
Polk City, Florida

Report to the Mayor and City Commission
required by AICPA auditing standards section

AU-C Section 260 – *The Auditor's Communication with Those Charged with Governance*

September 9, 2019

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

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of Polk City, Florida (the "City") as of and for the year ended September 30, 2018 and have issued our report thereon dated September 9, 2019. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit in our engagement letter dated June 1, 2016. Professional standards require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used the City are described in note 1 to the financial statements.

No new accounting policies were adopted, and the application of existing policies was not changed during the year ended September 30, 2018.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

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

- Management's estimate of the allowance for doubtful accounts is based on historical water and sewer revenues, historical loss levels and an analysis of the collectability of individual accounts.
- Depreciation is recognized using the straight-line method over the estimated useful lives of the capital assets.
- The unbilled utility revenue calculation is based on the number of days from the last meter read date in the year through year-end divided by thirty and then multiplied by the subsequent month billing.
- Actuarial assumptions are used to calculate the Florida Retirement System defined benefit pension plans' net pension liability and pension related deferred inflows and outflows of resources. The calculation of these pension elements directly affects the City's proportionate share of the net pension liability; pension related deferred inflows and outflows of resources and the related effects on operations.

We evaluated the key factors and assumptions used to develop the above estimates in determining that they are reasonable in relation to the financial statements taken as a whole. The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Material corrected misstatements that were brought to the attention of management as a result of our audit procedures are summarized below.

| Type | Account No | Name | Debit | Credit |
|-----------|------------|---|------------|------------|
| Adjusting | 01-202-200 | Accounts Payable - Year-end | | 24,155.56 |
| | 01-515-310 | Professional Services - Comp Planning | 5,625.00 | |
| | 01-524-310 | Professional Services - Bldg Zoning | 11,724.60 | |
| | 01-534-341 | Refuse Disposal - Residential - Refuse/S | 6,805.96 | |
| | | To record year end payables identified as part of audit testing. | | |
| Adjusting | 01-101-100 | Cash - Checking - Unrestricted | | 158,917.77 |
| | 01-153-303 | Restricted Cash - Building and Codes | 158,917.77 | |
| | | To record unspent building permit fees as a component of restricted cash. | | |
| Adjusting | 05-159-200 | Deferred Outflows - Loss on Refunding | 939,356.06 | |
| | 05-590-730 | Other Debt Service Costs | | 939,356.06 |
| | | To record the deferred loss on refunding. | | |
| Adjusting | 05-155-300 | Prepaid Insurance - Deferred Bond 2017 | | 3,002.07 |
| | 05-159-200 | Deferred Outflows - Loss on Refunding | | 65,094.09 |
| | 05-203-910 | Unamortized Bond Premiums - US Bank | 48,441.74 | |
| | 05-590-720 | Interest - Bond 2017 Issue | 19,654.42 | |
| | | To amortize premium, deferred bond insurance costs and the loss on refunding. | | |

Account Number Legend

XX-YYY-ZZZ

XX: Fund (01 = general fund, 05 = enterprise fund)

YYY: Revenue Type or Expenditure Department

ZZZ: Object Code

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 9, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. It is our understanding that management has employed the services of another accountant (George Cotellis, CPA) to assist with the year-end closeout, financial statement preparation and other accounting matters. To our knowledge, all consultations with outside accountants were properly coordinated.

Significant issues discussed with management prior to engagement

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

Other Matters

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

Use of audit report and audited financial statements in other documents

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

This information is intended solely for the use of the City Commission and management of Polk City, Florida and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Brynjulfson CPA, P.A.

Brynjulfson CPA, P.A.
Auburndale, Florida
September 9, 2019



POLK CITY, FLORIDA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Polk City, Florida as of and for the year ended September 30, 2018, 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 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 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 Polk City, Florida, as of September 30, 2018, 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 and other required supplementary information, as provided in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2019, on our consideration 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 Polk City, Florida's internal control over financial reporting and compliance.

Other Reporting Required by Chapter 10.550, Rules of the Auditor General

In accordance with *Chapter 10.550, Rules of the Auditor General*, we have also issued our report dated September 9, 2019 on our examination of compliance with requirements of Section 218.415, *Florida Statutes*. The purpose of that report is to describe the scope of our examination and the issuance of an opinion on Polk City, Florida's compliance with requirements of Section 218.415, *Florida Statutes*.

Brynjulfson CPA, P.A.

Brynjulfson CPA, P.A.
Auburndale, Florida
September 9, 2019

Polk City, Florida
Management's Discussion and Analysis
September 30, 2018

As management of Polk City, Florida (the "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, 2018. We encourage readers to consider the information presented here in conjunction with the City's financial statements beginning on page 13.

Financial Highlights

- The assets and deferred outflows of resources exceed the liabilities and deferred inflows of resources by \$8,759,460 as of September 30, 2018.
- For the year ended September 30, 2018, the governmental activities increase the net position of the City by \$1,001,939 and the business-type activities increased the net position of the City by \$821,014 for an overall increase in net position of \$1,822,953.
- The City's unrestricted cash and cash equivalents totaled \$3,549,604, an increase of \$744,553 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 \$2,673,171, an increase of \$766,132 in comparison with the prior year. As of September 30, 2018, the City's unassigned and assigned fund balance totaled \$1,817,735 and 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. The focus of the *Statement of Net Position* (the "unrestricted net position") 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 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.

Polk City, Florida
Management's Discussion and Analysis
September 30, 2018

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, parks and recreation, and stormwater 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 two categories: governmental funds and proprietary 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 by referencing the table of contents.

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 by referencing the table of contents.

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 by referencing the table of contents.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* consisting of the City's budgetary comparison statement for the general fund and information concerning the City's proportionate share of the net pension liability and contributions to the Florida retirement system pension and health insurance subsidy pension plans which can be found by referencing the table of contents.

**Polk City, Florida
Management's Discussion and Analysis
September 30, 2018**

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 13.

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

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--------------------------------------|--------------------------------|---------------------|---------------------------------|---------------------|---------------------------------|---------------------|
| | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| Assets | | | | | | |
| Current and other assets | \$ 2,191,344 | \$ 2,893,597 | \$ 3,789,046 | \$ 3,809,992 | \$ 5,980,390 | \$ 6,703,589 |
| Capital assets | 3,108,795 | 3,334,714 | 11,608,854 | 11,725,013 | 14,717,649 | 15,059,727 |
| Total assets | 5,300,139 | 6,228,311 | 15,397,900 | 15,535,005 | 20,698,039 | 21,763,316 |
| Deferred Outflow of Resources | 228,271 | 284,699 | 25,663 | 956,717 | 253,934 | 1,241,416 |
| Liabilities | | | | | | |
| Long-term liabilities outstanding | 1,886,104 | 1,916,519 | 11,373,333 | 11,643,234 | 13,259,437 | 13,559,753 |
| Other liabilities | 289,026 | 220,426 | 431,400 | 396,935 | 720,426 | 617,361 |
| Total liabilities | 2,175,130 | 2,136,945 | 11,804,733 | 12,040,169 | 13,979,863 | 14,177,114 |
| Deferred Inflow of Resources | 32,005 | 52,851 | 3,598 | 15,307 | 35,603 | 68,158 |
| Net Position | | | | | | |
| Net Invested in capital assets | 1,737,006 | 1,981,274 | 289,409 | 1,155,258 | 2,026,415 | 3,136,532 |
| Restricted | 647,252 | 845,696 | 1,753,816 | 1,551,722 | 2,401,068 | 2,397,418 |
| Unrestricted | 937,017 | 1,496,244 | 1,572,007 | 1,729,266 | 2,509,024 | 3,225,510 |
| Total net position | \$ 3,321,275 | \$ 4,323,214 | \$ 3,615,232 | \$ 4,436,246 | \$ 6,936,507 | \$ 8,759,460 |

Thirty-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-seven 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.

Polk City, Florida
Management's Discussion and Analysis
September 30, 2018

The following table reflects the condensed Statement of Activities for the current and previous year.

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

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|--------------------------------|---------------------|---------------------------------|---------------------|---------------------------------|---------------------|
| | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| Revenues | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | \$ 617,108 | \$ 841,301 | \$ 2,250,056 | \$ 2,272,594 | \$ 2,867,164 | \$ 3,113,895 |
| Operating grants and contributions | 56,368 | 97,076 | - | - | 56,368 | 97,076 |
| Capital grants and contributions | 409,905 | 386,352 | 449,479 | 838,847 | 859,384 | 1,225,199 |
| General revenues: | | | | | | |
| Property taxes | 563,672 | 603,370 | - | - | 563,672 | 603,370 |
| Franchise/Public Ser. Tax | 423,878 | 471,916 | - | - | 423,878 | 471,916 |
| State shared revenues | 175,410 | 183,090 | - | - | 175,410 | 183,090 |
| Fuel taxes levied for transportation | 140,044 | 146,128 | - | - | 140,044 | 146,128 |
| Other | 26,201 | 33,142 | 8,667 | 791 | 34,868 | 33,933 |
| Total revenues | 2,412,586 | 2,762,375 | 2,708,202 | 3,112,232 | 5,120,788 | 5,874,607 |
| Expenses | | | | | | |
| General government | 728,166 | 628,735 | - | - | 728,166 | 628,735 |
| Library | 110,089 | 124,288 | - | - | 110,089 | 124,288 |
| Law enforcement | 97,527 | 98,130 | - | - | 97,527 | 98,130 |
| Building and zoning | 220,226 | 238,032 | - | - | 220,226 | 238,032 |
| Public works administratin | - | 123,131 | - | - | - | 123,131 |
| Sanitation | 203,251 | 220,816 | - | - | 203,251 | 220,816 |
| Streets | 454,717 | 340,657 | - | - | 454,717 | 340,657 |
| Parks and recreation | 131,270 | 87,289 | - | - | 131,270 | 87,289 |
| Stormwater | 23,761 | 26,145 | - | - | 23,761 | 26,145 |
| Interest on long-term debt | 58,245 | 56,804 | - | - | 58,245 | 56,804 |
| Public utilities | - | - | 2,042,066 | 2,107,627 | 2,042,066 | 2,107,627 |
| Total expenses | 2,027,252 | 1,944,027 | 2,042,066 | 2,107,627 | 4,069,318 | 4,051,654 |
| Increase (decrease) in net position before transfers | 385,334 | 818,348 | 666,136 | 1,004,605 | 1,051,470 | 1,822,953 |
| Transfers | 25,000 | 183,591 | (25,000) | (183,591) | - | - |
| Increase (decrease) in net position | 410,334 | 1,001,939 | 641,136 | 821,014 | 1,051,470 | 1,822,953 |
| Net position - October 1 | 2,910,941 | 3,321,275 | 2,974,096 | 3,615,232 | 5,885,037 | 6,936,507 |
| Net position - September 30 | \$ 3,321,275 | \$ 4,323,214 | \$ 3,615,232 | \$ 4,436,246 | \$ 6,936,507 | \$ 8,759,460 |

Polk City, Florida
Management's Discussion and Analysis
September 30, 2018

Governmental Activities – Governmental activities increased the City's net position by \$1,001,939 after a net transfer of \$183,591 from the business-type activities. In the prior year, net position increased by \$410,334 as a result of operations. Total revenue for the year ended September 30, 2018 increased by \$349,789 or 14% and expenses decreased by \$83,225 or 4%.

Significant items experienced in FY 2018 – Governmental Activities:

- Refinanced USDA Bond with Citizens Bank (higher interest rate, less years)
- Purchase of the Bryant Property for Public Works / Utilities Facilities
- Software training, conversion and travel – American Data Group
- Fountain Park Construction on-going, which affected Building Permits, Professional Services and Impact Fees
- Stormwater drain repair at Oak Avenue and 2nd Street
- Stormwater drain clean-out by A-C-T Environmental
- Removal of trees for sidewalk replacement on Citrus Grove Blvd.
- Improvements to the Library—flooring, painting, furniture
- New shed for Library storage
- Installation of carpet in a portion of City Government Center
- Work at Activity Center – relocation of air-handlers
- Re-roof and painted Activity Center
- Remodeling Public Works / Utilities Facilities
- Replaced damaged Decorative Street Light
- Began to remodel the City Manager's Office

Polk City, Florida
Management's Discussion and Analysis
September 30, 2018

Business-type Activities - Business-type activities increased the City's net position by \$821,014 compared to an increase of \$641,136 in the prior year. There was a net transfer of \$183,591 to the governmental activities in the current year and \$25,000 in the prior year. Total revenue for the year ended September 30, 2018 increased by \$404,030 or 15% and expenses increased by \$65,561 or 3%.

Significant items experienced in FY 2018 – Business-type Activities

- Refund 2011 Water and Sewer Bond Issue – better interest rate
- Purchase of the Bryant Property for Public Works / Utilities Facilities
- Purchase of 3 – F-250 Trucks and 1 – F-150 Truck
- Took back the Operations and Management of the Water and Wastewater Utilities
- Hired three (3) employees when took back Water and Wastewater Utilities
- Purchase of 20 HP Pump for Voyles Loop Lift-station (replace 10 HP)
- Major Improvements and Upgrade to the Ruth Road Lift Station
- Installation of By-bass pump and valve insert – Dewey Road
- A/C for Utility Office at the Public Works / Utilities Facilities
- Construction in Progress with the relocation of the S.R. 33 Sprayfield – Design Services
- Engineering for Grimes Road Water Line
- Fountain Park Construction, which affected the water and sewer impact fees, water and sewer charges
- Work at Public Works / Utilities Facilities – Utility Office (wood-frame house)

Polk City, Florida
Management's Discussion and Analysis
September 30, 2018

Fund Level Financial Analysis

Governmental Funds - As of September 30, 2018, the City's governmental fund reported combined ending fund balances of \$2,673,171. This is an increase of \$766,132 over the prior year ending fund balances of \$1,907,039. The main causes of the increase are as follows:

- Total revenue increased by \$349,066 or 14% mainly due to increase in taxes, licenses and permits, and impact fees. Taxes increased by \$106,668, licenses and permits increased by \$177,516 and impact fees increased by \$18,891 over the prior fiscal year.
- Total expenditures increased by \$1,537,431 or 75% mainly due to increased debt service expenditures. Debt service expenditures increased by \$1,377,784 over the prior fiscal year due to the refinancing of the Series 2007 Capital Improvement Revenue Bonds in the current year.
- Other financing sources – loan proceeds were \$1,400,000 in the current year which were used to refinance the Series 2007 Capital Improvement Revenue Bonds.

Proprietary Funds - These services combined to generate operating income of \$789,862. Compare that to the prior year operating income of \$705,419. Due to continued growth there was an increase in impact fees of \$389,368 or 87%.

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 which can be found by referencing the table of contents. Budget comparison reporting is included for the General Fund. Actual revenue exceeded the final budgeted amounts by \$453,898, actual expenditures were less than final budgeted appropriations by \$165,940 and actual other financing sources were \$10,976 less than budgeted resulting in an overall favorable budget variance of \$608,862.

The General Fund budget was amended to reflect increased licenses and permits as well as grant revenue and related expenditures. The budget was also amended to recognize the effect of the refinancing of the Series 2007 Capital Improvement Revenue Bonds.

Overall the Fiscal Year 2018 Budget had a positive impact on Polk City's financial picture for the General Fund and Enterprise Fund.

**Polk City, Florida
Management's Discussion and Analysis
September 30, 2018**

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 as of September 30, | | | | | |
|-------------------------------|--|---------------------|---------------------------------|---------------------|---------------------------------|----------------------|
| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
| | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| Assets not depreciated | | | | | | |
| Land | \$ 412,542 | \$ 412,542 | \$ 2,730,736 | \$ 2,730,736 | \$ 3,143,278 | 3,143,278 |
| Construction in progress | - | - | - | 161,736 | - | 161,736 |
| Total | 412,542 | 412,542 | 2,730,736 | 2,892,472 | 3,143,278 | 3,305,014 |
| Depreciated Assets | | | | | | |
| Buildings and improvements | 3,092,069 | 3,418,161 | - | - | 3,092,069 | 3,418,161 |
| Recreational facilities | 496,897 | 503,467 | - | - | 496,897 | 503,467 |
| Vehicles and equipment | 507,980 | 542,145 | 314,395 | 400,048 | 822,375 | 942,193 |
| Infrastructure | 205,009 | 205,009 | - | - | 205,009 | 205,009 |
| Utility plants | - | - | 12,077,204 | 12,268,965 | 12,077,204 | 12,268,965 |
| Subtotal | 4,301,955 | 4,668,782 | 12,391,599 | 12,669,013 | 16,693,554 | 17,337,795 |
| Accumulated depreciation | (1,605,702) | (1,746,610) | (3,513,481) | (3,836,472) | (5,119,183) | (5,583,082) |
| Total | \$ 2,696,253 | \$ 2,922,172 | \$ 8,878,118 | \$ 8,832,541 | \$ 11,574,371 | \$ 11,754,713 |

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2018, amounts to \$15,059,727 (net of accumulated depreciation) compared to \$14,717,649 last year. That is an increase of \$342,078 from the prior year.

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

**Polk City, Florida
Management's Discussion and Analysis
September 30, 2018**

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 | |
|---------------|-------------------------|---------------------|--------------------------|----------------------|--------------------------|----------------------|
| | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| Revenue notes | \$ - | \$ - | \$ 8,930,223 | \$ 9,075,609 | \$ 8,930,223 | \$ 9,075,609 |
| Notes payable | 1,371,789 | 1,353,441 | 2,389,222 | 2,408,728 | 3,761,011 | 3,762,169 |
| Total | \$ 1,371,789 | \$ 1,353,441 | \$ 11,319,445 | \$ 11,484,337 | \$ 12,691,234 | \$ 12,837,778 |

The Governmental Activities had total debt outstanding of \$1,353,441 which compares to \$1,371,789 in the prior year. This consists of the Citizens Bank and Trust Installment Note for the refunding of the Series 2007 Capital Improvement Revenue Bonds for the construction of the Polk City Government Center.

The Business-type Activities had total debt outstanding of \$11,484,337 which compares to \$11,319,445 in the prior year. This consists of the Series 2017 Water/Sewer System Refunding Revenue Bonds, the installment notes to the Florida Department of Environmental Protection, and the Tax-Exempt Lease Purchase Agreement.

Additional information on the City's long-term debt can be found in Note 6 of the Notes to the Financial Statements in this report.

Economic Factors and Next Year's Budget and Rates

Some of the items experienced for the Fiscal Year 2018-2019 Budget:

- For the Fiscal Year 2018-2019 Budget, it was anticipated that Fountain Park Phase 2 be completed and Fountain Park Phase 3 to be underway prior January, 2019; however, that did not take place.
- There was an increase in Ad Valorem Revenue due to current growth.
- With additional homes there will be an increase in communication service taxes, franchise fees, utility taxes, revenue sharing.
- The City Commission approved the Polk County Sheriff's Office to provide special detail services at different times during the work week randomly (16 hours per week).
- It was anticipated to replace the sidewalk along Citrus Grove Blvd. and do minor paving in that same area; however, the City has opted to apply for CDBG Funding in Fiscal Year 2019 – 2020.
- A part-time Code Enforcement Office has been put into the budget.
- A full-time service worker has been added in the General Fund.

**Polk City, Florida
Management's Discussion and Analysis
September 30, 2018**

Economic Factors and Next Year's Budget and Rates (concluded)

Some of the items experienced for the Fiscal Year 2018-2019 Budget (concluded):

- The City took back the operations and management of the Water and Wastewater Systems.
- The City put in the budget to hire six employees in the water and wastewater departments.
- The City put in the budget for new trucks for water and wastewater departments.
- Purchase of a Sludgemate System for Cardinal Hill WWTF.
- The budget includes the replacement of two hydropneumatics tanks at "Jacob Water Plant.
- Purchase of 60" zero turn mowers, John Deere Loader Attachment w/bucket.
- Replacement of Hydromatic water tanks at Jacobs Rd. WTP.
- New fencing to enclose Cardinal Hill WWTP Property.

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview 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 Manager, Polk City, 123 Broadway Boulevard SE, Polk City, FL 33868 or call (863) 984-1375.

POLK CITY, FLORIDA
GOVERNMENT-WIDE STATEMENT OF NET POSITION
AS OF SEPTEMBER 30, 2018

| | Primary Government | | |
|---|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 1,919,507 | \$ 1,630,097 | \$ 3,549,604 |
| Receivables, current: | | | |
| Customer accounts, net | 25,229 | 182,161 | 207,390 |
| Intergovernmental | 86,142 | - | 86,142 |
| Franchise and public service taxes | 7,283 | - | 7,283 |
| Prepaid expenses | 9,740 | 46,070 | 55,810 |
| Restricted assets: | | | |
| Cash and cash equivalents | 845,696 | 1,951,664 | 2,797,360 |
| Capital assets: | | | |
| Non-depreciable | 412,542 | 2,892,472 | 3,305,014 |
| Depreciable, net | 2,922,172 | 8,832,541 | 11,754,713 |
| TOTAL ASSETS | 6,228,311 | 15,535,005 | 21,763,316 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pensions | 284,699 | 82,455 | 367,154 |
| Deferred charge on bond refunding | - | 874,262 | 874,262 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 284,699 | 956,717 | 1,241,416 |
| LIABILITIES | | | |
| Accounts payable | \$ 76,257 | \$ 45,731 | \$ 121,988 |
| Accrued payroll | 15,803 | 4,160 | 19,963 |
| Accrued interest payable | - | 55,257 | 55,257 |
| Due to other governments | 126,116 | - | 126,116 |
| Unearned revenue | - | - | - |
| Customer deposits | 2,250 | 291,787 | 294,037 |
| Long-term liabilities: | | | |
| Due within one year | 74,320 | 509,140 | 583,460 |
| Due in more than one year | 1,842,199 | 11,134,094 | 12,976,293 |
| TOTAL LIABILITIES | 2,136,945 | 12,040,169 | 14,177,114 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pensions | 52,851 | 15,307 | 68,158 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 52,851 | 15,307 | 68,158 |
| NET POSITION | | | |
| Net investment in capital assets | 1,981,274 | 1,155,258 | 3,136,532 |
| Restricted for: | | | |
| Transportation infrastructure | 58,226 | - | 58,226 |
| General government facilities | 183,945 | - | 183,945 |
| Law enforcement | 114,000 | - | 114,000 |
| Fire / rescue | 82,089 | - | 82,089 |
| Parks and recreation capital improvements | 246,518 | - | 246,518 |
| Building code enforcement | 160,918 | - | 160,918 |
| Water system improvements | - | 262,553 | 262,553 |
| Waste water system improvements | - | 1,217,162 | 1,217,162 |
| Debt service | - | 72,007 | 72,007 |
| Unrestricted | 1,496,244 | 1,729,266 | 3,225,510 |
| TOTAL NET POSITION | \$ 4,323,214 | \$ 4,436,246 | \$ 8,759,460 |

See Accompanying Notes to Financial Statements

POLK CITY, FLORIDA
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

| FUNCTIONS/PROGRAMS | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|---|---------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| PRIMARY GOVERNMENT: | | | | | | | |
| Governmental Activities: | | | | | | | |
| General government | \$ 628,735 | \$ 27,945 | \$ 65,086 | \$ 185,417 | \$ (350,287) | \$ - | \$ (350,287) |
| Library | 124,288 | 8,395 | 31,990 | - | (83,903) | - | (83,903) |
| Law enforcement | 98,130 | 7,306 | - | 62,564 | (28,260) | - | (28,260) |
| Fire / rescue | - | - | - | 33,476 | 33,476 | - | 33,476 |
| Building and zoning | 238,032 | 474,243 | - | - | 236,211 | - | 236,211 |
| Public works administration | 123,131 | - | - | - | (123,131) | - | (123,131) |
| Sanitation | 220,816 | 280,018 | - | - | 59,202 | - | 59,202 |
| Streets | 340,657 | 16,304 | - | - | (324,353) | - | (324,353) |
| Parks and recreation | 87,289 | - | - | 104,895 | 17,606 | - | 17,606 |
| Stormwater utility | 26,145 | 27,090 | - | - | 945 | - | 945 |
| Interest on long term debt | 56,804 | - | - | - | (56,804) | - | (56,804) |
| Total governmental activities | 1,944,027 | 841,301 | 97,076 | 386,352 | (619,298) | - | (619,298) |
| Business-type Activities: | | | | | | | |
| Water and sewer utility | 2,107,627 | 2,272,594 | - | 838,847 | - | 1,003,814 | 1,003,814 |
| Total business-type activities | 2,107,627 | 2,272,594 | - | 838,847 | - | 1,003,814 | 1,003,814 |
| TOTAL PRIMARY GOVERNMENT | \$ 4,051,654 | \$ 3,113,895 | \$ 97,076 | \$ 1,225,199 | (619,298) | 1,003,814 | 384,516 |
| GENERAL REVENUES: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes, levied for general purposes | | | | | 603,370 | - | 603,370 |
| Franchise taxes | | | | | 98,472 | - | 98,472 |
| Public service taxes | | | | | 373,444 | - | 373,444 |
| Fuel taxes levied for transportation | | | | | 146,128 | - | 146,128 |
| State shared revenue | | | | | 183,090 | - | 183,090 |
| Investment earnings | | | | | 391 | - | 391 |
| Miscellaneous | | | | | 32,751 | 791 | 33,542 |
| Transfers | | | | | 183,591 | (183,591) | - |
| Total General Revenues | | | | | 1,621,237 | (182,800) | 1,438,437 |
| Change in net position | | | | | 1,001,939 | 821,014 | 1,822,953 |
| NET POSITION - beginning of year | | | | | 3,321,275 | 3,615,232 | 6,936,507 |
| NET POSITION - end of year | | | | | \$ 4,323,214 | \$ 4,436,246 | \$ 8,759,460 |

See Accompanying Notes to Financial Statements

**POLK CITY, FLORIDA
BALANCE SHEET - GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2018**

| | General Fund |
|---|-------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 1,919,507 |
| Receivables, net: | |
| Customer accounts, net | 25,229 |
| Intergovernmental | 86,142 |
| Franchise and public service taxes | 7,283 |
| Prepaid expenditures | 9,740 |
| Restricted assets: | |
| Cash and cash equivalents | 845,696 |
| TOTAL ASSETS | \$ 2,893,597 |
| LIABILITIES AND FUND BALANCE | |
| Accounts payable | \$ 76,257 |
| Accrued payroll | 15,803 |
| Due to other governments | 126,116 |
| Customer deposits | 2,250 |
| TOTAL LIABILITIES | 220,426 |
| FUND BALANCE: | |
| Nonspendable: | |
| Prepaid expenditures | 9,740 |
| Restricted for: | |
| Highways / streets | 58,226 |
| General government facilities | 183,945 |
| Law enforcement | 114,000 |
| Fire / rescue | 82,089 |
| Parks and recreation | 246,518 |
| Building code enforcement | 160,918 |
| Assigned to: | |
| Emergency reserve | 240,689 |
| Unassigned: | 1,577,046 |
| TOTAL FUND BALANCE | 2,673,171 |
| TOTAL LIABILITIES AND FUND BALANCE | \$ 2,893,597 |

See Accompanying Notes to Financial Statements

**POLK CITY, FLORIDA
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
AS OF SEPTEMBER 30, 2018**

| | |
|---|----------------------------|
| FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | \$ 2,673,171 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets, net of accumulated depreciation, used in governmental activities are financial resources and, therefore, are not reported as assets in the governmental funds. | 3,334,714 |
| The deferred outflows and deferred inflows related to pensions are applied to future periods and, therefore, are not reported in the governmental funds. | |
| Deferred outflows related to pensions | 284,699 |
| Deferred inflows related to pensions | (52,851) |
| Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of: | |
| Notes payable | (1,353,441) |
| Compensated absences payable | (39,791) |
| Net pension liability | (523,287) |
| NET POSITION OF GOVERNMENTAL ACTIVITIES | <u>\$ 4,323,214</u> |

See Accompanying Notes to Financial Statements

**POLK CITY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

| | <u>General Fund</u> |
|--|-------------------------|
| REVENUES: | |
| Taxes | \$ 1,240,422 |
| Licenses and permits | 474,243 |
| Intergovernmental revenue | 298,551 |
| Charges for services | 331,832 |
| Fines and forfeitures | 7,306 |
| Impact fees | 366,492 |
| Other | 43,528 |
| Total revenues | <u>2,762,374</u> |
| EXPENDITURES: | |
| General government | 533,480 |
| Public safety | 334,260 |
| Physical environment | 368,202 |
| Transportation | 305,186 |
| Culture/recreation | 157,868 |
| Capital outlay | 400,964 |
| Debt service | 1,479,873 |
| Total expenditures | <u>3,579,833</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(817,459)</u> |
| OTHER FINANCING SOURCES: | |
| Loan proceeds | 1,400,000 |
| Transfers in | 183,591 |
| Total other financing sources | <u>1,583,591</u> |
| NET CHANGE IN FUND BALANCE | <u>766,132</u> |
| FUND BALANCE, beginning of year | <u>1,907,039</u> |
| FUND BALANCE, end of year | <u>\$ 2,673,171</u> |

See Accompanying Notes to Financial Statements

**POLK CITY, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 766,132**

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

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

| | |
|--|-----------|
| This is the amount of capital assets additions in the current period | 366,828 |
| This is the amount of depreciation recorded in the current period | (140,909) |

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

| | |
|---|-------------|
| This is the debt proceeds reported as revenue in the governmental funds | (1,400,000) |
| This amount represents long-term debt repayments | 1,418,348 |
| This amount represents the change in compensated absence liability | 1,754 |
| This amount represents the change in accrued interest payable | 4,721 |

Pension costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. The net change in liabilities in the current fiscal year:

| | |
|--|----------|
| This amount represents the change in deferred outflows related to pensions | 56,428 |
| This amount represents the change in deferred inflows related to pensions | (20,846) |
| This amount represents the change in the net pension liability | (50,517) |

| | |
|--|---------------------|
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES | \$ 1,001,939 |
|--|---------------------|

See Accompanying Notes to Financial Statements

**POLK CITY, FLORIDA
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2018**

| | <u>Enterprise Fund</u> |
|---|----------------------------|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 1,630,097 |
| Customer accounts receivable, net | 182,161 |
| Prepaid expenses | 46,070 |
| Total current assets | <u>1,858,328</u> |
| Noncurrent assets: | |
| Restricted assets: | |
| Cash and cash equivalents | 1,951,664 |
| Capital assets, net: | |
| Non-depreciable | 2,892,472 |
| Depreciable, net | 8,832,541 |
| Total noncurrent assets | <u>13,676,677</u> |
| TOTAL ASSETS | <u>15,535,005</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pensions | 82,455 |
| Deferred charge on bond refunding | 874,262 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>956,717</u> |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable | 45,731 |
| Accrued payroll | 4,160 |
| Bonds and notes payable, current portion | 509,140 |
| Accrued interest payable | 55,257 |
| Total current liabilities | <u>614,288</u> |
| Noncurrent liabilities: | |
| Customer deposits | 291,787 |
| Compensated absences | 7,341 |
| Net pension liability | 151,556 |
| Bonds and notes payable, noncurrent portion | 10,975,197 |
| Total noncurrent liabilities | <u>11,425,881</u> |
| TOTAL LIABILITIES | <u>12,040,169</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Pensions | 15,307 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>15,307</u> |
| NET POSITION | |
| Net investment in capital assets | 1,155,258 |
| Restricted for: | |
| Water system improvements | 262,553 |
| Waste water system improvements | 1,217,162 |
| Debt service | 72,007 |
| Unrestricted | 1,729,266 |
| TOTAL NET POSITON | <u>\$ 4,436,246</u> |

See Accompanying Notes to Financial Statements

**POLK CITY, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

| | <u>Enterprise Fund</u> |
|---|----------------------------|
| OPERATING REVENUES: | |
| Charges for services | \$ 2,272,594 |
| Total operating revenues | <u>2,272,594</u> |
| OPERATING EXPENSES: | |
| Personnel services | 306,582 |
| Operating expenses | 853,159 |
| Depreciation | 322,991 |
| Total operating expenses | <u>1,482,732</u> |
| OPERATING INCOME | <u>789,862</u> |
| NONOPERATING REVENUE (EXPENSE): | |
| Interest expense | (624,895) |
| Other nonoperating revenue | 791 |
| Total nonoperating revenues (expenses) | <u>(624,104)</u> |
| Income (loss) before contributions | <u>165,758</u> |
| CAPITAL CONTRIBUTIONS: | |
| Impact fees | 838,847 |
| Total capital contributions | <u>838,847</u> |
| TRANSFERS IN (OUT) | |
| Transfers to other funds | (183,591) |
| Total transfers | <u>(183,591)</u> |
| Change in net position | 821,014 |
| TOTAL NET POSITION - beginning of year | <u>3,615,232</u> |
| TOTAL NET POSITION - end of year | <u>\$ 4,436,246</u> |

See Accompanying Notes to Financial Statements

POLK CITY, FLORIDA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

| | Enterprise Fund |
|---|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Receipts from customers | \$ 2,324,450 |
| Payments to suppliers | (859,350) |
| Payment for salaries and benefits | (243,422) |
| Net cash flows from operating activities | <u>1,221,678</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | |
| Increase (decrease) in due to (from) other funds | (7,445) |
| Transfers (to) from other funds | (183,591) |
| Other nonoperating revenue | 791 |
| Net cash flows from noncapital financing activities | <u>(190,245)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | |
| Acquisition and construction of capital assets, net of related payables | (439,150) |
| Impact fees | 838,847 |
| Bond proceeds | 160,000 |
| Principal paid on notes, bonds and lease obligations | (270,496) |
| Bond issuance costs | (193,878) |
| City contribution to refunding escrow account | (836,993) |
| Interest paid on borrowings | (249,544) |
| Net cash flows from capital and related financing activities | <u>(991,214)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 40,219 |
| CASH AND CASH EQUIVALENTS, beginning of year | 3,541,542 |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 3,581,761</u> |
| Reconciliation of operating income (loss) to net cash flows from operating activities: | |
| Operating income (loss) | \$ 789,862 |
| Adjustments to reconcile operating income to net cash from operating activities: | |
| Depreciation | 322,991 |
| (Increase) decrease in accounts receivable | 27,710 |
| (Increase) decrease in prepaid expenses | 39,328 |
| Increase (decrease) in accounts payable | (45,519) |
| Increase (decrease) in accrued payroll and compensated absences | 9,836 |
| Increase (decrease) in deferred outflows of resources related to pension | (56,792) |
| Increase (decrease) in deferred inflows of resources related to pension | 11,709 |
| Increase (decrease) in the net pension liability | 98,407 |
| Increase (decrease) in customer deposits | 24,146 |
| Net cash flows from operating activities | <u>\$ 1,221,678</u> |

Noncash financing and investing activities:

On December 27, 2017, the City issued long-term debt obligations with a par amount of \$8,555,000 and premium of \$699,050. These proceeds, along with cash on hand, were placed into an irrevocable escrow to advance refund, through an in-substance defeasance, certain long-term debt obligations. The carrying value of the old debt on the date of defeasance was \$9,108,365 (\$9,055,000 - principal, \$176,153 - accrued interest payable and \$122,788 of unamortized bond discount) and the reacquisition price was \$10,047,722 (\$8,555,000 - principal on new debt, \$699,050 - premium on new debt, \$193,878 - bond issuance costs paid by the City, \$43,322 - prepaid bond insurance and \$836,993 City contribution to the escrow account) resulting in a deferred loss on refunding of \$936,356.

See Accompanying Notes to Financial Statements

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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). The more significant accounting policies established in GAAP and used by the City is discussed below.

A. REPORTING ENTITY

Polk City, Florida (the "City") is a political subdivision of the State of Florida created in 1925 by Chapter 11016, Laws of the State of Florida. Ordinance No. 2014-02, approved by the City's electors, effective April 1, 2014, changed the name from the City of Polk City to Polk City. The City operates under a commission/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.

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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 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, deferred outflows of resources, liabilities, deferred inflows of resources, 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.

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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. Imposed nonexchange transactions (property taxes, fines) are reported as deferred inflows if received before the tax is levied or before the date when use is first permitted. Government mandated nonexchange transaction (grants) and voluntary nonexchange transaction (donations) resources are reported as liabilities until the eligibility requirements are met and as deferred inflows if received before time requirements are 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, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (60 days of yearend). All other revenue items are considered to be measurable and available only when cash is received by the government.

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE

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, 2018, all of the City's cash and investments met this definition.

INVESTMENTS - All investments are reported at fair value which is the price that would be received to sell an investment in an orderly transaction between market participants. 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.

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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 \$207,390 at September 30, 2018. 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, 2018, the reserve for doubtful accounts totaled \$51,530 for utility service receivables and \$59,876 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 acquisition cost 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, 2018.

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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

PENSIONS – In the government-wide statement of net position, liabilities are recognized for the City's proportionate share of each pension plan's net pension liability. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS and the HIS fiduciary net position have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The City's retirement plans and related amounts are described in a subsequent note.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES – In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflow of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents and acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

The City has deferred outflows/inflows of resources that are related to pensions that qualify for reporting in these categories. The deferred outflows/inflows related to pensions are reported only in the government-wide and proprietary fund statement of net position. A deferred amount related to pensions results from the difference in the expected and actual amounts of experience, earnings, and contributions. These amounts are deferred and amortized over the service life of all employees that are provided with pensions through the pension plan except earnings which are amortized over five years. Actual contributions made to the pension plans subsequent to the measurement date are also reported as deferred outflows of resources at year-end and reflected as a reduction in the net pension liability in the subsequent year.

The City also reports a deferred charge on bond refunding as a deferred outflow of resources which is the difference in the carrying value of a refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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 any bond insurance costs are deferred and amortized over the life of the bonds using the bonds outstanding method. Debt issuance costs, other than bond insurance costs, are reported, as expenditures/expenses in the period incurred. 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.

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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

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 difference between (a) assets and deferred outflows of the resources and (b) liabilities and deferred inflows of resources is classified as net position and displayed in three components:

- a) Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation, prepaid bond insurance costs and the deferred charge on bond refunding which is then reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net position - Consists of restricted assets reduced by liabilities related to those assets. The government-wide statement of net position reports \$2,397,418 of restricted net position of which \$2,325,411 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.

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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

Committed – amounts constrained to specific purposes by formal action (ordinance) of the City using its highest level of decision-making authority (the City Commission). To be reported as committed, amounts cannot be used for any other purpose unless the City Commission 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 Commission or through the City Commission delegating this responsibility to the City Manager through the budgetary process. The City Commission 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 Commission 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, 2018 was 7.4877.

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 Commission.

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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 | \$ 575 |
| Deposits in financial institutions: | |
| Insured or fully collateralized bank deposits | <u>6,346,389</u> |
| Total cash and cash equivalents | <u>\$ 6,346,964</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 and direct obligations of the U.S. Treasury. The City maintained no investments during the year.

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2018, was as follows:

| | Beginning Balance | Transfers | Additions | Reductions | Ending Balance |
|--|----------------------|-------------|--------------------|-------------|---------------------|
| Governmental Activities: | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | \$ 412,542 | | \$ - | \$ - | \$ 412,542 |
| Total | \$ 412,542 | \$ - | \$ - | \$ - | \$ 412,542 |
| Capital assets being depreciated: | | | | | |
| Buildings and Improvements | \$ 3,092,069 | \$ - | \$ 326,092 | \$ - | \$ 3,418,161 |
| Recreational Facilities | 496,897 | - | 6,570 | - | 503,467 |
| Equipment | 507,980 | - | 34,165 | - | 542,145 |
| Infrastructure: | | | | | |
| Sidewalk Systems | 129,383 | - | - | - | 129,383 |
| Drainage Systems | 75,626 | - | - | - | 75,626 |
| Total | 4,301,955 | - | 366,827 | - | 4,668,782 |
| Less, Accumulated Depreciation: | | | | | |
| Buildings and Improvements | (872,508) | - | (82,764) | - | (955,272) |
| Recreational Facilities | (265,476) | (28,990) | (24,974) | - | (319,440) |
| Equipment | (414,819) | 28,990 | (27,607) | - | (413,436) |
| Infrastructure: | | | | | |
| Sidewalk Systems | (29,370) | - | (3,673) | - | (33,043) |
| Drainage Systems | (23,529) | - | (1,890) | - | (25,419) |
| Total Accumulated Depreciation | (1,605,702) | - | (140,908) | - | (1,746,610) |
| Total Depreciable Capital Assets, Net | \$ 2,696,253 | \$ - | \$ 225,919 | \$ - | \$ 2,922,172 |
| Business-Type Activities: | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | \$ 2,730,736 | \$ - | \$ - | \$ - | \$ 2,730,736 |
| Construction in progress | - | - | 161,736 | - | 161,736 |
| Total | \$ 2,730,736 | \$ - | \$ 161,736 | \$ - | \$ 2,892,472 |
| Capital assets being depreciated: | | | | | |
| Utility Plant | \$ 12,077,204 | \$ - | \$ 191,761 | \$ - | \$ 12,268,965 |
| Equipment | 314,395 | - | 85,653 | - | 400,048 |
| Total | 12,391,599 | - | 277,414 | - | 12,669,013 |
| Less, Accumulated Depreciation: | | | | | |
| Utility Plant | (3,255,433) | - | (309,909) | - | (3,565,342) |
| Equipment | (258,048) | - | (13,082) | - | (271,130) |
| Total Accumulated Depreciation | (3,513,481) | - | (322,991) | - | (3,836,472) |
| Total Depreciable Capital Assets, Net | \$ 8,878,118 | \$ - | \$ (45,577) | \$ - | \$ 8,832,541 |

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 5 - CAPITAL ASSETS (cont...)

Depreciation expense was charged to the following programs and functions:

Governmental Activities:

| | |
|--|-------------------|
| General government | \$ 88,398 |
| Streets | 15,085 |
| Parks and recreation | 35,534 |
| Stormwater utility | <u>1,891</u> |
| Total depreciation expense - governmental activities | <u>\$ 140,908</u> |

Business-type Activities:

| | |
|---|-------------------|
| Water and sewer | <u>\$ 322,991</u> |
| Total depreciation expense - business-type activities | <u>\$ 322,991</u> |

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 6 - LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended September 30, 2018:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|----------------------|---------------------|-----------------------|----------------------|--------------------|
| Governmental Activities | | | | | |
| Long-Term Debt: | | | | | |
| Notes Payable: | | | | | |
| Series 2007 Capital Improvement Revenue Bonds | \$ 1,371,789 | \$ - | \$ (1,371,789) | \$ - | \$ - |
| Citizens Bank and Trust Installment Note | - | 1,400,000 | (46,559) | 1,353,441 | 74,320 |
| Total Bonds and Notes Payable | <u>1,371,789</u> | <u>1,400,000</u> | <u>(1,418,348)</u> | <u>1,353,441</u> | <u>74,320</u> |
| Other Liabilities: | | | | | |
| Compensated Absences | 41,545 | - | (1,754) | 39,791 | - |
| Net Pension Liability | 472,770 | 50,517 | - | 523,287 | - |
| Total Other Liabilities | <u>514,315</u> | <u>50,517</u> | <u>(1,754)</u> | <u>563,078</u> | <u>-</u> |
| Total Long-Term Liabilities | <u>\$ 1,886,104</u> | <u>\$ 1,450,517</u> | <u>\$ (1,420,102)</u> | <u>1,916,519</u> | <u>\$ 74,320</u> |
| Less Amount Due in One Year | | | | (74,320) | |
| Net Long-Term Debt Due After One Year | | | | <u>\$ 1,842,199</u> | |
| Business-Type Activities | | | | | |
| Long-Term Debt: | | | | | |
| Notes Payable: | | | | | |
| Installment Note to Florida Department of Environmental Protection (WW51201P) | \$ 2,301,487 | \$ - | \$ (119,458) | \$ 2,182,029 | \$ 122,354 |
| Installment Note to Florida Department of Environmental Protection (WW531400) | - | 160,000 | - | 160,000 | 125,162 |
| Tax-Exempt Leasing | 87,736 | - | (21,037) | 66,699 | 21,624 |
| Total Notes Payable | <u>2,389,223</u> | <u>-</u> | <u>(140,495)</u> | <u>2,408,728</u> | <u>269,140</u> |
| Revenue Certificates: | | | | | |
| Series 2011A Water / Sewer System Capital Improvement and Refunding Revenue Bonds | 9,055,000 | - | (9,055,000) | - | - |
| Series 2017 Water/ Sewer System, Refunding Revenue Bonds | - | 8,555,000 | (130,000) | 8,425,000 | 240,000 |
| Add premium on Series 2017 | - | 699,050 | (48,441) | 650,609 | - |
| Less discount on Series 2011A | (124,778) | - | 124,778 | - | - |
| Total Revenue Certificates | <u>8,930,222</u> | <u>9,254,050</u> | <u>(9,108,663)</u> | <u>9,075,609</u> | <u>240,000</u> |
| Other Liabilities: | | | | | |
| Compensated Absences | 739 | 6,602 | - | 7,341 | - |
| Net Pension Liability | 53,149 | 98,407 | - | 151,556 | - |
| Total Other Liabilities | <u>53,888</u> | <u>105,009</u> | <u>-</u> | <u>158,897</u> | <u>-</u> |
| Total Long-Term Liabilities | <u>\$ 11,373,333</u> | <u>\$ 9,359,059</u> | <u>\$ (9,249,158)</u> | <u>11,643,234</u> | <u>\$ 509,140</u> |
| Less Amount Due in One Year | | | | (509,140) | |
| Net Long-Term Debt Due After One Year | | | | <u>\$ 11,134,094</u> | |

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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:

- Citizens Bank and Trust Installment Note – This note is secured by the all revenues of the City's communications service tax and the City's half-cent sales tax. This note bears interest at 3.4%, with monthly principal and interest payments on the first day of each month, with a final maturity of January 1, 2033. The note proceeds were used to retire the City's outstanding Series 2007 Capital Improvement Revenue Bonds which were used to construct the City's administration facilities. The difference between the cash flows required to service the old debt and that required to service the new debt resulted in a savings of approximately \$245,000 which equates to an economic gain of approximately \$94,000.

Business-Type Activities:

- Series 2017 Water and Sewer System Refunding Revenue Bonds – The Water and Sewer System Refunding Revenue Bonds, Series 2017 are secured by the net revenues of the system, certain public service tax revenues, and moneys on deposit in various funds and accounts of the City. The Series 2017 bonds bear interest at 3.00 – 4.25 with a final maturity of August 1, 2041. The bonds require the maintenance of sinking, and renewal and replacement funds.

The Series 2017 bond proceeds were used to advance refund the City's outstanding Water and Sewer System Capital Improvement and Refunding Bonds, Series 2011A and to pay the costs of issuance of the Series 2017 Bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$939,356. This amount has been deferred and is being amortized over the remaining life of the new debt.

The difference between the cash flows required to service the old debt and that required to service the new debt and to complete the refunding resulted in a savings of approximately \$1,070,000 which equates to an economic gain of approximately \$470,000.

The City defeased the Series 2011A bonds by placing the proceeds of the Series 2017 bonds, along with a City contribution of \$836,993 in an irrevocable trust to provide for future debt service payments on the 2011A bonds until they are fully retired on August 1, 2021. Accordingly, the trust account assets and the liability for the defeased debt is not included in these financial statements. As of September 30, 2018, \$8,360,000 of the defeased 2011A debt is still outstanding.

- 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.

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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

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

- Installment Note to Florida Department of Environmental Protection (WW 531400) - This note is secured by the net revenues of the water and sewer system. The note bears interest at 0.76%, with semi-annual principal and interest payments on March 15 and September 15 with a final maturity in September 2039. The note proceeds were used to fund the design of wastewater pollution control facilities. The Note requires the maintenance of a sinking fund.

- Tax Exempt Lease Purchase Agreement – This agreement is secured by a lien on the equipment acquired. The agreement bears interest at 2.79%, with annual principal and interest payments on April 15 with a final maturity in April 2021. The agreement proceeds were used to fund the purchase of water meters and related equipment.

Maturities:

Annual requirements to repay all long-term bonds and notes payable as of September 30, 2018, were as follows:

| Fiscal Year Ending September 30 | Governmental Activities | | Business-Type Activities | |
|------------------------------------|-------------------------|-------------------|--------------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| 2019 | \$ 74,320 | \$ 45,466 | \$ 509,140 | \$ 383,963 |
| 2020 | 76,922 | 42,865 | 399,250 | 369,638 |
| 2021 | 79,615 | 40,172 | 412,922 | 358,466 |
| 2022 | 82,401 | 37,385 | 398,199 | 346,904 |
| 2023 | 85,286 | 34,501 | 411,400 | 335,753 |
| 2024-2028 | 473,354 | 125,578 | 2,236,983 | 1,481,930 |
| 2029-2033 | 481,543 | 37,532 | 2,660,242 | 1,066,073 |
| 2034-2038 | - | - | 2,234,611 | 613,664 |
| 2039-2043 | - | - | 1,570,981 | 135,154 |
| Add: unamortized bond premium | - | - | 650,609 | - |
| Total | \$ 1,353,441 | \$ 363,499 | \$ 11,484,337 | \$ 5,091,545 |

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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>% 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 | \$ 2,706,882 | \$ 97,089 | \$ 316,357 | 325.84% |
| Water and sewer system net revenue and sewer impact fees | 15,854,818 | 677,681 | 1,729,398 | 255.19% |

**POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018**

NOTE 8 - INTERFUND TRANSACTIONS

Interfund transactions are summarized below:

Interfund receivables and payables as of September 30, 2018 consisted of:

| Receivable Fund | Payable Fund | Amount |
|-----------------|--------------|--------|
| Enterprise Fund | General Fund | \$ - |

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, 2018 consisted of:

| Receiving Fund | Paying Fund | Amount |
|----------------|-----------------|------------|
| General Fund | Enterprise Fund | \$ 183,591 |

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

Florida Retirement System (FRS) – Defined Benefit Pension Plans

General Information about the FRS

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option program under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan, to assist retired members of any State-administered retirement system in paying the costs of health insurance.

Essentially all regular employees of the City are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of the two cost-sharing, multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of 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 Web site.

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 9 - PENSION PLAN (cont....)

FRS Pension Plan

Plan Description. The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program (DROP) for eligible employees. The general classes of membership are as follows:

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.
- *Senior Management Service Class (SMSC)* – Members in senior management level positions.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 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. 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 to eligible participants.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

Benefits Provided. Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following chart shows the percentage value for each year of service credit earned:

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 9 - PENSION PLAN (cont....)

| Class, Initial Enrollment, and Retirement Age/Years of Service | % Value |
|---|---------|
| Regular Class members initially enrolled before July 1, 2011 | |
| Retirement up to age 62 or up to 30 years of service | 1.60 |
| Retirement at age 63 or with 31 years of service | 1.63 |
| Retirement at age 64 or with 32 years of service | 1.65 |
| Retirement at age 65 or with 33 or more years of service | 1.68 |
| Regular Class members initially enrolled on or after July 1, 2011 | |
| Retirement up to age 65 or up to 33 years of service | 1.60 |
| Retirement at age 66 or with 34 years of service | 1.63 |
| Retirement at age 67 or with 35 years of service | 1.65 |
| Retirement at age 68 or with 36 or more years of service | 1.68 |
| Senior Management Service Class | 2.00 |

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2017-18 fiscal year were as follows:

| Class | Prior to July 1, 2018 | | After July 1, 2018 | |
|-------------------|--------------------------|-----------------|-----------------------|-----------------|
| | Employee | Employer (A) | Employee | Employer (A) |
| | Regular | 3.00% | 7.92% | 3.00% |
| Senior Management | 3.00% | 22.71% | 3.00% | 24.06% |

Note (A) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates include 0.06 percent for administrative costs of the Investment Plan.

The City's contributions to the Plan totaled \$44,722 for the fiscal year ended September 30, 2018.

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 9 - PENSION PLAN (cont....)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At September 30, 2018, the City reported a liability of \$484,095 for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018. The City's proportionate share of the net pension liability was based on the City's contributions for the year ended June 30, 2018 relative to the contributions of all participating members for that period. At June 30, 2018, the City's proportionate share was 0.001607192 percent, which was an increase of 0.000319586 from its proportionate share measured as of June 30, 2017.

For the fiscal year ended September 30, 2018, the City recognized pension expense of \$102,656. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 41,010 | \$ 1,488 |
| Change of assumptions | 158,179 | |
| Net difference between projected and actual earnings on FRS pension plan investments | - | 37,402 |
| Changes in proportion and differences between City FRS contributions and proportionate share of contributions | 71,322 | 6,140 |
| City FRS contributions subsequent to the measurement date | 15,144 | - |
| Total | \$ 285,655 | \$ 45,030 |

The deferred outflows of resources related to pensions, totaling \$15,144, resulting from City contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 9 - PENSION PLAN (cont....)

| <u>Fiscal Year Ending September 30</u> | <u>Amount</u> |
|--|-------------------|
| 2019 | \$ 78,065 |
| 2020 | 59,467 |
| 2021 | 27,694 |
| 2022 | 32,416 |
| 2023 | 22,307 |
| Thereafter | 5,532 |
| | \$ 225,481 |

Actuarial Assumptions. The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 2.60 percent |
| Salary Increases | 3.25 percent, average, including inflation |
| Investment rate of return | 7.00 percent, net of pension plan investment expense, including inflation |

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

The actuarial assumptions used in the July 1, 2018, valuation was based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 9 - PENSION PLAN (cont....)

| <u>Asset Class</u> | <u>Target Allocation (1)</u> | <u>Annual Arithmetic Return</u> | <u>Compound Annual (Geometric) Return</u> | <u>Standard Deviation</u> |
|--------------------------|----------------------------------|---|---|-------------------------------|
| Cash | 1.0% | 2.9% | 2.9% | 1.8% |
| Fixed income | 18.0% | 4.4% | 4.3% | 4.0% |
| Global equity | 54.0% | 7.6% | 6.3% | 17.0% |
| Real estate | 11.0% | 6.6% | 6.0% | 11.3% |
| Private equity | 10.0% | 10.7% | 7.8% | 26.5% |
| Strategic investments | 6.0% | 6.0% | 5.7% | 8.6% |
| Total | 100% | | | |
| | | | | |
| Assumed inflation - Mean | | | 2.6% | 1.9% |

(1) As outlined in the Pension Plan's investment policy

Discount Rate. The discount rate used to measure the total pension liability was 7.00 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the City's Proportionate Share of the Net Position Liability to Changes in the Discount Rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.00 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.00 percent) or 1 percentage-point higher (8.00 percent) than the current rate.

| | 1% Decrease 6.00% | Current Discount Rate 7.00% | 1% Increase 8.00% |
|--|-------------------------|-----------------------------------|-------------------------|
| City's proportionate share of the net pension liability (asset) | <u>\$ 883,493</u> | <u>\$ 484,095</u> | <u>\$ 152,371</u> |

Pension Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan. At September 30, 2018, the City reported a payable of \$3,861 for the outstanding amount of contributions to the Plan required for the fiscal year ended September 30, 2018.

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 9 - PENSION PLAN (cont....)

HIS Pension Plan

Plan Description. The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

Benefits Provided. For the fiscal year ended June 30, 2018, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2018, the HIS contribution rate for the period of July 1, 2017 through June 30, 2018 and from July 1, 2018 through September 30, 2018 was 1.66% of payroll pursuant to section 112.363, Florida Statutes. The City contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The City's contributions to the HIS Plan totaled \$10,259 for the fiscal year ended September 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions. At September 30, 2018, the City reported a net pension liability of \$190,748 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018. The City's proportionate share of the net pension liability was based on the City's contributions for the year ended June 30, 2018 relative to the contributions of all participating members for that period. At June 30, 2018, the City's proportionate share was 0.001802214 percent, which was an increase of 0.000445612 from its proportionate share measured as of June 30, 2017.

For the fiscal year ended September 30, 2018, the City recognized the HIS Plan pension expense of \$24,275. In addition, the City reported deferred outflows of resources related to pensions from the following sources:

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 9 - PENSION PLAN (cont....)

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 2,920 | \$ 324 |
| Change of assumptions | 21,214 | 20,168 |
| Net difference between projected and actual earnings on HIS pension plan investments | 115 | - |
| Changes in proportion and differences between City HIS contributions and proportionate share of HIS contributions | 54,228 | 2,636 |
| City contributions subsequent to the measurement date | 3,022 | - |
| Total | <u>\$ 81,499</u> | <u>\$ 23,128</u> |

The deferred outflows of resources, totaling \$3,022, was related to pensions resulting from City contributions to the HIS Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Fiscal Year Ending September 30</u> | <u>Amount</u> |
|--|----------------------|
| 2019 | \$ 12,706 |
| 2020 | 12,696 |
| 2021 | 11,546 |
| 2022 | 7,492 |
| 2023 | 4,395 |
| Therafter | <u>6,514</u> |
| | <u>\$ 55,349</u> |

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 9 - PENSION PLAN (cont...)

Actuarial Assumptions. The total pension liability in the July 1, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|------------------|--|
| Inflation | 2.60 percent |
| Salary Increases | 3.25 percent, average, including inflation |
| Discount rate | 3.87 percent |

Mortality rates were based on the Generational RP-2000 with Projected Scale BB.

The actuarial assumptions used in the July 1, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

Discount Rate. The discount rate used to measure the total pension liability was 3.87 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the FRS Actuarial Conference.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 3.87 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.87 percent) or 1 percentage point higher (4.87 percent) than the current rate:

| | 1% Decrease | Current Discount Rate | 1% Increase |
|--|-------------------|--------------------------|-------------------|
| | 2.87% | 3.87% | 4.87% |
| City's proportionate share of the net pension liability | <u>\$ 217,251</u> | <u>\$ 190,748</u> | <u>\$ 168,657</u> |

Pension Plan Fiduciary Net Position. Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan. At September 30, 2018, the City reported a payable of \$971 for the outstanding amount of contributions to the HIS Plan required for the fiscal year ended September 30, 2018.

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 9 - PENSION PLAN (cont....)

Florida Retirement System (FRS) – Defined Contribution Pension Plan

FRS Investment Plan

The SBA administers the defined contribution plan officially titled the FRS Investment Plan (Investment Plan). The Investment Plan is reported in the SBA's annual financial statements and in the State's Comprehensive Annual Financial Report.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. City employees already participating in the DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions rates, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2017-18 fiscal year were as follows:

| <u>Class</u> | <u>Percent of Gross Compensation</u> |
|--------------------------------|--|
| FRS, Regular | 6.30 |
| FRS, Senior Management Service | 7.67 |
| FRS, Special Risk Regular | 14.00 |

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended September 30, 2018, the information for forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the City.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided in which the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan or remain in the Investment Plan and rely upon that account balance for retirement income.

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 9 - PENSION PLAN (cont...)

The City's Investment Plan pension expense totaled \$5,920 for the fiscal year ended September 30, 2018.

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS

The City follows GASB Cod. Sec. P52 for certain post-employment health care and dental benefits provided by the City.

Plan Description – The Other Postemployment Benefits Plan (OPEB Plan) is a single employer defined benefit plan administered by the City. The OPEB Plan allows employees who retire and meet retirement eligibility requirements under the applicable City retirement plan to continue medical insurance coverage as a participant in the City's health insurance plan.

Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the City are eligible to participate in the City's healthcare and life insurance benefits. The City subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. The City does not offer any explicit subsidies for retiree coverage. The OPEB Plan doesn't issue a stand-alone financial report and is not included in the annual report of a public employee retirement system of another entity.

There are currently 17 active plan members and no inactive plan members.

Funding Policy – Currently, the City's OPEB benefits are unfunded. The City has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis.

Benefits Provided – The benefits provided are the same as those provided for active employees. Spouses and dependents of eligible retirees are also eligible for medical coverage. All employees of the City who meet the eligibility requirements of the applicable City retirement plan are eligible to receive postemployment health care benefits. All retiree, spouse and dependent coverage is at the expense of the retiree.

Total OPEB Liability – The City's total OPEB liability as of September 30, 2018 was determined by an actuarial valuation as of October 1, 2017. The actuarial assumptions used in the October 1, 2017 valuation were as follows:

| | |
|-----------------------------|-------|
| Inflation | 3.00% |
| Salary Increases | 3.00% |
| Discount Rate | 3.64% |
| Initial Trend Rate | 8.00% |
| Ultimate Trend Rate | 5.00% |
| Year to Ultimate Trend Rate | 6 |

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (cont...)

For all lives, mortality rates were RP-2000 Combined Healthy Mortality Tables projected to the valuation date using projection scale BB.

Discount Rate – The discount rate was based on a high-quality municipal bond rate of 3.64%. The high-quality bond rate was based on the week closest but not later than the measurement date of the Bond Buyer 20-Bond index as published by the Federal Reserve. The 20-Bond Index consists of 20 general obligation bonds that mature in 20 years. The average rating of the 20 bonds is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.

The results of the October 1, 2017 actuarial valuation produced an estimated actuarial determined OPEB obligation and OPEB expense that was immaterial to the City's financial statements and accordingly, there is no OPEB liability recorded in the financial statements.

NOTE 11 – JOINT VENTURE

Background - The Polk Regional Water Cooperative (PRWC) was created on April 1, 2016 by a interlocal agreement between Polk City, City of Auburndale, City of Bartow, City of Davenport, City of Eagle Lake, City of Fort Meade, City of Frostproof, City of Haines City, City of Lake Alfred, City of Lakeland, City of Lake Wales, City of Mulberry, City of Winter Haven, Town of Dundee, Town of Lake Hamilton and Polk County in accordance with Chapters 163 and 373 of the Florida Statutes.

These local government units are collectively considered the Member Governments. The PRWC is a separate legal entity organized under the laws of the State of Florida, and the Member Governments have no equity ownership in the PRWC.

The PRWC is devoted to encouraging the development of fully integrated, robust public water supply systems comprised of diverse sources managed in a manner that take full advantage of Florida's intense climatic cycles to ensure reliable, sustainable and drought resistant systems which maximize the use of alternative water supplies to the greatest extent practicable. The PRWC will evaluate, plan and implement water projects and coordinate partnerships with other water users.

Membership fees - The terms of the interlocal agreement require each Member Government to contribute their proportionate share of the PRWC's annual working capital needs which are established annually by a resolution of the PRWC's Board of Directors. For the year ended September 30, 2018, the total annual working capital needs of the PRWC was \$195,000 of which the City's proportionate share was \$1,159.

Combined projects background - The Member Governments, except for the City of Frostproof, entered into a combined projects implementation agreement on March 16, 2017. This agreement established three combined projects to be pursued by the PRWC with a total estimated cost of \$23,000,000. The South West Florida Water Management District (SWFWMD) is funding 50% of the total estimated cost and the remainder is funded by the Member Governments based upon their average water use in comparison to the total average water use by all Member Governments.

Combined projects funding - The City's required contribution for the combined projects totaled \$192,945 and was reported in the enterprise fund statement of revenues, expenses and changes in fund net position in the prior year.

Litigation - The PRWC is involved with ongoing litigation with SWFWMD and the Peace Creek Manasota Regional Water Supply Authority. These litigation costs are being funded by the Member Governments based upon their pro-rata share of water use as compared to the water use of all

POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 11 – JOINT VENTURE (cont....)

Member Governments. The City's costs for this litigation for the year ended September 30, 2018 totaled \$1,019.

Contact - Complete financial statements of the PRWC may be obtained from the PRWC's Executive Director at 330 W. Church Street, P.O. Box 9005, Drawer CA01, Bartow, FL 33831-9005.

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, 2018 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.

NOTE 13 – 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, 2018, 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 October 17, 2016, the City contracted with the Polk County Sheriff to provide enhanced law enforcement services within the City through the fiscal year ended September 30, 2021. Under the agreement, the City shall pay \$99,310 for base services for the fiscal year ended September 30, 2019. The annual cost increases 2% per year over the term of the contract. The City paid \$97,363 for the year ended September 30, 2018.
- Effective October 1, 2016, the City entered into a contract with Aquarina Waterworks, Inc. for all routine 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 not exceed the sum of \$38,542 per month during the first 12 months of the contract and shall increase by two percent each year for the next two years. The City exercised its rights under the terms of the agreement and terminated the contract effective December 31, 2017.



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REQUIRED SUPPLEMENTARY INFORMATION

POLK CITY, FLORIDA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2018

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts (GAAP Basis)</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|--------------------|--|---|
| | <u>Original</u> | <u>Final</u> | | |
| RESOURCES (inflows): | | | | |
| Taxes | \$ 1,129,290 | \$ 1,129,290 | \$ 1,240,422 | \$ 111,132 |
| Licenses and permits | 200,003 | 309,154 | 474,243 | 165,089 |
| Intergovernmental revenue | 254,593 | 315,593 | 298,551 | (17,042) |
| Charges for services | 294,437 | 294,437 | 331,832 | 37,395 |
| Fines and forfeitures | 2,000 | 2,000 | 7,306 | 5,306 |
| Impact fees | 245,487 | 245,487 | 366,492 | 121,005 |
| Other | 12,515 | 12,515 | 43,528 | 31,013 |
| Amounts available for appropriations | <u>2,138,325</u> | <u>2,308,476</u> | <u>2,762,374</u> | <u>453,898</u> |
| CHARGES TO APPROPRIATIONS (outflows): | | | | |
| General government | 564,914 | 625,914 | 533,480 | 92,434 |
| Public safety | 227,267 | 336,418 | 334,260 | 2,158 |
| Physical environment | 333,842 | 333,842 | 368,202 | (34,360) |
| Transportation | 323,676 | 323,676 | 305,186 | 18,490 |
| Culture/recreation | 131,615 | 131,615 | 157,868 | (26,253) |
| Capital outlay | 151,058 | 477,151 | 400,964 | 76,187 |
| Debt service | 145,368 | 1,517,157 | 1,479,873 | 37,284 |
| Total charges to appropriations | <u>1,877,740</u> | <u>3,745,773</u> | <u>3,579,833</u> | <u>165,940</u> |
| EXCESS (DEFICIENCY) OF RESOURCES OVER CHARGES TO APPROPRIATIONS | | | | |
| | <u>260,585</u> | <u>(1,437,297)</u> | <u>(817,459)</u> | <u>619,838</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfer from enterprise fund | 25,000 | 183,594 | 183,591 | 3 |
| Loan proceeds | - | 1,389,021 | 1,400,000 | (10,979) |
| Total other financing sources | <u>25,000</u> | <u>1,572,615</u> | <u>1,583,591</u> | <u>(10,976)</u> |
| EXCESS (DEFICIENCY) OF RESOURCES OVER CHARGES TO APPROPRIATIONS AND OTHER FINANCING SOURCES | | | | |
| | <u>285,585</u> | <u>135,318</u> | <u>\$ 766,132</u> | <u>\$ 608,862</u> |
| Reserves carried to subsequent year | <u>(285,585)</u> | <u>(135,318)</u> | | |
| NET CHANGE IN FUND BALANCE | <u>\$ -</u> | <u>\$ -</u> | | |

POLK CITY, FLORIDA

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND
SCHEDULE OF CITY CONTRIBUTIONS – FLORIDA RETIREMENT SYSTEM PENSION PLAN**

Last Ten Fiscal Years *

**Schedule of the City's Proportionate Share
of the Net Pension Liability –
Florida Retirement System Pension Plan (1)**

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|--------------|--------------|--------------|--------------|--------------|
| City's proportion of the FRS net pension liability (asset) | 0.001607192% | 0.001287606% | 0.001273210% | 0.001355257% | 0.001118460% |
| City's proportionate share of the FRS net pension liability (asset) | \$ 484,095 | \$ 380,865 | \$ 321,486 | \$ 175,050 | \$ 68,243 |
| City's covered payroll (2) | \$ 588,735 | \$ 415,532 | \$ 379,179 | \$ 380,883 | \$ 330,817 |
| City's proportionate share of the FRS net pension liability (asset) as a percentage of its covered payroll | 82.23% | 91.66% | 84.78% | 45.96% | 20.63% |
| FRS Plan fiduciary net position as a percentage of the total pension liability | 84.26% | 83.89% | 84.88% | 92.00% | 96.09% |

Notes:

(1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members and members in DROP because total employer contributions are determined on a uniform basis (blended rate).

**Schedule of City Contributions –
Florida Retirement System Pension Plan (1)**

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|------------|------------|------------|------------|------------|
| Contractually required FRS contribution | \$ 45,804 | \$ 40,068 | \$ 34,559 | \$ 32,616 | \$ 24,499 |
| FRS contributions in relation to the contractually required contribution | \$ 45,804 | 40,068 | 34,559 | 32,616 | 24,499 |
| FRS contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| City's covered payroll (2) | \$ 588,735 | \$ 415,532 | \$ 379,179 | \$ 380,883 | \$ 330,817 |
| FRS contributions as a percentage of covered payroll | 7.78% | 9.64% | 9.11% | 8.56% | 7.41% |

Notes:

(1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members and members in DROP.

* These schedules are 10-year schedules; however, the information in these schedules are not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

POLK CITY, FLORIDA

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND SCHEDULE OF CITY CONTRIBUTIONS –HEALTH INSURANCE SUBSIDY PENSION PLAN

Last Ten Fiscal Years *

Schedule of the City's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan (1)

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|--------------|--------------|--------------|--------------|--------------|
| City's proportion of the HIS net pension liability (asset) | 0.001802214% | 0.001356602% | 0.001297807% | 0.001345924% | 0.001092189% |
| City's proportionate share of the HIS net pension liability (asset) | \$ 190,748 | \$ 145,054 | \$ 151,254 | \$ 137,263 | \$ 102,122 |
| City's covered payroll (2) | \$ 588,735 | \$ 415,532 | \$ 379,179 | \$ 380,883 | \$ 330,817 |
| City's proportionate share of the HIS net pension liability (asset) as a percentage of its covered payroll | 32.40% | 34.91% | 39.89% | 36.04% | 30.87% |
| HIS Plan fiduciary net position as a percentage of the total pension liability | 2.15% | 1.64% | 0.97% | 0.50% | 0.50% |

Notes:

(1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members and members in DROP because total employer contributions are determined on a uniform basis (blended rate).

Schedule of City Contributions – Health Insurance Subsidy Pension Plan (1)

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|------------|------------|------------|------------|------------|
| Contractually required HIS contribution | \$ 9,773 | \$ 6,898 | \$ 6,294 | \$ 5,455 | \$ 3,741 |
| HIS contributions in relation to the contractually required contribution | 9,773 | 6,898 | 6,294 | 5,455 | 3,741 |
| HIS contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| City's covered-employee payroll (2) | \$ 588,735 | \$ 415,532 | \$ 379,179 | \$ 380,883 | \$ 330,817 |
| HIS contributions as a percentage of covered-employee payroll | 1.66% | 1.66% | 1.66% | 1.43% | 1.13% |

Notes:

(1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members and members in DROP.

* These schedules are 10-year schedules; however, the information in these schedules are not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

POLK CITY, FLORIDA

NOTES TO THE SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND SCHEDULE OF CITY CONTRIBUTIONS – FLORIDA RETIREMENT SYSTEM PENSION PLAN AND HEALTH INSURANCE SUBSIDY PENSION PLAN

1. Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions – Florida Retirement System Pension Plan

Changes of Assumptions:

- a. The discount rate decreased from 7.10 percent to 7.00 percent.
- b. The long-term expected rate of return was decreased from 7.10 percent to 7.00 percent.

2. Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions – Health Insurance Subsidy Pension Plan

Changes of Assumptions:

- a. The discount rate was increased from 3.58 percent to 3.87 percent
- b. The municipal bond rate used to determine total pension liability increased from 3.58 percent to 3.87 percent.

Program Contribution Rates – The Health Insurance Subsidy Pension Plan (HIS) uses a “pay-as-you-go” funding structure. As of June 30, 2018, and 2017, accumulated HIS assets constituted approximately five months of projected benefit payments. The ability of the current statutory contribution rate to pay full HIS benefits is very sensitive to near-term demographic experience, particularly the volume and timing of retirements and the amount of payroll on which the statutory rate is charged.



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OTHER REPORTS

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

Honorable Mayor and Members of the City Commission
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 Polk City, Florida as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise Polk City, Florida's basic financial statements, and have issued our report thereon dated September 9, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 Polk City, Florida's internal control. Accordingly, we do not express an opinion on the effectiveness 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings as item 18-01, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 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 as item 18-02.

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

Polk City's Response to Findings

Polk City, Florida's response to the findings identified in our audit is described in the accompanying letter of management's response. Polk City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.
Auburndale, Florida
September 9, 2019



INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE
WITH SECTION 218.415, FLORIDA STATUTES

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

We have examined Polk City, Florida's compliance with Section 218.415, Florida Statutes for the year ended September 30, 2018. Management is responsible for Polk City, Florida's compliance with those specified requirements. Our responsibility is to express an opinion on Polk City, Florida's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards required that we plan and perform the examination to obtain reasonable assurance about whether Polk City, Florida complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether Polk City, Florida complied with the specified requirements. The nature, timing and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination of Polk City, Florida's compliance with the specified requirements.

In our opinion, Polk City, Florida complied, in all material respects, with the aforementioned requirements of Section 218.415, Florida Statutes for the year ended September 30, 2018.

Brynjulfson CPA, P.A.

Brynjulfson CPA, P.A.
Auburndale, Florida
September 9, 2019

MANAGEMENT LETTER

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

Report on the Financial Statements

We have audited the financial statements of Polk City, Florida as of and for the year ended September 30, 2018, and have issued our report thereon dated September 9, 2019.

Auditor's Responsibility

We conducted our audit 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 Chapter 10.550, Rules of the Auditor General.

Other Reporting Requirements

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 Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance with the requirements of Section 218.415, Florida Statutes in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated September 9, 2019, should be considered in conjunction with this management letter.

Prior Audit Findings

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 or recommendations in the preceding financial audit report.

Official Title and Legal Authority

Section 10.554(1)(i)4., 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 Polk City, Florida, see footnote A of the summary of significant accounting policies in the notes to financial statements.

Financial Condition and Management

Section 10.554(1)(i)5.a and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether or not Polk City, Florida 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 of the financial statements of Polk City, Florida, we determined that Polk City, Florida did not meet any of the specified conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.b and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for Polk City, Florida. It is management's responsibility to monitor 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.

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

Financial Condition and Management (concluded)

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate 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 note any such findings.

Purpose of this Letter

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, members of the City Commission, 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.
Auburndale, Florida
September 9, 2019

Finding 18-01: Bank Reconciliations

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.

Condition: The City's bank account activities were not being reconciled to the general ledger balances in a timely manner. The September 2018 bank reconciliations were completed in July 2019.

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: The bank reconciliation process was delayed due to issues caused by the accounting information system software conversion that took place during the fiscal year ended September 30, 2018.

Recommendation: We recommend the City take measures to ensure that the bank activity is reconciled to the general ledger and that this reconciliation is to be completed within thirty days after receipt of the monthly bank statements. Furthermore, we recommend that this reconciliation should be reviewed by the City Manager when complete.

Finding 18-02: Audit Completion Delay

Criteria: Section 218.39, Florida Statutes requires the City to complete their annual financial audit within nine months after the end of its fiscal year. Furthermore, the City has continuing disclosure obligations in connection with certain bond issues which require the completion of the annual financial audit and filing of the required disclosures by June 1st following the close of each fiscal year.

Condition: The annual financial audit for the fiscal year ended September 30, 2018 was completed on September 9, 2019.

Effect: The City was not in compliance with Section 218.39, Florida Statutes and the aforementioned bond covenants of the City.

Cause: The main cause of the delay is due to finding 18-01 as detailed above.

Recommendation: We recommend the City address finding 18-01 and take measures to ensure the City audit is completed before the June 1st following the close of each fiscal year and that required continuing disclosures are made within the required time frame.



POLK CITY

123 Broadway Blvd SE
Polk City, Florida 33868
Telephone 863-984-1375
Fax 863-984-2334

September 10, 2019

Honorable Mayor, City Commissioners
Polk City
Polk City FL 33868

RE: Management Letter dated September 10, 2019

Fiscal Year 2018 Audit Findings -- Corrective Actions

Finding 18-01: Bank Reconciliations

We concur with the Auditor's recommendation and have implemented the measures to reconcile the bank statements to the general ledger within 30 days after receipt of the bank statements. The issues resulting from the accounting information system software conversion has also been addressed and corrected.


The current part-time position of accounting clerk will be a full-time position beginning with the new fiscal year.

Finding 18-02: Audit Completion Delay


We concur with the Auditor's recommendation; with the implementation of timely bank reconciliations future City audits will be completed before June 1st following the close of each fiscal year and that required continuing disclosures are made within the required time frame.

We continue to strive to provide the highest level of financial services and reporting to Polk City.

Respectfully submitted,



Patricia R. Jackson
City Manager



Joanna Knowles
Finance Administrator