

CITY OF LAKE HELEN, FLORIDA

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009



MAYOR

Honorable Joan L. Duffy

VICE MAYOR

William V. Snowden, Jr.

CITY COMMISSIONERS

Vernon Burton
Cameron Lane
Ann Robbins

CITY ADMINISTRATOR

Donald L. Findell

CITY ATTORNEY

Lonnie N. Groot, Esq.

INDEPENDENT AUDITORS

Brent Millikan & Company, P.A.

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INDEPENDENT AUDITORS' REPORT

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BM&C

BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor, and
Members of the City Commission
City of Lake Helen, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Lake Helen, Florida, as of and for the year ended September 30, 2009, 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 Lake Helen, 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, each major fund, and the aggregate remaining fund information of the City of Lake Helen, Florida, as of September 30, 2009, 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 November 5, 2010, on our consideration of the City of Lake Helen, Florida's internal control over financial reporting and 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 considered in assessing the results of our audit.

The Honorable Mayor, and
Members of the City Commission
City of Lake Helen, Florida
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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 11 through 18 and 57 through 60 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. 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 assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Brent Milliken & Co., P.A.

November 5, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As financial management of the City of Lake Helen, Florida, (hereinafter referred to as the "City"), we offer the readers of these basic financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended September 30, 2009. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements, which follow this section, taken as a whole.

Financial Highlights

- The total assets of the City of Lake Helen, Florida exceeded its liabilities at the close of the most recent fiscal year by \$5,172,179 (net assets). Of this amount, \$1,157,662 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$94,770 in fiscal year 2009. Net assets of the City's governmental activities (General, Stormwater Management and General Trust funds) decreased by \$61,394 (1.6%), while net assets of its business type activities (Water Utility Fund) decreased by \$33,376 (2.5%).
- The City's governmental funds reported combined ending fund balances of \$1,066,939 at the end of the current fiscal year, an increase of \$45,633 in comparison to the \$1,021,306 reported at the end of the prior fiscal year. Approximately 95% of this amount (\$1,013,928) is available for spending at the City's discretion (unreserved fund balance).
- At the end of the 2009 fiscal year, unreserved fund balance for the General Fund was \$610,071 or 30.4% of the total fiscal year 2009 General Fund expenditures. This represents an increase of \$10,306 from the amount reported at the end of 2008.
- The City's total long-term debt increased by \$91,639 during the fiscal year, due to scheduled current-year principal maturities/reductions on these obligations and additional proceeds from debt agreements.

Overview of the Financial Statements

The City's basic financial statements are comprised of three parts: 1) management's discussion and analysis, 2) the basic financial statements, including notes to the financial statements, and 3) required supplementary information, including budgetary comparisons and fiduciary fund data.

Management's discussion and analysis (MD&A) is intended to serve as an introduction to the basic financial statements and required supplementary information. The MD&A represents management's examination and analysis of the City's financial condition and financial performance as a whole. Summary financial statement data, key financial and operational indicators used in the strategic plan, budget, and other management tools were used for this analysis.

The basic financial statements include two kinds of statements that present different views of the City. The first two statements consist of entity-wide financial statements that provide both the short- and long-term financial information about the City's overall financial status, including its governmental activities and its business-type activities. These statements report information about the City using full accrual accounting methods and economic resources focus as utilized by similar business activities in the private sector. Information concerning all of the City's assets and liabilities, both financial and capital, and short-term and long-term debt are included. Likewise, all revenues and expenses received during the year,

regardless of when cash is received or paid are reported. However, rate-regulated accounting principles applicable to private sector utilities are not used by governmental utilities. The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide financial statements. The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as the City's water utility system. Fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others (like the retirement plan for the City's police officers), to whom the resources in question belong.

The financial statements also include notes which provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the City's significant accounting policies, account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. This section also contains budgetary comparisons for the City's governmental fund activities.

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 basic financial statements of the City include a statement of net assets and a statement of activities, which are described as follows:

- A statement of net assets presents information on all of the City's assets and liabilities at the end of its fiscal year, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the City's financial position is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net assets, which indicates an improved financial condition.
- The statement of activities presents the results of business operations over the course of the fiscal year and information as to how the City's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., delinquent taxes and earned but unused personal leave).

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 services, public safety (police and building inspection), streets, stormwater management, solid waste management, and recreation and leisure services. The business-type activities of the City include its water utility system.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. 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. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted into cash. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations can be found on pages 24 and 26.

The City maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and general trust fund, both of which are considered to be major funds. Since only one other non-major fund exists (stormwater management fund), it is separately identified and aggregated with the City's major funds.

Proprietary Funds. Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund financial statements, like the government-wide statements, provide both long- and short-term financial information. The City's single enterprise fund (water utility system) is the only item included in the business-type activities presented in the government-wide statements. Since the accounting for these operations is similar to that provided in the government-wide financial statements, the fund financial statements provide limited supplemental information in more detail, such as cash flows data. The basic proprietary fund financial statements can be found on pages 27 to 29 of this report.

Fiduciary Funds. The City is the trustee, or fiduciary, for its employees' pension plans. Fiduciary funds are used to account for resources held for the benefit of parties outside the government and are separately reported in the statements of fiduciary net assets and changes in fiduciary net assets. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. Rather, the City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. These statements can be found on pages 30 and 31 of this report.

Financial Analysis of the City as a Whole

Net Assets. As noted previously, net assets may serve over time as a useful indicator of a government's financial position. This year, the City's combined total assets exceeded liabilities (net assets) by \$5,172,179 at the end of 2009, compared to \$5,266,949 at the end of 2008. This represents a total decrease of \$94,770 or 1.8% under the amount reported at the end of the prior fiscal year.

The following is a summary of net assets at year end:

Net Assets
September 30, 2009 and 2008

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Assets:						
Current and other assets.....	\$ 1,415,132	1,388,804	454,260	548,624	1,869,392	1,937,428
Capital assets, net.....	<u>2,813,431</u>	<u>2,866,334</u>	<u>2,385,144</u>	<u>2,281,666</u>	<u>5,198,575</u>	<u>5,148,000</u>
Total assets.....	<u>4,228,563</u>	<u>4,255,138</u>	<u>2,839,404</u>	<u>2,830,290</u>	<u>7,067,967</u>	<u>7,085,428</u>
Liabilities:						
Long-term debt outstanding.....	8,404	10,691	1,434,927	1,341,001	1,443,331	1,351,692
Other liabilities.....	<u>343,633</u>	<u>306,527</u>	<u>108,824</u>	<u>160,260</u>	<u>452,457</u>	<u>466,787</u>
Total liabilities.....	<u>352,037</u>	<u>317,218</u>	<u>1,543,751</u>	<u>1,501,261</u>	<u>1,895,788</u>	<u>1,818,479</u>
Net assets:						
Invested in capital assets, net of related debt.....	2,805,027	2,855,643	950,217	940,665	3,755,244	3,796,308
Restricted.....	53,011	402,215	206,262	154,519	259,273	556,734
Unrestricted.....	<u>1,018,488</u>	<u>680,062</u>	<u>139,174</u>	<u>233,845</u>	<u>1,157,662</u>	<u>913,907</u>
Total net assets.....	<u>\$ 3,876,526</u>	<u>3,937,920</u>	<u>1,295,653</u>	<u>1,329,029</u>	<u>5,172,179</u>	<u>5,266,949</u>

The most significant component of the City's net assets (72.6%) is, by far, its investment in capital assets (land, buildings and equipment), less any related debt used to acquire or construct those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (5.0%) represents resources that are subject to external restrictions on how they may be used. Consequently, the remaining 22.4% of unrestricted net assets, representing amounts that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, totaled \$1,157,662 at the end of 2009, compared to \$913,907 at the end of the prior fiscal year.

Changes in Net Assets. While the statement of net assets shows a snapshot of the City's financial position at the end of the fiscal year, the statement of changes in net assets provides answers as to the nature and source of those changes. During 2009, the City's total revenues decreased to a total of \$2,468,966 from \$2,934,851 for the prior year. Approximately 21.1% of the City's revenue came from property taxes, and 24.8% of every dollar raised came from some other type of tax. Another 45.2% came from fees charged for services, while most of the remaining revenue is state and federal financial assistance, along with interest and other earnings.

The total cost of routine governmental programs and services for general government decreased \$60,777, (10.6%) from 2008. This decrease is due to decreases in operating expenditures and differences attributed to capital expenditures as compared to depreciation. The total cost of routine programs and services for public safety, physical environment, and transportation increased \$39,581 (3.8%) from 2008. This increase is due to increased solid waste service expenses, which were offset by increased charges for this service. The cost of routine programs and services for culture and recreation increased \$59,036 (13.5%). This increase is, for the most part, the result of reporting as a General Fund expense, costs incurred in operating the Creative Arts Café restaurant. The total costs of routine program and services for business-type activities remained relatively stable with a slight decrease of approximately 5.4%

The following is a summary of changes in net assets at year end:

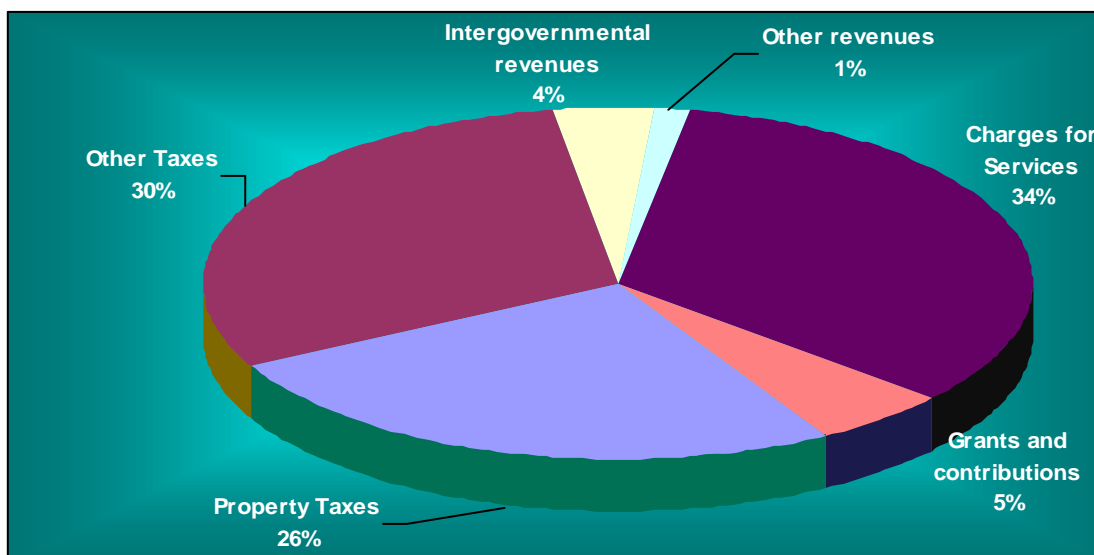
Changes in Net Assets
For the Fiscal Years Ended September 30, 2009 and 2008

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services.....	\$ 685,245	492,208	429,902	459,566	1,115,147	951,774
Operating grants/other.....	105,063	92,398	-	-	105,063	92,398
Capital grants/other.....	2,551	516,859	1,000	1,000	3,551	517,859
General revenues:						
Property taxes.....	521,881	601,053	-	-	521,881	601,053
Other taxes.....	613,071	605,799	-	-	613,071	605,799
Intergovernmental.....	84,504	94,713	-	-	84,504	94,713
Other revenues.....	<u>24,842</u>	<u>66,835</u>	<u>907</u>	<u>4,420</u>	<u>25,749</u>	<u>71,255</u>
Total revenues.....	<u>2,037,157</u>	<u>2,469,865</u>	<u>431,809</u>	<u>464,986</u>	<u>2,468,966</u>	<u>2,934,851</u>
Expenses:						
General government.....	511,195	571,972	-	-	511,195	571,972
Public safety.....	564,184	634,377	-	-	564,184	634,377
Physical environment.....	268,123	135,281	-	-	268,123	135,281
Transportation.....	257,014	280,082	-	-	257,014	280,082
Culture/Recreation.....	497,019	437,983	-	-	497,019	437,983
Water and sewer utilities.....	-	-	465,185	491,769	465,185	491,769
Interest on long-term debt.....	<u>1,016</u>	<u>714</u>	<u>-</u>	<u>-</u>	<u>1,016</u>	<u>714</u>
Total expenses.....	<u>2,098,551</u>	<u>2,060,409</u>	<u>465,185</u>	<u>491,769</u>	<u>2,563,736</u>	<u>2,552,178</u>
Transfers in (out).....	-	-	-	-	-	-
Increase (decrease) in net assets.....	(61,394)	409,456	(33,376)	(26,783)	(94,770)	382,673
Net assets, beginning of year.....	<u>3,937,920</u>	<u>3,528,464</u>	<u>1,329,029</u>	<u>1,355,812</u>	<u>5,266,949</u>	<u>4,884,276</u>
Net assets, end of year.....	<u>\$ 3,876,526</u>	<u>3,937,920</u>	<u>1,295,653</u>	<u>1,329,029</u>	<u>5,172,179</u>	<u>5,266,949</u>

Governmental Activities

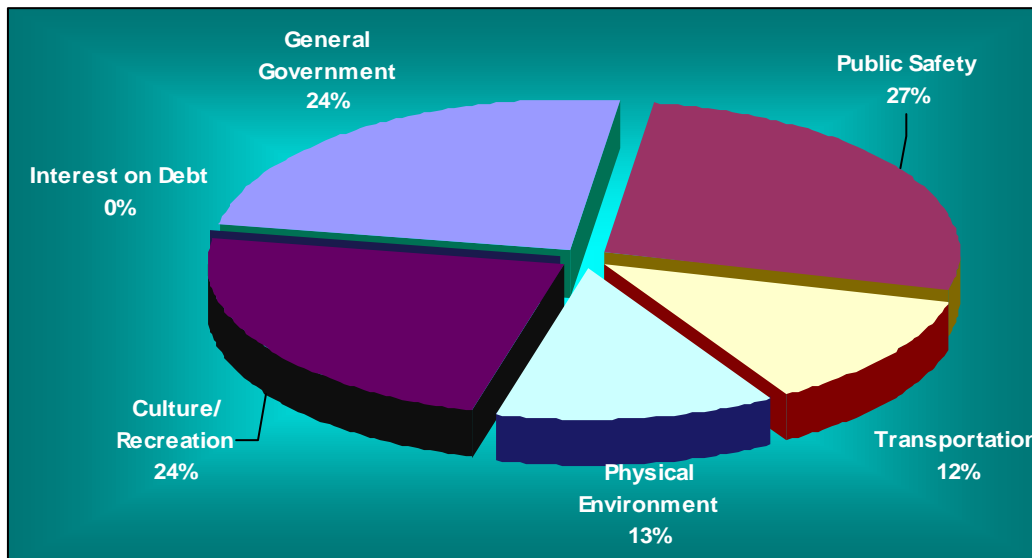
Revenues for the City’s governmental activities totaled \$2,037,157 in 2009. This represents a decrease of \$432,708, or 17.5%, less than last year’s reported revenues of \$2,469,865. This decrease was primarily attributable to a decrease in revenues derived from grants related to capital improvements since most capital grants were closed out in the prior year.

The following is a summary of the City’s governmental revenues - by source:



Governmental expenses totaled \$2,098,551, which represents an increase of \$38,142, or 1.9% from the prior year's total of \$2,060,409. This increase in reported expenditures is attributable primarily to an increase in solid waste service expenses, while being offset from slight decreases in other functions.

The following is a summary of the City's governmental expenses - by function:



Business-Type Activities

The major source of operating revenues for the City's business-type activities is charges for services (potable water), which decreased \$29,664 during the year to a total of \$429,902, which is 6.5% below utility billings of \$459,566 in 2008. This decrease was attributable to decreased consumption for the year compared to the prior fiscal year. Investment income decreased from \$4,420 in 2008 to \$907 in 2009, largely as a result of financial trends experienced on a national level. Customer contributions (in the form of impact fees) remained constant, and totaled \$1,000 for the year, same as the amount received in 2008.

Operating expenses of the water utility fund decreased 5.4% in 2009 to \$465,185 from \$491,769 incurred in 2008. Included in these totals are interest and depreciation expense of \$43,739 and \$76,735 in 2009 and \$24,522 and \$75,051 in 2008, respectively.

Financial Analysis of the City's Funds

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

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As the City completed the year, its governmental funds reported a combined fund balance of \$1,066,939, which was \$45,633, or 4.4%, more than the \$1,021,306 reported last year.

The general fund is the chief operating fund of the City. As of September 30, 2009, the unreserved fund balance in the general fund totaled \$610,071. This unreserved fund balance represents approximately 30.4% (15.8 weeks) of the City's spending requirements experienced during 2009.

The Stormwater Management Fund is a special revenue fund which was established to separately account for the collection and disposition of the City's annual stormwater utility fees. At the end of 2009, there was a fund balance of \$53,857, an increase of \$34,351 from amounts reported at the end of 2008.

Proprietary Fund. The City's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water Utility Fund at the end of the year amounted to \$139,174 which is \$94,671 less than last year's reported amount of \$233,845. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Actual earned revenues were \$86,547 greater than the amounts originally anticipated to be received during the year in the City's General Fund. Actual expenses incurred were \$55,487 greater than originally anticipated. The result was a net difference of unanticipated revenues over unanticipated expenses of \$31,060.

Capital Assets and Debt Administration

Capital Assets. At September 30, 2009, the City had \$5.2 million invested in a broad range of capital assets, including land buildings, park facilities, police equipment, public works equipment and water lines. This investment in capital assets, net of depreciation, for all activities is reflected in the following schedule, which reflects a \$50,575 increase in capital assets since the prior year.

	Capital Assets					
	For the Fiscal Years Ended September 30, 2009 and 2008					
	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land.....	\$ 477,526	477,526	-	-	477,526	477,526
Construction work in progress.....	-	-	229,097	52,779	229,097	52,779
Buildings.....	1,504,581	1,494,850	-	-	1,504,581	1,494,850
Improvements other than buildings.....	1,241,096	1,240,224	2,800,736	2,800,736	4,041,832	4,040,960
Machinery and equipment.....	683,862	647,997	367,872	363,977	1,051,734	1,011,974
Accumulated depreciation.....	(1,093,634)	(994,263)	(1,012,561)	(935,826)	(2,106,195)	(1,930,089)
Net total.....	<u>\$ 2,813,431</u>	<u>2,866,334</u>	<u>2,385,144</u>	<u>2,281,666</u>	<u>5,198,575</u>	<u>5,148,000</u>

During 2009, the City invested \$46,467 in governmental capital assets and \$180,213 in business-type capital assets. The significant additions included: phone and computer system enhancements in the governmental funds of \$46,467; costs associated with water system and well improvements of \$176,318; and other miscellaneous items in the amount of \$3,895. This compares to combined capital spending of approximately \$564,571 in 2008.

Long-Term Debt. The City has revenue note obligations payable to the State of Florida, Department of Environmental Protection Drinking Water State Revolving Fund Loan Program totaling \$1,434,927 at year end compared to \$1,341,499 one year earlier. The proceeds of these loans, which were drawn in increments over preceding years, were used to finance the construction of improvements to the City's potable water system. Under these agreements, the City must repay these loans with semiannual payments. The City also has two capital lease obligations for office copiers, where the obligations must be

recognized as long-term liabilities, the balance at year end totaled \$8,404. More detailed information about the City's long-term debt is presented in Note 9 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Many factors are considered each year by the City Commission in its efforts to establish an operating budget, to evaluate its personnel needs, and to develop uniform user fees that are reasonable, and more importantly, capable of cost recovery. Some of the major factors considered in this process are the local economy, civilian labor force, unemployment rates, and inflation rates.

- The most recent estimates available for unemployment data in Volusia County, Florida are compiled by the Florida Agency for Workforce Innovation on the Florida Research and Economic Database (FRED). This agency estimates a countywide unemployment rate of 11.7% at the end of September 2009, which is significantly higher than the 7.2% rate experienced one year earlier. These estimates are consistent with the State of Florida 11.9% and 7.1% unemployment rates at September 2009 and 2008, respectively.
- Inflationary trends for Volusia County compare favorably with those trends experienced at the state and national levels.

The budgets adopted for the General Fund, Stormwater Utility Fund and Water Utility Fund for 2009-2010 utilized the prior year's final adopted budgets as the baseline from which priority setting and decisions were made to formulate the new budgets, as well as analysis of previous, current and projected revenue and expenditure trends.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to the Office of the City Administrator, City of Lake Helen, P. O. Box 39, Lake Helen, Florida 32744-0039.

BASIC FINANCIAL STATEMENTS

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STATEMENT OF NET ASSETS
September 30, 2009
CITY OF LAKE HELEN, FLORIDA

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and cash equivalents.....	\$ 498,896	118,719	617,615
Investments.....	739,271	-	739,271
Receivables, net.....	127,087	154,897	281,984
Inventories.....	5,583	-	5,583
Other assets.....	-	18,677	18,677
Internal balances.....	44,295	(44,295)	-
Temporarily restricted assets:			
Cash and cash equivalents.....	-	206,262	206,262
Capital assets:			
Land.....	477,526	-	477,526
Buildings.....	1,504,581	-	1,504,581
Improvements other than buildings.....	1,241,096	2,800,736	4,041,832
Machinery and equipment.....	683,862	367,872	1,051,734
Less: accumulated depreciation.....	(1,093,634)	(1,012,561)	(2,106,195)
Construction work in progress.....	-	229,097	229,097
Total assets.....	<u>4,228,563</u>	<u>2,839,404</u>	<u>7,067,967</u>
Liabilities:			
Accounts payable.....	84,448	8,917	93,365
Accrued liabilities.....	153,875	46,795	200,670
Due to pension trust fund.....	173	-	173
Deposits/unearned revenue.....	105,137	53,112	158,249
Long-term debt:			
Due within one year.....	2,542	88,786	91,328
Due in more than one year.....	5,862	1,346,141	1,352,003
Total liabilities.....	<u>352,037</u>	<u>1,543,751</u>	<u>1,895,788</u>
Net Assets:			
Invested in capital assets, net of related debt.....	2,805,027	950,217	3,755,244
Restricted for:			
Capital projects.....	47,251	96,238	143,489
Debt service.....	-	110,024	110,024
Law enforcement training.....	5,760	-	5,760
Unrestricted.....	<u>1,018,488</u>	<u>139,174</u>	<u>1,157,662</u>
Total net assets.....	<u>\$ 3,876,526</u>	<u>1,295,653</u>	<u>5,172,179</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES
 For the Year Ended September 30, 2009
 CITY OF LAKE HELEN, FLORIDA

Functions / Programs	Expenses	Program Revenues		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government.....	\$ 511,195	13,289	5,786	200
Public safety.....	564,184	40,127	866	200
Physical environment.....	268,123	297,751	23,922	-
Transportation.....	257,014	-	-	550
Culture/recreation.....	497,019	334,078	74,489	1,601
Interest on long-term debt.....	<u>1,016</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities.....	<u>2,098,551</u>	<u>685,245</u>	<u>105,063</u>	<u>2,551</u>
Business-type Activities:				
Water utilities.....	<u>465,185</u>	<u>429,902</u>	<u>-</u>	<u>1,000</u>
Total primary government.....	<u>\$ 2,563,736</u>	<u>1,115,147</u>	<u>105,063</u>	<u>3,551</u>

General revenues:

- Property taxes, levied for general purposes.....
- Local option gas taxes.....
- Utility service taxes.....
- Franchise fees.....
- Sales taxes.....
- Intergovernmental revenues.....
- Investment earnings.....
- Miscellaneous.....

Total general revenues.....

Change in net assets.....

Net assets - beginning of year.....

Net assets - end of year.....

The accompanying notes are an integral part of the financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
(491,920)		(491,920)
(522,991)		(522,991)
53,550		53,550
(256,464)		(256,464)
(86,851)		(86,851)
<u>(1,016)</u>		<u>(1,016)</u>
<u>(1,305,692)</u>		<u>(1,305,692)</u>
	<u>(34,283)</u>	<u>(34,283)</u>
<u>(1,305,692)</u>	<u>(34,283)</u>	<u>(1,339,975)</u>
521,881	-	521,881
56,722	-	56,722
255,932	-	255,932
180,832	-	180,832
119,585	-	119,585
84,504	-	84,504
8,274	907	9,181
<u>16,568</u>	<u>-</u>	<u>16,568</u>
<u>1,244,298</u>	<u>907</u>	<u>1,245,205</u>
(61,394)	(33,376)	(94,770)
<u>3,937,920</u>	<u>1,329,029</u>	<u>5,266,949</u>
<u>\$ 3,876,526</u>	<u>1,295,653</u>	<u>5,172,179</u>

BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2009
CITY OF LAKE HELEN, FLORIDA

	General	Special Revenue Stormwater Management	Permanent General Trust	Total Governmental Funds
Assets:				
Cash and cash equivalents.....	\$ 847,836	1,060	-	848,896
Investments.....	389,271	-	350,000	739,271
Receivables (net of allowance for uncollectibles).....	35,051	-	-	35,051
Due from other funds.....	44,295	55,660	-	99,955
Due from other governments.....	92,036	-	-	92,036
Inventories.....	<u>5,583</u>	<u>-</u>	<u>-</u>	<u>5,583</u>
Total assets.....	<u>\$ 1,414,072</u>	<u>56,720</u>	<u>350,000</u>	<u>1,820,792</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable.....	\$ 84,448	-	-	84,448
Accrued liabilities.....	151,149	2,863	-	154,012
Due to other funds.....	55,660	-	-	55,660
Deposits.....	80,391	-	-	80,391
Deferred revenues.....	<u>29,342</u>	<u>-</u>	<u>-</u>	<u>29,342</u>
Total liabilities.....	<u>400,990</u>	<u>2,863</u>	<u>-</u>	<u>403,853</u>
Fund Balances:				
Reserved for:				
Capital projects.....	47,251	-	-	47,251
Law enforcement.....	5,760	-	-	5,760
Unreserved:				
Designated.....	128,399	53,857	350,000	532,256
Undesignated.....	<u>481,672</u>	<u>-</u>	<u>-</u>	<u>481,672</u>
Total fund balances.....	<u>663,082</u>	<u>53,857</u>	<u>350,000</u>	1,066,939
Total liabilities and fund balances.....	<u>\$ 1,064,072</u>	<u>56,720</u>	<u>350,000</u>	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....				2,813,431
Other long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the funds.....				4,596
Accrued interest is not due and payable in the current period and, accordingly, is not reported in the funds.....				(36)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.....				<u>(8,404)</u>
Net assets of governmental activities.....				<u>\$ 3,876,526</u>

The accompanying notes are an integral part of the financial statements.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2009
CITY OF LAKE HELEN, FLORIDA

	General	Special Revenue Stormwater Management	Permanent General Trust	Total Governmental Funds
Revenues:				
Property taxes.....	\$ 519,477	-	-	519,477
Local option gas taxes.....	56,722	-	-	56,722
Utility service taxes.....	255,932	-	-	255,932
Other taxes.....	5,947	-	-	5,947
Franchise fees.....	180,832	-	-	180,832
Permits and other fees.....	14,216	243	-	14,459
Intergovernmental revenue.....	334,021	23,622	-	357,643
Charges for services.....	250,218	48,222	-	298,440
Creative Arts Café revenue.....	333,133	-	-	333,133
Fines and forfeitures.....	26,801	-	-	26,801
Investment earnings.....	2,082	-	6,192	8,274
Miscellaneous revenue.....	35,266	651	-	35,917
Total revenues.....	2,014,647	72,738	6,192	2,093,577
Expenditures:				
Current:				
General government.....	520,125	-	-	520,125
Public safety.....	552,389	-	-	552,389
Physical environment.....	257,520	-	-	257,520
Transportation.....	213,221	38,207	-	251,428
Culture/recreation.....	463,170	-	-	463,170
Debt Service:				
Principal retirement.....	2,287	-	-	2,287
Interest.....	1,025	-	-	1,025
Total expenditures.....	2,009,737	38,207	-	2,047,944
Excess of revenues over (under) expenditures.....	4,910	34,531	6,192	45,633
Other Financing Sources (Uses):				
Transfers in (out).....	6,344	-	(6,344)	-
Net change in fund balances.....	11,254	34,531	(152)	45,633
Fund balances, beginning of year.....	651,828	19,326	350,152	1,021,306
Fund balances, end of year.....	\$ 663,082	53,857	350,000	1,066,939

The accompanying notes are an integral part of the financial statements.

**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, 2009
CITY OF LAKE HELEN, FLORIDA

Net change in fund balances - total governmental funds..... \$ 45,633

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Expenditures for capital assets.....	46,467	
Less: current year provision for depreciation.....	<u>(99,370)</u>	(52,903)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Delinquent taxes receivable - end of year.....	4,596	
Delinquent taxes receivable - beginning of year.....	<u>(2,192)</u>	2,404

Under the modified accrual basis of accounting used in the governmental funds, revenues are not considered available if they are not received within one hundred eighty days of the close of the year. In the statement of activities, however, which is presented on the accrual basis, revenues are reported regardless of when the financial resources are available. This adjustment represents the change in funds not collected within one hundred eighty days of the close of the year.....

(58,824)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. The amount of items that make up these differences in the treatment of long-term debt and related items are:

Proceeds from capital leases.....	-	
Principal payments.....		2,287

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment reflects the (increase) decrease in liabilities that will be paid in future years:

Accrued interest on long-term debt.....		<u>9</u>
-----------------------------------------	--	----------

Change in net assets of governmental activities..... \$ (61,394)

The accompanying notes are an integral part of the financial statements.

STATEMENT OF FUND NET ASSETS
WATER UTILITY PROPRIETARY FUND
September 30, 2009
CITY OF LAKE HELEN, FLORIDA

Assets:		
Current Assets:		
Cash and cash equivalents.....	\$ 118,719	
Accounts receivable (net).....	154,897	
Restricted cash and cash equivalents:		
Restricted for debt service.....	110,024	
Restricted for utility expansion.....	<u>96,238</u>	
Total current assets.....		<u>479,878</u>
Noncurrent Assets:		
Unamortized debt issuance costs.....		18,677
Capital assets:		
Improvements other than buildings.....	2,800,736	
Machinery and equipment.....	367,872	
Construction in progress.....	229,097	
Less: accumulated depreciation.....	<u>(1,012,561)</u>	<u>2,385,144</u>
Total noncurrent assets.....		<u>2,403,821</u>
Total assets.....		<u>2,883,699</u>
Liabilities:		
Current Liabilities:		
Accounts payable and accrued liabilities.....	31,945	
Due to other funds.....	44,295	
Customer deposits.....	53,112	
Notes payable - current maturities.....	<u>88,786</u>	
Total current liabilities.....		218,138
Noncurrent Liabilities:		
Compensated absences.....	23,767	
Notes payable.....	<u>1,346,141</u>	
Total noncurrent liabilities.....		<u>1,369,908</u>
Total liabilities.....		<u>1,588,046</u>
Net Assets:		
Invested in capital assets, net of related debt.....	950,217	
Restricted for debt service.....	110,024	
Restricted for utility expansion.....	96,238	
Unrestricted.....	<u>139,174</u>	
Total net assets.....		<u>\$ 1,295,653</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
WATER UTILITY PROPRIETARY FUND
For the Year Ended September 30, 2009
CITY OF LAKE HELEN, FLORIDA

<hr/>		
Operating Revenues:		
Charges for services.....	\$ 426,316	
Miscellaneous.....	<u>3,586</u>	
Total operating revenues.....		429,902
Operating Expenses:		
Personal services.....	179,666	
Depreciation and amortization.....	78,870	
Materials and supplies.....	59,438	
Contractual services.....	45,863	
Utilities.....	27,224	
Maintenance and repairs.....	25,922	
Other charges.....	<u>4,463</u>	
Total operating expenses.....		<u>421,446</u>
Operating income.....		8,456
Nonoperating revenue (expense):		
Investment earnings.....	907	
Interest and debt expense.....	<u>(43,739)</u>	
Net nonoperating revenue (expense).....		<u>(42,832)</u>
Income before contributions.....		(34,376)
Capital contributions.....		<u>1,000</u>
Net increase (decrease) in net assets.....		(33,376)
Net assets, beginning of year.....		<u>1,329,029</u>
Net assets, end of year.....		<u>\$ 1,295,653</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS
WATER UTILITY PROPRIETARY FUND
For the Year Ended September 30, 2009
CITY OF LAKE HELEN, FLORIDA

Cash Flows From Operating Activities:	
Cash received from customers.....	\$ 419,640
Cash paid to suppliers.....	(212,983)
Cash paid for personal services.....	<u>(176,968)</u>
Net cash provided by (used in) operating activities.....	29,689
Cash Flows From Capital and Related Financing Activities:	
Advances from other funds.....	13,503
Proceeds from long-term debt.....	172,335
Payments of long-term debt principal.....	(78,409)
Interest payments.....	(42,762)
Capital contributions.....	1,000
Acquisition and construction of capital assets.....	<u>(180,213)</u>
Net cash provided by (used in) capital and related financing activities.	(114,546)
Cash Flows From Investing Activities:	
Interest earnings received.....	907
Maturities of investments.....	<u>148,386</u>
Net cash provided by (used in) investing activities.....	<u>149,293</u>
Net increase (decrease) in cash and cash equivalents.....	64,436
Cash and cash equivalents, beginning of year.....	<u>260,545</u>
Cash and cash equivalents, end of year.....	<u>\$ 324,981</u>
Reconciliation of cash and cash equivalents:	
Unrestricted.....	\$ 53,765
Restricted.....	<u>271,216</u>
Total - all sources.....	<u>\$ 324,981</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income (loss).....	\$ 8,456
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation.....	76,735
Changes in assets and liabilities:	
Accounts receivable (net).....	(5,169)
Accounts payable.....	(47,938)
Accrued liabilities.....	615
Compensated absences.....	2,083
Customer deposits.....	<u>(5,093)</u>
Net cash provided by operating activities.....	<u>\$ 29,689</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF FIDUCIARY NET ASSETS
MUNICIPAL POLICE OFFICERS' RETIREMENT TRUST FUND
September 30, 2009
CITY OF LAKE HELEN, FLORIDA

Assets:	
Receivables:	
Employer.....	\$ 173
Investments in local government investment pool at fair value.....	<u>499,199</u>
Total assets.....	<u>499,372</u>
Liabilities.....	<u>-</u>
Net Assets:	
Held in trust for pension benefits.....	<u>\$ 499,372</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
MUNICIPAL POLICE OFFICERS' RETIREMENT TRUST FUND
For the Year Ended September 30, 2009
CITY OF LAKE HELEN, FLORIDA

Additions:	
Contributions from:	
Employees.....	\$ 1,841
Employer (City).....	<u>45,565</u>
Total contributions.....	47,406
Investment income:	
Net investment earnings, including appreciation (depreciation)	
in fair value of investments.....	<u>18,057</u>
Total additions.....	65,463
Deductions:	
Administrative expenses.....	<u>3,859</u>
Total deductions.....	<u>3,859</u>
Net increase.....	61,604
Net Assets Held in Trust for Pension Benefits:	
Beginning of year.....	<u>437,768</u>
End of year.....	<u>\$ 499,372</u>

The accompanying notes are an integral part of the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

September 30, 2009

CITY OF LAKE HELEN, FLORIDA

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Lake Helen, Florida (the "City"), have been prepared in conformance with accounting principles generally accepted in the United States of America, as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted body for promulgating governmental accounting and financial reporting principles. The following is a summary of the City's significant accounting policies:

A. Reporting Entity

The City of Lake Helen, Florida, is a municipal corporation created by the Laws of Florida, located in Volusia County. The City was originally incorporated under the general Laws of Florida in October, 1888, and adopted its first charter in April, 1945, under the provisions Senate Bill No. 627 and the Municipal Home Rule Power Act, F.S. Ch. 166. The legislative branch of the City is composed of an elected five-member City Commission consisting of the Mayor and four commissioners. The City Commission is governed by the City Charter and by state and local laws and regulations. The City Commission is responsible for the establishment and adoption of policy. The execution of such policy is the responsibility of the Commission-appointed Administrator.

The accompanying financial statements present the financial position, results of operations and cash flows of the applicable funds controlled by or dependent on the City. In evaluating the City as a reporting entity, management has addressed all potential component units for which the entity may or may not be financially accountable and, as such, be included within the City's financial statements. No component units exist which would require inclusion in the City's financial statements.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect costs are included in the program expense reported for individual functions and activities. 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.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2009

CITY OF LAKE HELEN, FLORIDA

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. 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.

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 the current period or as soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 180 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 compensated absences and claims and judgments, are recorded only when payment is due.

Taxes, intergovernmental revenue, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The General Trust (permanent) Fund accounts for the financial resources related to the investment of proceeds from the sale of the City's electric distribution system in 1981.
- It should be noted that the City's Stormwater Management (special revenue) Fund is separately captioned in the accompanying government-wide financial statements since it is the only non-major fund of the City.

The City reports the following major proprietary fund:

- The Water Utility Fund accounts for the activities of the City's potable water utility system, including the pumping, treatment and distribution systems.

Additionally, the City reports the following fund type:

- The Pension Trust Fund accounts for the activities of the Municipal Police Officers' Retirement Trust Fund, which accumulates financial resources to pay pension benefits to qualified police officers.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2009

CITY OF LAKE HELEN, FLORIDA

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

As a general rule the effect of interfund activities has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. The City recognizes as operating revenue the portion of impact fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

All of the City's investments are reported at fair value, with the exception of investments in the 2a7-like pools (State Board of Administration Local Government Surplus Trust Fund Pool) which are stated at cost, or amortized cost, and are the same as the fair value of pool shares. All fiduciary (police pension) fund investments are stated at fair value.

2. Receivables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Trade receivables and amounts due from other governments are reported net of allowance for uncollectible accounts which is upon management's analysis of historical trends. Utility operating sales are generally recognized on the basis of cycle billings rendered quarterly. Unbilled accounts receivable are accrued by the City at year end to recognize sales revenue earned between the last meter reading date made in mid-September through the end of the fiscal year.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2009

CITY OF LAKE HELEN, FLORIDA

3. *Inventories and Prepaid Items*

The cost of inventory is accounted for on the consumption basis wherein inventories are charged as expenditures when used, rather than when purchased. All inventories are valued at cost, which approximates market, by using the first-in, first-out valuation method. The effect of this method is to flow the costs of the materials and supplies in the order in which they are purchased and to assign a balance sheet inventory valuation more nearly at current replacement value.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. *Restricted Assets*

Certain proceeds of the City's revenue note obligations, as well as certain resources set aside for their repayment, are classified as restricted assets in the government-wide financial statements because their use is limited by applicable legal indentures imposed by other governmental agencies. The restricted assets are used to report resources set aside to 1) provide a reserve for debt service, 2) provide a reserve for maintenance and replacement costs, and 3) acquire capital assets.

5. *Capital Assets*

Capital assets, which include property, plant, equipment, certain infrastructure assets, office furniture, fixtures and equipment, are reported in the applicable governmental or business-type activities in the government-wide financial statements. Property, plant and equipment with initial, individual costs that equal or exceed \$750 and have estimated useful lives of over one year are recorded as capital assets. Infrastructure assets are capitalized when their costs exceed \$5,000 and possess useful lives of more than one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as a component of the capitalized value of the asset constructed.

Depreciation is provided for using the straight-line method calculated on a service-life basis to amortize the cost of the assets over their economic estimated useful lives which are as follows:

Buildings	15 - 40 years
Source of supply plant	25 - 50 years
Pumping plant and water treatment plant	25 - 50 years
Transmission and distribution plant	25 - 50 years
Infrastructure	15 - 50 years
Equipment.....	2 - 25 years

As a Phase 3 government, the City is not required to report major general infrastructure assets retroactively and, as such, has elected to not include these assets in their basic financial statements. As a result, the governmental activities column in the government-wide financial statements does not reflect those infrastructure asset projects completed before October 1, 2001. However, it does reflect those assets that were completed subsequent to that date as improvements other than buildings.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2009

CITY OF LAKE HELEN, FLORIDA

6. *Compensated Absences*

It is the City’s policy to permit employees to accumulate earned paid time off credits for unused vacation, illness or injury, and personal leave benefits. The portion of employees payroll costs paid subsequent to year-end attributable to services performed prior to year-end, and accumulated unpaid paid time off credits are recorded and recognized as a liability in the government-wide and fund financial statements. The amount of paid time off available to employees increases each year with the length of employment as follows:

	Annual Leave	Personal Leave
0 to 5 years service	10 days	12 days
6 to 10 years service	15 days	12 days
Over 11 years service	20 days	12 days

City employees may accumulate personal leave up to a maximum of 360 hours. All employees will receive 25% of accumulated personal leave benefits upon retirement or death.

7. *Deferred Revenue*

Deferred revenues are reported when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

8. *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. Debt issuance costs are deferred and amortized over the life of the obligations using the effective interest method.

9. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. *Use of Estimates*

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates assumed in preparing the financial statements.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2009

CITY OF LAKE HELEN, FLORIDA

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

Following the governmental fund balance sheet is a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. A detailed explanation of these differences is provided in this reconciliation.

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and the Government-Wide Statement of Activities

Following the governmental fund statement of revenues, expenditures, and changes in fund balances, there is reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. A detailed explanation of these differences is provided in this reconciliation.

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

An annual budget was adopted for the City's governmental funds. The basis on which the budgets were prepared is consistent with generally accepted accounting principles. The City uses the following procedures in establishing the budgetary data reflected in the accompanying financial statements:

- On or before July 1st, the City Administrator submits a preliminary budget to the City Commission for the ensuing fiscal year.
- Budget workshop sessions are scheduled by the City Commission, as needed.
- A general summary of the budget and notice of public hearing is published in a local newspaper.
- Prior to October 1st, the budget is legally enacted through passage of an ordinance.
- The City Commission, by ordinance, may make supplemental appropriations in excess of those estimated for the year up to the amount of available revenue in accordance with Sections 54 to 57 of the City Charter. Prior to the end of the fiscal year, supplemental appropriations are made for unanticipated spending requirements by the Commission.
- The City Commission must approve all inter-departmental budget amendments and/or appropriations transfers. Budgetary control is exercised at the fund level.
- Every appropriation lapses at the close of the fiscal year.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2009

CITY OF LAKE HELEN, FLORIDA

B. Excess of Expenditures over Appropriations

During the year ended September 30, 2009, expenditures exceeded budgetary appropriations in the General Fund (major) – actual expenditures (\$2,009,737) exceeded budgetary appropriations (\$1,954,250) by \$55,487 during 2009. This amount is primarily the result of unbudgeted capital outlay expenditures in the General Government function; and actual expenditures exceeding budgetary appropriations within the Creative Arts Café Restaurant operations (part of the Culture/Recreation function) due to this being the first full year of activity, and not having any substantial history to aid in the budget process. This amount was funded in its entirety from revenues generated by the Restaurant operations.

NOTE 4 - PROPERTY TAX CALENDAR

Under Florida law, the assessment of all properties and the collection of all county, municipal and school district property taxes are consolidated in the offices of the County Property Appraiser and County Finance Director. The laws of the state regulating tax assessment are also designed to assure a consistent property valuation method statewide. State Statutes permit municipalities to levy property taxes at a rate of up to 10 mills. The millage rate assessed by the City (2008 tax levy) was 4.2 mills for ad valorem taxes collected by the City during the year ended September 30, 2009. The property tax calendar is as follows:

Valuation Date	January 1
Property Appraiser prepares the assessment roll with values as of January 1, submits preliminary roll for approval by the State and notifies each taxing authority of their respective valuations.	July 1
City Commission holds two required public hearings and adopts a budget and ad valorem tax millage rate for the coming fiscal year.	September
Property Appraiser certified the assessment roll and all real and tangible personal property taxes are due and payable (Levy date).	November 1
A Notice of Taxes is mailed to each property owner on the assessment roll. Taxes are paid November through March, with the following applicable discounts:	November 1

<u>Month Paid</u>	<u>Discount</u>
November	4%
December	3%
January	2%
February	1%
March	None

All unpaid taxes on real and tangible personal property become delinquent.	April 1
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NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2009

CITY OF LAKE HELEN, FLORIDA

A list of unpaid tangible personal property taxes and a list of unpaid real property taxes are advertised.	April/May
Tax certificates are sold on all real estate parcels with unpaid real property taxes (Lien date).	June 1
A court order is obtained authorizing the seizure and sale of personal property if the taxpayer fails to pay the delinquent taxes	August

NOTE 5 - CASH DEPOSITS AND INVESTMENTS

Deposits. At September 30, 2009, the carrying value of the City’s cash deposit accounts was \$823,177 and the bank balance totaled \$811,353. The cash deposits are held by banks that qualify as public depositories under the Florida Security for Public Deposits Act as required by Chapter 280, Florida Statutes and are fully insured. Amounts do not include \$700 in cash funds on hand at the end of the fiscal year.

Investments. As of September 30, 2009, the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (Years)		
		Less Than 1	From 1 - 5	From 6 - 10
Local Government Investment Pool:				
State Board of Administration, Local Government Surplus Trust Fund Investment Pool				
Florida PRIME.....	\$ 729,381	729,381	-	-
Fund B.....	9,843	-	-	9,843
Florida Municipal Investment Trust.....	499,199	292,032	207,167	-
Ad Valorem tax certificates.....	47	-	47	-
Totals.....	<u>\$ 1,238,470</u>	<u>1,021,413</u>	<u>207,214</u>	<u>9,843</u>

The City’s investments consist of amounts invested in the Local Government Surplus Trust Fund managed by the Florida State Board of Administration (SBA); and Police Pension Trust Funds maintained by the Florida Municipal Pension Trust Fund (FMPTF).

The SBA is part of the Local Government Surplus Trust Fund and is governed by Chapter 19-7 of the Florida Administrative Code. These rules provide guidance and establish the general operating procedures for the administration of the Local Government Surplus Trust Fund. Florida PRIME is accounted for as a Securities and Exchange Commission (SEC) 2a-7-like fund, which permits money market funds to use amortized cost to maintain a constant net asset value of \$1.00 per share, and are therefore reported at fair value. The investment held in Fund B is accounted for as a fluctuating net asset value (NAV) pool. Its assets are presently restricted and the City is prohibited from withdrawing any amounts from the pool. The fair value of the original \$17,924 (at cost) investment in Fund B is \$9,843 as of September 30, 2009, based on the NAV factor of 0.549151 reported by the trustees of Fund B.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2009

CITY OF LAKE HELEN, FLORIDA

The FMPTF is established as a trust whereby governmental entities with employee pension or OPEB plans may elect to join the trust (becoming a Participating Employer), and with the trust providing the plans with administrative and investment services for the benefit of Participating Employers, Participating Employees, and Beneficiaries. All employee pension plan or OPEB assets with the FMPTF are included in the trust's Master Trust Fund. Employee pension plan or OPEB assets of the defined benefit type are invested by the FMPTF through the Florida Municipal Investment Trust (FMIvT) for the benefit of the Participating Employers, Participating Employees and Beneficiaries.

The FMIvT is a Local Government Investment Pool (LGIP) and, therefore, considered an external investment pool for GASB reporting requirements. The City is a Participating Employer in the FMPTF and has a beneficial interest in shares in the FMIvT portfolios listed below. The City's investment is the beneficial interest in the FMIvT portfolio, not the individual securities held within each portfolio.

As of September 30, 2009, the asset allocations for the various investment models were as follows:

Investment Portfolios/Funds	Pension Fund A 60/40
Cash.....	0.70%
FMIvT Broad Market High Quality Bond.	41.50%
FMIvT High Quality Growth.....	7.40%
FMIvT Large Cap Diversified Value.....	7.80%
FMIvT Russell 1000 Enhanced Index.....	22.70%
FMIvT Diversified Small Cap Equity.....	10.60%
FMIvT International Blend.....	9.30%
Total.....	<u>100.00%</u>

Interest Rate Risk. Generally, the City limits its exposure to fair value losses arising from increases in interest rates by limiting the investment of its operating funds in investments with maturities of less than one year. Substantially all of the City's surplus funds are invested in the City's certificates of deposit, or in the Local Government Surplus Trust Fund. Investments held in the City's Police pension trust fund are generally held to maturity to provide a stable investment interest rate platform which is vital to the projection of actuarial pension costs in the future. Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. GASB 40 requires that interest rate risk be disclosed using one of the five approved methods. The five methods are: segmented time distribution, specific identification, weighted average maturity (WAM), duration, and simulation model. Different methods may be presented for different types of investments.

Interest rate risk disclosures are required for all debt investments as well as investments in mutual funds, external investment pools, and other pooled investments that do not meet the definition of a 2a7-like pool.

At September 30, 2009, the WAM of the Florida PRIME is 33 days and the WAM of Fund B is 6.69 years. Other lengths of maturity at September 30, 2009 are as follows:

Fixed Income Fund	Effective Duration	WAM
FMIvT Broad Market High Quality Bond.	3.57	4.81

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2009

CITY OF LAKE HELEN, FLORIDA

Credit Risk. The provisions of Section 218.415, Florida Statutes, require that the investment activity of the City be conducted in accordance with a written investment plan adopted by the governing body. Under that plan, allowable investment instruments include: bonds, notes, certificates of indebtedness, treasury bills, or other securities which are guaranteed by the full faith and credit of the United States of America, interest bearing savings accounts, interest bearing certificates of deposit and interest bearing time deposits, including those held with the Florida State Board of Administration investment pool.

Investments in the City’s pension trust fund are limited by state statutes (Chapter 185, Florida Statutes) and by an investment policy adopted by the fund’s Board of Trustees. The basic allowable investment instruments include obligations of, or obligations the principal and interest of which are guaranteed by, the U.S. Government; time deposits or savings accounts of a national bank, a state bank insured by the Federal Deposit Insurance Corporation, or a savings, building and loan association insured by the Federal Savings and Loan Insurance Corporation; money market accounts that invest in U.S. Government obligations; bonds issued by the State of Israel; and bonds, stocks or other evidence of indebtedness issued or guaranteed by a corporation organized under the laws of the U.S., any state or organized territory of the U.S., or the District of Columbia.

Credit risk exists when there is a possibility the issuer, or other counterparty to an investment, may be unable to fulfill its obligations, GASB 40 requires disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed-income securities. Investments may be aggregated by rating categories within the disclosure. Ratings are set by nationally recognized statistical rating organizations (Fitch, Moody’s, Standard & Poors). In cases where an investment is unrated, a disclosure noting that the investment is unrated is required.

The Florida PRIME is rated by Standard and Poors, with a rating of AAAM as of September 30, 2009; Fund B is not rated by any nationally recognized statistical rating agency. Other ratings as of September 30, 2009 are as follows:

<u>Fixed Income Fund</u>	<u>Fitch Rating</u>
FMIvT Broad Market High Quality Bond.	AA/V4

<u>Equity Portfolios</u>	<u>Rating</u>
FMIvT High Quality Growth.....	Not Rated
FMIvT Large Cap Diversified Value.....	Not Rated
FMIvT Russell 1000 Enhanced Index.....	Not Rated
FMIvT Diversified Small Cap Equity.....	Not Rated
FMIvT International Blend.....	Not Rated

Concentration Risk. In addition to describing the credit risk of investments in the portfolio, governmental entities will need to disclose the concentration of credit risk with a single issuer, if 5 or more percent of the total assets of the portfolio are invested with one issuer. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are excluded from the concentration of credit risk disclosure requirements.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. Pursuant to the applicable provisions of Chapter 280, Florida Statutes, *The Florida Security for Public Deposits Act* ("the Act"), the State of Florida, Department of Financial

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2009

CITY OF LAKE HELEN, FLORIDA

Services, Division of Treasury, Bureau of Collateral Management have established specific requirements relative to the security and collateralization for public deposits. Accordingly, banks qualifying as a public depository in the State of Florida must adopt the necessary procedures outlined in these statutes and meet all of the requirements of this chapter to be designated by the State’s Chief Financial Officer as eligible to receive deposits from municipal depositors. Collateral having a market value equal to 50% of the average daily balance for each month of all public deposits in excess of any applicable depository insurance is required to be pledged or deposited with the State’s Chief Financial Officer to secure such deposits. Additional collateral, up to a maximum of 125% may be required if deemed necessary under the conditions set forth in the Act. Securities eligible to be pledged as collateral are generally limited to obligations of the United States government and any state thereof and are held in the name of the State Chief Financial Officer’s office. Compliance with the provisions of Chapter 280, Florida Statutes, is monitored by a Qualified Public Depository Oversight Board with members appointed by the State Chief Financial Officer.

At September 30, 2009, the carrying amount of the City’s deposits in the Local Government Surplus Funds Trust Fund was \$739,224, all of which was covered by collateral securities in accordance with the Act. The carrying amount of the City’s \$45,115 investment in certificates of deposit was collateralized with securities pledged or deposited to the State’s Chief Financial Officer (under statutory provisions mentioned above) by the City’s depository banks. All remaining deposits of the City were adequately covered by federal depository insurance and the statutory provisions of the Act. All investments held by the City’s police and fire pension trust funds were uninsured, unregistered and held by the Plans’ trustees.

NOTE 6 - RECEIVABLES

A summary of receivables at September 30, 2009, is as follows:

Type	Governmental Business-type		Total
	Activities	Activities	
Delinquent taxes receivable.....	\$ 4,596	-	4,596
Accounts receivable.....	30,455	138,901	169,356
Unbilled accounts receivable.....	-	19,775	19,775
Due from other governments.....	92,036	-	92,036
	127,087	158,676	285,763
Less: allowance for doubtful accounts.....	-	(3,779)	(3,779)
Net receivables.....	<u>\$ 127,087</u>	<u>154,897</u>	<u>281,984</u>

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2009

CITY OF LAKE HELEN, FLORIDA

NOTE 7 - INTERFUND BALANCES

The outstanding balances between funds result mainly from the time lag between the dates reimbursable expenditures occur, when transactions are recorded in the accounting system, and when payments between funds are made. Individual fund interfund receivables and payables at September 30, 2009, are comprised of the following:

	<u>Due From</u>	<u>Due To</u>
Governmental Activities:		
General Fund:		
Stormwater Management Fund.....	\$ -	55,660
Water Utility Fund.....	44,295	-
Stormwater Management Fund:		
General Fund.....	<u>55,660</u>	<u>-</u>
	<u>99,955</u>	<u>55,660</u>
Business-type Activities:		
Water Utility Fund:		
General Fund.....	<u>-</u>	<u>44,295</u>
Totals - all funds.....	<u>\$ 99,955</u>	<u>99,955</u>

NOTE 8 - CAPITAL ASSETS

The following is a summary of changes in capital assets during the year:

A. Governmental Activities

	<u>Balances 9/30/2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances 9/30/2009</u>
Capital assets not being depreciated:				
Land.....	\$ 477,526	-	-	477,526
Construction in progress.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets not being depreciated..	<u>477,526</u>	<u>-</u>	<u>-</u>	<u>477,526</u>
Capital assets being depreciated:				
Buildings.....	1,494,850	9,731	-	1,504,581
Improvements other than buildings.....	1,240,224	872	-	1,241,096
Machinery and equipment.....	<u>647,998</u>	<u>35,864</u>	<u>-</u>	<u>683,862</u>
Total capital assets being depreciated.....	<u>3,383,072</u>	<u>46,467</u>	<u>-</u>	<u>3,429,539</u>
Less accumulated depreciation for:				
Buildings.....	(269,208)	(44,348)	-	(313,556)
Improvements other than buildings.....	(164,420)	(29,881)	-	(194,301)
Machinery and equipment.....	<u>(560,636)</u>	<u>(25,141)</u>	<u>-</u>	<u>(585,777)</u>
Total accumulated depreciation.....	<u>(994,264)</u>	<u>(99,370)</u>	<u>-</u>	<u>(1,093,634)</u>
Total capital assets being depreciated, net.	<u>2,388,808</u>	<u>(52,903)</u>	<u>-</u>	<u>2,335,905</u>
Total capital assets, net.....	<u>\$ 2,866,334</u>	<u>(52,903)</u>	<u>-</u>	<u>2,813,431</u>

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2009

CITY OF LAKE HELEN, FLORIDA

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government.....	\$ 37,537
Public safety.....	11,795
Physical environment.....	10,603
Transportation.....	5,586
Culture/recreation.....	<u>33,849</u>
 Total depreciation expense - governmental activities.....	 <u>\$ 99,370</u>

B. Business-Type Activities

	Balances <u>9/30/2008</u>	<u>Additions</u>	<u>Deletions</u>	Balances <u>9/30/2009</u>
Capital assets not being depreciated:				
Construction in progress.....	\$ 52,779	176,318	-	<u>229,097</u>
Capital assets being depreciated:				
Improvements other than buildings.....	2,800,736	-	-	2,800,736
Machinery and equipment.....	<u>363,977</u>	<u>3,895</u>	-	<u>367,872</u>
Total capital assets being depreciated.....	<u>3,164,713</u>	<u>3,895</u>	-	<u>3,168,608</u>
Less accumulated depreciation for:				
Improvements other than buildings.....	(611,794)	(65,714)	-	(677,508)
Machinery and equipment.....	<u>(324,032)</u>	<u>(11,021)</u>	-	<u>(335,053)</u>
Total accumulated depreciation.....	<u>(935,826)</u>	<u>(76,735)</u>	-	<u>(1,012,561)</u>
Total capital assets being depreciated, net.	<u>2,228,887</u>	<u>(72,840)</u>	-	<u>2,156,047</u>
Total capital assets, net.....	<u>\$ 2,281,666</u>	<u>103,478</u>	-	<u>2,385,144</u>

Depreciation expense for the year totaled \$76,735.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2009

CITY OF LAKE HELEN, FLORIDA

NOTE 9 - LONG-TERM DEBT

The City’s long-term debt outstanding at September 30, 2009, is as follows:

Governmental Activities

	<u>Balance Due</u>	<u>Current Maturities</u>
Capital Lease Obligations:		
\$8,158 capital lease for machinery and equipment, for the City's general government activities, dated 3/10/2008, payable in monthly installments of \$174 through 2/10/2013, interest rate of 10.545%, secured with machinery and equipment with a book value of \$5,575 as of 9/30/2009.	\$ 5,968	1,531
\$4,000 capital lease for machinery and equipment, for the City's police department, dated 1/28/2008, payable in monthly installments of \$102 through 12/28/2011, interest rate of 10.759%, secured with machinery and equipment with a book value of \$2,667 as of 9/30/2009.....	<u>2,436</u>	<u>1,011</u>
Total governmental activities long-term debt.....	<u>\$ 8,404</u>	<u>2,542</u>

A summary of changes in the City’s governmental activities long-term debt for the year is as follows:

	<u>Balances 9/30/2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances 9/30/2009</u>
Capital Lease Obligations:				
\$8,158 capital lease dated 3/10/2008.....	\$ 7,347	-	(1,379)	5,968
\$4,000 capital lease dated 1/28/2008.....	<u>3,344</u>	-	<u>(908)</u>	<u>2,436</u>
Totals.....	<u>\$ 10,691</u>	<u>-</u>	<u>(2,287)</u>	<u>8,404</u>

Annual debt service requirements to maturity, including principal and interest, on long-term debt obligations are as follows:

<u>Fiscal Year</u>	<u>Capital Lease dated 3/10/2008</u>	<u>Capital Lease dated 1/28/2008</u>	<u>Total</u>
September 30, 2010.....	\$ 2,088	1,224	3,312
September 30, 2011.....	2,088	1,224	3,312
September 30, 2012.....	2,088	306	2,394
September 30, 2013.....	<u>870</u>	<u>-</u>	<u>870</u>
Total requirements.....	7,134	2,754	9,888
Less: interest.....	<u>(1,166)</u>	<u>(318)</u>	<u>(1,484)</u>
Net amount.....	<u>\$ 5,968</u>	<u>2,436</u>	<u>8,404</u>

Total interest incurred for governmental activities for the year ended September 30, 2009 was \$1,016.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2009

CITY OF LAKE HELEN, FLORIDA

Business-Type Activities

	<u>Balance Due</u>	<u>Current Maturities</u>
Notes Payable:		
State of Florida, Department of Environmental Protection-Drinking Water State Revolving Fund Loan Agreement, 3.05% to 3.57% construction loan dated 6/14/2000 in the amount of \$1,377,456, with amendments authorizing additional financing of \$318,512, providing for an amended obligation totaling \$1,695,969, due semi-annually with payments of \$59,273 beginning 10/15/2003 through 4/15/2022.....	\$ 1,230,008	76,218
State of Florida, Department of Environmental Protection-Drinking Water State Revolving Fund Loan Agreement, 2.77% construction loan dated dated 6/5/2008 in the amount of \$219,850 (amount drawn to date \$209,704), due semi-annually with payments of \$8,961 until adjusted by a final amendment, beginning 9/15/2009.....	<u>204,919</u>	<u>12,568</u>
Total business-type activities long-term debt.....	<u>\$ 1,434,927</u>	<u>88,786</u>

A summary of changes in the City's business-type activities long-term debt for the year is as follows:

	<u>Balances 9/30/2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances 9/30/2009</u>
Notes Payable:				
State of Florida Department of Environmental Protection-Clean Water State Revolving Fund Loans:				
\$1,695,969 loan dated 6/14/2000.....	\$ 1,303,632	-	(73,624)	1,230,008
\$219,850 loan dated 6/5/2008.....	<u>37,369</u>	<u>172,335</u>	<u>(4,785)</u>	<u>204,919</u>
Totals.....	<u>\$ 1,341,001</u>	<u>172,335</u>	<u>(78,409)</u>	<u>1,434,927</u>

Annual debt service requirements to maturity, including principal and interest, on long-term debt obligations are as follows:

<u>Fiscal Year</u>	<u>FDEP - SRF Loans</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
September 30, 2010.....	\$ 88,786	47,683	136,469
September 30, 2011.....	91,585	44,883	136,468
September 30, 2012.....	94,706	41,762	136,468
September 30, 2013.....	97,962	38,507	136,469
September 30, 2014.....	101,316	35,152	136,468
September 30, 2015 through 2019.....	561,077	121,264	682,341
September 30, 2020 through 2023.....	<u>399,495</u>	<u>24,652</u>	<u>424,147</u>
Totals.....	<u>\$ 1,434,927</u>	<u>353,903</u>	<u>1,788,830</u>

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2009

CITY OF LAKE HELEN, FLORIDA

As a part of the Loan Agreement of the \$1,695,969 loan dated June 14, 2000, the City is required to establish and maintain a Loan Payment Reserve Account with a balance of at least \$46,864 through maturity and to make mandatory monthly payments to a Loan Payment Sinking Fund sufficient to service the loan obligation. The City must also make mandatory monthly payments to a Loan Payment Sinking Fund sufficient to service the loan obligation for the \$219,850 loan dated June 5, 2008. In addition to these requirements, the City has agreed to comply with other covenants and restrictions contained within these agreements.

The notes payable to the State of Florida, Department of Environmental Protection, State Revolving Fund Loan are secured by pledged revenues of the City collected in the Water Utility Fund.

Total interest incurred for business-type activities for the year ended September 30, 2009 was \$47,215. Of this amount, \$3,476 was capitalized as a component of the costs of capital assets constructed during the year and \$43,739 was charged to expense.

NOTE 10 - PLEDGED REVENUES

The City has pledged future revenues derived from the operation of the City's Water Utility Fund, net of operating and maintenance expenses, to repay \$1,434,927 in State of Florida, Department of Environmental Protection-Drinking Water State Revolving Fund loans. Proceeds from the loans provided financing for improvements to the water supply system. The loans are payable solely from the net earnings of the Water Utility Fund and are payable through 2023. The total principal and interest remaining to be paid on the loans is \$1,788,830, with annual payments expected to require 100 percent of net revenues. Principal and interest paid for the current year and net system revenues were \$125,887 and \$85,763, respectfully.

NOTE 11 - RESTRICTED NET ASSETS

The government-wide statement of net assets reports \$259,273 of restricted net assets, of which \$143,489 is restricted for capital projects through local resolution and state legislation related to the use of revenues collected for impact fees and development reviews, and \$5,760 is restricted for police education and training by enabling legislation.

NOTE 12 - EMPLOYEES' PENSION PLANS

A. Florida Retirement System

Plan Description. The City contributes to the Florida Retirement System of the State of Florida, a cost-sharing multiple-employer retirement plan created in December, 1970, that acts as a common investment and administrative agent for municipalities and other qualifying political subdivisions in the State of Florida. The defined benefit pension plan, which is administered by the State of Florida, Department of Management Services, Division of Retirement, provides retirement and disability benefits and death benefits to participating public employees and beneficiaries. Benefit provisions are established under Chapter 121, Florida Statutes, which may be amended by the Florida Legislature. The Florida Retirement System issues a publicly available financial report that includes financial statements and required

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2009

CITY OF LAKE HELEN, FLORIDA

supplementary information for the plan. That report may be obtained by writing to Division of Retirement, P.O. Box 9000, Tallahassee, FL 32315-9000, or calling (850) 488-5706.

Funding Policy. The funding methods and determination of benefits payable are provided in the various acts of the Florida Legislature, which created the fund, including subsequent amendments thereto. The policy provides for monthly employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due based upon plan assumptions. Employer contribution rates are established by state law as a level percentage of payroll. Employer contribution rates are determined using the entry-age actuarial cost method. The consulting actuary recommends that rates based on the annual valuation, but actual contribution rates are established by the Florida Legislature. If an unfunded actuarial liability reemerges as a result of future plan benefit changes, assumption changes, or methodology changes, it is assumed any unfunded actuarial liability would be amortized over 30 years, using level dollar amounts. Except for gains reserved for rate stabilization, it is anticipated future actuarial gains and losses are amortized on a rolling 10% basis, as a level dollar amount.

The City’s contributions to the plan for the fiscal years ended September 30, 2009, 2008, and 2007 totaled \$96,504, \$71,425, and \$71,875, respectively. There were no employee contributions made during these years. The following is a summary of employer contribution percentages for qualifying compensation paid to general participants and special risk participants in effect during each of the past three fiscal years (rates specified below include an additional 1.11% for the City’s option to include the health insurance subsidy contribution):

	<u>Regular</u> <u>Employees</u>	<u>Special</u> <u>Risk</u>
From July 1, 2006 to June 30, 2007.....	9.85%	20.92%
From July 1, 2007 to June 30, 2008.....	9.85%	20.92%
From July 1, 2008 to June 30, 2009.....	9.85%	20.92%
From July 1, 2009 to September 30, 2009.....	9.85%	20.92%

B. Municipal Police Officers’ Retirement Trust Fund - Defined Benefit Pension Plan

Plan Description. The City contributes to the Florida Municipal Pension Trust Fund Defined Benefit Plan and Trust (the “Plan”), a single-employer defined benefit plan which is administered by Florida League of Cities, Inc., P. O. Box 1757, Tallahassee, FL 32302-1757. Under Resolution No. 95-5, the City established this Plan for all full-time sworn police officers hired on or after January 1, 1996, by temporarily revoking its prior participation in the Florida Retirement System pursuant to Chapter 95-338, Laws of Florida with respect to such employees. As of October 1, 2008, there were 5 active participating members enrolled in the Plan, and one deferred (terminated) vested participant only due a refund of employee contributions. There were no retired, disabled (receiving benefits from the Plan), beneficiaries receiving benefits nor any terminated employees entitled to but not yet receiving benefits from the Plan. The funding methods, determination of benefits payable, and cost-of-living adjustments provided to members and beneficiaries are provided pursuant to the applicable provisions of Chapter 185, Florida Statutes. This statute provides, in general, that funds are to be accumulated from employee contributions, City contributions, State appropriations (from casualty insurance premium excise taxes), and income from investments from accumulated funds. The act also provides that should the accumulated funds at any time be insufficient to meet and pay the benefits due, the City shall supplement the funds by an appropriation from current funds or from any revenue which may be lawfully used for said purposes in an amount sufficient to make up the deficiency. No stand-alone financial report is issued for the Plan.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2009

CITY OF LAKE HELEN, FLORIDA

Basis of Accounting. The financial statements of the Plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City’s contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments. Plan investments are reported at fair value and are managed by an independent third party money manager. Investments that do not have an established market are reported at estimated fair value. Performance reporting, administrative expenses, and the City’s asset valuation are based on the custodians’ determination of value. Administrative costs of the Plan are financed through investment earnings or, at the exclusive annual option of the City, from expense reimbursements made by the City.

Funding Policy. The contribution requirements of Plan members and the City are established and may be amended by the State Legislature. Plan members are required to contribute 1% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 26.24% of annual covered payroll. State appropriations (from casualty insurance premium excise taxes) received by the City are used to reduce the annual commitment of the City; however, the City did not receive any on-behalf payments during the year.

Annual Pension Cost and Net Pension Obligation. The City’s annual pension cost and net pension obligation of the Plan based on the actuarial valuation dated October 1, 2008 is as follows:

	2006/2007 <u>Plan Year</u>	2007/2008 <u>Plan Year</u>
Annual required contribution	\$ 64,948	70,858
Interest on net pension obligation.....	0	0
Adjustment to annual required contribution.....	<u>0</u>	<u>0</u>
Annual pension cost	69,948	70,858
Contributions made	<u>(54,992)</u>	<u>(59,041)</u>
Increase (decrease) in net pension obligation.....	9,956	(8,102)
Net Pension Obligation (NPO):		
Beginning of year.....	<u>0</u>	<u>9,956</u>
End of year.....	<u>\$ 9,956</u>	<u>1,854</u>

The City’s annual required contribution for the current year was determined as part of the October 1, 2008, actuarial valuation using the aggregate actuarial cost method. Under this method, the present value of pension benefits, less all assets, are equated to the present value of future employer contributions, and of future employee contributions, if any. The actuarial assumptions included (a) 7.50% per annum investment rate of return, (b) projected salary increases of 5.36% per year. Both (a) and (b) included an inflation component of 3.50%. The assumptions did not include any post-retirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four year period. There was an unfunded actuarial liability at October 1, 2008 in the amount of \$48,129.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2009

CITY OF LAKE HELEN, FLORIDA

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, all of which are insured by general liability insurance. Commercial insurance policies are also obtained for all risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the last three years.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies in current and prior years are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund(s). The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is from time to time engaged in routine litigation incidental to the conduct of its municipal affairs. In the opinion of the Counsel to the City, no other legal proceedings are pending or threatened which may materially affect the financial condition of the City.

NOTE 15 - SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through November 5, 2010, the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

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REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Fiscal Year Ended September 30, 2009
CITY OF LAKE HELEN, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes:				
Property taxes.....	\$ 527,000	527,000	519,477	(7,523)
Local option gas taxes.....	59,000	59,000	56,722	(2,278)
Utility service taxes.....	243,250	243,250	255,932	12,682
Local business taxes.....	8,500	8,500	5,947	(2,553)
	<u>837,750</u>	<u>837,750</u>	<u>838,078</u>	<u>328</u>
Permits and Fees:				
Franchise fees.....	150,700	150,700	180,832	30,132
Building permits.....	13,000	13,000	8,902	(4,098)
Development impact fees.....	2,400	2,400	1,150	(1,250)
Other permits and fees.....	6,400	6,400	4,164	(2,236)
	<u>172,500</u>	<u>172,500</u>	<u>195,048</u>	<u>22,548</u>
Intergovernmental Revenues:				
State Shared Revenues:				
State revenue sharing proceeds.....	87,000	87,000	76,742	(10,258)
Mobile home licenses.....	5,900	5,900	6,056	156
Alcoholic beverage licenses.....	800	800	789	(11)
Local half-cent sales tax.....	137,450	137,450	119,585	(17,865)
Motor fuel tax rebate.....	1,000	1,000	917	(83)
Other Shared Revenues:				
County and other grants.....	69,600	69,600	129,932	60,332
	<u>301,750</u>	<u>301,750</u>	<u>334,021</u>	<u>32,271</u>
Charges for Services:				
General government.....	400	400	672	272
Public safety.....	100	100	260	160
Garbage/solid waste.....	256,750	256,750	249,286	(7,464)
Creative Arts Café Restaurant.....	259,900	259,900	333,133	73,233
	<u>517,150</u>	<u>517,150</u>	<u>583,351</u>	<u>66,201</u>
Fines and Forfeitures:				
Court cases.....	29,300	29,300	24,969	(4,331)
Confiscated property.....	-	-	1,600	1,600
Local ordinance violations.....	-	-	232	232
	<u>29,300</u>	<u>29,300</u>	<u>26,801</u>	<u>(2,499)</u>
Miscellaneous Revenues:				
Investment earnings.....	37,000	37,000	2,082	(34,918)
Rents and royalties.....	6,500	6,500	12,615	6,115
Miscellaneous revenue.....	26,150	26,150	22,651	(3,499)
	<u>69,650</u>	<u>69,650</u>	<u>37,348</u>	<u>(32,302)</u>
Total revenues.....	1,928,100	1,928,100	2,014,647	86,547

REQUIRED SUPPLEMENTARY INFORMATION (Continued)
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Fiscal Year Ended September 30, 2009
CITY OF LAKE HELEN, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Expenditures:				
General Government:				
Legislative:				
Personal services.....	\$ 24,300	24,300	23,916	384
Operating expenditures.....	<u>3,300</u>	<u>3,300</u>	<u>793</u>	<u>2,507</u>
	<u>27,600</u>	<u>27,600</u>	<u>24,709</u>	<u>2,891</u>
Executive:				
Personal services.....	111,650	111,650	123,616	(11,966)
Operating expenditures.....	<u>-</u>	<u>-</u>	<u>410</u>	<u>(410)</u>
	<u>111,650</u>	<u>111,650</u>	<u>124,026</u>	<u>(12,376)</u>
Financial and Administrative:				
Personal services.....	28,550	28,550	29,239	(689)
Operating expenditures.....	<u>23,000</u>	<u>23,000</u>	<u>14,786</u>	<u>8,214</u>
	<u>51,550</u>	<u>51,550</u>	<u>44,025</u>	<u>7,525</u>
Legal Counsel:				
Operating expenditures.....	<u>55,000</u>	<u>55,000</u>	<u>41,034</u>	<u>13,966</u>
Other General Government:				
Personal services.....	101,750	101,750	113,604	(11,854)
Operating expenditures.....	<u>165,650</u>	<u>165,650</u>	<u>126,260</u>	<u>39,390</u>
Capital outlay.....	<u>-</u>	<u>-</u>	<u>46,467</u>	<u>(46,467)</u>
	<u>267,400</u>	<u>267,400</u>	<u>286,331</u>	<u>(18,931)</u>
Total general government.....	<u>513,200</u>	<u>513,200</u>	<u>520,125</u>	<u>(6,925)</u>
Public Safety:				
Law Enforcement:				
Personal services.....	471,500	471,500	459,670	11,830
Operating expenditures.....	<u>71,350</u>	<u>71,350</u>	<u>79,999</u>	<u>(8,649)</u>
	<u>542,850</u>	<u>542,850</u>	<u>539,669</u>	<u>3,181</u>
Protective Inspections:				
Operating expenditures.....	<u>20,300</u>	<u>20,300</u>	<u>12,720</u>	<u>7,580</u>
Total public safety.....	<u>563,150</u>	<u>563,150</u>	<u>552,389</u>	<u>10,761</u>
Physical Environment:				
Garbage/Solid Waste Control Services:				
Operating expenditures.....	<u>256,750</u>	<u>256,750</u>	<u>257,520</u>	<u>(770)</u>
Total physical environment	<u>256,750</u>	<u>256,750</u>	<u>257,520</u>	<u>(770)</u>

REQUIRED SUPPLEMENTARY INFORMATION (Continued)
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Fiscal Year Ended September 30, 2009
CITY OF LAKE HELEN, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Transportation:				
Road and Street Facilities:				
Personal services.....	\$ 116,500	116,500	110,890	5,610
Operating expenditures.....	<u>77,050</u>	<u>77,050</u>	<u>102,331</u>	<u>(25,281)</u>
Total transportation.....	<u>193,550</u>	<u>193,550</u>	<u>213,221</u>	<u>(19,671)</u>
Culture/Recreation:				
Parks and Recreation:				
Personal services.....	98,900	98,900	82,126	16,774
Operating expenditures.....	<u>68,200</u>	<u>68,200</u>	<u>49,137</u>	<u>19,063</u>
Total culture/recreation.....	<u>167,100</u>	<u>167,100</u>	<u>131,263</u>	<u>35,837</u>
Creative Arts Café Restaurant:				
Personal services.....	91,750	91,750	135,012	(43,262)
Operating expenditures.....	<u>168,750</u>	<u>168,750</u>	<u>196,895</u>	<u>(28,145)</u>
Total culture/recreation.....	<u>260,500</u>	<u>260,500</u>	<u>331,907</u>	<u>(71,407)</u>
Total culture/recreation.....	<u>427,600</u>	<u>427,600</u>	<u>463,170</u>	<u>(35,570)</u>
Debt Service:				
Principal.....	-	-	2,287	(2,287)
Interest.....	-	-	<u>1,025</u>	<u>(1,025)</u>
Total debt service.....	-	-	<u>3,312</u>	<u>(3,312)</u>
Total expenditures.....	<u>1,954,250</u>	<u>1,954,250</u>	<u>2,009,737</u>	<u>(55,487)</u>
Excess of revenues over (under) expenditures.....	(26,150)	(26,150)	4,910	31,060
Other Financing Sources (Uses):				
Transfers in (out).....	-	-	6,344	6,344
Appropriated fund balance.....	<u>26,150</u>	<u>26,150</u>	-	<u>(26,150)</u>
Total other financing sources (uses).....	<u>26,150</u>	<u>26,150</u>	<u>6,344</u>	<u>(19,806)</u>
Net change in fund balance.....	-	-	11,254	11,254
Fund balance, beginning of year.....	<u>651,828</u>	<u>651,828</u>	<u>651,828</u>	-
Fund balance, end of year.....	<u>\$ 651,828</u>	<u>651,828</u>	<u>663,082</u>	<u>11,254</u>

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - STORMWATER MANAGEMENT FUND
For the Fiscal Year Ended September 30, 2009
CITY OF LAKE HELEN, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
Permits and Fees:				
Stormwater permits.....	\$ 500	500	243	(257)
Intergovernmental Revenue:				
Grants from other governments.....	20,000	20,000	23,622	3,622
Charges for Services:				
Stormwater management.....	48,650	48,650	48,222	(428)
Miscellaneous Revenue:				
Miscellaneous revenue.....	-	-	651	651
Total revenues.....	<u>69,150</u>	<u>69,150</u>	<u>72,738</u>	<u>3,588</u>
Expenditures:				
Transportation:				
Stormwater Management:				
Personal services.....	9,900	9,900	10,913	(1,013)
Operating expenditures.....	<u>42,000</u>	<u>42,000</u>	<u>27,294</u>	<u>14,706</u>
Total transportation.....	<u>51,900</u>	<u>51,900</u>	<u>38,207</u>	<u>13,693</u>
Total expenditures.....	<u>51,900</u>	<u>51,900</u>	<u>38,207</u>	<u>13,693</u>
Excess of revenues over (under) expenditures.....	17,250	17,250	34,531	17,281
Other Financing Sources (Uses):				
Appropriated fund balance.....	<u>(17,250)</u>	<u>(17,250)</u>	-	<u>17,250</u>
Total other financing sources (uses).....	<u>(17,250)</u>	<u>(17,250)</u>	-	<u>17,250</u>
Net change in fund balance.....	-	-	34,531	34,531
Fund balance, beginning of year.....	<u>19,326</u>	<u>19,326</u>	<u>19,326</u>	-
Fund balance, end of year.....	<u>\$ 19,326</u>	<u>19,326</u>	<u>53,857</u>	<u>34,531</u>

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPAL POLICE OFFICERS' RETIREMENT TRUST FUND
September 30, 2009
CITY OF LAKE HELEN, FLORIDA

SCHEDULE OF FUNDING PROGRESS (1)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
10/01/03	\$114,340	\$114,340	\$0	100.0%	\$142,931	0.0%
10/01/06	\$242,346	\$242,346	\$0	100.0%	\$204,913	0.0%
10/01/08	\$349,903	\$398,032	\$48,129	88.0%	\$193,463	24.9%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended	Annual Required Contribution	Percent Contributed	Annual Pension Cost	Percent Contributed
09/30/03	\$21,911	100%	\$21,911	100%
09/30/04	\$26,543	100%	\$26,543	100%
09/30/05	\$28,096	100%	\$28,096	100%
09/30/06	\$29,604	100%	\$29,604	100%
09/30/07	\$64,948	100%	\$64,948	100%
09/30/08	\$70,858	100%	\$70,858	100%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	October 1, 2008
Actuarial cost method	Aggregate
Amortization method	Not applicable
Amortization period	Not applicable
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	5.36%
Includes inflation at	3.50%
Cost-of-living adjustments	0.00%

- (1) Plans that use the aggregate actuarial cost method in accordance with the parameters of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, are required to present the required schedule of employer contributions. They are not required to present a schedule of funding progress but should disclose that the aggregate method is used as required by paragraph 40a. (GASB #25, footnote 17)

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SUPPLEMENTAL AUDIT REPORTS

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BM&C

BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

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

The Honorable Mayor, and
Members of the City Commission
City of Lake Helen, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Lake Helen, Florida, as of and for the year ended September 30, 2009, which collectively comprise the City of Lake Helen, Florida's basic financial statements and have issued our report thereon dated November 5, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Lake Helen, Florida's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Lake Helen, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lake Helen, 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as 2008-1 through 2008-3 in the accompanying schedule of findings and responses to be material weaknesses.

The Honorable Mayor, and
Members of the City Commission
City of Lake Helen, Florida
Page 2 of 2

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described as 2008-4 and 2009-1 in the accompanying schedule of findings and responses to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Lake Helen, Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2009-2 and 2009-3.

We noted certain other matters that we reported to management of City of Lake Helen, Florida, in a separate letter dated November 5, 2010.

City of Lake Helen, Florida's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit City of Lake Helen, Florida's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Commission, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brent Milliken & Co., P.A.

November 5, 2010

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended September 30, 2009

CITY OF LAKE HELEN, FLORIDA

Internal Control Over Financial Reporting

2008-1 Year End Closing Procedures

During the conduct of the current and prior years' audits, we continued to note that the City is experiencing significant delays in its accounting and reporting processes. We have observed this is mainly due to an understaffed finance department. The lack of accounting staff results in neglect of accounting duties and contributes to delays in processing accounting information, including cash receipts and cash disbursements processing. This, we believe, is a situation that breeds inefficiency and weakens internal controls. As a direct result of these conditions, you have continued to experience increasing delays in performing essential year-end closing procedures that are essential to both the City's financial reporting requirements and the related independent audit process. We also continued to note that the City was not adequately prepared for the annual audit of the financial statements causing a substantial delay in our audit process. This included obtaining an accurate final general ledger and the development of adequate supporting schedules for balances in the general ledger. Due to significant changes in *Government Auditing Standards*, issued by the Comptroller General of the United States pertaining to independence, our firm can no longer assist the City in the preparation of workpapers or development of account balances that we must also audit. Furthermore, we noted that no formal procedures have been developed or employed to provide adequate assurance that all pre-closing accounting activities have been appropriately resolved and/or completed prior to the closing of the accounting records and rollover to the subsequent accounting period. All of the above factors contributed to the significant delays in the ability to finalize the year-end financial statements. In addition, the audited financial statements often include material adjusting journal entries in order for account balances to be reported in conformity with generally accepted accounting principles and to correct potential material misstatements. Also, the delay in the audit function limits the use of the final financial statements in the preparation of the budget for the upcoming year.

Recommendation: We strongly recommend that formal written year-end closing procedures be established and strictly followed to ensure that all pre-closing requirements are timely recognized and resolved prior to performing the City's mandatory accounting closeout procedures, as well as reducing the non-financial administrative responsibilities for the accounting staff. This can be achieved by either hiring additional employees in the administrative department, or by transferring the administrative duties to other employees who have more available time. This change will greatly benefit the organization with more efficient accounting processes that produce more timely financial statements, which will aid in the planning and budgeting process.

Auditee Response: *As noted in the previous year's audit report, staff workload demands preclude the accomplishment of this task by City staff. However, it is believed that the preparation of such procedures, in concert with the implementation of the City's new financial accounting software in FY 2010/2011, is necessary to assist in the sustaining the professional management of the Finance Department, as well as providing necessary structure and support to the pre-audit function. It is believed that preparation of the recommended procedures can best be accomplished by consultant assistance, and staff will recommend to the City Commission that such assistance be obtained in FY 2010/2011.*

SCHEDULE OF FINDINGS AND RESPONSES - (Continued)

Year Ended September 30, 2009

CITY OF LAKE HELEN, FLORIDA

2008-2 Cash Disbursements

During our in-depth review of the City's accounting systems, internal control environment and operating procedures and controls related to the cash disbursements function, we continued to note that a significant number of these tasks, most of which are typically delegated to more than one individual for control purposes, are the sole responsibility of a single employee due to the limited number of staff available in the finance area. At the present time, this person is responsible for preparing vendor checks, maintaining all related procurement documentation, receiving and reviewing unopened bank statements and cancelled checks, preparing bank reconciliations, and recording all related financial accounting data (by data entry into the City's computer systems) associated with these functions. The existence of these conditions (primarily from the limitations on the number of personnel) causes the City to assume substantial additional risks from its lack of ability to appropriately delegate these essential control responsibilities to more than one individual to strengthen administrative oversight and to ensure significant independent review of these functions.

Recommendation: In order to mitigate the increased risk of potential misappropriation of funds, and the subsequent unidentified concealment of such activities, we continue to recommend that procedures be considered to ensure that an independent person receives and reviews unopened bank statements and cancelled checks. Similarly, we also recommend that an independent person be designated to review and approve all completed bank reconciliations. These important control procedures usually take no more than one hour each month to complete and to provide an independent cursory and/or supervisory function that can help prevent or detect improper or unauthorized disbursements. Note that this comment is not meant to imply that we identified unauthorized disbursements, but that additional controls could reduce the risks.

Auditee Response: *As noted in the previous year's audit, current staff levels limit the City's ability to fully implement the Auditor's recommendation. It is believed that partial implementation is accomplishable (e.g., separate receiving and reviewing unopened bank statements), but because the Finance manager is the sole employee (and supervisor) of the Finance Department, having an independent person review and approve all completed bank reconciliations (which task is currently performed by the Finance Manager) is not accomplishable without employing additional qualified personnel or obtaining outside assistance. This issue will continue to be addressed with the City Commission.*

2008-3 Convert to Computerized Asset System for Property and Equipment

As has been the case for many years, we continued to note that the City has developed computerized spreadsheets to document its fixed assets inventories. As these records are separately produced and maintained, they are not integrated into the City's automated financial accounting systems. Instead, the records are updated annually on a manual, batch entry basis. While reviewing the City's records, we also continued to note the existence of several assets that had not been correctly recorded in the City's records. Similarly, we also noted that due to a lack of physical inventory procedures, there may be assets recorded in the City's records that are no longer in use.

While asset capitalization thresholds have changed substantially over the years, many governmental units have implemented policies that specifically place emphasis on monitoring their investments in assets that are susceptible to misappropriation or theft. Typically, these investments are composed of electronic equipment and other personal property that are small in size relative to their costs (i.e., desktop/laptop

SCHEDULE OF FINDINGS AND RESPONSES - (Continued)

Year Ended September 30, 2009

CITY OF LAKE HELEN, FLORIDA

computers, printers, audio/visual equipment, firearms, etc.). The asset types in question are (1) used more frequently, (2) capable of being shared by more than one employee, (3) readily usable by virtually everyone in, or outside, of their work environment, and (4) more susceptible to theft for these reasons. While your current capitalization policies require the inventorying of these asset types, we noted that no steps were taken during the year to document the performing of an annual physical inventory of tangible personal property. Although Section 41, Chapter 2006-122, Florida Laws, repealed the Auditor General of Florida's rulemaking authority as it relates to governing the management and inventorying of tangible personal property, we noted that no similar authoritative procedures have been developed by the City that require these procedures.

Recommendation: We continue to strongly recommend the City consider converting this important process to a formal computerized asset management system designed to accumulate asset cost, calculate depreciation expense and provide for documenting location and custodial control. These types of fixed asset accounting systems have been refined over the years and now can be purchased at a very reasonable cost. This will eliminate a significant amount of manual record keeping duties, make operations more efficient and provide more accurate information with which to make business decisions regarding fixed assets.

We also recommend that you should perform a complete physical inventory of the City's fixed assets, which will be the best and most efficient method for developing an accurate listing of all fixed assets. Additionally, this will allow the City to develop procedures whereby the fixed asset listing is reconciled to the general ledger, which will ensure an accurate accounting for assets. Specifically, the listing should include the following data:

- Description of the asset
- Cost, voucher number, and vendor name
- Date placed in service
- Estimated useful life
- Depreciation method
- Depreciation expense and accumulated depreciation for the year
- Date asset was retired and selling price if applicable

Complete information such as the above on all fixed assets would provide excellent control for the safeguarding of these assets, which are a significant cost of the City. A better assessment and evaluation could also be made regarding the reliability of certain fixed assets, and the timing and need for their essential replacement.

We also recommend that performing annual physical inventory counts of tangible personal property delegated to the City's department heads for custody and control is a good accounting practice, a strong deterrent to theft, and the best means possible to adequately control your government's more prevalent fraud risks over property and equipment. Furthermore, we recommend that you should consider adopting the Rules of the Auditor General, Chapter 10.400, as they currently exist and are amended in the future, until such time as the Florida Department of Financial Services issues revised rulings over the custodial maintenance of these assets.

Auditee Response: *The City agrees with the Auditor's recommendation and will investigate measures to implement the recommendation in concert with the implementation of the City new financial accounting software system in FY 2010/2011.*

SCHEDULE OF FINDINGS AND RESPONSES - (Continued)

Year Ended September 30, 2009

CITY OF LAKE HELEN, FLORIDA

2008-4 Accounts Payable Reconciliation

We continued to note that the City is experiencing difficulty in reconciling the computerized accounts payable subsidiary ledger with the general ledger. This was because the accounts payable subsidiary is a “real time” application. There were entries posted to the general ledger for year end after the close of year end, but since there were also credits posted to the subsidiary ledger after year end the accounts payable aging analysis did not agree with the general ledger. As a result of these actions, we were not able to ascertain that monthly reconciliations between the balances in the general ledger, the subsidiary ledger and the open invoices were being performed. The lack of this control feature allows for differences to occur and accumulate over a period of time. Ultimately, the determination of the actual payables balance is virtually impossible without a significant time investment in a lengthy reconciliation process.

Recommendation: We recommend that the accounts payable aging analysis should be printed on the last day of the year and be reconciled to the general ledger on a timely basis. All additional accounts payable applicable to the prior year should be accumulated and posted by journal entry to a new accounts payable account set up for this purpose. By use of this method one could easily identify the individual components of the accounts payable detail. We also suggest that the open invoice file be reconciled with the balance in the general ledger at the end of every month. If any differences exist, they should be investigated and resolved promptly. These procedures will ensure that the balance in the general ledger reflects the accurate accounts payable balance supported by the subsidiary system.

Auditee Response: *The City believes that the successful implementation of the City’s new financial accounting software system in FY 2010/2011 will be instrumental in addressing this issue.*

2009-1 Accuracy of Account Postings

While significant improvements were made during the current year, we continued to note that difficulties are still being encountered in the development of the City’s routine account postings, many of which required audit corrections to ensure accurate financial reporting. Although some of these errors were noted by the City, and subsequently corrected through adjusting journal entries, we found that the City had incorrectly entered the activity through its’ initial journal entries. A review of all proposed entries and coding activities would dramatically decrease these errors.

Recommendation: We continue to recommend that the City implement procedures to guarantee that all activity is reviewed before entry to the general ledger system to ensure accurate financial reporting throughout the year.

Auditee Response: *It is believed that improvement will continue in this area as current financial staff continues to become more familiar with coding protocol. Consultant assistance in this area that was provided at the end of FY 2009/2010, should prove to be beneficial in the 2010/2011 fiscal year. Additionally, better communication between purchasers and the Finance Manager will be needed to reduce posting errors. The City may also consider, in future years, the implementation of a purchase requisition system to minimize posting errors, if it is determined that the benefit received through such action outweighs the cost of and administrative burden of implementation.*

SCHEDULE OF FINDINGS AND RESPONSES - (Continued)

Year Ended September 30, 2009

CITY OF LAKE HELEN, FLORIDA

Compliance and Other Matters

2009-2 Audit Filing Requirements

During the past two years, the City experienced significant difficulties and delays in preparing for its annual audit. As a direct result of the delay, the City did not submit its' Annual Financial Report to the Department of Financial Services no later than 12 months after the end of the fiscal year as is required pursuant to Section 218.32(1), Florida Statutes. Similarly, the City did not submit a copy of its audit report to the Florida Auditor General no later than 12 months after the end of the fiscal year as is required pursuant to Section 218.39(1), Florida Statutes.

Recommendation: We recommend that procedures be implemented to ensure compliance with all federal, state, and local audit completion requirements. We also recommend that management review Finance Department staffing and assess the capabilities of personnel to determine what action may be required to accelerate the delivering of its annual report in the next fiscal year.

Auditee Response: *The City has purchased, and on 10/1/201, is implementing the use of, a new financial software system that will streamline and automate many of the time consuming financial accounting functions that in previous years, as the City's financial accounting requirements became more complex, resulted in competing time demands for audit preparation and the performance of the City's day-to-day financial functions. The competing time demands resulted in the necessity to hire outside audit preparation assistance in the 4th quarter of FY 2008/2009. Said outside assistance was instrumental in completing audit preparation tasks, but came too late to prevent the delay in completion of the audit by the statutory deadline. Consultant assistance may be required again for the preparation of the FY 2009/2010 audit, and, if such is determined to be the case, a recommendation will be made to the City Commission that the City obtain such assistance in the the 2nd quarter of FY 2010/2011 in order to facilitate completion of the audit in a timely manner.*

2009-3 Long-term Debt Rate Coverage

As in the prior year, the City failed to maintain the required rate coverage of 1.15 times the sum of the semiannual loan payments due for its' State of Florida, Department of Environmental Protection-Drinking Water State Revolving Fund Loan Agreement, dated June 14, 2000. Pursuant to Article V, Section 5.01 of the Loan Agreement, the City shall maintain rates and charges for the services furnished by the Water System which will be sufficient to provide, in each Fiscal Year, Pledged Revenues equal to or exceeding 1.15 times the sum of the Semiannual Loan Payments due in such Fiscal Year. Accordingly, the City did not comply with this long-term debt covenant.

Recommendation: We recommend that the City review its current billing rates to ensure that all normal operating and maintenance expenses are covered, as well as all debt service requirements. A billing rate study would be beneficial to ensure that the City is correctly charging for services similarly to that of neighboring municipalities of similar size and environment, and a in depth review of operating and maintenance expenses being charged to the Water Utility Fund, to ensure that only Water Utility activities are being allocated to the abovementioned Fund.

SCHEDULE OF FINDINGS AND RESPONSES - (Continued)

Year Ended September 30, 2009

CITY OF LAKE HELEN, FLORIDA

Auditee Response: As noted in the previous fiscal year's audit report, water rate increases have been held in abeyance since 2007 in order to minimize financial impacts to consumers during these difficult economic times. This action, when compounded by the lack of originally anticipated customer growth that has resulted from the current economic downturn, has been responsible for the recent inability of the City to meet the debt service coverage requirements of its water system improvements loan agreement . However, despite not being able to meet said coverage requirements, the City has continued to make its loan payments on schedule. In the previous year's audit report the City indicated that it would perform a rate study in FY 2009/2010 to address this issue for the 2010-2011 fiscal year. Said rate study was completed and the City Commission adopted a \$10.00 per ERU base rate increase to address the loan coverage requirement deficit issue. Rates/revenues will continue to be monitored for necessary future adjustments.

BM&C

BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

MANAGEMENT LETTER

The Honorable Mayor, and
Members of the City Commission
City of Lake Helen, Florida

We have audited the financial statements of the City of Lake Helen, Florida, as of and for the fiscal year ended September 30, 2009, and have issued our report thereon dated November 5, 2010.

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 Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters, and Schedule of Findings and Responses. Disclosures in that report and schedule, which are dated November 5, 2010, 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 auditors' report 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, except as noted in the accompanying pages under the heading *Prior Year Matters*.
- 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 Lake Helen, 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, our recommendations are noted in the accompanying pages under the headings *Prior Year Matters* and *Current Year Matters*.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, 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.

The Honorable Mayor, and
Members of the City Commission
City of Lake Helen, Florida
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- 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) deficiencies in internal control that are not significant deficiencies. In connection with our audit, our recommendations are noted in the accompanying pages under the heading *Current Year Matters*.
- 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. The City of Lake Helen, Florida, is a municipal corporation created under the general Laws of Florida, October, 1888. The City adopted its first charter in April, 1945, under the provisions of Senate Bill No. 627 and the Municipal Home Rule Power Act, Florida Statutes Chapter 166. The legal authority for the primary government is disclosed in Note 1 of the notes to financial statements. The City of Lake Helen, Florida reported no component units.
- 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 Lake Helen, Florida, did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- 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 Lake Helen, Florida, for the fiscal year ended September 30, 2009, 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, 2009. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City of Lake Helen, 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.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. 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 management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Brent Milliken & Co., P.A.

November 5, 2010

PRIOR YEAR MATTERS

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we address in the management letter, if not already addressed in the auditor's report on compliance and internal control, whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. All prior year matters have been appropriately resolved, except for the following:

Perform a Fraud Risk Assessment

Due to the proliferation of automated information systems technology, the overall risk associated with fraudulent financial activities is much greater than it was in past years. In light of the spate of notorious frauds involving large companies in the last few years, there may be a misperception that fraud affects only large business organizations. However, fraud occurs in organizations of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances. For governmental organizations, one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), particularly fraudulent cash disbursements and unauthorized use of City equipment. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud.

Recommendation: To address this risk, we continue to strongly recommend that the City conduct a formal risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the City's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

Such a fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the City that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the City, its environment, and its processes. Consideration should also be made to perform the assessment city-wide and include all departmental areas. The fraud risk assessment process should consider the City's vulnerability to misappropriation of assets. When conducting the self-assessment, the following matters should be considered:

- What individuals in the City have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, you should consider whether there is any information that indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the City are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?

-
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use. Inventory or other assets can be stolen through sales to fictitious customers. Assets can also be stolen by unauthorized trading in securities.
 - How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored for those purposes
 - What factors might indicate that the City has a culture or environment that would enable management or employees to rationalize committing fraud?

Once areas vulnerable to fraud have been identified, a review of the City's operational systems, procedures, and existing controls relating to the identified areas should be conducted. The City should also consider what additional controls need to be implemented to reduce the risk of fraud at all departmental levels.

Auditee Response: As was noted in the previous year's audit, staff will again recommend to the City Commission that a committee be appointed to perform this task.

Turnover of Accounting Personnel and Managerial Oversight Function

In the prior year, the City experienced a repetitive turnover in the leadership of its finance department. Due to the lack of continuity that existed before, during and after this transition, the City's finance personnel were forced to establish and implement a completely new series of policies and procedures to manage and oversee the essential accounting requirements of the City. In the process of developing and making these changes, the City's finance personnel faced a significant number of conflicting procedures and priorities, many of which resulted in a growing backlog of current transaction processing, lost and misplaced documentation, and frequent duplication of effort due to the lack of coordinated efforts. We believe that the continued existence of these conditions will adversely weaken the City's internal control systems until they can be appropriately identified and corrected. We also believe that the overall effect of these conditions was compounded due to the City's small business office environment, which currently does not provide for any extensive managerial oversight of the essential accounting processes.

Recommendation: We recommend that the City should continue in its efforts to train and expand the knowledge of its finance staff and oversight personnel. Many of the special accounting issues for local government units have become increasingly complex and require extensive expertise to ensure that the accounting and reporting are accurate and in accordance with applicable standards.

We also recommend that the City should consider a formal employee cross-training system that provides you with the ability to have more people involved in the accounting processes (to facilitate the segregating of important accounting functions) and to provide additional capabilities to establish and effective supervisory oversight program.

Auditee Response: The City agrees with the auditor's general observations regarding this issue. Cross training continues to occur, but is limited by staff size, individual staff education and expertise and workload demands placed upon individual staff members in carrying out the day-to-day work responsibilities of their individual job classifications. It is believed that the implementation of the City's new financial accounting software for FY 2010/2011 will be instrumental in streamlining and automating many financial accounting tasks, which will be helpful in addressing certain observed issues. It is also believed that obtaining outside assistance to prepare financial policies, procedures and processes manuals in FY 2010/2011 is a necessary step in addressing said issues, and staff will recommend to the City Commission that such assistance be obtained.

Uniform Accounting Policies and Procedures Manual

We continued to note that the City's Finance Department has never fully developed a formal, written, accounting policies and procedures manual. While personnel have direct and easy access to management and selected financial management software manuals and documentation when questions arise, we noted that no formal tracking of routine accounting procedures is maintained. We also noted that some finance personnel have developed their own handwritten notebooks outlining specific procedures relating to their jobs. However, these procedures have not been formally documented or integrated with established departmental policies and directives.

Recommendation: We continue to recommend that management establish a standard accounting and operating procedures manual outlining all fiscal policies to be followed. The preparation and maintenance of written standard procedures is very useful and serves to:

- Establish consistent City accounting practices.
- Establish and designate accounting and bookkeeping responsibilities.
- Reduce the likelihood of coding errors and assist in the preparation of timely and accurate monthly financial statements.
- Aid in review by management for adherence to City policies.
- Aid in exchange of management ideas.
- Provide the City with a source of information that will not be lost if key personnel leave.
- Aid in the training of new employees, especially in the event of an untimely resignation of key accounting staff.
- A well-devised accounting manual can also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management.
- Also, in the process of the comprehensive review of existing accounting procedures, for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.

This manual should include (1) a summary of the City's detailed general ledger chart of accounts, (2) a detailed explanation of functional and object account content, (3) an appropriately detailed description of all accounting procedures and routines, (4) a linear organization chart for all accounting functions, and (5) complete definitions of individual job authority and associated responsibilities. All such information must be developed in conformance with the Uniform Account System adopted by the Florida Department of Financial Services. Management should also periodically review each Department's compliance with standard procedures.

We recognize that the preparation of the manual will be a very time consuming task so that implementation may take several years. However, we believe that action should be taken by the City to establish priorities and a timetable for the completion of the manual.

Auditee Response: As noted in the previous year's audit report, the preparation of the recommended manual is beyond the capability of City staff. It is agreed, however, that the availability of the manual is a necessary prerequisite to professional sustainability of the City's financial accounting functions, and staff will recommend to the City Commission that outside assistance be obtained in FY 2010-2011 to prepare the manual.

Credit Cards

During our review of the City's expenditures and other substantive work, we continued to note instances where credit card purchases were not always completely supported or maintained with vendor invoices or receipts that substantiated the purchases. This lack of substantiation could result in claims for reimbursable type grants being denied or disallowed. It also indicates the existence of an internal control weakness that could potentially result in the payment of unsubstantiated expenses, as well as a loss from reimbursable type grant revenues. We also noted instances where some credit card purchases included state sales tax, for which the City is typically exempt.

Recommendation: While specific changes have already been enacted by management in response to our findings, we continue to recommend that the City enforce existing policies upon credit card holders and make certain that all purchases are adequately supported with receipts, invoices, and other documentation in order to substantiate all expenses. We also recommend that the City take the time to setup and/or convey all necessary information to all vendors to avoid having sales taxes applied on purchases.

Auditee Response: As noted in the previous year's audit report the issues related to credit card use and sales tax payments were minor and immaterial. However, in order to address the observed issues, a number of administrative actions were enacted in FY 2009/2010 address such issues. Said actions have proven to be beneficial in promoting necessary behavioral modification internally, and the City will continue to monitor purchases and enforce enacted administrative actions to further minimize or eliminate issues in this financial area.

CURRENT YEAR MATTERS

Section 10.554(1)(i), Rules of the Auditor General, requires that we address in the management letter, if not already addressed in the auditors' report on compliance and internal control: (1) any recommendations to improve financial management; (2) violations of provisions of contracts or grant agreements, or abuse that have an effect on the financial statements that is less than material but more than inconsequential; and (3) based on professional judgment, matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (a) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse; and (b) control deficiencies that are not significant deficiencies. The following is a summary of our current year findings and recommendations:

Accounts Receivable

Our audit procedures disclosed that the City is experiencing difficulty in reconciling the computerized accounts receivable subsidiary ledger with the general ledger. We noted this is due to the City not reconciling this subsidiary ledger to the general ledger on a routine basis. A routine reconciliation serves as a check on the accuracy of the record keeping process and maintains the accounts receivable on a timelier and accurate basis, as well as allowing for the assessment of account aging. The detail listing of accounts receivable should be reconciled to the general ledger control account at least quarterly, due to the fact that the City's current billing procedures allow for quarterly billings. Any differences should then be investigated and resolved as soon as possible. This lack of control allows for differences to occur and accumulate over a period of time.

Recommendation: We recommend that the accounts receivable subsidiary ledger should be printed at each billing date and the last day of the year and be reconciled to the general ledger on a timely basis. If any differences exist, they should be investigated and resolved promptly. These procedures will ensure that the balance in the general ledger reflects the accurate accounts receivable balance supported by the subsidiary system. This process will assist the City in establishing reliable internal control for the billing and collection of accounts receivable, and the review of old, uncollected accounts.

Auditee Response: *It is believed that this issue will be adequately addressed in FY 2010/2011 as a result of the implementation of the City's new financial accounting software system.*

Interfund Balances

During the current year, the City collected significant funds and made significant payments for other operating funds financial transactions through the General Fund operating account. To appropriately allocate these revenues and expenditures among the affected funds, the City recognized temporary interfund borrowings and advances from one fund to finance the activities in another fund. The City's extensive use of interfund debt obligations makes transactions complicated and extremely difficult to analyze and track through your accounting records. The City does not maintain a pooled cash account and therefore each funds' activities should be routed through the appropriate accounts in order to reflect accurate cash balances within each fund.

Recommendation: We recommend that all fund revenues collected by the City be appropriately recognized in the receiving funds' cash accounts, rather than recognized as collections in, and due from the General Fund. Similarly, we recommend that payments be written from the respective funds, instead of the General Fund.

Auditee Response: It is believed that this issue will be adequately addressed in FY 2010/2011 as a result of the implementation of the City's new financial accounting software system.

Record Storage and Retrieval

During the audit, there were periodic instances when various accounting records and support documents necessary for sustaining the integrity of financial activities could not be located at time of request. While said records were subsequently made available, the result of their initial unavailability was that employees spent unnecessary, nonproductive time searching for requested documents, which then contributed to a delay in the delivery of financial reports.

Beyond the impact to the preparation of the audit, inadequate financial records organization and management can also present similar problems providing documents necessary to support the City's financial activities and/or reports required for audits of compliance with other programs, laws and regulations. Lack of adequate organization and management of financial records also decreases the ability to readily identify potential sources of fraud and other such financial abuses.

We believe that the issues noted above are indicative of a need for improvement in the organization and management of the City's financial records to include, at a minimum:

- Development of a clearly specified system for filing records;
- Implementation of a system for identifying those individuals who remove financial records from the files (and identification of the location of the transferred records);
- Implementation of a system for monitoring the checkout of financial records, and their return to original file locations;
- Development of specific policies for removing prior year records from the files to a designated storage space

Recommendation: We recommend that record storage, retrieval, and retention policies be implemented to ensure that pertinent information is not lost or misplaced.

Auditee Response: The development of the recommended policies should be accomplished in concert with the development of the financial accounting policies, procedures and processes manual(s) recommended in earlier sections of the audit report. Staff will recommend such to the City Commission when requesting the procurement of consultant assistance in the preparation of such manuals in FY 2010/2011.

New Accounting Pronouncements

Fiscal Year Ending September 30, 2010:

GASB 51. No significant steps have yet to be taken to determine the impact that *GASB Statement No. 51 - Accounting and Financial Reporting for Intangible Assets* will have on the City next year. Typically, governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce recognition and reporting inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. It requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. It also establishes guidance specific to intangible assets related to amortization and guidance on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions.

Recommendation: Steps will need to be taken to identify all known common and internally generated intangible assets so that each can be appropriately capitalized. We would be happy to assist you in the planning for these matters.

Auditee Response: *The City will take this issue under advisement.*

Fiscal Year Ending September 30, 2011:

GASB 54. The GASB has currently adopted significant changes that will affect the way that the City reports its net assets, including all commitments and restrictions. *GASB Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions* will undoubtedly affect the City's reporting model on or before its effective date. Its objective is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Governments are also required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

Recommendation: We recommend that the City should consider early adoption of these new reporting requirements as we do not believe that any substantial difficulties will be encountered in their implementation.

Auditee Response: *The City will take this issue under advisement.*

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