)

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, 2008

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, *Florida Statutes* and Chapter 10.550, *Rules of the Auditor General*? 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

CITY OF POLK CITY, FLORIDA
T.I.N. 59-6151760
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended September 30, 2008

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 08-01: Material Weakness

Utility Billing Subledgers Should be reconciled to the General Ledger

Condition: Management does not periodically reconcile the utility accounts receivable and the customer deposit subsidiary ledgers to the general ledger control accounts.

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 have implemented the auditor's recommendations as of March 2010.

Finding 08-02: Material Weakness

Restricted Cash Monitoring Needs Improvement

Condition: Management does not monitor the sources and uses of resources restricted by enabling legislation or contract or compliance with debt related covenants.

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, 2008

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

08-02: 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 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 the auditor's recommendations as of October 2008.

Finding 08-03: Material Weakness

Bank Reconciliation Procedures Needs Improvement

Condition: The activity in the City's bank accounts were not being timely posted to the general ledger and the bank statement balances were not being timely reconciled to the general ledger balances.

Criteria: Good internal control requires the activity in the City's bank accounts to be posted to the general ledger and that bank statement reconciliations be performed on a timely basis to afford management the opportunity to detect and correct errors on a timely basis.

Effect: Due to the lack of timely bank reconciliations, there was no assurance that the books and records of the City were complete throughout the year.

Cause: There are no policies or procedures in place to require timely bank reconciliations.

Recommendation: We recommend that the activity in the City's bank accounts be posted to the general ledger in a timely manner and that bank reconciliations be performed on all City bank accounts on a monthly basis.

Management's response: We concur and are currently in the process of implementing the auditor's recommendations and should be current as of April 2010.

Finding 08-04: Material Weakness

General Ledger Not Being Maintained Current

Condition: The City's general ledger balances for certain assets and liabilities, including interfund due to/from accounts, are not being reconciled to actual amounts of cash received or cash paid resulting in incorrect balances.

CITY OF POLK CITY, FLORIDA
T.I.N. 59-6151760
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended September 30, 2008

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

08-04: General Ledger Not Being Maintained Current (cont...)

Criteria: Good internal control requires periodic review of assets and liabilities to determine if they contain the correct balances and that transactions that affect these accounts are recorded correctly.

Effect: Due to the inadequate monitoring of the activity posted to certain asset and liability accounts, there was no assurance that the activity in these accounts was recorded correctly. Furthermore, the interfund due to/from accounts were out of balance by material amounts.

Cause: There are no policies or procedures in place to require monitoring the general ledger balances for certain assets and liabilities.

Recommendation: We recommend that the activity posted to the City's asset and liability accounts be monitored and reconciled on a monthly basis to provide assurance that the activity posted to the account and the resulting balance are correct.

Management's response: We concur and began implementing the auditor's recommendations as of October 2008.

Finding 08-05: Material Weakness

Failure to Correct Internal Control Deficiencies

Condition: The City has not corrected several significant deficiencies reported from previous audits.

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 concur and have implemented many of the auditor's recommendations.

Finding 08-06: Material Weakness

Greater Segregation of Duties Over Cash Disbursements is Desirable

Condition: The same employee approves disbursements for payment, signs the checks and performs the bank reconciliations.

Criteria: Good internal control requires the segregation of these duties.

Effect: Because of this inadequate segregation of duties, an error related to cash disbursements could go undetected by City employees in the ordinary course of performing their assigned functions.

Cause: Inadequate design of internal control

Recommendation: We recommend that the bank accounts be reconciled by an employee not involved in approving disbursements and signing checks.

Management's response: We concur and have implemented the auditor's recommendations as of October 2008.

Finding 08-07: Material Weakness

Billing for Commercial Dumpster Service Needs Improvement

Condition: Commercial dumpster service and special trash pickups are billed manually and there is no general ledger accounting control over the manual billings.

Criteria: To assure control over the amounts billed and received for commercial dumpster service, these charges should be billed and tracked through the City's utility billing system rather than performed manually.

Effect: Due to the manual billing of the commercial dumpster charges, there are no procedures in place to assure either the completeness or the eventual collection of these charges.

Cause: Inadequate procedures were designed when the City began billing for commercial dumpster service.

Recommendation: We recommend all commercial dumpster service charges be billed through the utility billing system and be subjected to the same internal controls as the other utility services.

Management's response: We concur and have implemented the auditor's recommendations as of October 2008.

CITY OF POLK CITY, FLORIDA
T.I.N. 59-6151760
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended September 30, 2008

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

Finding 08-08: Material Weakness

Computer Access Controls Needs Improvement

Condition: The City has inadequate control over users of the accounting information system ("the System"). It was noted that several users were given access to areas of the System that were incompatible with adequate segregation of duties or were beyond the employees' logical need for such access. Furthermore, the City does not assign employees unique user passwords in order to gain access to the System.

Criteria: Proper internal control over computer related financial information systems require users to have access only to functions that allow them to complete their assigned job duties. Furthermore, each user must be assigned an independent user name and unique password.

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

Cause: Inadequately designed computer access controls regarding the accounting information system.

Recommendation: We recommend management review their computer system access controls in an attempt to make certain only authorized employees have user names in the System and that all other user logins are removed. Furthermore, we recommend that all active users of the system are assigned unique passwords and that their access to different areas and functions of the System are limited to their logical need for such access.

Management's response: We concur and have implemented the auditor's recommendations as thoroughly as possible given the restrictions of the software program as of October 2008. In June 2009, the software was changed and the recommendations have been fully implemented.

Finding 08-09: Material Weakness

Internal Controls Over Cash Disbursements Need Improvement

Condition: During our audit, several of the invoice packets for payments made for goods and services selected for examination did not contain sufficient evidence that the invoices had been properly reviewed and approved in accordance with City policy.

Criteria: Good internal control requires that all disbursements be supported by adequate documentation and filed alphabetically by vendor.

Effect: Management was unable to produce complete invoice payment packets for audit testing.

Cause: Lack of internal controls over disbursement packet preparation and filing.

CITY OF POLK CITY, FLORIDA
T.I.N. 59-6151760
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended September 30, 2008

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

08-09: Internal Controls Over Cash Disbursements Need Improvement (cont...)

Recommendation: We recommend that each cash disbursement be supported by a completed packet containing all required documentation, including; the vendor invoice, purchase order or authorization for payment, a copy of the check stub and receiving documentation if applicable. In addition we recommend management file each completed invoice packet by vendor

Management's response: We concur and have implemented the auditor's recommendations as of October 2008.

Finding 08-10: Material Weakness

Internal Control Over Financial Reporting

Condition: The City's internal controls over financial reporting failed to detect 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 year end 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: We recommend that management employ experienced accounting personnel who can perform the tasks required to adequately review the general ledgers and prepare financial statements that are free of material misstatements.

Management's response: We concur and have implemented the auditor's recommendations during the 08-09 fiscal year.

CITY OF POLK CITY, FLORIDA
T.I.N. 59-6151760
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended September 30, 2008

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

Finding 08-11: Non-compliance

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) Rate coverage requirement not met
 - (2) Audit report issuance deadline of 180 days after year-end not met
 - (3) 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, 2008, management was not making monthly deposits into the sinking and reserve funds which is not in compliance with the Series 1999 bonds.

Management's response: We concur and implemented the auditor's recommendations during the 08-09 fiscal year. However upon converting to the new software system in June 2009 the entries did not transfer. This was caught and corrected in March 2010.

- 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, 2008, management was not making monthly deposits into the sinking and reserve funds which is not in compliance with the Series 2007 bonds.

Management's response: We concur and implemented the auditor's recommendations during the 08-09 fiscal year. However upon converting to the new software system in June 2009 the entries did not transfer. This was caught and corrected in March 2010.

- c) Series 2005 Capital Improvement Revenue Note
 - (1) Audit report issuance deadline of 210 days after year-end not met
 - (2) 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 has 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.

Management's response: We concur. The city's engineering consultant was to ensure all conditions were met for the SRF and the city relied on the consultants' assurances that everything was completed properly. The Lender in this case has been notified and the city is awaiting response.

CITY OF POLK CITY, FLORIDA
T.I.N. 59-6151760
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended September 30, 2008

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

Finding 08-11: Long Term Debt Issue Compliance (cont...)

- 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, 2008, they were not making monthly deposits into the sinking and reserve funds which is not in compliance with the Series 2004 bonds.

Management's response: We concur and implemented the auditor's recommendations during the 08-09 fiscal year. However upon converting to the new software system in June 2009 the entries did not transfer. This was caught and corrected in March 2010.

- e) Installment Note to Polk County
 - (1) As of January 2010, we noted the City had not made their annual debt service payment of \$174,386 to Polk County that was due on February 12, 2009.

Management's response: We concur that the payment has not been made. However there has been ongoing communication between the city and the county in regard to these payments since February of 2009. The repairs to the system and because of the system have been extraordinary and the revenues have not kept pace with the related expenses. As of March of 2010 the city and county are still in discussions regarding 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. The City should also address findings 08-03 and 08-04 to help meet the audit report issuance requirements of their long term debt issues

CITY OF POLK CITY, FLORIDA
T.I.N. 59-6151760
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended September 30, 2008

Section III: Findings Related to Federal Awards

Finding 08-12: Non-compliance

Timely Filing of Federal Single Audit

Condition: The City did not file their completed single audit report for the year ended September 30, 2008, 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, 2008, 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 the city has taken steps to bring all financials up-to-date so that all reports will be submitted in a timely manner.

CITY OF POLK CITY, FLORIDA
T.I.N. 59-6151760
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended September 30, 2008

Section IV: Findings Related to State Awards

Finding 08-13: Non-compliance

Timely Filing of State Single Audit

Condition: The City did not file their completed single audit report for the year ended September 30, 2008, within the required 12 months from year-end.

Criteria: Pursuant to Section 215.97, *Florida Statutes*, the City is required to submit a completed single audit report within twelve months after the end of its fiscal year.

Cause: For the year ended September 30, 2008, 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 State 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 the city has taken steps to bring all financials up-to-date so that all reports will be submitted in a timely manner.

Finding 08-14: Non-compliance

Florida Department of Environmental Protection
CFSA# 37.039: Polk City Wastewater Treatment System – Phase I

Condition: 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.

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.

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.

CITY OF POLK CITY, FLORIDA
T.I.N. 59-6151760
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended September 30, 2008

Recommendation: We recommend management review the City's internal control over state financial assistance to ensure adequacy of controls.

Management's response: We concur and the city has taken steps to bring all financials up-to-date so that all reports will be submitted in a timely manner.

Section IV: Summary Schedule of Prior Audit Findings

Finding reference: 07-02: Restricted Cash Monitoring Needs Improvement
Comment: See current year finding 08-02

Finding reference: 07-03: Bank Reconciliation Procedures Needs Improvement
Comment: See current year finding 08-03

Finding reference: 07-04: General Ledger Not Being Maintained Current
Comment: See current year finding 08-04

Finding reference: 07-05: Capital Asset Accounting Needs Improvement
Comment: This has been corrected.

Finding reference: 07-06: Failure to Correct Internal Control Deficiencies
Comment: See current year finding 08-05

Finding reference: 07-07: Greater Segregation of Duties Over Cash Disbursements is Desirable
Comment: See current year finding 08-06

Finding reference: 07-14: Timely filing of Single Audit
Comment: See current year finding 08-12