



# **CITY OF POLK CITY, FLORIDA**

**T.I.N. No. 59-6151760**

**FINANCIAL STATEMENTS AND AUDITORS' REPORTS**

**September 30, 2011**

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## **MANAGEMENTS' DISCUSSION AND ANALYSIS**

**City of Polk City  
Management's Discussion and Analysis  
September 30, 2011**

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

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

## **UNDERSTANDING THE BASIC FINANCIAL STATEMENTS**

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

The government-wide financial statements (pages 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.

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**Fund Financial Statements**

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

**Governmental Funds.**

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

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**Notes to the financial statements.**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. They can be found on pages 11 - 26 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Summary of Net Assets.**

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

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

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>
Current and other assets	\$ 177,027	\$ 456,343	\$ 415,445	\$ 3,157,020	\$ 592,472	\$ 3,613,363
Capital assets	3,296,600	3,204,443	11,430,010	12,080,516	14,726,610	15,284,959
<b>Total assets</b>	<b>\$ 3,473,627</b>	<b>\$ 3,660,786</b>	<b>\$ 11,845,455</b>	<b>\$ 15,237,536</b>	<b>\$ 15,319,082</b>	<b>\$ 18,898,322</b>
Long-term liabilities						
outstanding	\$ 1,663,419	\$ 2,228,754	\$ 9,101,749	\$ 12,288,247	\$ 10,765,168	\$ 14,517,001
Other liabilities	603,589	75,794	588,010	633,286	1,191,599	709,080
<b>Total liabilities</b>	<b>\$ 2,267,008</b>	<b>\$ 2,304,548</b>	<b>\$ 9,689,759</b>	<b>\$ 12,921,533</b>	<b>\$ 11,956,767</b>	<b>\$ 15,226,081</b>
Net assets:						
Invested in capital assets, net of related debt	\$ 1,652,959	\$ 1,595,091	\$ 2,333,236	\$ 1,699,322	\$ 3,986,195	\$ 3,294,413
Restricted	74,565	184,399	80,389	631,932	154,954	816,331
Unrestricted	(520,905)	(423,252)	(257,929)	(15,251)	(778,834)	(438,503)
<b>Total net assets</b>	<b>\$ 1,206,619</b>	<b>\$ 1,356,238</b>	<b>\$ 2,155,696</b>	<b>\$ 2,316,003</b>	<b>\$ 3,362,315</b>	<b>\$ 3,672,241</b>

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

Twenty-two percent of the City's net assets represent resources that are subject to external restrictions on how they may be used. 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 (\$438,503) or -12% of net assets. This represents a decrease in the deficit of approximately \$340,331 from 2010.

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Management's Discussion and Analysis  
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**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	
	2010	2011	2010	2011	2010	2011
<b>Revenues:</b>						
Program Revenues:						
Charges for services	\$ 331,563	\$ 349,486	\$ 1,484,915	\$ 1,740,015	\$ 1,816,478	\$ 2,089,501
Operating grants and contributions	26,277	28,071	73,944	67,782	100,221	95,853
Capital grants and contributions	23,209	23,075	30,810	95,868	54,019	118,943
General revenues: -						
Property taxes	628,910	572,681	-	-	628,910	572,681
Franchise/Public Ser. Tax	333,791	338,765	-	-	333,791	338,765
State shared revenues	153,412	152,721	-	-	153,412	152,721
Fuel taxes levied from transportation	89,248	125,175	-	-	89,248	125,175
Other	22,416	13,480	379	4,153	22,795	17,633
<b>Total revenues</b>	<b>\$ 1,608,826</b>	<b>\$ 1,603,454</b>	<b>\$ 1,590,048</b>	<b>\$ 1,907,818</b>	<b>\$ 3,198,874</b>	<b>\$ 3,511,272</b>
<b>Expenses:</b>						
General government	\$ 592,445	\$ 757,553	\$ -	\$ -	\$ 592,445	\$ 757,553
Library	96,208	89,635	-	-	96,208	89,635
Police	408,610	105,377	-	-	408,610	105,377
Building and zoning	37,507	7,464	-	-	37,507	7,464
Code Enforcement	25,493	42,622	-	-	25,493	42,622
Sanitation	192,584	188,491	-	-	192,584	188,491
Streets	154,914	169,412	-	-	154,914	169,412
Parks and recreation	43,416	47,431	-	-	43,416	47,431
Stormwater	1,891	1,891	-	-	1,891	1,891
Interest on long-term debt	69,045	68,959	-	-	69,045	68,959
Public utilities	-	-	1,560,388	1,722,511	1,560,388	1,722,511
<b>Total expenses</b>	<b>\$ 1,622,113</b>	<b>\$ 1,478,835</b>	<b>\$ 1,560,388</b>	<b>\$ 1,722,511</b>	<b>\$ 3,182,501</b>	<b>\$ 3,201,346</b>
Increase (decrease) in net assets before transfers	(13,287)	124,619	29,660	185,307	16,373	309,926
Transfers	(171,760)	25,000	171,760	(25,000)	-	-
Special items	-	-	(3,399,487)	-	(3,399,487)	-
Increase (decrease) in net assets	(185,047)	149,619	(3,198,067)	160,307	(3,383,114)	309,926
Net assets - October 1	1,391,666	1,206,619	5,353,763	2,155,696	6,745,429	3,362,315
<b>Net assets - September 30</b>	<b>\$ 1,206,619</b>	<b>\$ 1,356,238</b>	<b>\$ 2,155,696</b>	<b>\$ 2,316,003</b>	<b>\$ 3,362,315</b>	<b>\$ 3,672,241</b>



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**Governmental activities**

Governmental activities increased the City's net assets by \$149,619 after a net transfer of \$25,000 from the business-type activities. In the prior year, net assets decreased by \$185,047 after a \$171,760 transfer to the business-type activities. Total expenses decreased by \$143,278 or approximately 9%. The decrease can be attributed to Polk City's aggressive cost-cutting measures which included, streamlining service contracts, a spending freeze on unnecessary operational expenditures, and utilizing the Acting City Manager without compensation until May 1, 2011.

**Business-type activities**

Business-type activities increased the City's net assets by \$160,307 compared to a decrease of \$3,198,067 in the prior year. There was a net transfer of \$25,000 to the governmental activities.

**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, 2011, the City's governmental funds reported combined ending fund balances of \$387,358 which can be found on page 4. This is an increase of \$808,270 over the prior year ending fund balances deficit of (\$420,912).

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Management's Discussion and Analysis  
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In the General Fund, the City's revenues exceeded the expenditures by \$188,270. 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 page 27.

**Proprietary Funds**

These services combined to generate operating income of \$403,294. Compare that to the prior year operating income of \$290,277. 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 27). 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".

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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,

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<u><b>2010</b></u>	<u><b>2011</b></u>	<u><b>2010</b></u>	<u><b>2011</b></u>	<u><b>2010</b></u>	<u><b>2011</b></u>
<b>Assets not depreciated</b>						
Land	412,543	412,543	1,868,587	2,730,736	2,281,130	3,143,279
Construction in progress	-	-	-	60,651	-	60,651
<b>Total</b>	<b>412,543</b>	<b>412,543</b>	<b>1,868,587</b>	<b>2,791,387</b>	<b>2,281,130</b>	<b>3,203,930</b>
<b>Depreciated Assets</b>						
					-	
Buildings and improvements	2,673,966	2,673,966	-	-	2,673,966	2,673,966
Recreational facilities	467,974	467,974	-	-	467,974	467,974
Vehicles and equipment	390,321	422,731	240,037	240,037	630,358	662,768
Infrastructure	187,478	187,478	-	-	187,478	187,478
Utility plants	-	-	10,554,946	10,612,842	10,554,946	10,612,842
<b>Subtotal</b>	<b>3,719,739</b>	<b>3,752,149</b>	<b>10,794,983</b>	<b>10,852,879</b>	<b>14,514,722</b>	<b>14,605,028</b>
Accumulated depreciation	(835,682)	(960,248)	(1,233,560)	(1,563,750)	(2,069,242)	(2,523,998)
<b>Total</b>	<b>2,884,057</b>	<b>2,791,901</b>	<b>9,561,423</b>	<b>9,289,129</b>	<b>12,445,480</b>	<b>12,081,030</b>

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2011, amounts to \$12,081,030 (net of accumulated depreciation) compared to \$12,445,480 last year. That is a decrease of \$364,450 from the prior year.

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

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Management's Discussion and Analysis  
September 30, 2011**

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**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>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
Revenue notes	\$ -	\$ -	\$5,419,778	\$ 9,540,637	\$ 5,419,778	\$ 9,540,637
Notes payable	\$1,643,641	\$2,204,352	\$3,676,996	\$ 2,747,610	\$ 5,320,637	\$ 4,951,962
<b>Total</b>	<b>\$1,643,641</b>	<b>\$2,204,352</b>	<b>\$9,096,774</b>	<b>\$12,288,247</b>	<b>\$10,740,415</b>	<b>\$14,492,599</b>

At the end of the current fiscal year, the Governmental Activities had total debt outstanding of \$2,228,754 of which \$24,402 pertains to compensated absences. This compares to \$1,663,419 in the prior year. This consists primarily of the Series 2007 Capital Improvement Revenue Bonds for the construction of the Polk City Government Center and the Series 2011B Refunding Revenue Bonds for the payment of its obligation to Polk County.

The Business-type Activities had total debt outstanding of \$12,288,247 which consists primarily of the Series 2011A Water/Sewer System Capital Improvement and Refunding Revenue Bonds and the installment note to the Florida Department of Environmental Protection.

For additional information, see Note 7, page 21 – 23.

**City of Polk City  
Management's Discussion and Analysis  
September 30, 2011**

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**CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS**

In October 2011 City Council appointed the City Clerk as City Manager with designated duties of the City Clerk; this will result in a cost savings of approximately \$57,500.

In 2011, the City of Polk City approved the issuance of a \$9,720,000 Water and Sewer System Capital Improvement and Refunding Revenue Bonds, Series 2011A and a \$595,000 Florida Water and Sewer System Refunding Revenue Bonds, Taxable Series. In doing so, Polk City was able to restructure its debt and to refund the following:

• Refund 2005 SunTrust Note	\$3,592,174.47
• Refund 2004 USDA Loan –Water	\$1,370,000.00
• Refund Sprayfield Loan (Polk County)	\$ 871,023.32
• Refund Impact Fees owed to Polk County	\$ 531,198.90
• Refund 1999 USDA Loan	\$ 528,955.43
• Purchase of Cardinal Hill Property	\$ 850,000.00
• Deposit into Debt Service Reserve Fund (EF)	\$ 610,967.73
• Deposit into Debt Service Reserve Fund (GF)	\$ 37,399.77
• Capital Needs	\$1,370,000.00

In Fiscal Year 2011 Polk City received a Community Development Block Grant in the amount of \$650,000 for a Water Line Replacement Project in the “Railroad Heights” area. City Council approved to award the bid to Empower Construction on April 9, 2012; the work is scheduled to be completed by the end of the Fiscal Year 2012.

The Water, Wastewater and Reuse Water System Improvements, which is part of the Revenue Bond Series 2011 A, is expected to begin in Fiscal Year 2012; this project is expected to be cost approximately \$1,180,000.

The decorative street lighting was repaired and bulbs replaced; this will now be schedule on a yearly basis. The Library roof had to be replaced this year, Freedom Park had new mulch installed, the bathrooms and bandstand were painted and the Pocket Park on 2<sup>nd</sup> Street also had new mulch installed.

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In Fiscal Year 2012 the City anticipates to go out for "Request for Proposals" to resurface up to eight streets for an amount not to exceed \$115,000 (high end); this will be paid from the Restricted Cash Account for Paving.

Woodard and Curran has completed one year of their contract as of February 1, 2012; the cost savings to the City for the first year was 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, 2011, 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, 2011, 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 May 9, 2012 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 M11 and page 27, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Brynjulfson CPA, P.A.*

Brynjulfson CPA, P.A.  
Lakeland, Florida  
May 9, 2012



**CITY OF POLK CITY, FLORIDA  
GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
AS OF SEPTEMBER 30, 2011**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 148,389	\$ 229,489	\$ 377,878
Receivables, current:			
Customer accounts, net	51,783	152,349	204,132
Intergovernmental	35,059	7,578	42,637
Franchise and public service taxes	25,189	-	25,189
Internal balances	(1,733)	1,733	-
Restricted assets:			
Cash and cash equivalents	184,399	2,208,173	2,392,572
Capital assets:			
Non-depreciable	412,542	2,791,387	3,203,929
Depreciable, net	2,791,901	9,289,129	12,081,030
Deferred charges	13,257	557,698	570,955
<b>TOTAL ASSETS</b>	<b>3,660,786</b>	<b>15,237,536</b>	<b>18,898,322</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 51,322	\$ 121,906	\$ 173,228
Accrued payroll	10,694	-	10,694
Accrued interest payable	6,809	61,849	68,658
Due to other governments	6,969	-	6,969
Deferred revenue	-	299,310	299,310
Customer deposits	-	150,221	150,221
Long-term liabilities:			
Due within one year	265,703	33,986	299,689
Due in more than one year	1,963,051	12,254,261	14,217,312
<b>TOTAL LIABILITIES</b>	<b>2,304,548</b>	<b>12,921,533</b>	<b>15,226,081</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,595,091	1,699,322	3,294,413
Restricted for:			
Building code enforcement	4,654	-	4,654
Transportation infrastructure	101,554	-	101,554
Water system improvements	-	20,964	20,964
Debt service	78,191	610,968	689,159
Unrestricted	(423,252)	(15,251)	(438,503)
<b>TOTAL NET ASSETS</b>	<b>\$ 1,356,238</b>	<b>\$ 2,316,003</b>	<b>\$ 3,672,241</b>

See Accompanying Notes to Financial Statements

CITY OF POLK CITY, FLORIDA  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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
<b>PRIMARY GOVERNMENT:</b>							
<b>Governmental Activities:</b>							
General government	\$ 757,553	\$ 24,908	\$ 3,071	\$ -	\$ (729,574)	\$ -	\$ (729,574)
Library	89,635	4,772	25,000	-	(59,863)	-	(59,863)
Police	105,377	524	-	23,075	(81,778)	-	(81,778)
Building and zoning	7,464	33,305	-	-	25,841	-	25,841
Code enforcement	42,622	-	-	-	(42,622)	-	(42,622)
Sanitation	188,491	253,090	-	-	64,599	-	64,599
Streets	169,412	17,942	-	-	(151,470)	-	(151,470)
Parks and recreation	47,431	-	-	-	(47,431)	-	(47,431)
Stormwater utility	1,891	14,945	-	-	13,054	-	13,054
Interest on long term debt	68,959	-	-	-	(68,959)	-	(68,959)
<b>Total governmental activities</b>	<u>1,478,835</u>	<u>349,486</u>	<u>28,071</u>	<u>23,075</u>	<u>(1,078,203)</u>	<u>-</u>	<u>(1,078,203)</u>
<b>Business-type Activities:</b>							
Water utility	643,124	969,272	-	25,964	-	352,112	352,112
Sewer utility	1,079,387	770,743	67,782	69,904	-	(170,958)	(170,958)
<b>Total business-type activities</b>	<u>1,722,511</u>	<u>1,740,015</u>	<u>67,782</u>	<u>95,868</u>	<u>-</u>	<u>181,154</u>	<u>181,154</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 3,201,346</u>	<u>\$ 2,089,501</u>	<u>\$ 95,853</u>	<u>\$ 118,943</u>	<u>(1,078,203)</u>	<u>181,154</u>	<u>(897,049)</u>
<b>GENERAL REVENUES:</b>							
Taxes:							
Property taxes, levied for general purposes					572,681	-	572,681
Franchise taxes					91,916	-	91,916
Public service taxes					246,849	-	246,849
Fuel taxes levied for transportation					125,175	-	125,175
State shared revenue					152,721	-	152,721
Investment earnings					421	588	1,009
Net transfers (to)/from other funds					25,000	(25,000)	-
Miscellaneous					13,059	3,565	16,624
<b>Total General Revenues, Special Items, and Transfers</b>					<u>1,227,822</u>	<u>(20,847)</u>	<u>1,206,975</u>
<b>CHANGE IN NET ASSETS</b>					149,619	160,307	309,926
<b>NET ASSETS - beginning of year</b>					<u>1,206,619</u>	<u>2,155,696</u>	<u>3,362,315</u>
<b>NET ASSETS - end of year</b>					<u>\$ 1,356,238</u>	<u>\$ 2,316,003</u>	<u>\$ 3,672,241</u>

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA  
BALANCE SHEET - GOVERNMENTAL FUNDS  
AS OF SEPTEMBER 30, 2011**

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	<b>General Fund</b>
	<hr/>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 148,389
Receivables, net:	
Customer accounts, net	51,783
Intergovernmental	35,059
Franchise and public service taxes	25,189
Restricted assets:	
Cash and cash equivalents	184,399
Deferred charges	13,257
<b>TOTAL ASSETS</b>	<hr/> <b>\$ 458,076</b> <hr/>
 <b>LIABILITIES AND FUND BALANCE</b>	
Accounts payable	\$ 51,322
Accrued payroll	10,694
Due to other governments	6,969
Due to other funds	1,733
<b>TOTAL LIABILITIES</b>	<hr/> <b>70,718</b> <hr/>
 <b>FUND BALANCE:</b>	
Nonspendable:	
Deferred charges	13,257
Restricted for:	
Highways / streets	101,554
Debt service reserves / sinking	78,191
Building code enforcement	4,654
Unassigned:	189,702
<b>TOTAL FUND BALANCE</b>	<hr/> <b>387,358</b> <hr/>
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>	 <hr/> <b>\$ 458,076</b> <hr/>

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, 2011**

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<b>FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ 387,358</b>
<b>Amounts reported for governmental activities in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.	3,204,443
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in governmental funds.	(6,809)
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>(2,228,754)</u>
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 1,356,238</u></b>

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, 2011**

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	<b>General Fund</b>
	<hr/>
<b>REVENUES:</b>	
Taxes	\$ 1,050,466
Licenses and permits	38,215
Intergovernmental revenue	205,394
Charges for services	291,203
Fines and forfeitures	561
Other	17,615
Total revenues	<hr/> 1,603,454 <hr/>
<b>EXPENDITURES:</b>	
General government	678,535
Public safety	147,163
Physical environment	188,491
Transportation	159,769
Culture/recreation	100,559
Capital outlay	38,578
Debt service	102,089
Total expenditures	<hr/> 1,415,184 <hr/>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<hr/> 188,270 <hr/>
<b>OTHER FINANCING SOURCES (USES)</b>	
Bond proceeds	595,000
Transfers in	25,000
Total other financing sources	<hr/> 620,000 <hr/>
<b>NET CHANGE IN FUND BALANCE</b>	<hr/> 808,270 <hr/>
<b>FUND BALANCE, beginning of year</b>	<hr/> (420,912) <hr/>
<b>FUND BALANCE, end of year</b>	<hr/> <b>\$ 387,358</b> <hr/>

See Accompanying Notes to Financial Statements



**CITY OF POLK CITY, FLORIDA**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**BUSINESS TYPE ACTIVITIES**  
**AS OF SEPTEMBER 30, 2011**

	<b>Business Type Activities - Enterprise Funds</b>		
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 108,991	\$ 120,498	\$ 229,489
Due from other governments	7,578	-	7,578
Customer accounts receivable, net	79,041	73,308	152,349
Due from general fund	1,733	-	1,733
Deferred charges	8,908	5,908	14,816
Total current assets	<u>206,251</u>	<u>199,714</u>	<u>405,965</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	615,574	1,592,599	2,208,173
Capital assets, net:			
Non-depreciable	24,351	2,767,036	2,791,387
Depreciable, net	3,118,032	6,171,097	9,289,129
Deferred bond issue costs	123,886	418,996	542,882
Total noncurrent assets	<u>3,881,843</u>	<u>10,949,728</u>	<u>14,831,571</u>
<b>TOTAL ASSETS</b>	<u>4,088,094</u>	<u>11,149,442</u>	<u>15,237,536</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	45,821	76,085	121,906
Bonds and notes payable, current portion	-	33,986	33,986
Accrued interest payable	15,469	46,380	61,849
Deferred revenues	56,785	242,525	299,310
Total current liabilities	<u>118,075</u>	<u>398,976</u>	<u>517,051</u>
Noncurrent liabilities:			
Customer deposits	150,221	-	150,221
Bonds and notes payable, noncurrent portion	2,177,202	10,077,059	12,254,261
Total noncurrent liabilities	<u>2,327,423</u>	<u>10,077,059</u>	<u>12,404,482</u>
<b>TOTAL LIABILITIES</b>	<u>2,445,498</u>	<u>10,476,035</u>	<u>12,921,533</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,379,919	319,403	1,699,322
Restricted for:			
Water system improvements	20,964	-	20,964
Debt service	138,068	472,900	610,968
Unrestricted	103,645	(118,896)	(15,251)
<b>TOTAL NET ASSETS</b>	<u>\$ 1,642,596</u>	<u>\$ 673,407</u>	<u>\$ 2,316,003</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, 2011**

	<b>Business Type Activities - Enterprise Funds</b>		
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 969,272	\$ 770,743	\$ 1,740,015
Total operating revenues	969,272	770,743	1,740,015
<b>OPERATING EXPENSES:</b>			
Personal services	40,420	-	40,420
Operating expenses	408,441	557,670	966,111
Depreciation	120,002	210,188	330,190
Total operating expenses	568,863	767,858	1,336,721
<b>OPERATING INCOME (LOSS)</b>	400,409	2,885	403,294
<b>NONOPERATING REVENUE (EXPENSE):</b>			
Interest revenue	509	79	588
Interest expense	(74,261)	(311,529)	(385,790)
Miscellaneous revenue	3,046	519	3,565
Other nonoperating revenue	-	67,782	67,782
Total nonoperating revenues (expenses)	(70,706)	(243,149)	(313,855)
Income (loss) before contributions	329,703	(240,264)	89,439
<b>CAPITAL GRANTS AND CONTRIBUTIONS:</b>			
Federal grant	5,000	-	5,000
Impact fees	20,964	69,904	90,868
Total capital grants and contributions	25,964	69,904	95,868
<b>TRANSFERS IN (OUT)</b>			
Transfer from other funds	-	297,175	297,175
Transfers to other funds	(322,175)	-	(322,175)
Total transfers	(322,175)	297,175	(25,000)
Change in net assets	33,492	126,815	160,307
<b>TOTAL NET ASSETS - beginning of year</b>	1,609,104	546,592	2,155,696
<b>TOTAL NET ASSETS - end of year</b>	\$ 1,642,596	\$ 673,407	\$ 2,316,003

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, 2011**

	<b>Business Type Activities - Enterprise Funds</b>		
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers	\$ 983,256	\$ 767,416	\$ 1,750,672
Payments to suppliers	(373,166)	(422,045)	(795,211)
Payments for salaries and benefits	(49,012)	-	(49,012)
Net cash flows from operating activities	<u>561,078</u>	<u>345,371</u>	<u>906,449</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Increase (decrease) in customer deposits	12,180	-	12,180
Increase (decrease) in due to (from) other funds	(54,651)	41,237	(13,414)
Miscellaneous revenue	3,047	-	3,047
Transfers (to) from other funds	(322,175)	297,175	(25,000)
Net cash flows from noncapital financing activities	<u>(361,599)</u>	<u>338,412</u>	<u>(23,187)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets, net of related payables	(50,495)	(930,202)	(980,697)
Bond issuance costs	(42,847)	(142,547)	(185,394)
Capital contributions received	20,964	69,904	90,868
Federal grant	5,000	-	5,000
Bond proceeds	2,096,162	7,139,061	9,235,223
Principal paid on notes, bonds and lease obligations	(1,624,603)	(4,776,635)	(6,401,238)
Interest paid on borrowings	(67,339)	(366,758)	(434,097)
Net cash flows from capital and related financing activities	<u>336,842</u>	<u>992,823</u>	<u>1,329,665</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest on invested funds	509	79	588
Net cash flows from investing activities	<u>509</u>	<u>79</u>	<u>588</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>536,830</u>	<u>1,676,685</u>	<u>2,213,515</u>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>187,735</u>	<u>36,412</u>	<u>224,147</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 724,565</u>	<u>\$ 1,713,097</u>	<u>\$ 2,437,662</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ 400,409	\$ 2,885	\$ 403,294
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	120,002	210,188	330,190
(Increase) decrease in accounts receivable	13,984	(3,327)	10,657
(Increase) decrease in deferred charges	(8,908)	(5,908)	(14,816)
Increase (decrease) in accounts payable	20,159	64,861	85,020
Increase (decrease) in compensated absences	(4,975)	-	(4,975)
Increase (decrease) in accrued payroll	(3,617)	-	(3,617)
Non-cash lease expense	-	68,301	68,301
Non-cash bond cost amortization	24,024	8,371	32,395
Net cash flows from operating activities	<u>\$ 561,078</u>	<u>\$ 345,371</u>	<u>\$ 906,449</u>
<b>Noncash financing and investing activities:</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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

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

**A. REPORTING ENTITY**

The City of Polk City, Florida is a political subdivision of the State of Florida created in 1925 by Chapter 11016, Laws of the State of Florida. The City operates under a council/manager form of municipal government and provides general municipal services, including public safety, public works, culture, recreation, community development, and water and sewer services. These financial statements include all of the funds, organizations, agencies and departments 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 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, 2011**

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

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

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

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

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

**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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

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

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

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

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

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

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

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

**CASH AND CASH EQUIVALENTS** - Includes all short-term highly liquid investments with a maturity of three months or less when purchased, and all bank demand deposits, certificates of deposit, money-market and savings accounts. At September 30, 2011, 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, 2011**

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**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 \$151,364 at September 30, 2011. 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, 2011, such reserves for all funds totaled \$14,010. Receivables are reported in the financial statements net of the reserve for doubtful accounts.

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

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

**CAPITAL ASSETS** - In the government-wide financial statements capital assets include land, buildings, improvements, utility plant, and furniture and equipment with an individual cost of \$1,000 or more and an estimated useful life in excess of two years as defined by City resolution. Such assets are recorded at historical cost, if purchased and at fair market value at date of gift, if donated. Major additions are capitalized while maintenance and repairs which do not improve or extend the life of the respective assets are charged to expense. Governmental fund infrastructure assets (e.g., roads, bridges, sidewalks, streets, drainage systems and lighting system), acquired prior to October 1, 2003, have not been reported.

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

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

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

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

**INTEREST COSTS** - Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of enterprise fund capital assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. No net interest costs were capitalized for the year ended September 30, 2011.

**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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

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

**COMPENSATED ABSENCES** - Sick leave is credited to an employee on the basis of nine hours per month of service not to exceed ninety days. Accumulated sick leave does not vest and is not paid upon termination of employment. Vacation leave is credited to an employee depending on years of service, ranging from four to sixteen days per year. Vacation leave accumulation is limited to 160 hours for hourly employees and 240 hours for salaried employees. Eligible employees accumulate two personal days a year not to exceed ten days. 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, 2011**

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

**EQUITY CLASSIFICATIONS -**

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

- a) Invested in capital assets, net of related debt - Consists of capital assets including restricted assets from debt proceeds, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports \$816,331 of restricted net assets of which \$127,172 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. The Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Descriptions* (GASB 54) effective for reporting periods beginning after June 15, 2010. The statement establishes fund balance classifications, provides for a hierarchy of spending constraints for spendable resources and requires disclosure of non-spendable and spendable resources. Spendable resources are to be shown as restricted, committed, assigned or unassigned as considered appropriate in the City's circumstances. The following classifications describe the relative strength of the spending constraints:

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

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

*Committed* – amounts that can be used only for specific purposes determined by a formal action of the City Commission. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Commission.

*Assigned* – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes.

*Unassigned* – all other spendable amounts.

**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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**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, 2011 was 8.6547.

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

**NOTE 3 - BUDGETARY LAW AND PRACTICE**

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

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

- A. Compliance with Finance Related Legal and Contractual Provisions - The City had no material violations of finance related legal and contractual provisions including with respect to investment of funds and long-term debt covenants.
- B. Deficit fund balance or Net Assets of Individual Funds - As of September 30, 2011, the sewer fund had a deficit unrestricted fund balance of \$118,896.

**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.



**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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**NOTE 5 - DEPOSITS AND INVESTMENTS** (cont...)

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	\$ 500
Deposits in financial institutions:	
Insured or fully collateralized bank deposits	<u>2,769,950</u>
Total cash and cash equivalents	<u>\$ 2,770,450</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, 2011**

**NOTE 6 - CAPITAL ASSETS**

Capital assets activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<b>Governmental Activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 412,542	\$ -	\$ -	\$ 412,542
<b>Total</b>	<b>\$ 412,542</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 412,542</b>
<b>Capital assets being depreciated:</b>				
Buildings and Improvements	\$ 2,673,966	\$ -	\$ -	\$ 2,673,966
Recreational Facilities	467,974	-	-	467,974
Equipment	390,321	32,410	-	422,731
Infrastructure:				
Sidewalk Systems	111,852	-	-	111,852
Drainage Systems	75,626	-	-	75,626
<b>Total</b>	<b>3,719,739</b>	<b>32,410</b>	<b>-</b>	<b>3,752,149</b>
Less, Accumulated Depreciation:				
Buildings and Improvements	(416,205)	(62,171)	-	(478,376)
Recreational Facilities	(111,033)	(27,267)	-	(138,300)
Equipment	(288,815)	(30,441)	-	(319,256)
Infrastructure:				
Sidewalk Systems	(9,798)	(2,796)	-	(12,594)
Drainage Systems	(9,831)	(1,891)	-	(11,722)
<b>Total Accumulated Depreciation</b>	<b>(835,682)</b>	<b>(124,566)</b>	<b>-</b>	<b>(960,248)</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 2,884,057</b>	<b>\$ (92,156)</b>	<b>\$ -</b>	<b>\$ 2,791,901</b>
<b>Business-Type Activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 1,868,587	\$ 862,149	\$ -	\$ 2,730,736
Construction in Progress	-	60,651	-	60,651
<b>Total</b>	<b>\$ 1,868,587</b>	<b>\$ 922,800</b>	<b>\$ -</b>	<b>\$ 2,791,387</b>
<b>Capital assets being depreciated:</b>				
Utility Plant	\$ 10,554,946	\$ 57,896	\$ -	\$ 10,612,842
Equipment	240,037	-	-	240,037
<b>Total</b>	<b>10,794,983</b>	<b>57,896</b>	<b>-</b>	<b>10,852,879</b>
Less, Accumulated Depreciation:				
Utility Plant	(1,136,042)	(287,988)	-	(1,424,030)
Equipment	(97,518)	(42,202)	-	(139,720)
<b>Total Accumulated Depreciation</b>	<b>(1,233,560)</b>	<b>(330,190)</b>	<b>-</b>	<b>(1,563,750)</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 9,561,423</b>	<b>\$ (272,294)</b>	<b>\$ -</b>	<b>\$ 9,289,129</b>

**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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

Depreciation expense was charged to the following programs and functions:

**Governmental Activities:**

General government	\$ 82,052
Library	1,587
Building and zoning	20
Code enforcement	20
Streets	10,301
Parks and recreation	28,695
Stormwater utility	<u>1,891</u>
Total depreciation expense - governmental activities	<u>\$ 124,566</u>

**Business-type Activities:**

Water	\$ 120,002
Sewer	<u>210,188</u>
Total depreciation expense - business-type activities	<u>\$ 330,190</u>

**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

**NOTE 7 - LONG-TERM OBLIGATIONS**

The following is a summary of changes in long-term obligations for the year ended September 30, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
<b>Governmental Activities</b>					
Long-Term Debt:					
Notes Payable:					
Series 2007 Capital Improvement Revenue Bonds	\$ 1,643,641	\$ -	\$ (34,289)	\$ 1,609,352	\$ 35,703
Series 2011B Water / Sewer System Refunding Revenue Bonds	-	595,000	-	595,000	230,000
Total Bonds and Notes Payable	<u>1,643,641</u>	<u>595,000</u>	<u>(34,289)</u>	<u>2,204,352</u>	<u>265,703</u>
Other Liabilities:					
Compensated Absences	19,778	4,624	-	24,402	-
Total Other Liabilities	<u>19,778</u>	<u>4,624</u>	<u>-</u>	<u>24,402</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 1,663,419</u>	<u>\$ 599,624</u>	<u>\$ (34,289)</u>	<u>\$ 2,228,754</u>	<u>\$ 265,703</u>
Less Amount Due in One Year				<u>\$ (265,703)</u>	
Net Long-Term Debt Due After One Year				<u>\$ 1,963,051</u>	
<b>Business-Type Activities</b>					
Long-Term Debt:					
Notes Payable:					
Installment Note to Polk County	\$ 897,412	\$ -	\$ (897,412)	\$ -	\$ -
Installment Note to Florida Department of Environmental Protection	2,728,813	52,075	(33,278)	2,747,610	33,986
Intallment Note to Old National Leasing	50,771	-	(50,771)	-	-
Total Notes Payable	<u>3,676,996</u>	<u>52,075</u>	<u>(981,461)</u>	<u>2,747,610</u>	<u>33,986</u>
Revenue Certificates:					
Series 1999 Sewer Revenue Bonds	506,900	-	(506,900)	-	-
Series 2004 Water Revenue Bonds	1,127,000	-	(1,127,000)	-	-
Series 2005 Water / Sewer Revenue Notes	3,785,878	-	(3,785,878)	-	-
Series 2011A Water / Sewer System Capital Improvement and Refunding Revenue Bonds	-	9,720,000	-	9,720,000	-
Less discount on Series 2011A	-	(179,363)	-	(179,363)	-
Total Revenue Certificates	<u>5,419,778</u>	<u>9,540,637</u>	<u>(5,419,778)</u>	<u>9,540,637</u>	<u>-</u>
Other Liabilities:					
Compensated Absences	4,975	-	(4,975)	-	-
Total Other Liabilities	<u>4,975</u>	<u>-</u>	<u>(4,975)</u>	<u>-</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 9,101,749</u>	<u>\$ 9,592,712</u>	<u>\$ (6,406,214)</u>	<u>12,288,247</u>	<u>\$ 33,986</u>
Less Amount Due in One Year				<u>(33,986)</u>	
Net Long-Term Debt Due After One Year				<u>\$ 12,254,261</u>	

**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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

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

**Governmental Activities:**

- Series 2007 Revenue Bonds - The USDA Rural Utilities Service Series 2007 Revenue Bonds are secured primarily by the communication services tax and the half cent sales Tax. The Series 2007 bonds bear interest at 4.125% with a final maturity of September 1, 2037. The bond proceeds were used to retire the Series 2006 Capital Improvement Revenue Bond Anticipation Note which was used to construct the new City administration facilities. The Series 2007 bonds require the maintenance of sinking and reserve fund.
- Series 2011B Refunding Revenue Bonds – The Refunding Revenue Bonds, Series 2011B are secured by net revenues of the system, certain public service tax revenues, and moneys on deposit in various funds and accounts of the City. The Series 2011B bonds bear interest at 1.15 – 1.75% with a final maturity of August 1, 2014. The Series 2011B bond proceeds were used to refund the Polk County payment obligation, fund a portion of the reserve requirement and pay the costs of issuances of the bonds. The bonds require the maintenance of sinking and reserve funds.

**Business-Type Activities:**

- Series 2011A Capital Improvement and Refunding Revenue Bonds – The Capital Improvement and Refunding Revenue Bonds, Series 2011A are secured by net revenues of the system, certain public service tax revenues, and moneys on deposit in various funds and accounts of the City. The Series 2011A bonds bear interest at 2.00 – 5.00% (true-interest-cost of 4.97%) with a final maturity of August 1, 2041. The Series 2011A bond proceeds were used to finance and/or reimburse the costs of certain improvements to the City's water and sewer system, refund all of the Series 1999 Revenue Bonds, Series 2004 Revenue Bonds, Series 2005 Capital Improvement Revenue Note, Polk County sprayfield loan, fund a portion of the reserve requirement and pay the costs of issuance of the bonds. The bonds require the maintenance of sinking, reserve, and renewal and replacement funds. The portion of the Series 2011A bonds that were used to refund prior obligations of the City will increase debt service payments over the term of the bonds by \$3,636,037 with an economic loss of \$52,872 when compared to the debt service requirements of the refunded debt.
- Installment Note to Florida Department of Environmental Protection (WW 51201P) - This note is secured by the net revenues of the sewer system and sewer impact fees. The note bears interest at 2.41%, with semi-annual principal and interest payments on March 15 and September 15 with a final maturity in September 2033. The note proceeds were used to fund the planning, administrative, and engineering costs for construction of wastewater transmission, collection, reuse and treatment facilities. The Note requires the maintenance of a sinking fund.

**CITY OF POLK CITY, FLORIDA  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2011**

**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, 2011, were as follows:

Fiscal Year Ending September 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 265,703	\$ 74,047	\$ 33,986	\$ 472,746
2013	237,176	70,601	34,810	507,558
2014	203,709	66,268	70,654	506,714
2015	40,306	61,783	316,174	504,702
2016	41,969	60,120	323,869	495,857
2017-2021	237,286	273,159	1,772,121	2,333,257
2022-2026	290,433	220,011	2,090,012	2,013,440
2027-2031	355,485	154,960	2,507,815	1,593,627
2032-2036	435,107	75,337	2,523,169	1,047,498
2037-2041	97,178	4,009	2,795,000	433,000
Less: unamortized bond discount	-	-	(179,363)	-
<b>Total</b>	<b>\$ 2,204,352</b>	<b>\$ 1,060,295</b>	<b>\$ 12,288,247</b>	<b>\$ 9,908,399</b>

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

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

<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	\$ 2,653,410	\$ 102,089	\$ 193,412	189.45%
Water and sewer system net revenue and sewer impact fees	22,987,245	65,764	81,142	123.38%

**CITY OF POLK CITY, FLORIDA  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2011**

**NOTE 9 - INTERFUND TRANSACTIONS**

Interfund transactions are summarized below:

**Interfund receivables and payables as of September 30, 2011 consisted of:**

Receivable Fund	Payable Fund	Amount
Water Fund	General Fund	\$ 1,733

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, 2011 consisted of:**

Receiving Fund	Paying Fund	Amount
General Fund	Water Fund	\$ 25,000
Sewer Fund	Water Fund	\$ 297,175

**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 1.11% of gross pay. Benefits in the Plan vest at 6 years of service (8 years of service for new members enrolled on or after July 1, 2011). Members are eligible for normal retirement benefits at age 62 (65 for new members enrolled on or after July 1, 2011) or at any age after 30 (33 for new members enrolled on or after July 1, 2011) years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before his or her normal retirement date. Benefits are computed on the basis of age, average final compensation and service credit. Any changes in the benefits must be approved by the Florida legislature. Assets of the FRS are managed by the State Board of Administration which consists of the Governor, State Treasurer and State Comptroller. The portfolio consists of a highly diversified mix of investments which includes

**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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

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, 2011, which totaled \$28,783. Actual contribution rates expressed as a percentage of gross pay, which include the optional health insurance subsidy, were as follows:

Class	Prior to July 1, 2011		After July 1, 2011	
	Employer	Employee	Employer	Employee
	Regular	10.77%	0.00%	4.91%
Senior Management	14.57%	0.00%	6.27%	3.00%

**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.
- 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, 2011, the City believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.
- Effective March 1, 2007, the City contracted with the Polk County Sheriff to provide police services within the City. Under the amended agreement, the City shall pay \$112,870 for base services for the fiscal year ended September 30, 2012 with the contract effective through September 30, 2014. The City paid \$104,034 for the year ended September 30, 2011.



**CITY OF POLK CITY, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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

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

**NOTE 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, 2011. 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.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF POLK CITY, FLORIDA  
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>RESOURCES (inflows):</b>				
Taxes	\$ 971,914	\$ 1,034,717	\$ 1,050,466	\$ 15,749
Licenses and permits	31,372	44,516	38,215	(6,301)
Intergovernmental revenue	187,589	210,664	205,394	(5,270)
Charges for services	273,342	273,342	291,203	17,861
Fines and forfeitures	3,434	3,434	561	(2,873)
Impact fees	18,891	18,891	-	(18,891)
Other	6,406	14,410	17,615	3,205
Amounts available for appropriations	<u>1,492,948</u>	<u>1,599,974</u>	<u>1,603,454</u>	<u>3,480</u>
<b>CHARGES TO APPROPRIATIONS (outflows):</b>				
General government	572,617	745,213	678,535	66,678
Public safety	142,590	146,624	147,163	(539)
Physical environment	207,000	207,000	188,491	18,509
Transportation	171,302	165,523	159,769	5,754
Culture/recreation	107,064	107,064	100,559	6,505
Capital outlay	28,853	51,928	38,578	13,350
Debt service	102,089	102,089	102,089	-
Total charges to appropriations	<u>1,331,515</u>	<u>1,525,441</u>	<u>1,415,184</u>	<u>110,257</u>
<b>EXCESS (DEFICIENCY) OF RESOURCES OVER CHARGES TO APPROPRIATIONS</b>	<u>161,433</u>	<u>74,533</u>	<u>188,270</u>	<u>113,737</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers from water fund	25,288	25,288	25,000	(288)
Bond proceeds	-	86,900	595,000	508,100
Total other financing sources	<u>25,288</u>	<u>112,188</u>	<u>620,000</u>	<u>507,812</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 186,721</u>	<u>\$ 186,721</u>	<u>\$ 808,270</u>	<u>\$ 621,549</u>

See Accompanying Notes to Financial Statements

# **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**

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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, 2011, and have issued our report thereon dated May 9, 2012. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, 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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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

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(cont...)

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects **City of Polk City, Florida's** ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of **City of Polk City, Florida's** financial statements that is more than inconsequential will not be prevented or detected by **City of Polk City, Florida's** internal control. We consider the deficiency described in the accompanying management letter as finding 11-01 to be a significant deficiency in internal control over financial reporting.

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 the significant deficiency described above is a material weakness.

We noted certain matters that we reported to management of **City of Polk City, Florida** in the accompanying management letter dated May 9, 2012 beginning on page 30.

**City of Polk City, Florida's** response to the finding 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  
May 9, 2012

# **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, 2011, and have issued our report thereon dated May 9, 2012.

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 11-01: 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. This was reported as finding 10-01 in the preceding fiscal year financial audit report and as finding 09-01 in the second preceding fiscal year financial audit report.

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 11-01: 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: In FY 2011 we were able to get the utility receivables separated from other receivables such as business tax and other invoicing. We are working with our financial software support personnel to consolidate some of our utility reports to make to make our monthly manual entries more consolidated and easier. Also, we are currently putting together a reconciliation spreadsheet to complete the process*

- 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 provisions of contracts or grant agreements, fraud illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.
- 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, 2011, 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, 2011. In connection with our audit, we determined that these two reports were in agreement.

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

- 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** did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- 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.

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  
May 9, 2012