



CITY OF POLK CITY, FLORIDA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

TABLE OF CONTENTS

FINANCIAL SECTION

Management’s Discussion and Analysis (Required Supplementary Information) . . . M1

Independent Auditor’s Report 1-2

Basic Financial Statements:

Government-wide Statements:

Statement of Net Assets 3

Statement of Activities 4

Governmental Funds:

Balance Sheet - Governmental Funds 5

Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets 6

Statement of Revenues, Expenditures, and
Changes in Fund Balance - Governmental Funds 7

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balance of Governmental Funds to the Statement of Activities 8

Proprietary Funds:

Statement of Net Assets - Proprietary Funds 9

Statement of Revenues, Expense and Changes in Fund Net Assets -
Proprietary Funds 10

Statement of Cash Flows - Proprietary Funds 11

Notes to Financial Statements 12-26

REQUIRED SUPPLEMENTAL INFORMATION

Budgetary Comparison Schedule - General Fund (Unaudited) 27

OTHER REPORTS

Report on Compliance and on Other Matters and on Internal Control over Financial
Reporting Based on an Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards* 28-29

Management Letter 30-31

FINANCIAL SECTION

City of Polk City
Management's Discussion and Analysis
September 30, 2012

As management of the City of Polk City, Florida (City), we offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended September 30, 2012. We encourage readers to consider the information presented here in conjunction with the City's financial statements beginning on page 3.

Financial Highlights

- The assets of the City exceed its liabilities at the close of the most recent fiscal year by \$4,297,886. Of this amount \$635,796 (unrestricted net assets) may be used to meet the City's obligations which is an increase of \$1,074,299 over the prior year.
- The City's unrestricted cash and cash equivalents totaled \$1,025,496, an increase of \$647,718 over the prior year.
- As of the close of the current fiscal year, the City's general fund (governmental fund level) reported ending fund balance of \$612,988, an increase of \$225,630 in comparison with the prior year. Of this total amount, \$351,867 is available for spending at the government's discretion.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

The *Statement of Net 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.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, library, law enforcement, building and zoning, code enforcement, streets, parks and recreation, sanitation and storm water utility. The business-type activities include water and sewer services.

**City of Polk City
Management's Discussion and Analysis
September 30, 2012**

Fund Financial Statements

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

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statement. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. The basic Governmental Funds financial statements can be found on pages 5 - 8.

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

Proprietary Funds - The City maintains only one of the two proprietary fund types. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The City uses an enterprise fund to account for its water and wastewater activities. The basic proprietary fund financial statements can be found on pages 9 -11 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. They can be found on pages 12 - 26 of this report.

Other Information

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

**City of Polk City
Management's Discussion and Analysis
September 30, 2012**

Government-Wide Financial Analysis

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

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2012	2011	2012	2011	2012
Assets						
Current and other assets	\$ 456,343	\$ 673,215	\$ 3,157,020	\$ 3,513,100	\$ 3,613,363	\$ 4,186,315
Capital assets	3,204,443	3,103,146	12,080,516	12,414,883	15,284,959	15,518,029
Total assets	\$ 3,660,786	\$ 3,776,361	\$15,237,536	\$15,927,983	\$18,898,322	\$ 19,704,344
Liabilities						
Long-term liabilities outstanding	\$ 2,228,754	\$ 1,963,884	\$12,288,247	\$12,263,439	\$14,517,001	\$ 14,227,323
Other liabilities	75,794	66,584	633,286	1,112,551	709,080	1,179,135
Total liabilities	\$ 2,304,548	\$ 2,030,468	\$12,921,533	\$13,375,990	\$15,226,081	\$ 15,406,458
Net assets						
Invested in capital assets, net of related debt	\$ 1,595,091	\$ 1,529,497	\$ 1,699,322	\$ 1,296,648	\$ 3,294,413	\$ 2,826,145
Restricted	184,399	133,832	631,932	702,113	816,331	835,945
Unrestricted	(423,252)	82,564	(15,251)	553,232	(438,503)	635,796
Total net assets	\$ 1,356,238	\$ 1,745,893	\$ 2,316,003	\$ 2,551,993	\$ 3,672,241	\$ 4,297,886

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

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

Nineteen 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.

**City of Polk City
Management's Discussion and Analysis
September 30, 2012**

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

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2012	2011	2012	2011	2012
Revenues						
Program Revenues:						
Charges for services	\$ 349,486	\$ 347,130	\$ 1,740,015	\$ 1,925,296	\$ 2,089,501	\$ 2,272,426
Operating grants and contributions	28,071	30,218	67,782	-	95,853	30,218
Capital grants and contributions	23,075	6,343	95,868	408,896	118,943	415,239
General revenues:						
Property taxes	572,681	538,053	-	-	572,681	538,053
Franchise/Public Ser. Tax	338,765	338,901	-	-	338,765	338,901
State shared revenues	152,721	150,224	-	-	152,721	150,224
Fuel taxes levied from transportation	125,175	122,679			125,175	122,679
Other	13,480	31,577	4,153	1,578	17,633	33,155
Total revenues	1,603,454	1,565,125	1,907,818	2,335,770	3,511,272	3,900,895
Expenses						
General government	757,553	588,119	-	-	757,553	588,119
Library	89,635	108,850	-	-	89,635	108,850
Police	105,377	118,518	-	-	105,377	118,518
Building and zoning	7,464	22,925	-	-	7,464	22,925
Code Enforcement	42,622	52,342	-	-	42,622	52,342
Sanitation	188,491	186,828	-	-	188,491	186,828
Streets	169,412	289,333	-	-	169,412	289,333
Parks and recreation	47,431	55,289	-	-	47,431	55,289
Stormwater	1,891	1,891	-	-	1,891	1,891
Interest on long-term debt	68,959	73,572	-	-	68,959	73,572
Public utilities	-	-	1,722,511	1,777,583	1,722,511	1,777,583
Total expenses	1,478,835	1,497,667	1,722,511	1,777,583	3,201,346	3,275,250
Increase (decrease) in net assets before transfers	124,619	67,458	185,307	558,187	309,926	625,645
Transfers	25,000	322,197	(25,000)	(322,197)	-	-
Increase (decrease) in net assets	149,619	389,655	160,307	235,990	309,926	625,645
Net assets - October 1	1,206,619	1,356,238	2,155,696	2,316,003	3,362,315	3,672,241
Net assets - September 30	\$ 1,356,238	\$1,745,893	\$ 2,316,003	\$ 2,551,993	\$ 3,672,241	\$ 4,297,886

**City of Polk City
Management's Discussion and Analysis
September 30, 2012**

Governmental Activities - Governmental activities increased the City's net assets by \$389,655 after a net transfer of \$322,197 from the business-type activities. In the prior year, net assets increased by \$149,619 after a \$25,000 transfer to the business-type activities. Total expenses increased by \$18,432 or approximately 1%.

Business-type Activities - Business-type activities increased the City's net assets by \$235,990 compared to an increase of \$160,307 in the prior year. There was a net transfer of \$322,197 to the governmental activities.

Fund Level Financial Analysis

Governmental Funds - As of September 30, 2012, the City's governmental fund reported combined ending fund balances of \$612,988 which can be found on page 5. This is an increase of \$225,630 over the prior year ending fund balances of \$387,358. In the General Fund, the City's expenditures exceeded revenues by \$96,567.

Proprietary Funds - These services combined to generate operating income of \$641,516., compared to the prior year operating income of \$403,294. Through a combination of rate increases and aggressive cost cutting measures the city realized an increase in operating income.

General Fund Budgetary Highlights - The City adopts an annual appropriated budget each year in September. Budgetary comparison statements have been provided to demonstrate compliance with the budget (page 27). Budget comparison reporting is included for the General Fund.

**City of Polk City
Management's Discussion and Analysis
September 30, 2012**

CAPITAL ASSET AND DEBT ADMINISTRATION

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

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

Capital Assets Activity
(net of depreciation)
as of September 30,

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Assets not depreciated						
Land	\$ 412,543	\$ 412,542	\$ 2,730,736	\$ 2,730,736	\$ 3,143,279	3,143,278
Construction in progress	-	5,000	60,651	732,559	60,651	737,559
Total	<u>412,543</u>	<u>417,542</u>	<u>2,791,387</u>	<u>3,463,295</u>	<u>3,203,930</u>	<u>3,880,837</u>
Depreciated Assets					-	
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	422,731	436,220	240,037	267,286	662,768	703,506
Infrastructure	187,478	187,478	-	-	187,478	187,478
Utility plants	-	-	10,612,842	10,586,697	10,612,842	10,586,697
Subtotal	3,752,149	3,765,638	10,852,879	10,853,983	14,605,028	14,619,621
Accumulated depreciation	(960,248)	(1,080,034)	(1,563,750)	(1,902,395)	(2,523,998)	(2,982,429)
Total	<u>\$ 2,791,901</u>	<u>\$ 2,685,604</u>	<u>\$ 9,289,129</u>	<u>\$ 8,951,588</u>	<u>\$ 12,081,030</u>	<u>\$ 11,637,192</u>

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2012, amounts to \$11,637,192 (net of accumulated depreciation) compared to \$12,081,030 last year. That is a decrease of \$443,838 from the prior year.

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

**City of Polk City
Management's Discussion and Analysis
September 30, 2012**

Long-term debt - The following table presents a comparison of revenue bonds and notes payable for the current and previous year.

Revenue Notes and Notes Payable
as of September 30,

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2012	2011	2012	2011	2012
Revenue notes	\$ -	\$ -	\$ 9,540,637	\$ 9,549,815	\$ 9,540,637	\$ 9,549,815
Notes payable	2,204,352	1,938,649	2,747,610	2,713,624	4,951,962	4,652,273
Total	\$ 2,204,352	\$ 1,938,649	\$ 12,288,247	\$ 12,263,439	\$ 14,492,599	\$ 14,202,088

The Governmental Activities had total debt outstanding of \$1,963,884 of which \$25,235 pertains to compensated absences. This compares to \$2,228,754 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 \$12,263,439 which consists primarily of the Series 2011A Water/Sewer System Capital Improvement and Refunding Revenue Bonds and the installment note to the Florida Department of Environmental Protection. For additional information, see Note 6, pages 21 – 23.

Economic Factors and Next Year's Budget and Rates

For the Fiscal Year 2013 Budget the City experienced a reduction in revenue of approximately \$100,000 due to a decrease in property taxes. We are continuing to implement cost-effective measures to save money and continuing to prepare monthly cash flow projections to keep the City on the right track. We strive to keep the same level of services at no additional cost to our residents.

The Community Development Block Grant that was received in Fiscal Year 2011 in the amount of \$650,000 for a water line replacement project in the "Railroad Heights" area is expected to be completed in March of fiscal year 2013.

The Water, Wastewater and Reuse Water System Improvements, which was part of the Revenue Bond Series 2011 A, is expected to be completed at the end of March 2013. The projected cost of this Project is \$1,264,010.97, which is \$105,989.03 less than the original loan of \$1,370,000.00

**City of Polk City
Management's Discussion and Analysis
September 30, 2012**

There are no major expenditures anticipated for Fiscal Year 2013; however, the following projects are expected to be done:

- ❖ Update the City's website (scheduled to be up and running January 31, 2013)
- ❖ Replace roof on the bandstand at Freedom Park
- ❖ Paint and Repair of Polk City Government Center
- ❖ Purchase approximately four computers for the Polk City Library
- ❖ Continue with street paving using restricted gas taxes

Request for Information

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of City of Polk City, Florida as of and for the year ended September 30, 2012, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Polk City, Florida as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2013 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.

Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents, consisting of management's discussion and analysis and the budgetary comparison schedule be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

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

INDEPENDENT AUDITOR'S REPORT
(cont...)

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

Brynjulfson CPA, P.A.

Brynjulfson CPA, P.A.
Lakeland, Florida
March 26, 2013

**CITY OF POLK CITY, FLORIDA
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2012**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 311,367	\$ 714,129	\$ 1,025,496
Receivables, current:			
Customer accounts, net	41,816	144,402	186,218
Intergovernmental	28,605	185,089	213,694
Franchise and public service taxes	25,228	-	25,228
Internal balances	131,619	(131,619)	-
Restricted assets:			
Cash and cash equivalents	133,831	2,085,141	2,218,972
Capital assets:			
Non-depreciable	417,542	3,463,295	3,880,837
Depreciable, net	2,685,604	8,951,588	11,637,192
Deferred charges	749	515,958	516,707
TOTAL ASSETS	3,776,361	15,927,983	19,704,344
LIABILITIES			
Accounts payable	\$ 31,167	\$ 60,316	\$ 91,483
Construction payable	-	538,002	538,002
Accrued payroll	21,107	-	21,107
Accrued interest payable	6,357	73,728	80,085
Due to other governments	7,953	-	7,953
Deferred revenue	-	299,310	299,310
Customer deposits	-	141,195	141,195
Long-term liabilities:			
Due within one year	237,176	34,810	271,986
Due in more than one year	1,726,708	12,228,629	13,955,337
TOTAL LIABILITIES	2,030,468	13,375,990	15,406,458
NET ASSETS			
Invested in capital assets, net of related debt	1,529,497	1,296,648	2,826,145
Restricted for:			
Transportation infrastructure	43,312	-	43,312
Water system improvements	-	61,145	61,145
Debt service	90,520	640,968	731,488
Unrestricted	82,564	553,232	635,796
TOTAL NET ASSETS	\$ 1,745,893	\$ 2,551,993	\$ 4,297,886

See Accompanying Notes to Financial Statements

CITY OF POLK CITY, FLORIDA
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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	\$ 588,119	\$ 18,956	\$ 4,868	\$ -	\$ (564,295)	\$ -	\$ (564,295)
Library	108,850	6,079	25,350	-	(77,421)	-	(77,421)
Police	118,518	670	-	6,343	(111,505)	-	(111,505)
Building and zoning	22,925	49,633	-	-	26,708	-	26,708
Code enforcement	52,342	-	-	-	(52,342)	-	(52,342)
Sanitation	186,828	238,409	-	-	51,581	-	51,581
Streets	289,333	17,942	-	-	(271,391)	-	(271,391)
Parks and recreation	55,289	-	-	-	(55,289)	-	(55,289)
Stormwater utility	1,891	15,441	-	-	13,550	-	13,550
Interest on long term debt	73,572	-	-	-	(73,572)	-	(73,572)
Total governmental activities	1,497,667	347,130	30,218	6,343	(1,113,976)	-	(1,113,976)
Business-type Activities:							
Water and sewer utility	1,777,583	1,925,296	-	408,896	-	556,609	556,609
Total business-type activities	1,777,583	1,925,296	-	408,896	-	556,609	556,609
TOTAL PRIMARY GOVERNMENT	\$ 3,275,250	\$ 2,272,426	\$ 30,218	\$ 415,239	(1,113,976)	556,609	(557,367)
GENERAL REVENUES:							
Taxes:							
Property taxes, levied for general purposes					538,053	-	538,053
Franchise taxes					83,792	-	83,792
Public service taxes					255,109	-	255,109
Fuel taxes levied for transportation					122,679	-	122,679
State shared revenue					150,224	-	150,224
Investment earnings					29	1,578	1,607
Miscellaneous					31,548	-	31,548
Net transfers (to)/from other funds					322,197	(322,197)	-
Total General Revenues, Special Items, and Transfers					1,503,631	(320,619)	1,183,012
CHANGE IN NET ASSETS					389,655	235,990	625,645
NET ASSETS - beginning of year					1,356,238	2,316,003	3,672,241
NET ASSETS - end of year					\$ 1,745,893	\$ 2,551,993	\$ 4,297,886

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA
BALANCE SHEET - GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2012**

	General Fund
ASSETS	
Cash and cash equivalents	\$ 311,367
Receivables, net:	
Customer accounts, net	41,816
Intergovernmental	28,605
Franchise and public service taxes	25,228
Due from other funds	131,619
Restricted assets:	
Cash and cash equivalents	133,831
Deferred charges	749
TOTAL ASSETS	\$ 673,215
LIABILITIES AND FUND BALANCE	
Accounts payable	\$ 31,167
Accrued payroll	21,107
Due to other governments	7,953
TOTAL LIABILITIES	60,227
FUND BALANCE:	
Nonspendable:	
Deferred charges	749
Restricted for:	
Highways / streets	43,312
Debt service reserves / sinking	90,520
Assigned for:	
Emergency reserve	126,540
Unassigned:	351,867
TOTAL FUND BALANCE	612,988
TOTAL LIABILITIES AND FUND BALANCE	\$ 673,215

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2012**

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 612,988
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.	3,103,146
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in governmental funds.	(6,357)
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>(1,963,884)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,745,893</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, 2012**

	General Fund
REVENUES:	
Taxes	\$ 1,012,374
Licenses and permits	50,053
Intergovernmental revenue	186,259
Charges for services	278,224
Fines and forfeitures	670
Other	37,545
Total revenues	<u>1,565,125</u>
EXPENDITURES:	
General government	420,042
Public safety	194,618
Physical environment	261,893
Transportation	175,359
Culture/recreation	133,939
Capital outlay	136,114
Debt service	339,727
Total expenditures	<u>1,661,692</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(96,567)</u>
OTHER FINANCING SOURCES	
Transfers in	322,197
Total other financing sources	<u>322,197</u>
NET CHANGE IN FUND BALANCE	<u>225,630</u>
FUND BALANCE, beginning of year	<u>387,358</u>
FUND BALANCE, end of year	<u><u>\$ 612,988</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
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 225,630

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	20,553
This is the amount of depreciation recorded in the current period	(121,850)

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	265,703
This amount represents the change in accrued interest payable	452
This amount represents the change in compensated absence liability	<u>(833)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 389,655

**CITY OF POLK CITY, FLORIDA
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2012**

	<u>Enterprise Fund</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 714,129
Due from other governments	185,089
Customer accounts receivable, net	144,402
Deferred charges	857
Total current assets	<u>1,044,477</u>
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	2,085,141
Capital assets, net:	
Non-depreciable	3,463,295
Depreciable, net	8,951,588
Deferred bond issue costs	515,101
Total noncurrent assets	<u>15,015,125</u>
TOTAL ASSETS	<u>16,059,602</u>
LIABILITIES	
Current liabilities:	
Accounts payable	60,316
Construction payable	538,002
Bonds and notes payable, current portion	34,810
Accrued interest payable	73,728
Deferred revenues	299,310
Due to general fund	131,619
Total current liabilities	<u>1,137,785</u>
Noncurrent liabilities:	
Customer deposits	141,195
Bonds and notes payable, noncurrent portion	12,228,629
Total noncurrent liabilities	<u>12,369,824</u>
TOTAL LIABILITIES	<u>13,507,609</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,296,648
Restricted for:	
Water system improvements	61,145
Debt service	640,968
Unrestricted	553,232
TOTAL NET ASSETS	<u>\$ 2,551,993</u>

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Enterprise Fund
OPERATING REVENUES:	
Charges for services	\$ 1,925,296
Total operating revenues	<u>1,925,296</u>
OPERATING EXPENSES:	
Operating expenses	945,135
Depreciation	338,645
Total operating expenses	<u>1,283,780</u>
OPERATING INCOME (LOSS)	<u>641,516</u>
NONOPERATING REVENUE (EXPENSE):	
Interest revenue	1,578
Interest expense	(493,803)
Total nonoperating revenues (expenses)	<u>(492,225)</u>
Income (loss) before contributions	<u>149,291</u>
CAPITAL GRANTS AND CONTRIBUTIONS:	
Federal grant	271,585
Impact fees	137,311
Total capital grants and contributions	<u>408,896</u>
TRANSFERS IN (OUT)	
Transfers to other funds	<u>(322,197)</u>
Total transfers	<u>(322,197)</u>
Change in net assets	235,990
TOTAL NET ASSETS - beginning of year	<u>2,316,003</u>
TOTAL NET ASSETS - end of year	<u><u>\$ 2,551,993</u></u>

See Accompanying Notes to Financial Statements

**CITY OF POLK CITY, FLORIDA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 1,940,821
Payments to suppliers	(974,011)
Net cash flows from operating activities	<u>966,810</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Increase (decrease) in due to (from) other funds	133,352
Transfers (to) from other funds	(322,197)
Net cash flows from noncapital financing activities	<u>(188,845)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets, net of related payables	(135,009)
Federal grant	86,495
Impact fees	137,311
Principal paid on notes, bonds and lease obligations	(33,986)
Interest paid on borrowings	(472,746)
Net cash flows from capital and related financing activities	<u>(417,935)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on invested funds	1,578
Net cash flows from investing activities	<u>1,578</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>361,608</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,437,662</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 2,799,270</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 641,516
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	338,645
(Increase) decrease in accounts receivable	15,525
(Increase) decrease in deferred charges	13,959
Increase (decrease) in accounts payable	(61,590)
Increase (decrease) in customer deposits	(9,026)
Non-cash bond issuance cost amortization	27,781
Net cash flows from operating activities	<u>\$ 966,810</u>
Noncash financing and investing activities:	<u>\$ -</u>

See Accompanying Notes to Financial Statements

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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 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, 2012

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 based 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 one *Enterprise Fund* which accounts for the activities associated with providing potable water and sewer collection, treatment and disposal services to area residents.

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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, 2012, 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, 2012

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

CUSTOMER ACCOUNTS RECEIVABLE - The City accrues its unbilled utility service fees. This represents the estimated value of service from the last billing date to year end and totaled \$155,679 at September 30, 2012. 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, 2012, the reserve for doubtful accounts totaled \$30,886 for utility service receivables and \$143,150 for readiness-to-serve receivables. Receivables are reported in the financial statements net of the reserve for doubtful accounts.

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

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

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

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

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

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

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

INTEREST COSTS - Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of enterprise fund capital assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. No net interest costs were capitalized for the year ended September 30, 2012.

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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 thirty calendar days. Eligible employees accumulate two personal days a year not to exceed ten days. The liability for these compensated absences is recorded as long-term in the government-wide statements and in the proprietary fund financial statements because the maturities are not determinable. In the fund financial statements, the governmental funds do not report the compensated absence liability because it is generally not payable from expendable available financial resources.

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

INTERFUND TRANSFERS - Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers.

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 \$835,945 of restricted net assets of which \$109,110 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.”

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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

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 and unassigned as considered appropriate in the City's circumstances. The following classifications describe the relative strength of the spending constraints:

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

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

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

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.

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

CHANGE IN REPORTING – Effective October 1, 2011, the City's water and sewer funds, both previously reported as separate enterprise funds, were combined into a single water-sewer enterprise fund.

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, 2012 was 8.6547.

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE 2 - PROPERTY TAX CALENDAR (cont...)

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

NOTE 3 - BUDGETARY LAW AND PRACTICE

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

The captions on the government-wide statement of net 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>3,243,968</u>
Total cash and cash equivalents	<u><u>\$ 3,244,468</u></u>

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

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2012, was as follows:

	Beginning Balance	Reclassification	Additions	Reductions	Ending Balance
Governmental Activities:					
Capital assets not being depreciated:					
Land	\$ 412,542	\$ -	\$ -	\$ -	\$ 412,542
Construction in Progress	-	-	5,000	-	5,000
Total	\$ 412,542	\$ -	\$ 5,000	\$ -	\$ 417,542
Capital assets being depreciated:					
Buildings and Improvements	\$ 2,673,966	\$ -	\$ -	\$ -	\$ 2,673,966
Recreational Facilities	467,974	-	-	-	467,974
Equipment	422,731	-	15,553	(2,064)	436,220
Infrastructure:					
Sidewalk Systems	111,852	-	-	-	111,852
Drainage Systems	75,626	-	-	-	75,626
Total	3,752,149	-	15,553	(2,064)	3,765,638
Less, Accumulated Depreciation:					
Buildings and Improvements	(478,376)	-	(62,171)	-	(540,547)
Recreational Facilities	(138,300)	-	(26,549)	-	(164,849)
Equipment	(319,256)	-	(28,443)	2,064	(345,635)
Infrastructure:					
Sidewalk Systems	(12,594)	-	(2,796)	-	(15,390)
Drainage Systems	(11,722)	-	(1,891)	-	(13,613)
Total Accumulated Depreciation	(960,248)	-	(121,850)	2,064	(1,080,034)
Total Depreciable Capital Assets, Net	\$ 2,791,901	\$ -	\$ (106,297)	\$ -	\$ 2,685,604
Business-Type Activities:					
Capital assets not being depreciated:					
Land	\$ 2,730,736	\$ -	\$ -	\$ -	\$ 2,730,736
Construction in Progress	60,651	-	671,908	-	732,559
Total	\$ 2,791,387	\$ -	\$ 671,908	\$ -	\$ 3,463,295
Capital assets being depreciated:					
Utility Plant	\$ 10,612,842	\$ (26,145)	\$ -	\$ -	\$ 10,586,697
Equipment	240,037	26,145	1,104	-	267,286
Total	10,852,879	-	1,104	-	10,853,983
Less, Accumulated Depreciation:					
Utility Plant	(1,424,030)	-	(294,338)	-	(1,718,368)
Equipment	(139,720)	-	(44,307)	-	(184,027)
Total Accumulated Depreciation	(1,563,750)	-	(338,645)	-	(1,902,395)
Total Depreciable Capital Assets, Net	\$ 9,289,129	\$ -	\$ (337,541)	\$ -	\$ 8,951,588

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE 5 - CAPITAL ASSETS (cont...)

Depreciation expense was charged to the following programs and functions:

Governmental Activities:

Genral government	\$ 79,931
Library	200
Streets	11,716
Parks and recreation	28,112
Stormwater utility	<u>1,891</u>
Total depreciation expense - governmental activities	<u>\$ 121,850</u>

Business-type Activities:

Water and sewer	<u>\$ 338,645</u>
Total depreciation expense - business-type activities	<u>\$ 338,645</u>

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE 6 - LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended September 30, 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Governmental Activities					
Long-Term Debt:					
Notes Payable:					
Series 2007 Capital Improvement Revenue Bonds	\$ 1,609,352	\$ -	\$ (35,703)	\$ 1,573,649	\$ 37,176
Series 2011B Water / Sewer System Refunding Revenue Bonds	595,000	-	(230,000)	365,000	200,000
Total Bonds and Notes Payable	<u>2,204,352</u>	<u>-</u>	<u>(265,703)</u>	<u>1,938,649</u>	<u>237,176</u>
Other Liabilities:					
Compensated Absences	24,402	833	-	25,235	-
Total Other Liabilities	<u>24,402</u>	<u>833</u>	<u>-</u>	<u>25,235</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 2,228,754</u>	<u>\$ 833</u>	<u>\$ (265,703)</u>	<u>\$ 1,963,884</u>	<u>\$ 237,176</u>
Less Amount Due in One Year				<u>\$ (237,176)</u>	
Net Long-Term Debt Due After One Year				<u>\$ 1,726,708</u>	
Business-Type Activities					
Long-Term Debt:					
Notes Payable:					
Installment Note to Florida Department of Environmental Protection	\$ 2,747,610	\$ -	\$ (33,986)	\$ 2,713,624	\$ 34,810
Total Notes Payable	<u>2,747,610</u>	<u>-</u>	<u>(33,986)</u>	<u>2,713,624</u>	<u>34,810</u>
Revenue Certificates:					
Series 2011A Water / Sewer System Capital Improvement and Refunding Revenue Bonds	9,720,000	-	-	9,720,000	
Less discount on Series 2011A	(179,363)	-	9,178	(170,185)	-
Total Revenue Certificates	<u>9,540,637</u>	<u>-</u>	<u>9,178</u>	<u>9,549,815</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 12,288,247</u>	<u>\$ -</u>	<u>\$ (24,808)</u>	<u>\$ 12,263,439</u>	<u>\$ 34,810</u>
Less Amount Due in One Year				<u>(34,810)</u>	
Net Long-Term Debt Due After One Year				<u>\$ 12,228,629</u>	

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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

Notes to Long-Term Obligations Table

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

Governmental Activities:

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

Business-Type Activities:

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

**CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012**

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

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

Maturities:

Annual requirements to repay all long-term bonds and notes payable as of September 30, 2012, were as follows:

Fiscal Year Ending September 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
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	43,700	58,389	331,630	486,796
2018-2022	247,074	263,371	1,831,962	2,277,564
2023-2027	302,413	208,031	2,161,742	1,938,511
2028-2032	370,149	140,296	2,606,674	1,493,602
2033-2037	452,153	57,389	2,466,108	931,099
2038-2041	-	-	2,290,000	293,250
Less: unamortized bond discount	-	-	(170,184)	-
Total	\$ 1,938,649	\$ 986,248	\$ 12,263,439	\$ 9,435,653

NOTE 7 – FUTURE REVENUES THAT ARE PLEDGED

The City has pledged various future revenue sources for various debt issues. For the water and sewer systems, the City has pledged future revenues, net of certain operating expenses. The following table provides a summary of the pledged revenues for the City's outstanding debt issues. Additional information regarding the City's pledged revenue can be found in Note 6.

<u>Pledged Revenue</u>	<u>Principal and Interest Outstanding</u>	<u>Principal and Interest Paid</u>	<u>Current Year Revenue</u>	<u>Revenues to Principal and Interest Paid</u>
Communication services tax pursuant to Section 202.19, Florida Statutes and the half cent sales tax pursuant to part VI of Chapter 218, Florida Statutes	\$ 2,551,321	\$ 102,066	\$ 205,786	201.62%
Water and sewer system net revenue and sewer impact fees	22,242,852	744,375	1,046,070	140.53%

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE 8 - INTERFUND TRANSACTIONS

Interfund transactions are summarized below:

Interfund receivables and payables as of September 30, 2012 consisted of:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Enterprise Fund	\$ 131,619

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, 2012 consisted of:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
General Fund	Enterprise Fund	\$ 322,197

NOTE 9 - PENSION PLAN

The City has elected to participate in The Florida Retirement System (FRS), by authority of Ordinance 95-1 dated January 3, 1995. The FRS is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). FRS provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the Florida Retirement System Investment Plan (Investment Plan).

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

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE 9 - PENSION PLAN (cont...)

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

Class	Prior to		After	
	July 1, 2012		July 1, 2012	
	Employer	Employee	Employer	Employee
	(A)		(A)	
Regular	4.91%	3.00%	5.18%	3.00%
Senior Management	6.27%	3.00%	6.30%	3.00%

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

The City's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the City. The City's contributions including employee contributions for the fiscal years ended September 30, 2010, September 30, 2011, and September 30, 2012, totaled \$54,807, \$28,783, and \$28,340, respectively, which were equal to the required contributions for each fiscal year.

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

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS

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

CITY OF POLK CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE 11 – COMMITMENTS AND CONTINGENCIES

- The City is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations and, therefore, liabilities from the lease agreements are not reflected in the City's account groups. Remaining minimum lease payments are not significant.
- The City participates in several programs that are fully or partially funded by grants received from Federal, state, or county agency sources. Expenditures financed by grants are subject to audit by the appropriate grantor government/agency. If expenditures are disallowed due to non-compliance with grant program regulations, the City may be required to reimburse the grantor government/agency. As of September 30, 2012, the City believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.
- Effective March 1, 2007, the City contracted with the Polk County Sheriff to provide enhanced law enforcement services within the City. Under the amended agreement, the City shall pay \$116,016 for base services for the fiscal year ended September 30, 2013 and 2014. The current contract is effective through September 30, 2014. The City paid \$112,870 for the year ended September 30, 2012.
- 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.
- The City has outstanding commitments on construction projects as of September 30, 2012, of approximately \$967,000 in the enterprise fund.

NOTE 12 – RISK MANAGEMENT AND LITIGATION

During the ordinary course of its operations, the City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees, and natural disasters. The City maintains commercial insurance coverage in amounts management feels is adequate to protect and safeguard the assets of the City. There have been no significant reductions in coverage nor have settlement amounts exceeded the City's coverage during the last three fiscal years. In the opinion of the City's management and legal counsel, legal claims and litigation are not anticipated to have material impact on the financial position of the City. The City's workers compensation coverage is provided through a nonassessable, nonprofit, tax-exempt risk sharing pool. Settled claims resulting from these risks have not exceeded insurance coverage.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF POLK CITY, FLORIDA
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RESOURCES (inflows):				
Taxes	\$ 976,195	\$ 976,195	\$ 1,012,374	\$ 36,179
Licenses and permits	23,690	23,690	50,053	26,363
Intergovernmental revenue	244,552	244,552	186,259	(58,293)
Charges for services	279,890	279,890	278,224	(1,666)
Fines and forfeitures	600	600	670	70
Other	12,570	12,570	37,545	24,975
Amounts available for appropriations	<u>1,537,497</u>	<u>1,537,497</u>	<u>1,565,125</u>	<u>27,628</u>
CHARGES TO APPROPRIATIONS (outflows):				
General government	514,157	514,157	420,042	94,115
Public safety	179,869	179,869	194,618	(14,749)
Physical environment	271,452	271,452	261,893	9,559
Transportation	168,879	168,879	175,359	(6,480)
Culture/recreation	117,314	117,314	133,939	(16,625)
Capital outlay	132,524	184,221	136,114	48,107
Debt service	<u>152,762</u>	<u>361,812</u>	<u>339,727</u>	<u>22,085</u>
Total charges to appropriations	<u>1,536,957</u>	<u>1,797,704</u>	<u>1,661,692</u>	<u>136,012</u>
EXCESS (DEFICIENCY) OF RESOURCES OVER CHARGES TO APPROPRIATIONS				
	<u>540</u>	<u>(260,207)</u>	<u>(96,567)</u>	<u>163,640</u>
OTHER FINANCING SOURCES (USES):				
Transfers from enterprise fund	<u>125,000</u>	<u>322,197</u>	<u>322,197</u>	<u>-</u>
Total other financing sources	<u>125,000</u>	<u>322,197</u>	<u>322,197</u>	<u>-</u>
EXCESS (DEFICIENCY) OF RESOURCES OVER CHARGES TO APPROPRIATIONS AND OTHER FINANCING SOURCES				
	<u>125,540</u>	<u>61,990</u>	<u>\$ 225,630</u>	<u>\$ 163,640</u>
Cash carry forward	<u>-</u>	<u>63,550</u>		
NET CHANGE IN FUND BALANCE	<u>\$ 125,540</u>	<u>\$ 125,540</u>		

OTHER REPORTS

**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, 2012, and have issued our report thereon dated March 26, 2013. 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.

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 a combination of control deficiencies, that adversely affects the 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 the City of Polk City, Florida's financial statements that is more than inconsequential will not be prevented or detected by the City of Polk City, Florida's internal control.

**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 material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the 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 did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain matters that we reported to management of City of Polk City, Florida in the accompanying management letter dated March 26, 2013.

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
March 26, 2013

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, 2012, and have issued our report thereon dated March 26, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* which is dated March 26, 2013. Disclosures in those reports should be considered and have not been duplicated in this management letter.

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

- 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 the findings and recommendations made in the preceding annual financial audit report.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City of Polk City, Florida complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)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)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, 2012, 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, 2012. 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

- 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 has not met 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.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, fraud, illegal acts or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but 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 have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have any such findings.

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

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
March 26, 2013