



CITY OF POLK CITY, FLORIDA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

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FINANCIAL SECTION

City of Polk City
Management's Discussion and Analysis
September 30, 2013

As management of the City of Polk City, Florida (City), we offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended September 30, 2013. We encourage readers to consider the information presented here in conjunction with the City's financial statements beginning on page 3.

In 2013, the City implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement amends the existing net asset reporting requirement by incorporating deferred inflows and outflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position rather than net assets as previously reported.

Financial Highlights

- The assets of the City exceed its liabilities at the close of the most recent fiscal year by \$4,568,880. Of this amount \$990,224 (unrestricted net position) may be used to meet the City's obligations which is an increase of \$354,428 over the prior year.
- The City's unrestricted cash and cash equivalents totaled \$1,354,948, an increase of \$329,452 over the prior year.
- As of the close of the current fiscal year, the City's general fund (governmental fund level) reported ending fund balance of \$829,066, an increase of \$216,078 in comparison with the prior year. Of this total amount, \$409,201 is available for spending at the government's discretion.

Overview of the Financial Statements

This management's discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: government-wide financial statements; fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

The *Statement of Net Position* presents information on all the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the residual amount reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

City of Polk City
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Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (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 include water and sewer.

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.

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.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* consisting of the budgetary comparison statement for the general fund which can be found on page 27 of this report.

**City of Polk City
Management's Discussion and Analysis
September 30, 2013**

Government-Wide Financial Analysis

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

**Statement of Net Position (Summary)
as of September 30,**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2013	2012	2013	2012	2013
Assets						
Current and other assets	\$ 673,215	\$ 908,639	\$ 3,513,100	\$ 2,593,781	\$ 4,186,315	\$ 3,502,420
Capital assets	3,103,146	3,013,737	12,414,883	12,693,788	15,518,029	15,707,525
Total assets	\$3,776,361	\$3,922,376	\$15,927,983	\$15,287,569	\$19,704,344	\$19,209,945
Liabilities						
Long-term liabilities outstanding	\$1,963,884	\$1,724,912	\$12,263,439	\$12,237,808	\$14,227,323	\$13,962,720
Other liabilities	66,584	85,336	1,112,551	593,009	1,179,135	678,345
Total liabilities	\$2,030,468	\$1,810,248	\$13,375,990	\$12,830,817	\$15,406,458	\$14,641,065
Net Position						
Net investment in capital assets	\$1,529,497	\$1,477,264	\$ 1,296,648	\$ 1,064,008	\$ 2,826,145	\$ 2,541,272
Restricted	133,832	171,897	702,113	865,487	835,945	1,037,384
Unrestricted	82,564	462,967	553,232	527,257	635,796	990,224
Total net position	\$1,745,893	\$2,112,128	\$ 2,551,993	\$ 2,456,752	\$ 4,297,886	\$ 4,568,880

Fifty-six percent of the City's net position 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. 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 from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Twenty-three percent of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is normally available to meet the City's ongoing obligations to citizens and creditors.

**City of Polk City
Management's Discussion and Analysis
September 30, 2013**

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

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
Revenues						
Program Revenues:						
Charges for services	\$ 347,130	\$ 356,752	\$ 1,925,296	\$ 1,891,475	\$ 2,272,426	\$ 2,248,227
Operating grants and contributions	30,218	38,422	-	-	30,218	38,422
Capital grants and contributions	6,343	5,652	408,896	482,861	415,239	488,513
General revenues:						-
Property taxes	538,053	430,242	-	-	538,053	430,242
Franchise/Public Ser. Tax	338,901	348,316	-	-	338,901	348,316
State shared revenues	150,224	154,511	-	-	150,224	154,511
Fuel taxes levied from transportation	122,679	116,711	-	-	122,679	116,711
Other	31,577	20,506	1,578	11,945	33,155	32,451
Total revenues	<u>1,565,125</u>	<u>1,471,112</u>	<u>2,335,770</u>	<u>2,386,281</u>	<u>3,900,895</u>	<u>3,857,393</u>
Expenses						
General government	588,119	572,182	-	-	588,119	572,182
Library	108,850	98,906	-	-	108,850	98,906
Police	118,518	116,713	-	-	118,518	116,713
Building and zoning	22,925	87,611	-	-	22,925	87,611
Code Enforcement	52,342	1,043	-	-	52,342	1,043
Sanitation	186,828	187,880	-	-	186,828	187,880
Streets	289,333	183,007	-	-	289,333	183,007
Parks and recreation	55,289	45,638	-	-	55,289	45,638
Stormwater	1,891	1,891	-	-	1,891	1,891
Interest on long-term debt	73,572	70,006	-	-	73,572	70,006
Public utilities	-	-	1,777,583	2,221,522	1,777,583	2,221,522
Total expenses	<u>1,497,667</u>	<u>1,364,877</u>	<u>1,777,583</u>	<u>2,221,522</u>	<u>3,275,250</u>	<u>3,586,399</u>
Increase (decrease) in net position before transfers	<u>67,458</u>	<u>106,235</u>	<u>558,187</u>	<u>164,759</u>	<u>625,645</u>	<u>270,994</u>
Transfers	322,197	260,000	(322,197)	(260,000)	-	-
Increase (decrease) in net position	<u>389,655</u>	<u>366,235</u>	<u>235,990</u>	<u>(95,241)</u>	<u>625,645</u>	<u>270,994</u>
Net position - October 1	<u>1,356,238</u>	<u>1,745,893</u>	<u>2,316,003</u>	<u>2,551,993</u>	<u>3,672,241</u>	<u>4,297,886</u>
Net position - September 30	<u>\$ 1,745,893</u>	<u>\$ 2,112,128</u>	<u>\$ 2,551,993</u>	<u>\$ 2,456,752</u>	<u>\$ 4,297,886</u>	<u>\$ 4,568,880</u>

City of Polk City
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Governmental Activities - Governmental activities increased the City's net position by \$366,235 after a net transfer of \$260,000 from the business-type activities. In the prior year, net position increased by \$389,655 after a \$322,197 transfer to the business-type activities. Total expenses decreased by \$132,790 or approximately 9%.

Business-type Activities - Business-type activities decreased the City's net position by \$95,241 compared to an increase of \$235,990 in the prior year. There was a net transfer of \$260,000 to the governmental activities.

Fund Level Financial Analysis

Governmental Funds - As of September 30, 2013, the City's governmental fund reported combined ending fund balances of \$829,066 which can be found on page 5. This is an increase of \$216,078 over the prior year ending fund balances of \$612,988. In the General Fund, the City's expenditures exceeded revenues by \$43,922.

Proprietary Funds - These services combined to generate operating income of \$186,689. Compare that to the prior year operating income of \$641,516. The main cause of the decline in operating income was due to the impairment loss of \$414,238 related to the decommissioning and demolition of the Mount Olive waste water facility.

General Fund Budgetary Highlights - 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.

**City of Polk City
Management's Discussion and Analysis
September 30, 2013**

CAPITAL ASSET AND DEBT ADMINISTRATION

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

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

	Capital Assets Activity (net of depreciation) as of September 30,					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
Assets not depreciated						
Land	\$ 412,542	\$ 412,542	\$ 2,730,736	\$ 2,730,736	\$ 3,143,278	3,143,278
Construction in progress	5,000	5,000	732,559	-	737,559	5,000
Total	<u>417,542</u>	<u>417,542</u>	<u>3,463,295</u>	<u>2,730,736</u>	<u>3,880,837</u>	<u>3,148,278</u>
Depreciated Assets						
Buildings and improvements	2,673,966	2,673,966	-	-	2,673,966	2,673,966
Recreational facilities	467,974	471,882	-	-	467,974	471,882
Vehicles and equipment	436,220	443,337	267,286	268,853	703,506	712,190
Infrastructure	187,478	187,478	-	-	187,478	187,478
Utility plants	-	-	10,586,697	11,892,480	10,586,697	11,892,480
Subtotal	3,765,638	3,776,663	10,853,983	12,161,333	14,619,621	15,937,996
Accumulated depreciation	(1,080,034)	(1,180,468)	(1,902,395)	(2,198,281)	(2,982,429)	(3,378,749)
Total	<u>\$ 2,685,604</u>	<u>\$ 2,596,195</u>	<u>\$ 8,951,588</u>	<u>\$ 9,963,052</u>	<u>\$11,637,192</u>	<u>\$ 12,559,247</u>

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2013, amounts to \$15,707,525 (net of accumulated depreciation) compared to \$15,518,029 last year. That is an increase of \$189,496 from the prior year.

Additional information on the City's capital assets can be found In Note 5 on pages 19 - 20 of the Notes to the Financial Statements in this report.

**City of Polk City
Management's Discussion and Analysis
September 30, 2013**

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,

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2013	2012	2013	2012	2013
Revenue notes	\$ -	\$ -	\$ 9,549,815	\$ 9,558,994	\$ 9,549,815	\$ 9,558,994
Notes payable	1,938,649	1,701,473	2,713,624	2,678,814	4,652,273	4,380,287
Total	\$ 1,938,649	\$ 1,701,473	\$ 12,263,439	\$ 12,237,808	\$ 14,202,088	\$ 13,939,281

The Governmental Activities had total debt outstanding of \$1,701,473 which compares to \$1,938,649 in the prior year. This consists primarily of the Series 2007 Capital Improvement Revenue Bonds for the construction of the Polk City Government Center and the Series 2011B Refunding Revenue Bonds for the payment of its obligation to Polk County.

The Business-type Activities had total debt outstanding of \$12,237,808 which consists primarily of the Series 2011A Water/Sewer System Capital Improvement and Refunding Revenue Bonds and the installment note to the Florida Department of Environmental Protection. For additional information, see Note 6, pages 21 – 23.

Economic Factors and Next Year's Budget and Rates

For the Fiscal Year 2014 Budget the City experienced an increase in Ad Valorem revenue of approximately \$40,000 due to an increase in property values. We are continuing to implement cost-effective measures to save money and continuing to prepare monthly cash flow projections to keep the City on the right track. We strive to keep the same level of services at no additional cost to our residents.

The Community Development Block Grant - water line replacement project in the "Railroad Heights" area was completed in Fiscal Year 2013.

The Water, Wastewater and Reuse Water System Improvements, which was part of the Revenue Bond Series 2011 A, was completed in Fiscal Year 2013.

**City of Polk City
Management's Discussion and Analysis
September 30, 2013**

The anticipated expenditures for Fiscal Year 2014 are as follows:

- ❖ New Hydro-tank for Matt Williams WTP; this will come from Bond Proceeds – Capital Projects
- ❖ Replace the outside back wall of the Public Works Building
- ❖ Presenting a Meter Replacement Program, which will assist in running the utilities more efficiently
- ❖ Setting funds aside in capital outlay for a portable generator (over a three year period)
- ❖ Street paving in the Honeybee area
- ❖ Drainage work at 202 Lakeshore Drive (joint project with homeowner)
- ❖ Relocation of fire hydrants and raising water valves on S.R. 33 (DOT Project)
- ❖ The final payment will be paid in Fiscal 2014 on the General Fund Revenue Bond Series 2011-B
- ❖ Applying for a Community Development Block Grant for Housing Rehabilitation

Looking at FY 2015:

- FDEP Loan will increase by approximately \$75,000 annually
- Annual transfers from the Enterprise Fund to the General Fund will decrease in FY 2015 due to the Fifth Third Bond payment increasing in the Enterprise Fund and decreasing in the General Fund
- Beginning in the FY 2015 Budget, the Council will be presented with a two-year budget

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.

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 the City of Polk City, Florida as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City of Polk City, Florida, as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages M1 through M8 and the budgetary comparison information on page 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

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

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2014, on our consideration of the City of Polk City, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Polk City, Florida's internal control over financial reporting and compliance.

Brynjulfson CPA, P.A.

Brynjulfson CPA, P.A.
Lakeland, Florida
February 12, 2014

**CITY OF POLK CITY, FLORIDA
GOVERNMENT-WIDE STATEMENT OF NET POSITION
AS OF SEPTEMBER 30, 2013**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 626,442	\$ 728,506	\$ 1,354,948
Receivables, current:			
Customer accounts, net	47,496	152,732	200,228
Intergovernmental	28,875	-	28,875
Franchise and public service taxes	22,235	-	22,235
Internal balances	5,515	(5,515)	-
Restricted assets:			
Cash and cash equivalents	177,660	1,230,738	1,408,398
Capital assets:			
Non-depreciable	417,542	2,730,736	3,148,278
Depreciable, net	2,596,195	9,963,052	12,559,247
Prepaid expenses	416	487,320	487,736
TOTAL ASSETS	3,922,376	15,287,569	19,209,945
LIABILITIES			
Accounts payable	\$ 54,348	\$ 49,156	\$ 103,504
Accrued payroll	17,704	-	17,704
Accrued interest payable	5,763	73,728	79,491
Due to other governments	7,521	-	7,521
Unearned revenue	-	299,310	299,310
Customer deposits	-	170,815	170,815
Long-term liabilities:			
Due within one year	203,709	70,654	274,363
Due in more than one year	1,521,203	12,167,154	13,688,357
TOTAL LIABILITIES	1,810,248	12,830,817	14,641,065
NET POSITION			
Net investment in capital assets	1,477,264	1,064,008	2,541,272
Restricted for:			
Transportation infrastructure	75,228	-	75,228
Water system improvements	-	100,401	100,401
Waste water system improvements	-	88,285	88,285
Debt service	96,669	676,801	773,470
Unrestricted	462,967	527,257	990,224
TOTAL NET POSITION	\$ 2,112,128	\$ 2,456,752	\$ 4,568,880

See Accompanying Notes to Financial Statements

CITY OF POLK CITY, FLORIDA
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

FUNCTIONS/PROGRAMS PRIMARY GOVERNMENT:	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 572,182	\$ 16,858	\$ 13,422	\$ -	\$ (541,902)	\$ -	\$ (541,902)
Library	98,906	6,583	25,000	-	(67,323)	-	(67,323)
Police	116,713	1,438	-	5,652	(109,623)	-	(109,623)
Building and zoning	87,611	59,924	-	-	(27,687)	-	(27,687)
Code enforcement	1,043	-	-	-	(1,043)	-	(1,043)
Sanitation	187,880	240,108	-	-	52,228	-	52,228
Streets	183,007	17,942	-	-	(165,065)	-	(165,065)
Parks and recreation	45,638	-	-	-	(45,638)	-	(45,638)
Stormwater utility	1,891	13,899	-	-	12,008	-	12,008
Interest on long term debt	70,006	-	-	-	(70,006)	-	(70,006)
Total governmental activities	1,364,877	356,752	38,422	5,652	(964,051)	-	(964,051)
Business-type Activities:							
Water and sewer utility	2,221,522	1,891,475	-	482,861	-	152,814	152,814
Total business-type activities	2,221,522	1,891,475	-	482,861	-	152,814	152,814
TOTAL PRIMARY GOVERNMENT	\$ 3,586,399	\$ 2,248,227	\$ 38,422	\$ 488,513	(964,051)	152,814	(811,237)

GENERAL REVENUES:

Taxes:

Property taxes, levied for general purposes	430,242
Franchise taxes	80,361
Public service taxes	267,955
Fuel taxes levied for transportation	116,711
State shared revenue	154,511
Investment earnings	25
Miscellaneous	20,481
Net transfers (to)/from other funds	(260,000)
Total General Revenues, Special Items, and Transfers	1,330,286

CHANGE IN NET POSITION

NET POSITION - beginning of year	270,994
NET POSITION - end of year	\$ 4,568,880

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA
BALANCE SHEET - GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2013**

	General Fund
ASSETS	
Cash and cash equivalents	\$ 626,442
Receivables, net:	
Customer accounts, net	47,496
Intergovernmental	28,875
Franchise and public service taxes	22,235
Due from other funds	5,515
Restricted assets:	
Cash and cash equivalents	177,660
Prepaid expenditures	416
TOTAL ASSETS	\$ 908,639
LIABILITIES AND FUND BALANCE	
Accounts payable	\$ 54,348
Accrued payroll	17,704
Due to other governments	7,521
TOTAL LIABILITIES	79,573
FUND BALANCE:	
Nonspendable:	
Prepaid expenditures	416
Restricted for:	
Highways / streets	75,228
Debt service reserves / sinking	102,432
Assigned to:	
Subsequent year budget	64,024
Emergency reserve	177,765
Unassigned:	409,201
TOTAL FUND BALANCE	829,066
TOTAL LIABILITIES AND FUND BALANCE	\$ 908,639

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
AS OF SEPTEMBER 30, 2013**

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 829,066
Amounts reported for governmental activities in the statement of net position 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.	3,013,737
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in governmental funds.	(5,763)
Long-term liabilities (including compensated absences) are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet.	<u>(1,724,912)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 2,112,128</u>

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
for the year ended September 30, 2013**

	General Fund
REVENUES:	
Taxes	\$ 906,360
Licenses and permits	60,209
Intergovernmental revenue	197,202
Charges for services	278,777
Fines and forfeitures	1,438
Other	27,128
Total revenues	<u>1,471,114</u>
EXPENDITURES:	
General government	417,681
Public safety	205,302
Physical environment	260,708
Transportation	175,902
Culture/recreation	109,538
Capital outlay	38,129
Debt service	307,776
Total expenditures	<u>1,515,036</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(43,922)</u>
OTHER FINANCING SOURCES (USES)	
Transfers in	<u>260,000</u>
Total other financing sources	<u>260,000</u>
NET CHANGE IN FUND BALANCE	<u>216,078</u>
FUND BALANCE, beginning of year	<u>612,988</u>
FUND BALANCE, end of year	<u><u>\$ 829,066</u></u>

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2013**

	Enterprise Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 728,506
Customer accounts receivable, net	152,732
Total current assets	<u>881,238</u>
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	1,230,738
Capital assets, net:	
Non-depreciable	2,730,736
Depreciable, net	9,963,052
Prepaid bond issue costs	487,320
Total noncurrent assets	<u>14,411,846</u>
TOTAL ASSETS	<u>15,293,084</u>
LIABILITIES	
Current liabilities:	
Accounts payable	49,156
Bonds and notes payable, current portion	70,654
Accrued interest payable	73,728
Unearned revenue	299,310
Due to general fund	5,515
Total current liabilities	<u>498,363</u>
Noncurrent liabilities:	
Customer deposits	170,815
Bonds and notes payable, noncurrent portion	12,167,154
Total noncurrent liabilities	<u>12,337,969</u>
TOTAL LIABILITIES	<u>12,836,332</u>
NET POSITION	
Net investment in capital assets	1,064,008
Restricted for:	
Water system improvements	100,401
Waste water system improvements	88,285
Debt service	676,801
Unrestricted	527,257
TOTAL NET POSITON	<u>\$ 2,456,752</u>

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	Enterprise Fund
OPERATING REVENUES:	
Charges for services	\$ 1,891,475
Total operating revenues	<u>1,891,475</u>
OPERATING EXPENSES:	
Operating expenses	938,843
Impairment loss (Note 5)	414,238
Depreciation	351,705
Total operating expenses	<u>1,704,786</u>
OPERATING INCOME (LOSS)	<u>186,689</u>
NONOPERATING REVENUE (EXPENSE):	
Interest revenue	11,945
Interest expense	(516,736)
Total nonoperating revenues (expenses)	<u>(504,791)</u>
Income (loss) before contributions	<u>(318,102)</u>
CAPITAL GRANTS AND CONTRIBUTIONS:	
Federal grant	354,380
Impact fees	128,481
Total capital grants and contributions	<u>482,861</u>
TRANSFERS IN (OUT)	
Transfers to other funds	<u>(260,000)</u>
Total transfers	<u>(260,000)</u>
Change in net position	(95,241)
TOTAL NET POSITION - beginning of year	<u>2,551,993</u>
TOTAL NET POSITION - end of year	<u><u>\$ 2,456,752</u></u>

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 1,883,145
Payments to suppliers	(891,745)
Net cash flows from operating activities	<u>991,400</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Increase (decrease) in due to (from) other funds	(126,104)
Transfers (to) from other funds	(260,000)
Net cash flows from noncapital financing activities	<u>(386,104)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets, net of related payables	(1,582,850)
Federal grant	539,469
Impact fees	128,481
Principal paid on notes, bonds and lease obligations	(34,810)
Interest paid on borrowings	(507,557)
Net cash flows from capital and related financing activities	<u>(1,457,267)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on invested funds	11,945
Net cash flows from investing activities	<u>11,945</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(840,026)</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,799,270</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,959,244</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 186,689
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	351,705
Impairment loss	414,238
(Increase) decrease in accounts receivable	(8,330)
(Increase) decrease in deferred charges	857
Increase (decrease) in accounts payable	(11,160)
Increase (decrease) in customer deposits	29,620
Non-cash bond issuance cost amortization	27,781
Net cash flows from operating activities	<u>\$ 991,400</u>
Noncash financing and investing activities:	<u>\$ -</u>

See Accompanying Notes to Financial Statements

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

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 (GASBS) and Interpretations (GASBI). During the year the City implemented GASBS 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASBS 20. GASBS 20 gave governments the choice to elect to follow only GASB's authoritative literature, or to follow FASB and AICPA pronouncements that did not conflict with GASB pronouncements. Upon adoption of GASBS 62, all governmental accounting guidance is codified into the GASB literature. The more significant accounting policies established in GAAP and used by the City is 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. Criteria for determining if other entities are potential component units of the City which should be reported with the City's basic financial statements are identified and described in the GASB *Codification of Governmental Accounting and Financial Reporting Standards*. The application of these criteria provides for identification of any entities for which the City is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete. A blended component unit, although legally separate, is in substance part of the City's operations and presented in the financial statements as "blended" components. Blending refers to the fact that the component unit's funds 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 Position and the Statement of Activities, which report information on all of the nonfiduciary activities of the City. The effects of interfund activity have been removed from these statements. The City has no fiduciary funds, however if it did they would be excluded from the government-wide financial statements since by definition these assets are being held for the benefit of a third party and cannot be used to fund activities or obligations of the government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *Business-type activities*, which rely to a significant extent on fees and charges for support.

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment, including depreciation. The City does not allocate the interest expense of governmental fund debt or indirect costs such as finance, personnel, legal, etc. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements - The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues and expenditures/expenses. The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The GASB codification Section 2200.159 sets forth minimum criteria (percentage of the assets and deferred outflows of resources, liabilities and deferred inflows of resources, 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 position, 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 one *Enterprise Fund* which accounts for the activities associated with providing potable water and sewer collection, treatment and disposal services to area residents.

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

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

C. MEASUREMENT FOCUS, AND BASIS OF ACCOUNTING

The government-wide financial statements and the proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

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

D. ASSETS, LIABILITIES AND NET POSITION 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, 2013, 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, 2013

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

CUSTOMER ACCOUNTS RECEIVABLE - The City accrues its unbilled utility service fees. This represents the estimated value of service from the last billing date to year end and totaled \$155,671 at September 30, 2013. 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, 2013, the reserve for doubtful accounts totaled \$41,313 for utility service receivables and \$134,418 for readiness-to-serve receivables. 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 \$1,000 or more and an estimated useful life in excess of two years as defined by City resolution. Such assets are recorded at historical cost, if purchased and at fair market value at date of gift, if donated. Major additions are capitalized while maintenance and repairs which do not improve or extend the life of the respective assets are charged to expense. Governmental fund infrastructure assets (e.g., roads, bridges, sidewalks, streets, drainage systems and lighting system), acquired prior to October 1, 2003, have not been reported.

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

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

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

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

INTEREST COSTS - Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of enterprise fund capital assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. No net interest costs were capitalized for the year ended September 30, 2013.

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

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

LONG-TERM OBLIGATIONS - In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. 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 nine 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 four to sixteen 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 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 - The City implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement amends the existing net asset reporting requirements by incorporating deferred outflows and inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets as previously reported. Accordingly, equity is classified as net position and displayed in three components:

- a) Net investment in capital assets - 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, 2013

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

- b) Restricted net position - Consists of restricted assets reduced by liabilities related to those assets. The government-wide statement of net position reports \$1,037,384 of restricted net position of which \$263,914 is restricted by enabling legislation.
- c) Unrestricted net position - Consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund Statements - The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor the constraints on the specific purposes for which amounts in those funds can be spent. Spendable resources are to be shown as restricted, committed, assigned and unassigned as considered appropriate in the City's circumstances. The following classifications describe the relative strength of the spending constraints:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts constrained to specific purposes by formal action (ordinance) of the City using its highest level of decision making authority (the City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City Council takes the same highest level action (ordinance) to remove or change the constraint

Assigned – amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the City Manager through the budgetary process. The City Council has not established a formal policy regarding authorization to assign fund balance amounts for a specific purpose.

Unassigned – all other spendable amounts.

The City uses restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

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, 2013 was 8.6547.

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 2 - PROPERTY TAX CALENDAR (concluded)

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 - 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 position for "cash and cash equivalents" both restricted and unrestricted, are summarized below:

Cash and cash equivalents:	
Cash on hand	\$ 500
Deposits in financial institutions:	
Insured or fully collateralized bank deposits	<u>2,762,846</u>
Total cash and cash equivalents	<u><u>\$ 2,763,346</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, 2013

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2013, was as follows:

	Beginning Balance	Reclassification	Additions	Reductions	Ending Balance
Governmental Activities:					
Capital assets not being depreciated:					
Land	\$ 412,542	\$ -	\$ -	\$ -	\$ 412,542
Construction in Progress	5,000	-	-	-	5,000
Total	\$ 417,542	\$ -	\$ -	\$ -	\$ 417,542
Capital assets being depreciated:					
Buildings and Improvements	\$ 2,673,966	\$ -	\$ -	\$ -	\$ 2,673,966
Recreational Facilities	467,974	-	3,908	-	471,882
Equipment	436,220	-	24,976	(17,859)	443,337
Infrastructure:					
Sidewalk Systems	111,852	-	-	-	111,852
Drainage Systems	75,626	-	-	-	75,626
Total	3,765,638	-	28,884	(17,859)	3,776,663
Less, Accumulated Depreciation:					
Buildings and Improvements	(540,547)	-	(61,472)	-	(602,019)
Recreational Facilities	(164,849)	-	(26,175)	-	(191,024)
Equipment	(345,635)	-	(25,959)	17,859	(353,735)
Infrastructure:					
Sidewalk Systems	(15,390)	-	(2,796)	-	(18,186)
Drainage Systems	(13,613)	-	(1,891)	-	(15,504)
Total Accumulated Depreciation	(1,080,034)	-	(118,293)	17,859	(1,180,468)
Total Depreciable Capital Assets, Net	\$ 2,685,604	\$ -	\$ (89,409)	\$ -	\$ 2,596,195
Business-Type Activities:					
Capital assets not being depreciated:					
Land	\$ 2,730,736	\$ -	\$ -	\$ -	\$ 2,730,736
Construction in Progress	732,559	(1,775,840)	1,043,281	-	-
Total	\$ 3,463,295	\$ (1,775,840)	\$ 1,043,281	\$ -	\$ 2,730,736
Capital assets being depreciated:					
Utility Plant	\$ 10,586,697	\$ 1,775,840	\$ -	\$ (470,057)	\$ 11,892,480
Equipment	267,286	-	1,567	-	268,853
Total	10,853,983	1,775,840	1,567	(470,057)	12,161,333
Less, Accumulated Depreciation:					
Utility Plant	(1,718,368)	-	(311,640)	55,819	(1,974,189)
Equipment	(184,027)	-	(40,065)	-	(224,092)
Total Accumulated Depreciation	(1,902,395)	-	(351,705)	55,819	(2,198,281)
Total Depreciable Capital Assets, Net	\$ 8,951,588	\$ 1,775,840	\$ (350,138)	\$ (414,238)	\$ 9,963,052

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 5 - CAPITAL ASSETS (cont...)

Impairment loss: During the year, the City determined that there was sufficient evidence of impairment to write down the Mount Olive waste water treatment facility as it was decommissioned and demolished in March 2013. The book value as of the date of demolition, totaling \$414,238, will be recognized in the current year financial statements as a component of operating expenses in the enterprise statement of revenues, expenses and changes in net position.

Depreciation expense was charged to the following programs and functions:

Governmental Activities:

General government	\$ 77,903
Streets	11,716
Parks and recreation	26,783
Stormwater utility	<u>1,891</u>
Total depreciation expense - governmental activities	<u>\$ 118,293</u>

Business-type Activities:

Water and sewer	<u>\$ 351,705</u>
Total depreciation expense - business-type activities	<u>\$ 351,705</u>

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 6 - LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended September 30, 2013:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Governmental Activities					
Long-Term Debt:					
Notes Payable:					
Series 2007 Capital Improvement Revenue Bonds	\$ 1,573,649	\$ -	\$ (37,176)	\$ 1,536,473	\$ 38,709
Series 2011B Water / Sewer System Refunding Revenue Bonds	365,000	-	(200,000)	165,000	165,000
Total Bonds and Notes Payable	1,938,649	-	(237,176)	1,701,473	203,709
Other Liabilities:					
Compensated Absences	25,235	-	(1,796)	23,439	-
Total Other Liabilities	25,235	-	(1,796)	23,439	-
Total Long-Term Liabilities	\$ 1,963,884	\$ -	\$ (238,972)	\$ 1,724,912	\$ 203,709
Less Amount Due in One Year				\$ (203,709)	
Net Long-Term Debt Due After One Year				\$ 1,521,203	
Business-Type Activities					
Long-Term Debt:					
Notes Payable:					
Installment Note to Florida Department of Environmental Protection	\$ 2,713,624	\$ -	\$ (34,810)	\$ 2,678,814	\$ 35,654
Total Notes Payable	2,713,624	-	(34,810)	2,678,814	35,654
Revenue Certificates:					
Series 2011A Water / Sewer System Capital Improvement and Refunding Revenue Bonds	9,720,000	-	-	9,720,000	35,000
Less discount on Series 2011A	(170,185)	-	9,179	(161,006)	-
Total Revenue Certificates	9,549,815	-	9,179	9,558,994	35,000
Total Long-Term Liabilities	\$ 12,263,439	\$ -	\$ (25,631)	\$ 12,237,808	\$ 70,654
Less Amount Due in One Year				(70,654)	
Net Long-Term Debt Due After One Year				\$ 12,167,154	

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 6 - LONG-TERM OBLIGATIONS (cont...)

Notes to Long-Term Obligations Table

Long term liabilities, including compensated absences, are typically liquidated by the individual fund to which the liability is directly associated.

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 4.125% with a final maturity of September 1, 2037. 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.
- Series 2011B Refunding Revenue Bonds – The Refunding Revenue Bonds, Series 2011B are secured by net revenues of the water and sewer system, certain public service tax revenues, and moneys on deposit in various funds and accounts of the City. The Series 2011B bonds bear interest at 1.15 – 1.75% with a final maturity of August 1, 2014. The Series 2011B bond proceeds were used to refund the Polk County payment obligation, fund a portion of the reserve requirement and pay the costs of issuances of the bonds. The bonds require the maintenance of sinking and reserve funds.

Business-Type Activities:

- Series 2011A Capital Improvement and Refunding Revenue Bonds – The Capital Improvement and Refunding Revenue Bonds, Series 2011A are secured by net revenues of the water and sewer system, certain public service tax revenues, and moneys on deposit in various funds and accounts of the City. The Series 2011A bonds bear interest at 2.00 – 5.00% (true-interest-cost of 4.97%) with a final maturity of August 1, 2041. The Series 2011A bond proceeds were used to finance and/or reimburse the costs of certain improvements to the City's water and sewer system, refund all of the Series 1999 Revenue Bonds, Series 2004 Revenue Bonds, Series 2005 Capital Improvement Revenue Note, Polk County sprayfield loan, fund a portion of the reserve requirement and pay the costs of issuance of the bonds. The bonds require the maintenance of sinking, reserve, and renewal and replacement funds.
- Installment Note to Florida Department of Environmental Protection (WW 51201P) - This note is secured by the net revenues of the sewer system and sewer impact fees. The note bears interest at 2.41%, with semi-annual principal and interest payments on March 15 and September 15 with a final maturity in September 2033. 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.

**CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2013**

NOTE 6 - LONG-TERM OBLIGATIONS (cont...)

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

Maturities:

Annual requirements to repay all long-term bonds and notes payable as of September 30, 2013, were as follows:

Fiscal Year Ending September 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 203,709	\$ 66,268	\$ 70,654	\$ 506,714
2015	40,306	61,783	316,174	504,702
2016	41,969	60,120	323,869	495,857
2017	43,700	58,389	331,630	486,796
2018	45,503	56,586	344,458	477,518
2019-2023	257,265	253,179	1,892,163	2,217,563
2024-2028	314,888	195,557	2,238,877	1,859,401
2029-2033	385,418	125,027	2,710,989	1,387,544
2034-2038	368,715	38,738	2,410,000	813,250
2039-2041	-	-	1,760,000	178,750
Less: unamortized bond discount	-	-	(161,006)	-
Total	\$ 1,701,473	\$ 915,647	\$ 12,237,808	\$ 8,928,095

NOTE 7 – 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 6.

<u>Pledged Revenue</u>	<u>Principal and Interest Outstanding</u>	<u>Principal and Interest Paid</u>	<u>Current Year Revenue</u>	<u>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	\$ 2,449,232	\$ 102,089	\$ 225,947	221.32%
Water and sewer system net revenue and sewer impact fees	21,494,797	748,056	1,095,953	146.51%

**CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2013**

NOTE 8 - INTERFUND TRANSACTIONS

Interfund transactions are summarized below:

Interfund receivables and payables as of September 30, 2013 consisted of:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Enterprise Fund	\$ 5,515

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

Interfund transfers for the year ending September 30, 2013 consisted of:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
General Fund	Enterprise Fund	\$ 260,000

The transfer from the enterprise fund to the general fund is a budgeted annual operating transfer to finance services accounted for in the general fund.

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. FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the Florida Retirement System Investment Plan (Investment Plan).

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision: however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 9 - PENSION PLAN (cont...)

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2012-13 fiscal year were as follows:

Class	Prior to July 1, 2013		After July 1, 2013	
	Employer (A)	Employee	Employer (A)	Employee
Regular	5.18%	3.00%	6.95%	3.00%
Senior Management	6.30%	3.00%	18.31%	3.00%

Note (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates include 0.03 percent for administrative costs of the Investment Plan.

The City's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the City. The City's contributions including employee contributions for the fiscal years ended September 30, 2011, September 30, 2012, and September 30, 2013, totaled \$28,783, \$28,340 and \$28,376, respectively, which were equal to the required contributions for each fiscal year.

Financial statement and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS

Pursuant to the provisions of Section 112.08011, Florida Statutes, former employees and eligible dependents who retire from the City may continue to participate in the City's fully insured health and hospitalization plan. These retirees are completely responsible for payment of their insurance premiums and the City does not contribute toward this payment. Based upon prior experience, the assumed participation rate is zero percent and current insurance premiums are not affected by the requirements of Section 112.08011, Florida Statutes. An actuarial projection with a zero assumed participation rate, which is consistent with actual results, would result in a Other Post Employment Benefit (OPEB) obligation of zero. Accordingly there is no OPEB obligation recorded in the financial statements.

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 11 – COMMITMENTS AND CONTINGENCIES

- The City is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations and, therefore, liabilities from the lease agreements are not reflected in the City's account groups. Remaining minimum lease payments are not significant.
- The City participates in several programs that are fully or partially funded by grants received from Federal, state, or county agency sources. Expenditures financed by grants are subject to audit by the appropriate grantor government/agency. If expenditures are disallowed due to non-compliance with grant program regulations, the City may be required to reimburse the grantor government/agency. As of September 30, 2013, the City believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.
- Effective March 1, 2007, the City contracted with the Polk County Sheriff to provide enhanced law enforcement services within the City. Under the amended agreement, the City shall pay \$116,016 for base services for the fiscal year ended September 30, 2014 which is the final year of the current contract. The City paid \$116,016 for the year ended September 30, 2013.
- The City in January 2011 entered into a contract with a contractor for operation and maintenance services for the City's water and wastewater utility system. The contract provides that compensation to the contractor for services performed under the contract shall be based on the cost-plus-fixed fee method. The fixed fee shall be ten percent (10%) of the sum of the reimbursable costs plus any additional costs payable to the contractor. The contract shall extend from the date of execution through December 31, 2015 and that renewal for succeeding terms of five years after 2015 shall be at the discretion of the City.

NOTE 12 – RISK MANAGEMENT AND LITIGATION

During the ordinary course of its operations, the City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees, and natural disasters. The City maintains commercial insurance coverage in amounts management feels is adequate to protect and safeguard the assets of the City. There have been no significant reductions in coverage nor have settlement amounts exceeded the City's coverage during the year ended September 30, 2013 or the previous two years. 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.



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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF POLK CITY, FLORIDA
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
RESOURCES (inflows):				
Taxes	\$ 883,226	\$ 883,226	\$ 906,360	\$ 23,134
Licenses and permits	50,630	50,630	60,209	9,579
Intergovernmental revenue	188,262	188,262	197,202	8,940
Charges for services	294,889	294,889	278,777	(16,112)
Fines and forfeitures	700	700	1,438	738
Other	13,650	13,650	27,128	13,478
Amounts available for appropriations	<u>1,431,357</u>	<u>1,431,357</u>	<u>1,471,114</u>	<u>39,757</u>
CHARGES TO APPROPRIATIONS (outflows):				
General government	435,601	435,601	417,681	17,920
Public safety	248,201	248,201	205,302	42,899
Physical environment	282,709	282,709	260,708	22,001
Transportation	180,651	180,651	175,902	4,749
Culture/recreation	137,297	137,297	109,538	27,759
Capital outlay	80,840	80,840	38,129	42,711
Debt service	<u>307,776</u>	<u>307,776</u>	<u>307,776</u>	<u>-</u>
Total charges to appropriations	<u>1,673,075</u>	<u>1,673,075</u>	<u>1,515,036</u>	<u>158,039</u>
EXCESS (DEFICIENCY) OF RESOURCES OVER CHARGES TO APPROPRIATIONS	<u>(241,718)</u>	<u>(241,718)</u>	<u>(43,922)</u>	<u>197,796</u>
OTHER FINANCING SOURCES (USES):				
Transfers from enterprise fund	<u>290,943</u>	<u>290,943</u>	<u>260,000</u>	<u>(30,943)</u>
Total other financing sources	<u>290,943</u>	<u>290,943</u>	<u>260,000</u>	<u>(30,943)</u>
EXCESS (DEFICIENCY) OF RESOURCES OVER CHARGES TO APPROPRIATIONS AND OTHER FINANCING SOURCES	<u>49,225</u>	<u>49,225</u>	<u>\$ 216,078</u>	<u>\$ 166,853</u>
Cash carry forward	<u>2,000</u>	<u>2,000</u>		
NET CHANGE IN FUND BALANCE	<u>\$ 51,225</u>	<u>\$ 51,225</u>		

OTHER REPORTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND OTHER MATTERS AND 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 Council
City of Polk City, Florida

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities and each major fund of the City of Polk City, Florida as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Polk City, Florida's basic financial statements, and have issued our report thereon dated February 12, 2014.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Polk City, Florida's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Polk City, Florida's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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. Accordingly, we do not express an opinion on the effectiveness of City of Polk City, Florida's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brynjulfson CPA, P.A.

Brynjulfson CPA, P.A.
Lakeland, Florida
February 12, 2014

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, 2013, and have issued our report thereon dated February 12, 2014.

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. We have issued our Independent Auditor's Report on Compliance and Other Matters and Internal Control over Financial Reporting as required by these standards which should be considered in conjunction with this management letter. Disclosures in those reports, which are dated February 12, 2014, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local 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. There were no findings and recommendations made in the preceding annual financial audit report.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the 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 did not have any such recommendations.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)5., 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)6.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 did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)6.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, 2013, 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, 2013. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)6.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.

We would like to take this opportunity to thank the members of the City Council 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

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, and applicable management 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
February 12, 2014