



CITY OF POLK CITY, FLORIDA

T.I.N. No. 59-6151760

FINANCIAL STATEMENTS AND AUDITORS' REPORTS

September 30, 2010

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MANAGEMENTS' DISCUSSION AND ANALYSIS

**City of Polk City
Management's Discussion and Analysis
September 30, 2010**

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

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

UNDERSTANDING THE BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements

The government-wide financial statements (pages 2-3) consist of a Statement of Net Assets and a Statement of Activities. Both statements represent an overview of the City as a whole, separating its operations between Governmental and Business-type activities. The governmental activities of the City include general government, library, law enforcement, building and zoning, code enforcement, streets, parks and recreation, sanitation and storm water utility. The business-type activities of the City consist of water and wastewater services. All information is presented utilizing the economic resource measurement focus and accrual basis of accounting.

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

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

**City of Polk City
Management's Discussion and Analysis
September 30, 2010**

Fund Financial Statements

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

Governmental Funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statement. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. The basic Governmental Funds financial statements can be found on pages 4-7.

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

Proprietary Funds.

The City maintains only one of the two proprietary fund types. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The City uses enterprise funds to account for its water and wastewater activities. The basic proprietary fund financial statements can be found on pages 8-10 of this report.

**City of Polk City
Management's Discussion and Analysis
September 30, 2010**

Notes to the financial statements.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. They can be found on pages 11-25 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Summary of Net Assets.

The following table reflects a summary of Net Assets compared to prior year. For more detailed information see the Statement of Net Assets on page 2.

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

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--|-------------------------|---------------------|--------------------------|----------------------|--------------------------|----------------------|
| | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> |
| Current and other assets | \$ 341,053 | \$ 177,027 | \$ 381,359 | \$ 415,445 | \$ 722,412 | \$ 592,472 |
| Capital assets | 3,403,600 | 3,296,600 | 15,133,501 | 11,430,010 | 18,537,101 | 14,726,610 |
| Total assets | \$ 3,744,653 | \$ 3,473,627 | \$ 15,514,860 | \$ 11,845,455 | \$ 19,259,513 | \$ 15,319,082 |
| Long-term liabilities | | | | | | |
| outstanding | \$ 1,741,443 | \$ 1,663,419 | \$ 9,478,058 | \$ 9,101,749 | \$ 11,219,501 | \$ 10,765,168 |
| Other liabilities | 611,544 | 603,589 | 683,039 | 588,010 | 1,294,583 | 1,191,599 |
| Total liabilities | \$ 2,352,987 | \$ 2,267,008 | \$ 10,161,097 | \$ 9,689,759 | \$ 12,514,084 | \$ 11,956,767 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | \$ 1,727,029 | \$ 1,652,959 | \$ 5,689,727 | \$ 2,333,236 | \$ 7,416,756 | \$ 3,986,195 |
| Restricted | 43,446 | 74,565 | 66,924 | 80,389 | 110,370 | 154,954 |
| Unrestricted | (378,809) | (520,905) | (402,888) | (257,929) | (781,697) | (778,834) |
| Total net assets | \$ 1,391,666 | \$ 1,206,619 | \$ 5,353,763 | \$ 2,155,696 | \$ 6,745,429 | \$ 3,362,315 |

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

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

Six percent of the City's net assets represent resources that are subject to external restrictions on how they may be used which is the same as the prior year. The remaining balance of unrestricted net assets is normally available to meet the City's ongoing obligations to citizens and creditors but the balance is a deficit of (\$778,834) or -23% of net assets. This represents an increase in the deficit of approximately \$2,863 from 2009.

During fiscal year 2009- 2010 Polk City made payments to Polk County for the current and prior year for the Mount Olive Utility Spray Field loan. The utility rate increases were approved by the City Council but did not go into effect until July 2010. The previous City Manager left in mid-June 2010. The newly appointed Acting City Manager has not taken compensation since June 2010 for the Acting City Manager role. Three additional FTEs were laid off and have not been replaced by the City.

**City of Polk City
Management's Discussion and Analysis
September 30, 2010**

Statement of Activities

The following table reflects the condensed Statement of Activities for the current and previous year. For more detailed information see the Statement of Activities on page 3.

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

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--|-------------------------|---------------------|--------------------------|---------------------|--------------------------|---------------------|
| | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | \$ 312,757 | \$ 331,563 | \$ 1,206,178 | \$ 1,484,915 | \$ 1,518,935 | \$ 1,816,478 |
| Operating grants and contributions | 27,767 | 26,277 | 73,944 | 73,944 | 101,711 | 100,221 |
| Capital grants and contributions | 90,506 | 23,209 | 858,267 | 30,810 | 948,773 | 54,019 |
| General revenues: | | | | | | |
| Property taxes | 600,972 | 628,910 | - | - | 600,972 | 628,910 |
| Franchise/Public Ser. Tax | 314,163 | 333,791 | - | - | 314,163 | 333,791 |
| State shared revenues | 160,757 | 153,412 | - | - | 160,757 | 153,412 |
| Fuel taxes levied from transportation | 92,831 | 89,248 | - | - | 92,831 | 89,248 |
| Other | 33,285 | 22,416 | 1,256 | 379 | 34,541 | 22,795 |
| Total revenues | \$ 1,633,038 | \$ 1,608,826 | \$ 2,139,645 | \$ 1,590,048 | \$ 3,772,683 | \$ 3,198,874 |
| Expenses: | | | | | | |
| General government | \$ 789,645 | \$ 592,445 | \$ - | \$ - | \$ 789,645 | \$ 592,445 |
| Library | 109,416 | 96,208 | - | - | 109,416 | 96,208 |
| Police | 310,188 | 408,610 | - | - | 310,188 | 408,610 |
| Building and zoning | 85,075 | 37,507 | - | - | 85,075 | 37,507 |
| Code Enforcement | 42,934 | 25,493 | - | - | 42,934 | 25,493 |
| Sanitation | 179,086 | 192,584 | - | - | 179,086 | 192,584 |
| Streets | 258,787 | 154,914 | - | - | 258,787 | 154,914 |
| Parks and recreation | 40,487 | 43,416 | - | - | 40,487 | 43,416 |
| Stormwater | 1,891 | 1,891 | - | - | 1,891 | 1,891 |
| Interest on long-term debt | 70,354 | 69,045 | - | - | 70,354 | 69,045 |
| Public utilities | - | - | 1,433,064 | 1,560,388 | 1,433,064 | 1,560,388 |
| Total expenses | \$ 1,887,863 | \$ 1,622,113 | \$ 1,433,064 | \$ 1,560,388 | \$ 3,320,927 | \$ 3,182,501 |
| Increase (decrease) in net assets before transfers | (254,825) | (13,287) | 706,581 | 29,660 | 451,756 | 16,373 |
| Transfers | 100,000 | (171,760) | (100,000) | 171,760 | - | - |
| Special items | - | - | - | (3,399,487) | - | (3,399,487) |
| Increase (decrease) in net assets | (154,825) | (185,047) | 606,581 | (3,198,067) | 451,756 | (3,383,114) |
| Net assets - October 1 | 1,546,491 | 1,391,666 | 4,747,182 | 5,353,763 | 6,293,673 | 6,745,429 |
| Net assets - September 30 | \$ 1,391,666 | \$ 1,206,619 | \$ 5,353,763 | \$ 2,155,696 | \$ 6,745,429 | \$ 3,362,315 |

**City of Polk City
Management's Discussion and Analysis
September 30, 2010**

Governmental activities

Governmental activities decreased the City's net assets by \$185,047 after a net transfer of \$171,760 from the business-type activities. In the prior year, net assets decreased by \$154,825 after a \$100,000 transfer to the business-type activities. Total expenses decreased by \$265,750 or approximately 14%. The decrease can be attributed to Polk City's aggressive cost-cutting measures which included personnel layoffs, streamlining service contracts, a spending freeze on unnecessary operational and capital items, a freeze on travel, and utilizing the Acting City Manager without compensation.

Business-type activities

Business-type activities decreased the City's net assets by \$ 3,198,067 compared to an increase of \$606,581 in the prior year. There was a net transfer of \$171,760 from the governmental activities to support utility activities. During the year the city determined that there was sufficient evidence of impairment to write down the capital engineering cost relating to the proposed regional wastewater treatment facility. The City Council agreed that this project was no longer viable and the entire \$3,399,487 of capitalized engineering costs was written off. This loss is recognized in the current year financial statements.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds.

As of September 30, 2010, the City's governmental funds reported combined ending fund balances deficit of (\$420,912) which can be found on page 4. The deficit has increased by \$156,184 from last year. Approximately (\$497,466) constitutes unreserved fund balance deficit, which is an increase in the deficit of (\$19,286) from last year, and is not available for spending.

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Management's Discussion and Analysis
September 30, 2010**

Because the total fund balance of the governmental funds is a deficit, no amount is available for appropriation in subsequent years.

In the General Fund, the City's revenues exceeded the expenditures by \$15,576. Due to the aggressive cost saving measures and a change in City Management the city realized revenues greater than expenditures.

For further analysis, the budgetary comparison schedule is presented on pages 26.

Proprietary Funds

These services combined to generate operating income of \$290,277. Compare that to the prior year operating income of \$127,578. Through a combination of rate increases and aggressive cost cutting measures the city realized an increase in operating income.

ANALYSIS OF SIGNIFICANT BUDGET VARIANCES

The City adopts an annual appropriated budget each year in September. Budgetary comparison statements have been provided to demonstrate compliance with the budget (page 26). Budget comparison reporting is included for the General Fund.

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".

**City of Polk City
Management's Discussion and Analysis
September 30, 2010**

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

Capital Assets Activity

(net of depreciation)
as of September 30,

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|-------------------------------|-------------------------|------------------|--------------------------|-------------------|--------------------------|-------------------|
| | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> |
| Assets not depreciated | | | | | | |
| Land | 412,543 | 412,543 | 1,868,587 | 1,868,587 | 2,281,130 | 2,281,130 |
| Construction in progress | 186,019 | - | 4,090,990 | - | 4,277,009 | - |
| Total | 598,562 | 412,543 | 5,959,577 | 1,868,587 | 6,558,139 | 2,281,130 |
| Depreciated Assets | | | | | | |
| Buildings and improvements | 2,672,166 | 2,673,966 | - | - | 2,672,166 | 2,673,966 |
| Recreational facilities | 272,916 | 467,974 | - | - | 272,916 | 467,974 |
| Vehicles and equipment | 372,890 | 390,321 | 227,567 | 240,037 | 600,457 | 630,358 |
| Infrastructure | 187,478 | 187,478 | - | - | 187,478 | 187,478 |
| Utility plants | - | - | 9,834,466 | 10,554,946 | 9,834,466 | 10,554,946 |
| Subtotal | 3,505,450 | 3,719,739 | 10,062,033 | 10,794,983 | 13,567,483 | 14,514,722 |
| Accumulated depreciation | (700,412) | (835,682) | (888,109) | (1,233,560) | (1,588,521) | (2,069,242) |
| Total | 2,805,038 | 2,884,057 | 9,173,924 | 9,561,423 | 11,978,962 | 12,445,480 |

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2010, amounts to \$14,726,610 (net of accumulated depreciation) compared to \$18,537,101 last year. That is a decrease of \$3,810,491 from the prior year.

The primary reason for this decrease is the write-down of the regional wastewater treatment plant.

Additional information on the City's capital assets can be found In Note 6 on pages 18-19 of the Notes to the Financial Statements in this report.

**City of Polk City
Management's Discussion and Analysis
September 30, 2010**

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,

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total Primary Government</u> | |
|---------------|--------------------------------|--------------------|---------------------------------|--------------------|---------------------------------|---------------------|
| | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> |
| Revenue notes | \$ - | \$ - | \$5,658,500 | \$5,419,778 | \$ 5,658,500 | \$ 5,419,778 |
| Notes payable | \$1,676,571 | \$1,643,641 | \$3,819,095 | \$3,676,996 | \$ 5,495,666 | \$ 5,320,637 |
| Total | \$1,676,571 | \$1,643,641 | \$9,477,595 | \$9,096,774 | \$11,154,166 | \$10,740,415 |

At the end of the current fiscal year, the Governmental Activities had total debt outstanding of \$1,663,419 of which \$19,778 pertains to compensated absences. This compares to \$64,872 in the prior year. This consists primarily of the 2007 Capital Improvement Revenue Bonds for the construction of the Polk City Government Center.

The Business-type Activities had total debt outstanding of \$9,101,749 which consists primarily of the Water Bond Series 2004, Sewer Bonds Series 1999, Water and Sewer Bond Series 2005 and the installment loans from Florida Department of Environmental Protection, the Mount Olive Sprayfield loan and the Old National Leasing agreement.

For additional information, see Note 7, page 20 -22.

**City of Polk City
Management's Discussion and Analysis
September 30, 2010**

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

In 2010, the City halted all plans to construct the regional wastewater treatment plant and wrote down the value of the capital assets.

The Fiscal Year 2010 audit shows the City of Polk City owes Polk County \$531,000 in impact fees. The City has attempted to negotiate a payment plan and presented a check for partial payment with the county; however, Polk County refused the payment plan and requires the balance be paid in full. Polk City and Polk County are currently in mediation pursuant to Section 164 Florida Statutes. All other city obligations are current.

The city hired a City Manager replacing the Acting City Manager/Vice Mayor. The City Manager starts May 1, 2011.

The Polk County Sheriff's contract was reduced from \$434,000 in 2010 to \$104,000 for 2011.

The city outsourced their utility operations to Woodard and Curran for an expected cost savings of approximately \$150,000.

REQUEST FOR INFORMATION

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

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of **City of Polk City, Florida** as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of **City of Polk City, Florida's** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the **City of Polk City, Florida** as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2011 on our consideration of **City of Polk City, Florida's** internal control structure over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and the budgetary comparison schedule on pages M1 through M10 and page 26, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Brynjulfson CPA, P.A.

Brynjulfson CPA, P.A.
Lakeland, Florida
April 19, 2011

**CITY OF POLK CITY, FLORIDA
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2010**

| | Primary Government | | |
|---|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ - | \$ 4,257 | \$ 4,257 |
| Receivables, current: | | | |
| Customer accounts, net | 42,866 | 170,584 | 213,450 |
| Intergovernmental | 41,289 | - | 41,289 |
| Franchise and public service taxes | 33,703 | - | 33,703 |
| Internal balances | 11,681 | (11,681) | - |
| Restricted assets: | | | |
| Cash and cash equivalents | 45,499 | 219,890 | 265,389 |
| Capital assets: | | | |
| Non-depreciable | 412,543 | 1,868,587 | 2,281,130 |
| Depreciable, net | 2,884,057 | 9,561,423 | 12,445,480 |
| Deferred charges | 1,989 | - | 1,989 |
| Unamortized bond issue costs | - | 32,395 | 32,395 |
| TOTAL ASSETS | 3,473,627 | 11,845,455 | 15,319,082 |
| LIABILITIES | | | |
| Accounts payable | \$ 49,556 | \$ 36,886 | \$ 86,442 |
| Accrued payroll | 8,678 | 3,617 | 12,295 |
| Accrued interest payable | 5,650 | 110,156 | 115,806 |
| Due to other governments | 539,705 | - | 539,705 |
| Deferred revenue | - | 299,310 | 299,310 |
| Customer deposits | - | 138,041 | 138,041 |
| Long-term liabilities: | | | |
| Due within one year | 34,289 | 334,695 | 368,984 |
| Due in more than one year | 1,629,130 | 8,767,054 | 10,396,184 |
| TOTAL LIABILITIES | 2,267,008 | 9,689,759 | 11,956,767 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 1,652,959 | 2,333,236 | 3,986,195 |
| Restricted for: | | | |
| Building code enforcement | 4,653 | - | 4,653 |
| Transportation infrastructure | 58,318 | - | 58,318 |
| Debt service | 11,594 | 80,389 | 91,983 |
| Unrestricted | (520,905) | (257,929) | (778,834) |
| TOTAL NET ASSETS | \$ 1,206,619 | \$ 2,155,696 | \$ 3,362,315 |

See Accompanying Notes to Financial Statements

CITY OF POLK CITY, FLORIDA
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

| FUNCTIONS/PROGRAMS | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|---|---------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| PRIMARY GOVERNMENT: | | | | | | | |
| Governmental Activities: | | | | | | | |
| General government | \$ 592,445 | \$ 20,684 | \$ 1,277 | \$ 6,992 | \$ (563,492) | \$ - | \$ (563,492) |
| Library | 96,208 | 4,522 | 25,000 | - | (66,686) | - | (66,686) |
| Police | 408,610 | 1,946 | - | 12,057 | (394,607) | - | (394,607) |
| Building and zoning | 37,507 | 21,415 | - | - | (16,092) | - | (16,092) |
| Code enforcement | 25,493 | - | - | - | (25,493) | - | (25,493) |
| Sanitation | 192,584 | 250,404 | - | - | 57,820 | - | 57,820 |
| Streets | 154,914 | 17,942 | - | - | (136,972) | - | (136,972) |
| Parks and recreation | 43,416 | - | - | 4,160 | (39,256) | - | (39,256) |
| Stormwater utility | 1,891 | 14,650 | - | - | 12,759 | - | 12,759 |
| Interest on long term debt | 69,045 | - | - | - | (69,045) | - | (69,045) |
| Total governmental activities | <u>1,622,113</u> | <u>331,563</u> | <u>26,277</u> | <u>23,209</u> | <u>(1,241,064)</u> | <u>-</u> | <u>(1,241,064)</u> |
| Business-type Activities: | | | | | | | |
| Water utility | 663,977 | 840,568 | - | 8,735 | - | 185,326 | 185,326 |
| Sewer utility | 896,411 | 644,347 | 73,944 | 22,075 | - | (156,045) | (156,045) |
| Total business-type activities | <u>1,560,388</u> | <u>1,484,915</u> | <u>73,944</u> | <u>30,810</u> | <u>-</u> | <u>29,281</u> | <u>29,281</u> |
| TOTAL PRIMARY GOVERNMENT | <u>\$ 3,182,501</u> | <u>\$ 1,816,478</u> | <u>\$ 100,221</u> | <u>\$ 54,019</u> | <u>(1,241,064)</u> | <u>29,281</u> | <u>(1,211,783)</u> |
| GENERAL REVENUES: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes, levied for general purposes | | | | | 628,910 | - | 628,910 |
| Franchise taxes | | | | | 99,829 | - | 99,829 |
| Public service taxes | | | | | 233,962 | - | 233,962 |
| Fuel taxes levied for transportation | | | | | 89,248 | - | 89,248 |
| State shared revenue | | | | | 153,412 | - | 153,412 |
| Investment earnings | | | | | 405 | 379 | 784 |
| Net transfers (to)/from other funds | | | | | (171,760) | 171,760 | - |
| Miscellaneous | | | | | 22,011 | - | 22,011 |
| Special item - impairment of capital asset (Note 6) | | | | | - | (3,399,487) | (3,399,487) |
| Total General Revenues, Special Items, and Transfers | | | | | <u>1,056,017</u> | <u>(3,227,348)</u> | <u>(2,171,331)</u> |
| CHANGE IN NET ASSETS | | | | | <u>(185,047)</u> | <u>(3,198,067)</u> | <u>(3,383,114)</u> |
| NET ASSETS - beginning of year | | | | | <u>1,391,666</u> | <u>5,353,763</u> | <u>6,745,429</u> |
| NET ASSETS - end of year | | | | | <u>\$ 1,206,619</u> | <u>\$ 2,155,696</u> | <u>\$ 3,362,315</u> |

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA
BALANCE SHEET - GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2010**

| | General Fund |
|---|-----------------------------|
| | <u> </u> |
| ASSETS | |
| Cash and cash equivalents | \$ - |
| Receivables, net: | |
| Customer accounts, net | 42,866 |
| Intergovernmental | 41,289 |
| Franchise and public service taxes | 33,703 |
| Due from other funds | 11,681 |
| Restricted assets: | |
| Cash and cash equivalents | 45,499 |
| Deferred charges | 1,989 |
| TOTAL ASSETS | <u><u>\$ 177,027</u></u> |
| LIABILITIES AND FUND BALANCE | |
| Accounts payable | \$ 49,556 |
| Accrued payroll | 8,678 |
| Due to other governments | 539,705 |
| TOTAL LIABILITIES | <u>597,939</u> |
| FUND BALANCE: | |
| Reserved for: | |
| Deferred charges | 1,989 |
| Building code enforcement | 4,653 |
| Transportation infrastructure | 58,318 |
| Debt service | 11,594 |
| Unreserved | (497,466) |
| TOTAL FUND BALANCE | <u>(420,912)</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u><u>\$ 177,027</u></u> |

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS -
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2010**

| | |
|---|----------------------------|
| FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | \$ (420,912) |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet. | 3,296,600 |
| Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in governmental funds. | (5,650) |
| Long-term liabilities (including compensated absences) are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet. | <u>(1,663,419)</u> |
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u>\$ 1,206,619</u> |

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
for the year ended September 30, 2010**

| | General Fund |
|--|----------------------------|
| REVENUES: | |
| Taxes | \$ 1,065,987 |
| Licenses and permits | 22,180 |
| Intergovernmental revenue | 191,285 |
| Charges for services | 287,922 |
| Fines and forfeitures | 2,241 |
| Impact fees | 15,112 |
| Other | 24,097 |
| Total revenues | <u>1,608,824</u> |
| EXPENDITURES: | |
| General government | 581,687 |
| Public safety | 433,593 |
| Physical environment | 192,584 |
| Transportation | 143,262 |
| Culture/recreation | 102,111 |
| Capital outlay | 37,923 |
| Debt service | 102,088 |
| Total expenditures | <u>1,593,248</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>15,576</u> |
| OTHER FINANCING SOURCES (USES) | |
| Transfers in | 185,000 |
| Transfers (out) | <u>(356,760)</u> |
| Total other financing sources | <u>(171,760)</u> |
| NET CHANGE IN FUND BALANCE | <u>(156,184)</u> |
| FUND BALANCE, beginning of year | <u>(264,728)</u> |
| FUND BALANCE, end of year | <u><u>\$ (420,912)</u></u> |

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (156,184)

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

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

| | |
|--|-----------|
| This is the amount of capital assets additions in the current period | 28,270 |
| This is the amount of depreciation recorded in the current period | (135,270) |

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

| | |
|--|--------|
| This amount represents long-term debt repayments | 32,930 |
| This amount represents the change in accrued interest payable | 113 |
| This amount represents the change in compensated absence liability | 45,094 |

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (185,047)

**CITY OF POLK CITY, FLORIDA
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
BUSINESS TYPE ACTIVITIES
AS OF SEPTEMBER 30, 2010**

| | Business Type Activities - Enterprise Funds | | |
|---|--|-----------------------|---------------------|
| | Water Fund | Sewer Fund | Total |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 4,257 | \$ - | \$ 4,257 |
| Customer accounts receivable, net | 100,603 | 69,981 | 170,584 |
| Due from water fund | - | 41,237 | 41,237 |
| Total current assets | <u>104,860</u> | <u>111,218</u> | <u>216,078</u> |
| Noncurrent assets: | | | |
| Restricted assets: | | | |
| Cash and cash equivalents | 183,478 | 36,412 | 219,890 |
| Capital assets, net: | | | |
| Non-depreciable | - | 1,868,587 | 1,868,587 |
| Depreciable, net | 3,211,891 | 6,349,532 | 9,561,423 |
| Unamortized bond issue costs | 24,024 | 8,371 | 32,395 |
| Total noncurrent assets | <u>3,419,393</u> | <u>8,262,902</u> | <u>11,682,295</u> |
| TOTAL ASSETS | <u>3,524,253</u> | <u>8,374,120</u> | <u>11,898,373</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | 25,662 | 11,224 | 36,886 |
| Accrued payroll | 3,617 | - | 3,617 |
| Bonds and notes payable, current portion | 49,992 | 284,703 | 334,695 |
| Accrued interest payable | 8,547 | 101,609 | 110,156 |
| Deferred revenues | 56,785 | 242,525 | 299,310 |
| Due to general fund | 11,681 | - | 11,681 |
| Due to sewer fund | 41,237 | - | 41,237 |
| Total current liabilities | <u>197,521</u> | <u>640,061</u> | <u>837,582</u> |
| Noncurrent liabilities: | | | |
| Customer deposits | 138,041 | - | 138,041 |
| Compensated absences | 4,975 | - | 4,975 |
| Bonds and notes payable, noncurrent portion | 1,574,612 | 7,187,467 | 8,762,079 |
| Total noncurrent liabilities | <u>1,717,628</u> | <u>7,187,467</u> | <u>8,905,095</u> |
| TOTAL LIABILITIES | <u>1,915,149</u> | <u>7,827,528</u> | <u>9,742,677</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 1,587,287 | 745,949 | 2,333,236 |
| Restricted for: | | | |
| Debt service | 41,865 | 38,524 | 80,389 |
| Unrestricted | (20,048) | (237,881) | (257,929) |
| TOTAL NET ASSETS | <u>\$ 1,609,104</u> | <u>\$ 546,592</u> | <u>\$ 2,155,696</u> |

See Accompanying Notes to Financial Statements

CITY OF POLK CITY, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
BUSINESS TYPE ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

| | Business Type Activities - Enterprise Funds | | |
|--|--|-----------------------|--------------|
| | Water Fund | Sewer Fund | Total |
| OPERATING REVENUES: | | | |
| Charges for services | \$ 840,568 | \$ 644,347 | \$ 1,484,915 |
| Total operating revenues | 840,568 | 644,347 | 1,484,915 |
| OPERATING EXPENSES: | | | |
| Personal services | 216,613 | - | 216,613 |
| Operating expenses | 264,449 | 368,125 | 632,574 |
| Depreciation | 117,251 | 228,200 | 345,451 |
| Total operating expenses | 598,313 | 596,325 | 1,194,638 |
| OPERATING INCOME (LOSS) | 242,255 | 48,022 | 290,277 |
| NONOPERATING REVENUE (EXPENSE): | | | |
| Interest revenue | 208 | 171 | 379 |
| Interest expense | (65,664) | (300,086) | (365,750) |
| Other nonoperating revenue | - | 73,944 | 73,944 |
| Total nonoperating revenues (expenses) | (65,456) | (225,971) | (291,427) |
| Income (loss) before contributions | 176,799 | (177,949) | (1,150) |
| CAPITAL GRANTS AND CONTRIBUTIONS: | | | |
| Impact fees | 8,735 | 22,075 | 30,810 |
| Total capital grants and contributions | 8,735 | 22,075 | 30,810 |
| TRANSFERS IN (OUT) | | | |
| Transfers from other funds | 103,841 | 619,772 | 723,613 |
| Transfers to other funds | (480,507) | (71,346) | (551,853) |
| Total transfers | (376,666) | 548,426 | 171,760 |
| SPECIAL ITEM - Impairment of capital asset (Note 6) | - | (3,399,487) | (3,399,487) |
| Change in net assets | (191,132) | (3,006,935) | (3,198,067) |
| TOTAL NET ASSETS - beginning of year | 1,800,236 | 3,553,527 | 5,353,763 |
| TOTAL NET ASSETS - end of year | \$ 1,609,104 | \$ 546,592 | \$ 2,155,696 |

See Accompanying Notes to Financial Statements

CITY OF POLK CITY, FLORIDA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
BUSINESS TYPE ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

| | Business Type Activities - Enterprise Funds | | |
|---|---|--------------|--------------|
| | Water Fund | Sewer Fund | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Receipts from customers | \$ 798,274 | \$ 614,513 | \$ 1,412,787 |
| Payments to suppliers | (252,531) | (297,205) | (549,736) |
| Payments for salaries and benefits | (210,639) | - | (210,639) |
| Net cash flows from operating activities | 335,104 | 317,308 | 652,412 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | |
| Increase (decrease) in customer deposits | 16,399 | - | 16,399 |
| Increase (decrease) in due to (from) other funds | (50,924) | (106,550) | (157,474) |
| Transfers from other funds | 103,841 | 619,772 | 723,613 |
| Transfers (to) other funds | (480,507) | (71,346) | (551,853) |
| Net cash flows from noncapital financing activities | (411,191) | 441,876 | 30,685 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Acquisition and construction of capital assets, net of related payables | (12,471) | (28,976) | (41,447) |
| Capital contributions received | 8,735 | 22,075 | 30,810 |
| Principal paid on notes, bonds and lease obligations | (48,771) | (332,050) | (380,821) |
| Interest paid on borrowings | (65,994) | (419,996) | (485,990) |
| Net cash flows from capital and related financing activities | (118,501) | (758,947) | (877,448) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Interest on invested funds | 208 | 171 | 379 |
| Net cash flows from investing activities | 208 | 171 | 379 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (194,380) | 408 | (193,972) |
| CASH AND CASH EQUIVALENTS, beginning of year | 382,115 | 36,004 | 418,119 |
| CASH AND CASH EQUIVALENTS, end of year | \$ 187,735 | \$ 36,412 | \$ 224,147 |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | |
| Operating income (loss) | \$ 242,255 | \$ 48,022 | \$ 290,277 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation | 117,251 | 228,200 | 345,451 |
| (Increase) decrease in accounts receivable | (42,294) | (29,834) | (72,128) |
| (Increase) decrease in deferred charges | 118 | - | 118 |
| Increase (decrease) in accounts payable | 11,072 | (3,722) | 7,350 |
| Increase (decrease) in compensated absences | 4,512 | - | 4,512 |
| Increase (decrease) in accrued payroll | 1,462 | - | 1,462 |
| Non-cash lease expense | - | 73,944 | 73,944 |
| Non-cash bond cost amortization | 728 | 698 | 1,426 |
| Net cash flows from operating activities | \$ 335,104 | \$ 317,308 | \$ 652,412 |
| Noncash financing and investing activities: | | | |
| Special item - impairment loss | \$ - | \$ 3,399,487 | \$ 3,399,487 |

See Accompanying Notes to Financial Statements

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

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

B. BASIC FINANCIAL STATEMENTS

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

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

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

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

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

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

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

- a) **Governmental Funds:** The focus of the governmental fund's measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City;
 - **General Fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

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

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

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

C. MEASUREMENT FOCUS, AND BASIS OF ACCOUNTING

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

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

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

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

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

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

CASH AND CASH EQUIVALENTS - Includes all short-term highly liquid investments with a maturity of three months or less when purchased, and all bank demand deposits, certificates of deposit, money-market and savings accounts. At September 30, 2010, all of the City's cash and investments met this definition.

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

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

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 \$170,897 at September 30, 2010. 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, 2010, such reserves for all funds totaled \$14,096. Receivables are reported in the financial statements net of the reserve for doubtful accounts.

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

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

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

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

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

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

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

INTEREST COSTS - Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of enterprise fund capital assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. No net interest cost were capitalized for the year ended September 30, 2010.

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

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

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

COMPENSATED ABSENCES - Sick leave is credited to an employee on the basis of eight hours per month of service not to exceed ninety days. Accumulated sick leave does not vest and is not paid upon termination of employment. Vacation leave is credited to an employee depending on years of service, ranging from five to 20 days per year. Vacation leave accumulation is limited to 160 hours for hourly employees and 240 hours for salaried employees. Eligible employees accumulate two personal days a year not to exceed ten days. Upon termination, the City pays for all unused vacation leave and personal days subject to the above limits on benefit accumulation. The liability for these compensated absences is recorded as long-term in the government-wide statements and in the proprietary fund financial statements because the maturities are not determinable. In the fund financial statements, the governmental funds do not report the compensated absence liability because it is generally not payable from expendable available financial resources.

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

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

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

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

EQUITY CLASSIFICATIONS -

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

- a) Invested in capital assets, net of related debt - Consists of capital assets including restricted assets from debt proceeds, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports \$154,954 of restricted net assets of which \$62,971 is restricted by enabling legislation.
- c) Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

NOTE 2 - PROPERTY TAX CALENDAR

Under Florida Law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the Polk County Property Appraiser and Polk County Tax Collector. The tax levy of the City is established by the City Council prior to October 1 of each year and the Polk County Property Appraiser incorporates the millage into the total tax levy, which includes the municipalities, the County, independent districts and the Polk County School Board tax requirements. State statutes permit municipalities to levy property taxes at a rate of up to 10 mills. The City's millage rate in effect for the fiscal year ended September 30, 2010 was 7.6991.

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

NOTE 3 - BUDGETARY LAW AND PRACTICE

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

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 4 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. Compliance With Finance Related Legal and Contractual Provisions – The sewer fund was not able to meet the required long term debt related reserve and sinking fund requirements due to lack of cash and cash equivalents. The City was not in compliance with the rate covenant of the 1999 sewer revenue bonds.
- B. Deficit fund balance or Net Assets of Individual Funds - As of September 30, 2010, the general fund had a deficit fund balance of \$420,912 and a deficit unreserved fund balance of \$497,466, the water fund had a deficit unrestricted net assets of \$20,048, and the sewer fund had a deficit unrestricted net assets of \$237,881.
- C. Excess of Expenditures Over Budget Appropriations in Individual Funds - For the year ended September 30, 2010, the general fund had an excess of expenditures over appropriations of \$74,470.

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

| | |
|---|-------------------|
| Cash and cash equivalents: | |
| Cash on hand | \$ 100 |
| Deposits in financial institutions: | |
| Insured or fully collateralized bank deposits | <u>269,546</u> |
| Total cash and cash equivalents | <u>\$ 269,646</u> |

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

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 6 - CAPITAL ASSETS

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

| | Beginning Balance | Additions | Reductions | Ending Balance |
|--|----------------------|-------------------|-----------------------|---------------------|
| Governmental Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 412,543 | \$ - | \$ - | \$ 412,543 |
| Construction in Progress | 186,019 | - | (186,019) | - |
| Total | \$ 598,562 | \$ - | \$ (186,019) | \$ 412,543 |
| Capital assets being depreciated: | | | | |
| Buildings and Improvements | \$ 2,672,166 | \$ 1,800 | \$ - | \$ 2,673,966 |
| Recreational Facilities | 272,916 | 195,058 | - | 467,974 |
| Equipment | 372,890 | 17,431 | - | 390,321 |
| Infrastructure: | | | | |
| Sidewalk Systems | 111,852 | - | - | 111,852 |
| Drainage Systems | 75,626 | - | - | 75,626 |
| Total | 3,505,450 | 214,289 | - | 3,719,739 |
| Less, Accumulated Depreciation: | | | | |
| Buildings and Improvements | (354,056) | (62,149) | - | (416,205) |
| Recreational Facilities | (86,825) | (24,208) | - | (111,033) |
| Equipment | (244,589) | (44,226) | - | (288,815) |
| Intrastructure: | | | | |
| Sidewalk Systems | (7,002) | (2,796) | - | (9,798) |
| Drainage Systems | (7,940) | (1,891) | - | (9,831) |
| Total Accumulated Depreciation | (700,412) | (135,270) | - | (835,682) |
| Total Depreciable Capital Assets, Net | \$ 2,805,038 | \$ 79,019 | \$ - | \$ 2,884,057 |
| Business-Type Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,868,587 | \$ - | \$ - | \$ 1,868,587 |
| Construction in Progress | 4,090,990 | 28,976 | (4,119,966) | - |
| Total | \$ 5,959,577 | \$ 28,976 | \$ (4,119,966) | \$ 1,868,587 |
| Capital assets being depreciated: | | | | |
| Utility Plant | \$ 9,834,466 | \$ 720,480 | \$ - | \$ 10,554,946 |
| Equipment | 227,567 | 12,470 | - | 240,037 |
| Total | 10,062,033 | 732,950 | - | 10,794,983 |
| Less, Accumulated Depreciation: | | | | |
| Utility Plant | (830,042) | (306,000) | - | (1,136,042) |
| Equipment | (58,067) | (39,451) | - | (97,518) |
| Total Accumulated Depreciation | (888,109) | (345,451) | - | (1,233,560) |
| Total Depreciable Capital Assets, Net | \$ 9,173,924 | \$ 387,499 | \$ - | \$ 9,561,423 |

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 6 - CAPITAL ASSETS (cont...)

Impairment loss: During the year, the City determined that there was sufficient evidence of impairment to write down the capitalized engineering costs related to the proposed regional wastewater treatment facility. Management has determined that the project is no longer viable and the entire \$3,399,487 of capitalized engineering costs will be written off and recognized in the current year financial statements as a “special item – impairment of capital asset” expense.

Depreciation expense was charged to the following programs and functions:

Governmental Activities:

| | |
|--|-------------------|
| Genral government | \$ 94,828 |
| Library | 1,707 |
| Building and zoning | 232 |
| Code enforcement | 232 |
| Streets | 11,323 |
| Parks and recreation | 25,057 |
| Stormwater utility | <u>1,891</u> |
| Total depreciation expense - governmental activities | <u>\$ 135,270</u> |

Business-type Activities:

| | |
|---|-------------------|
| Water | \$ 117,251 |
| Sewer | <u>228,200</u> |
| Total depreciation expense - business-type activities | <u>\$ 345,451</u> |

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 7 - LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended September 30, 2010:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|----------------------|-----------------|---------------------|---------------------|--------------------|
| Governmental Activities | | | | | |
| Long-Term Debt: | | | | | |
| Notes Payable: | | | | | |
| Series 2007 Capital Improvement Revenue Bonds | \$ 1,676,571 | \$ - | \$ (32,930) | \$ 1,643,641 | \$ 34,289 |
| Total Bonds and Notes Payable | <u>1,676,571</u> | <u>-</u> | <u>(32,930)</u> | <u>1,643,641</u> | <u>34,289</u> |
| Other Liabilities: | | | | | |
| Compensated Absences | 64,872 | - | (45,094) | 19,778 | - |
| Total Other Liabilities | <u>64,872</u> | <u>-</u> | <u>(45,094)</u> | <u>19,778</u> | <u>-</u> |
| Total Long-Term Liabilities | <u>\$ 1,741,443</u> | <u>\$ -</u> | <u>\$ (78,024)</u> | <u>\$ 1,663,419</u> | <u>\$ 34,289</u> |
| Less Amount Due in One Year | | | | <u>\$ (34,289)</u> | |
| Net Long-Term Debt Due After One Year | | | | <u>\$ 1,629,130</u> | |
| Business-Type Activities | | | | | |
| Long-Term Debt: | | | | | |
| Notes Payable: | | | | | |
| Installment Note to Polk County | \$ 1,027,000 | \$ - | \$ (129,588) | \$ 897,412 | \$ 75,671 |
| Installment Note to Florida Department of Environmental Protection | 2,728,813 | - | - | 2,728,813 | - |
| Intallment Note to Old National Leasing | 63,282 | - | (12,511) | 50,771 | 13,350 |
| Total Notes Payable | <u>3,819,095</u> | <u>-</u> | <u>(142,099)</u> | <u>3,676,996</u> | <u>89,021</u> |
| Revenue Certificates: | | | | | |
| Series 1999 Sewer Revenue Bonds | 515,500 | - | (8,600) | 506,900 | 9,000 |
| Series 2004 Water Revenue Bonds | 1,143,000 | - | (16,000) | 1,127,000 | 16,000 |
| Series 2005 Water / Sewer Revenue Notes | 4,000,000 | - | (214,122) | 3,785,878 | 220,674 |
| Total Revenue Certificates | <u>5,658,500</u> | <u>-</u> | <u>(238,722)</u> | <u>5,419,778</u> | <u>245,674</u> |
| Other Liabilities: | | | | | |
| Compensated Absences | 463 | 4,512 | - | 4,975 | - |
| Total Other Liabilities | <u>463</u> | <u>4,512</u> | <u>-</u> | <u>4,975</u> | <u>-</u> |
| Total Long-Term Liabilities | <u>\$ 9,478,058</u> | <u>\$ 4,512</u> | <u>\$ (380,821)</u> | <u>9,101,749</u> | <u>\$ 334,695</u> |
| Less Amount Due in One Year | | | | <u>(334,695)</u> | |
| Net Long-Term Debt Due After One Year | | | | <u>\$ 8,767,054</u> | |

Notes to Long-Term Obligations Table

Governmental Activities:

- Series 2007 Revenue Bonds - The USDA Rural Utilities Service Series 2007 Revenue Bonds are secured primarily by the communication services tax and the half cent sales Tax. The Series 2007 bonds bear interest at 4.125% with a final maturity of December 1, 2023. The bond proceeds were used to retire the Series 2006 Capital Improvement Revenue Bond Anticipation Note which was used to construct the new City administration facilities. The Series 2007 bonds require the maintenance of sinking and reserve fund.

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

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

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

Business-Type Activities:

- Series 1999 Revenue Bonds - The USDA Rural Utilities Service Series 1999 Revenue Bonds are secured by the sewer revenues as well as the public service taxes reported as revenue in the general fund. The Series 1999 bonds bear interest at 4.375% with a final maturity of September 30, 2039. The 1999 bond proceeds were used to construct a sewer transmission system. The bonds require the maintenance of sinking, reserve, and renewal and replacement funds.
- Series 2004 Revenue Bonds - The USDA Rural Utilities Service Series 2004 Revenue Bonds are secured by net revenues of the water system. The Series 2004 bonds bear interest at 4.25% with a final maturity of September 1, 2043. The Series 2004 bond proceeds were used to retire the 2002 bonds which were used to purchase a water system. The bonds require the maintenance of sinking, reserve, and renewal and replacement funds.
- Series 2005 Capital Improvement Revenue Note - The Capital Improvement Revenue Note, Series 2005 is secured by sewer impact fees and a subordinate lien and pledge of the net revenues of the sewer and water systems. The Series 2005 Note bears interest at 3.06% with annual principal payments on December 1 and semi-annual interest payments on June 1 and December 1 with a final maturity on December 1, 2023. The note proceeds were used to fund water and sewer system improvements.
- Installment Note to Florida Department of Environmental Protection (WW 51201P) - This note is secured by the net revenues of the sewer system and sewer impact fees. The note bears interest at 2.41%, with semi-annual principal and interest payments 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.
- Installment Note Payable to Polk County - This note payable bears interest at 11% with annual interest and principal of \$174,386 with a final maturity on February 1, 2018. The note financed the purchase of two tracts of real property totaling 45 acres that were used for disposal of wastewater effluent.
- Installment Note Payable to Old National Bank - This note payable bears interest at 6.5%. Monthly interest and principal payments of \$1,355 begin on April 4, 2009 with a final maturity on March 4, 2014. The note financed the purchase of three trucks used by the water and sewer funds.

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

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

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

Maturities:

Annual requirements to repay all long-term bonds and notes payable as of September 30, 2010, were as follows:

| Fiscal Year Ending September 30 | Governmental Activities | | Business-Type Activities | |
|------------------------------------|-------------------------|---------------------|--------------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| 2011 | \$ 34,289 | \$ 67,800 | \$ 334,695 | \$ 350,891 |
| 2012 | 35,703 | 66,386 | 367,255 | 333,036 |
| 2013 | 37,176 | 64,913 | 405,428 | 313,818 |
| 2014 | 38,709 | 63,380 | 416,879 | 293,336 |
| 2015 | 40,306 | 61,783 | 504,697 | 271,772 |
| 2016-2020 | 227,886 | 282,559 | 2,558,270 | 975,302 |
| 2021-2025 | 278,927 | 231,517 | 2,133,073 | 542,168 |
| 2026-2030 | 341,402 | 169,042 | 1,015,604 | 329,648 |
| 2031-2035 | 417,870 | 92,575 | 819,872 | 179,227 |
| 2036-2040 | 191,373 | 11,903 | 365,000 | 83,195 |
| 2041-2045 | - | - | 176,000 | 15,045 |
| Total | \$ 1,643,641 | \$ 1,111,858 | \$ 9,096,773 | \$ 3,687,438 |

NOTE 8 – FUTURE REVENUES THAT ARE PLEDGED

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

| <u>Pledged Revenue</u> | <u>Principal and Interest Outstanding</u> | <u>Principal and Interest Paid</u> | <u>Current Year Revenue</u> | <u>Revenues to Principal and Interest Paid</u> |
|--|---|------------------------------------|-----------------------------|--|
| Communication services tax pursuant to Section 202.19, Florida Statutes and the half cent sales tax pursuant to part VI of Chapter 218, Florida Statutes | \$ 2,755,499 | \$ 102,089 | \$ 184,915 | 181.13% |
| Water and sewer system net revenue and sewer impact fees | 11,332,240 | 494,741 | 657,803 | 132.96% |

**CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010**

NOTE 9 - INTERFUND TRANSACTIONS

Interfund transactions are summarized below:

Interfund receivables and payables as of September 30, 2010 consisted of:

| Receivable Fund | Payable Fund | Amount |
|-----------------|--------------|-----------|
| General Fund | Water Fund | \$ 11,681 |
| Sewer Fund | Water Fund | \$ 41,237 |

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, 2010 consisted of:

| Transfers Out | Transfers In | | | Total |
|---------------|-------------------|-------------------|-------------------|-------------------|
| | General Fund | Water Fund | Sewer Fund | |
| General Fund | \$ - | \$ 32,495 | \$ 324,265 | \$ 356,760 |
| Water Fund | 185,000 | - | 295,507 | 480,507 |
| Sewer Fund | - | 71,346 | - | 71,346 |
| Total | \$ 185,000 | \$ 103,841 | \$ 619,772 | \$ 908,613 |

Transfers are normally recurring and are approved by the City commission.

NOTE 10 - PENSION PLAN

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

FRS plan benefits include retirement, disability, survivor and an optional retiree health insurance subsidy which the City participates in at an additional contribution rate of .94% of gross pay. Benefits in the Plan vest at 6 years of service. All members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before his or her normal retirement date. Benefits are computed on the basis of age, average final compensation and service credit. Any changes in the benefits must be approved by the Florida legislature.

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 10 - PENSION PLAN (cont...)

Assets of the FRS are managed by the State Board of Administration which consists of the Governor, State Treasurer and State Comptroller. The portfolio consists of a highly diversified mix of investments which includes government and corporate bonds, stocks, income-producing real estate and short-term money market investments. The FRS issues an annual report each year containing further details which may be obtained by contacting the Division of Retirement, 2639-C N. Monroe Street, Tallahassee, Florida 32399-1560.

The Plan's policy is to fund, from monthly employer contributions, actuarially determined amounts expressed as a percentage of covered payroll necessary to pay benefits when due, including amortizing the unfunded liability over 30 years. The City made all of its required contributions for the year ended September 30, 2010, which totaled \$54,807. Actual contribution rates expressed as a percentage of gross pay, which include the optional health insurance subsidy, were as follows:

| <u>Class</u> | <u>Prior to July 1, 2010</u> | <u>After July 1, 2010</u> |
|-------------------|----------------------------------|-------------------------------|
| Regular | 9.85% | 10.77% |
| Senior Management | 13.12% | 14.57% |

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS

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

NOTE 12 – COMMITMENTS AND CONTINGENCIES

- The City is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations and, therefore, liabilities from the lease agreements are not reflected in the City's account groups. Remaining minimum lease payments are not significant.
- Effective March 1, 2007, the City contracted with the Polk County Sheriff to provide police services within the City. Under the amended agreement, the City shall pay \$104,034 for base services for the fiscal year ended September 30, 2011 which is the final year of the current contract. The City paid \$407,571 for the year ended September 30, 2010.
- The City has entered into a lease agreement with Cardinal Hill, LLC to lease a parcel of land to be utilized for a temporary wastewater treatment package plant. In lieu of a cash lease payment, the City credits the property owner with one water and sewer impact fee per month of the six year lease which began on February 1, 2006.

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 12 – COMMITMENTS AND CONTINGENCIES (cont...)

The City guaranteed complete removal of the wastewater treatment plant operation no later than July 1, 2012. If the City has not removed the wastewater treatment operation as of July 1, 2012, the City will continue to credit the owner with one water and sewer impact fee per month plus an additional monthly cash payment of \$1,000 until the operation has been removed.

- The City participates in several programs that are fully or partially funded by grants received from Federal, state, or county agency sources. Expenditures financed by grants are subject to audit by the appropriate grantor government/agency. If expenditures are disallowed due to non-compliance with grant program regulations, the City may be required to reimburse the grantor government/agency. As of September 30, 2010, 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.

NOTE 13 – 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, 2010. 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 14 - SUBSEQUENT EVENTS

The amount due to Polk County for impact fees collected but not remitted as of September 30, 2010 was \$531,199. This amount had not been remitted to the county as of March 31, 2011. This liability is reported on the statement of net assets as *due to other governments*.

On November 8, 2010, the installment note to the Florida Department of Environmental Protection (WW 51201P) was amended to include changes to the loan amount, service fee, and semiannual payments.

The City in January 2011 entered into a contract with a contractor for operation and maintenance services for the City's water and wastewater utility system. The contract provides that compensation to the contractor for services performed under the contract shall be based on the cost-plus-fixed fee method. The fixed fee shall be ten percent (10%) of the sum of the reimbursable costs plus any additional costs payable to the contractor. The contract shall extend from the date of execution through December 31, 2015 and that renewal for succeeding terms of five years after 2015 shall be at the discretion of the City

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF POLK CITY, FLORIDA
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2010**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts (Budgetary Basis)</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|------------------|---|---|
| | <u>Original</u> | <u>Final</u> | | |
| RESOURCES (inflows): | | | | |
| Taxes | \$ 985,015 | \$ 1,023,392 | \$ 1,065,987 | \$ 42,595 |
| Licenses and permits | 37,600 | 37,600 | 22,180 | (15,420) |
| Intergovernmental revenue | 185,805 | 200,051 | 191,285 | (8,766) |
| Charges for services | 264,842 | 288,211 | 287,922 | (289) |
| Fines and forfeitures | 4,940 | 4,940 | 2,241 | (2,699) |
| Impact fees | 45,000 | 45,000 | 15,112 | (29,888) |
| Other | 3,600 | 23,338 | 24,097 | 759 |
| Amounts available for appropriations | <u>1,526,802</u> | <u>1,622,532</u> | <u>1,608,824</u> | <u>(13,708)</u> |
| CHARGES TO APPROPRIATIONS (outflows): | | | | |
| General government | 609,260 | 527,760 | 581,687 | (53,927) |
| Public safety | 354,270 | 441,556 | 433,593 | 7,963 |
| Physical environment | 188,374 | 188,374 | 192,584 | (4,210) |
| Transportation | 262,547 | 148,294 | 143,262 | 5,032 |
| Culture/recreation | 100,817 | 105,014 | 102,111 | 2,903 |
| Capital outlay | 30,000 | 5,691 | 37,923 | (32,232) |
| Debt service | 102,089 | 102,089 | 102,088 | 1 |
| Total charges to appropriations | <u>1,647,357</u> | <u>1,518,778</u> | <u>1,593,248</u> | <u>(74,470)</u> |
| EXCESS (DEFICIENCY) OF RESOURCES OVER CHARGES TO APPROPRIATIONS | <u>(120,555)</u> | <u>103,754</u> | <u>15,576</u> | <u>(88,178)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfer to sewer fund | - | (324,265) | (324,265) | - |
| Transfer to water fund | - | (32,495) | (32,495) | - |
| Transfer from water fund | 195,000 | 195,000 | 185,000 | 10,000 |
| Total other financing sources | <u>195,000</u> | <u>(161,760)</u> | <u>(171,760)</u> | <u>10,000</u> |
| EXCESS (DEFICIENCY) OF RESOURCES OVER CHARGES TO APPROPRIATIONS AND OTHER FINANCING SOURCES | <u>74,445</u> | <u>(58,006)</u> | <u>\$ (156,184)</u> | <u>\$ (78,178)</u> |
| Cash carry forward | - | 132,451 | | |
| NET CHANGE IN FUND BALANCE | <u>\$ 74,445</u> | <u>\$ 74,445</u> | | |

COMPLIANCE

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

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

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of **City of Polk City, Florida**, as of and for the year ended September 30, 2010, and have issued our report thereon dated April 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **City of Polk City, Florida's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying management letter as finding 10-05.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **City of Polk City, Florida's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **City of Polk City, Florida's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **City of Polk City, Florida's** internal control over financial reporting.

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

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

(cont...)

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects **City of Polk City, Florida's** ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of **City of Polk City, Florida's** financial statements that is more than inconsequential will not be prevented or detected by **City of Polk City, Florida's** internal control. We consider the deficiencies described in the accompanying schedule management letter to be significant deficiencies in internal control over financial reporting. [Findings 10-01, 10-02 and 10-03.]

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We believe that all of the significant deficiencies described above are material weaknesses.

We noted certain matters that we reported to management of **City of Polk City, Florida** in a separate management letter dated April 19, 2011.

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

This report is intended solely for the information and use of the City Council, management, others within the organization, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

Brynjulfson CPA, P.A.

Brynjulfson CPA, P.A.
Lakeland, Florida
April 19, 2011

MANAGEMENT LETTER

MANAGEMENT LETTER

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

We have audited the financial statements of the **City of Polk City, Florida**, as of and for the fiscal year ended September 30, 2010, and have issued our report thereon dated April 19, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. We have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters as required by these standards which should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report with the exception of the following findings.

Finding 10-01: Utility Billing Subledger Should be reconciled to the General Ledger

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

Criteria: Good internal control requires performing a periodic reconciliation that would agree the utility accounts receivable subsidiary ledger to the amounts posted to the general ledger control account.

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

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

Finding 10-01: Utility Billing Subledger Should be reconciled to the General Ledger (cont...)

Recommendation: We continue to recommend that management implement procedures requiring monthly reconciliations between the utility accounts receivable subsidiary ledger to the general ledger control account.

Management's response: We completed half of this finding from the FY09' audit which called for us to reconcile the city's utility deposits, as well as account receivables. We began the monthly utility deposit reconciliations in FY10.

We are working on a plan to allow us to begin reconciling the accounts receivable accounts in each fund on a monthly basis. We hope to fulfill this recommendation in FY11. The city's accounts receivable/invoicing and utility billing accounts receivable are both tied to the same accounts receivable accounts in each fund. This needs to be separated out into a minimum of two separate accounts receivable accounts per fund (one for general account receivables, and one for utility receivables) to be able to easily reconcile. We will need to get support personnel for our financial software involved to help us with this separation, as there are too many accounts involved and we don't have the staff to perform the separation on this all at once. Also, our utility billing system has some functions that are automatically tied to the finance general ledger, but some entries, such as adjusting entries, have to be entered manually into the finance general ledger. We have to put together a reconciliation process that pulls together all of these factors.

Finding 10-02: Restricted Cash Monitoring Needs Improvement

Condition: For the last several years, we have reported that management does not monitor the sources and uses of all resources restricted by enabling legislation or contract or compliance with debt related covenants. While there has been some improvement in this area, we continued to note that management does not adequately monitor the sources and uses of the fifth-cent local option gas tax or the stormwater and building permit fees. Furthermore, as of September 30, 2010, the general fund and the sewer fund did not have sufficient cash to meet the required restrictions as imposed by enabling legislation, contract or debt related covenants.

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

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

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

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

Finding 10-02: Restricted Cash Monitoring Needs Improvement (concluded)

Management's response: We understand and are working on implementing more processes to ensure that we are recording all restricted revenues properly. We have already put some processes in place in FY10, as we now process monthly entries to set aside the monthly reserve and sinking fund requirements as set forth in our bonds – this was an audit finding in FY09. Our next step is putting together a schedule to reconcile our restricted revenues (fifth-cent local option gas tax, stormwater, and building permit fees) received against proper expenditures, and then moving the difference of those revenues above those expenditures to their restricted accounts.

For the FY11' budget, we also made sure that the restricted revenues were budgeted properly and included budgeted amount to 'reserves expense' to offset the budgeted restricted revenue, to show that the budgeted restricted cash items were not available for normal operation expenses. This wasn't done before.

Finding 10-03: Payroll

Condition: Last year we noted the following condition where internal control procedures over payroll processing and human resources had not been adequately designed or were not operating properly. We noted that this condition continues to exist.

- There was inadequate documentation in the employee personnel files to support status changes and pay rate increases making it difficult to validate employees' rate of pay.

Based upon our current year audit procedures we noted the following conditions related to internal control procedures over payroll processing and human resources.

- An employee was awarded a temporary pay increase but the supporting documentation does not specify the term of the temporary pay increase nor does it contain an explanation of the increased duties to substantiate the increase.
- Management was unable to provide us with the October 4, 2009 payroll register detail.
- Many provisions in the employee handbook are based upon an eight hour day and a standard five day workweek which creates many inconsistencies with the current policy of full time employees working nine hours a day, four days a week.

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

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

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

Finding 10-03: Payroll (concluded)

Recommendation: We continue to recommend that management design and implement adequate internal controls over the payroll processing transaction cycle and the human resources function. Management should require all employee status changes and pay rate increases to be signed by the City manager and the employee and documented in the individual employees' personnel files. All documentation supporting each bi-weekly payroll should be filed together and retained for a period based upon the City's document retention policy but not less than five years. We also recommend that management update the employee handbook to reflect the current personnel policy.

Management's response: Regarding the auditor's comment on inadequate documentation in the employee personnel files: current staff is now working to update each employee's personnel file to make sure that all human resource/payroll documentation is on file with the city manager/city clerk's office. The Finance Dept has a copy of all payroll change documentation that has come into effect since approximately October 2008, when the current Finance Department staff was hired.

Regarding the auditor's comment about an employee awarded a temporary pay increase but the supporting documentation didn't provide a specific term: the employee's pay increase is permanent, and we will provide documentation to support that. The employee was given a pay increase for taking on additional job duties due to an employee being laid off, plus another employee being out on medical leave. Neither of those two positions became filled full time afterwards. We originally thought that at least one of those full time employees would return, and that was not the case.

Regarding the auditor's comment about management being unable to provide the October 4th, 2009 payroll register detail: while we cannot reproduce the original documentation due to misplacement of the paperwork by an employee who has since been terminated, our financial program can always reproduce the payroll register report. Current finance staff processes payroll and files the paperwork immediately afterwards in the same day.

Regarding the auditor's comment about provisions in the handbook being based on an 8 hour, five day workweek, and we are currently working 9 hour days, four days a week: we originally believed that the decrease from a 40 hour workweek to a 36 hour workweek due to budget cuts would be temporary. Management now believes that the 36 hour workweek will continue indefinitely, and will therefore take the necessary steps to have the employee handbook updated to reflect the changes and also make any necessary changes to the employee benefits.

Finding 10-04: Florida Department of Environmental Protection
CFSA# 37.039: Polk City Wastewater Treatment System – Phase I

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

Finding 10-04: Florida Department of Environmental Protection
CFSA# 37.039: Polk City Wastewater Treatment System – Phase I (concluded)

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

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

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

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

Management's response: We have contacted the Florida Dept of Environmental Protection. A check for \$5,570.08 is set to be cut for them during the week of April 25th – 28th, 2011 with the next accounts payable check run.

Finding 10-05: Long Term Debt Issue Compliance

Condition: For the past several years we have noted instances of non-compliance with long term debt issue covenants. In addition to the restricted asset monitoring conditions noted in finding 10-02, the following condition continues to exist:

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

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

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

Recommendation: We continue to recommend management take steps to rectify the violation of the Series 2005 Capital Improvement Revenue Notes related to the pledge of sewer impact fees.

Finding 10-05: Long Term Debt Issue Compliance (concluded)

Management's response: Current management is adhering to policies with long term debt issuance. We are currently working on obtaining a new bond to retire and refinance some of our debt. One of our debts to be retired is the Series 2005 capital improvement note. By retiring this debt with the new bond issuance this will address the auditor's comment regarding the Series 2005 capital improvement note pledged revenues. Management has already contacted and received approval from the Florida Department of Environmental Protection regarding the new bond issuance.

- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the **City of Polk City, Florida** complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.
- Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. For the legal authority of the **City of Polk City, Florida**, see footnote A of the summary of significant accounting policies in the notes to the financial statements of the basic financial statements.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statement amounts that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors: (1) violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, and (2) control deficiencies that are not significant deficiencies, including, but not limited to: (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements); (b) failures to properly record financial transactions; and (c) inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we have the following finding.

10-06: Polk County Impact Fee Receipts and Remittances

For the past several years we have reported that Polk County impact fees of approximately \$531,000 were collected by the City during their 2007 and 2008 fiscal years and these fees had not been remitted to the county. During our current audit, we noted that the county impact fees collected during the 2010 fiscal year were being remitted to the county on a monthly basis; however, the long outstanding balance of approximately \$531,000 has not been paid.

Management's response: The city is currently in mediation with Polk County regarding this debt. Polk City attempted to pay a partial payment, however, Polk County refused to accept partial payment on this debt.

- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the **City of Polk City, Florida** met one of the conditions of Section 218.503(1), Florida Statutes as of September 30, 2010 whereby the City had a negative combined (1) total general fund unreserved fund balance and (2) total combined enterprise funds unrestricted net assets (general fund negative \$497,466 and a combined enterprise funds negative \$257,929), for which resources were not available to cover the deficit. We determined this condition is a result of deteriorating financial conditions reported in prior audits.

Management's response: The city has put many processes in place to address the historical deteriorating financial conditions. The city has: 1) taken measures to decrease expenses, 2) put together cash forecasting reports in the form of revenue and expense projections, 3) signed an agreement in FY11' with Woodard & Curran to operate the city's utility system - we are estimating an approximate \$200,000.00 per year in savings (we are estimating an approximate savings of \$100,000.00 for FY11, as the transition to Woodard & Curran operating our utilities wasn't completed until February 2011), 4) re-negotiated the Sheriff's contract for services from \$407,000.00 in FY10 to \$105,000.00 per year in FY11', 5) in FY11' the city is now working on obtaining a new bond that will refinance old debt with better interest rates and financing terms which will decrease the amount of debt payments the city pays out each year, 6) the city restructured the payment schedule for the DEP loan in FY11, and 7) in FY11' the city put a moratorium on the city's impact fees, excluding the water and sewer impact fees, to encourage growth in the city.

- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the **City of Polk City, Florida** for the fiscal year ended September 30, 2010, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2010. In connection with our audit, we determined that these two reports were in agreement.

- Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the **City of Polk City, Florida's** financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. Financial condition assessment procedures are applied to determine if conditions exist that may cause one of the conditions described in Section 218.503(1), Florida Statutes to occur if actions are not taken to address such conditions. As noted above, we determined that the **City of Polk City, Florida** met one of the conditions of Section 218.503(1), Florida Statutes as of September 30, 2010.

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

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

Brynjulfson CPA, P.A.

Brynjulfson CPA, P.A.
Lakeland, Florida
April 19, 2011