

**CITY OF LAKE HELEN, FLORIDA**

***ANNUAL FINANCIAL REPORT***

***FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010***



**MAYOR**

Honorable William V. Snowden, Jr.

**CITY COMMISSIONERS**

Rick Basso  
Vernon Burton  
Cameron Lane  
Ann Robbins

**CITY ADMINISTRATOR**

Donald L. Findell

**CITY ATTORNEY**

Lonnie N. Groot, Esq.

**INDEPENDENT AUDITORS**

Brent Millikan & Company, P.A.

This Page Intentionally Left Blank.

**TABLE OF CONTENTS**  
**ANNUAL FINANCIAL REPORT**  
 September 30, 2010  
 CITY OF LAKE HELEN, FLORIDA

Page

**INTRODUCTORY SECTION**

|                         |   |
|-------------------------|---|
| Title Page .....        | 1 |
| Table of Contents ..... | 3 |

**FINANCIAL SECTION**

|   |    |
|---|----|
| Independent Auditors' Report.....   | 7  |
| Management's Discussion and Analysis.....                                     | 11 |
| Basic Financial Statements:   |    |
| Government-Wide Financial Statements:   |    |
| Statement of Net Assets .....   | 23 |
| Statement of Activities.....  | 24 |
| Fund Financial Statements:  |    |
| Balance Sheet - Governmental Funds .....                                      | 26 |
| Reconciliation of the Balance Sheet of Governmental Funds to the              |    |
| Statement of Net Assets .....   | 26 |
| Statement of Revenues, Expenditures and Changes in Fund                       |    |
| Balances - Governmental Funds.....  | 27 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund |    |
| Balances of Governmental Funds to the Statement of Activities .....           | 28 |
| Statement of Fund Net Assets - Proprietary Fund.....                          | 29 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets -              |    |
| Proprietary Fund.....   | 30 |
| Statement of Cash Flows - Proprietary Fund .....                              | 31 |
| Statement of Fiduciary Net Assets - Fiduciary Fund .....                      | 32 |
| Statement of Changes in Fiduciary Net Assets - Fiduciary Fund .....           | 33 |
| Notes to the Financial Statements .....                                       | 37 |

**REQUIRED SUPPLEMENTARY INFORMATION**

|  |    |
|--|----|
| Budgetary Comparison Schedule - General Fund .....   | 61 |
| Budgetary Comparison Schedule - Stormwater Management Fund .....                           | 65 |
| Schedule of Funding Progress - Municipal Police Officers Retirement Trust Fund .....       | 66 |
| Schedule of Employer Contributions - Municipal Police Officers Retirement Trust Fund ..... | 66 |
| Schedule of Funding Progress – Other Postemployment Benefit Obligation .....               | 67 |
| Schedule of Employer Contributions – Other Postemployment Benefit Obligation.....          | 67 |

**COMPLIANCE SECTION**

|   |    |
|---|----|
| Report on Internal Control over Financial Reporting and on Compliance<br>and Other Matters Based on an Audit of Financial Statements Performed<br>in Accordance with <i>Government Auditing Standards</i> ..... | 71 |
| Schedule of Findings and Responses .....  | 73 |
| Management Letter .....   | 81 |

This Page Intentionally Left Blank.

***INDEPENDENT AUDITORS' REPORT***

This Page Intentionally Left Blank.

# 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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of 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, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, the 2009 financial statements have been restated to correct the application of the City's recognition policy for accrued compensated absences in the governmental funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2011, 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  
Page 2 of 2

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 19 and 61 through 65 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 any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Brent Milliken & Co., P.A.*

August 30, 2011

***MANAGEMENT'S DISCUSSION AND ANALYSIS***

This Page Intentionally Left Blank.

## **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, 2010. 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 \$5,243,915 (net assets). Of this amount, \$1,247,502 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$71,736 in fiscal year 2010. Net assets of the City's governmental activities (General, Stormwater Management and General Trust funds) increased by \$70,849 (1.8%), while net assets of its business type activities (Water Utility Fund) increased by \$887 (0.1%).
- The City's governmental funds reported combined ending fund balances of \$1,281,840 at the end of the current fiscal year, an increase of \$88,214 in comparison to the restated \$1,193,626 reported at the end of the prior fiscal year. Approximately 94% of this amount (\$1,208,303) is available for spending at the City's discretion (unreserved fund balance).
- At the end of the 2010 fiscal year, unreserved fund balance for the General Fund was \$813,633 or 39.5% of the total fiscal year 2010 General Fund expenditures (\$2,062,258). This represents an increase of \$79,556 from the restated amount reported at the end of 2009.
- The City's total long-term debt obligations decreased by \$33,152 during the fiscal year, due to scheduled current-year principal maturities/reductions on these obligations (\$89,634) and additional proceeds from debt agreements (\$56,482). The City's long-term commitment for compensated absences declined by \$2,799 in 2010 and totaled \$147,655 at year end while its newly recognized and reported other postemployment benefit obligation (OPEB) totaled \$41,000.

### **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 26 and 28.

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 29 to 31 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 32 and 33 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 \$5,243,915 at the end of 2010, compared to \$5,172,179 at the end of 2009. This represents a total increase of \$71,736 or 1.4% over the amount reported at the end of the prior fiscal year.

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

|   | <b>Net Assets</b>              |                  |                                 |                  |                  |                  |
|---|--------------------------------|------------------|---------------------------------|------------------|------------------|------------------|
|   | September 30, 2010 and 2009    |                  |                                 |                  |                  |                  |
|   | <u>Governmental Activities</u> |                  | <u>Business-Type Activities</u> |                  | <u>Total</u>     |                  |
|   | <u>2010</u>                    | <u>2009</u>      | <u>2010</u>                     | <u>2009</u>      | <u>2010</u>      | <u>2009</u>      |
| <b>Assets:</b>  |                                |                  |                                 |                  |                  |                  |
| Current and other assets.....                           | \$ 1,435,467                   | 1,415,132        | 225,625                         | 247,998          | 1,661,092        | 1,663,130        |
| Restricted assets.....                                  | -                              | -                | 246,548                         | 206,262          | 246,548          | 206,262          |
| Capital assets, net.....                                | <u>2,825,589</u>               | <u>2,813,431</u> | <u>2,330,589</u>                | <u>2,385,144</u> | <u>5,156,178</u> | <u>5,198,575</u> |
| Total assets.....                                       | <u>4,261,056</u>               | <u>4,228,563</u> | <u>2,802,762</u>                | <u>2,839,404</u> | <u>7,063,818</u> | <u>7,067,967</u> |
| <b>Liabilities:</b>                                     |                                |                  |                                 |                  |                  |                  |
| Long-term debt outstanding.....                         | 163,934                        | 135,091          | 1,434,900                       | 1,458,694        | 1,598,834        | 1,593,785        |
| Other liabilities.....                                  | <u>149,747</u>                 | <u>216,946</u>   | <u>71,322</u>                   | <u>85,057</u>    | <u>221,069</u>   | <u>302,003</u>   |
| Total liabilities.....                                  | <u>313,681</u>                 | <u>352,037</u>   | <u>1,506,222</u>                | <u>1,543,751</u> | <u>1,819,903</u> | <u>1,895,788</u> |
| <b>Net assets:</b>                                      |                                |                  |                                 |                  |                  |                  |
| Invested in capital assets,<br>net of related debt..... | 2,819,727                      | 2,805,027        | 926,271                         | 950,217          | 3,745,998        | 3,755,244        |
| Restricted.....   | 73,537                         | 53,011           | 176,878                         | 206,262          | 250,415          | 259,273          |
| Unrestricted.....                                       | <u>1,054,111</u>               | <u>1,018,488</u> | <u>193,391</u>                  | <u>139,174</u>   | <u>1,247,502</u> | <u>1,157,662</u> |
| Total net assets.....                                   | <u>\$ 3,947,375</u>            | <u>3,876,526</u> | <u>1,296,540</u>                | <u>1,295,653</u> | <u>5,243,915</u> | <u>5,172,179</u> |

The most significant component of the City's net assets (71.4%) 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 (4.8%) represents resources that are subject to external restrictions on how they may be used. Consequently, the remaining 23.8% 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 \$1,247,502 at year end, compared to \$1,157,662 one year earlier.

**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 2010, total revenues increased \$244,222 to a total of \$2,713,188, compared to \$2,468,966 in the prior year. Approximately 18.8% of the City's revenue came from property taxes, and 24.7% of every dollar raised came from some other type of tax. Another 45.9% came from fees charged for services, while most of the remaining revenue (10.6%) included state and federal financial assistance, along with interest and other earnings.

The total cost of providing routine governmental programs and services for general government remained relatively stable in 2010 with a slight decrease of \$2,582. Overall costs incurred for public safety increased \$42,767 (or 7.6%), which was primarily the result of unanticipated increases in retirement costs (\$19,437), health insurance premiums (\$3,498), police equipment expenditures (\$5,497), and building inspection services (\$9,765). The costs of providing and maintaining the City's stormwater infrastructure also remained virtually unchanged in 2010, while the related costs of maintaining the transportation systems declined by \$50,624. The cost of routine programs and services for culture and recreation increased \$52,657 (13.5%). This increase was, for the most part, unanticipated increased costs incurred in operating the Creative Arts Café restaurant. The total costs of providing water services, excluding bad debt expense, for business-type activities remained relatively unchanged in 2010. However, bad debt expense in the water utility increased dramatically to \$32,235 in 2010, compared to \$782 in 2009, due to the downturn in the economy and substantial increase in the number of closed utility accounts with unpaid balances.

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

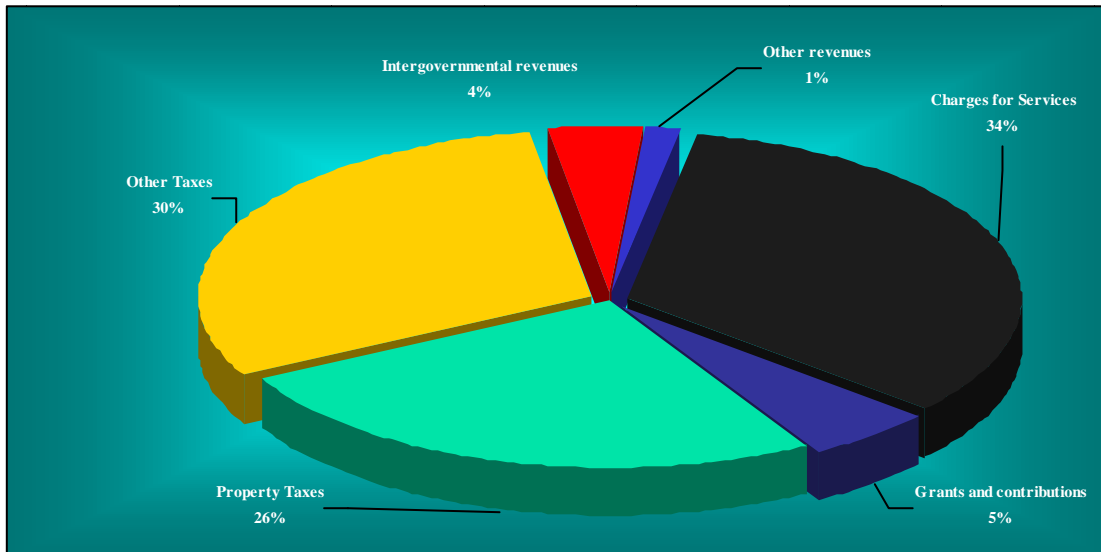
**Changes in Net Assets**  
For the Fiscal Years Ended September 30, 2010 and 2009

|  | Governmental Activities |                  | Business-Type Activities |                  | Total            |                  |
|--|-------------------------|------------------|--------------------------|------------------|------------------|------------------|
|  | 2010                    | 2009             | 2010                     | 2009             | 2010             | 2009             |
| Revenues:                              |                         |                  |                          |                  |                  |                  |
| Program revenues:                      |                         |                  |                          |                  |                  |                  |
| Charges for services.....              | \$ 745,653              | 685,245          | 500,175                  | 429,902          | 1,245,828        | 1,115,147        |
| Operating grants/other.....            | 171,169                 | 105,063          | -                        | -                | 171,169          | 105,063          |
| Capital grants/other.....              | 2,300                   | 2,551            | 2,000                    | 1,000            | 4,300            | 3,551            |
| General revenues:                      |                         |                  |                          |                  | -                | -                |
| Property taxes.....                    | 510,045                 | 521,881          | -                        | -                | 510,045          | 521,881          |
| Other taxes.....                       | 670,110                 | 613,071          | -                        | -                | 670,110          | 613,071          |
| Intergovernmental.....                 | 85,570                  | 84,504           | -                        | -                | 85,570           | 84,504           |
| Other revenues.....                    | <u>26,166</u>           | <u>24,842</u>    | <u>-</u>                 | <u>907</u>       | <u>26,166</u>    | <u>25,749</u>    |
| Total revenues.....                    | <u>2,211,013</u>        | <u>2,037,157</u> | <u>502,175</u>           | <u>431,809</u>   | <u>2,713,188</u> | <u>2,468,966</u> |
| Expenses:                              |                         |                  |                          |                  |                  |                  |
| General government.....                | 508,613                 | 511,195          | -                        | -                | 508,613          | 511,195          |
| Public safety.....                     | 606,951                 | 564,184          | -                        | -                | 606,951          | 564,184          |
| Physical environment.....              | 267,773                 | 268,123          | -                        | -                | 267,773          | 268,123          |
| Transportation.....                    | 206,390                 | 257,014          | -                        | -                | 206,390          | 257,014          |
| Culture/Recreation.....                | 549,676                 | 497,019          | -                        | -                | 549,676          | 497,019          |
| Water and sewer utilities.....         | -                       | -                | 501,288                  | 465,185          | 501,288          | 465,185          |
| Interest on long-term debt.....        | <u>761</u>              | <u>1,016</u>     | <u>-</u>                 | <u>-</u>         | <u>761</u>       | <u>1,016</u>     |
| Total expenses.....                    | <u>2,140,164</u>        | <u>2,098,551</u> | <u>501,288</u>           | <u>465,185</u>   | <u>2,641,452</u> | <u>2,563,736</u> |
| Transfers in (out).....                | <u>-</u>                | <u>-</u>         | <u>-</u>                 | <u>-</u>         | <u>-</u>         | <u>-</u>         |
| Increase (decrease) in net assets..... | 70,849                  | (61,394)         | 887                      | (33,376)         | 71,736           | (94,770)         |
| Net assets, beginning 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> |
| Net assets, end of year.....           | <u>\$ 3,947,375</u>     | <u>3,876,526</u> | <u>1,296,540</u>         | <u>1,295,653</u> | <u>5,243,915</u> | <u>5,172,179</u> |

## Governmental Activities

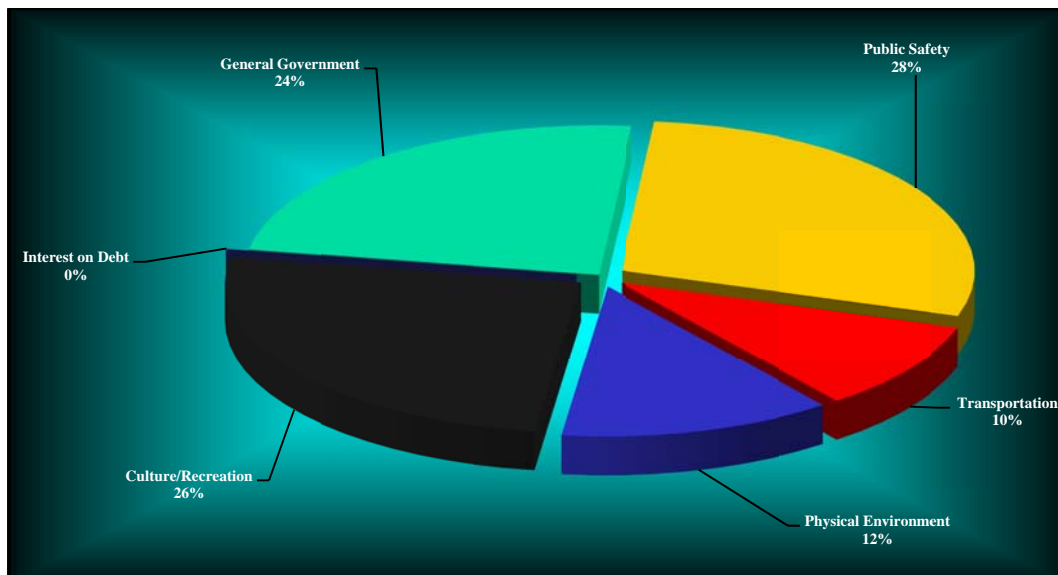
Revenues for the City's governmental activities totaled \$2,211,013 in 2010. This represents an increase of \$173,856, or 8.5%, greater than last year's reported revenues of \$2,037,157. This year's increase was primarily attributable to an increase in gross revenues from the Creative Arts Café (\$32,377), building permit and inspection fees (\$30,029), and federal grant (FEMA and Community Development Block Grant) funds (\$91,170).

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



Governmental expenses totaled \$2,140,164, which represents an increase of \$41,613, or 2.0% from the prior year's total of \$2,098,551. This increase in reported expenditures is attributable primarily to an increase in operating costs of the Creative Arts Cafe, while being offset from slight decreases in other government 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 increased \$70,273 during the year to a total of \$500,175, which is 16.3% greater than utility billings of \$429,902 in 2009. This increase was primarily attributable to a single, nonrecurring account billing to Volusia County in the amount of \$36,939 and from a slight increase in consumer consumption compared to the prior fiscal year. Investment income has decreased in 2010 from \$907 in 2009 to \$-0- in 2010, as a combined result of the way the City pools its surplus funds in the General Fund and from the significant decline in interest rates offered locally and experienced on a national level. Customer contributions (in the form of impact fees) remained relatively low, and totaled \$2,000 for the year, compared to \$1,000 received in 2009.

Total operating expenses of the water utility fund increased 7.8% in 2010 and totaled \$501,288, compared to \$465,185 incurred in 2009. Overall system operation and maintenance expenses remained relatively neutral during 2010 and totaled \$421,853, compared to \$420,664 one year earlier. However, utility customer bad debt expense increased dramatically in 2010 and totaled \$32,235, compared to \$782 in 2011. These costs were predominately associated with area business and customer accounts that were closed as the result of bankruptcy, foreclosure and other related economic difficulties encountered by customers last year, as well as from customers who departed with unpaid balances. Utility system depreciation expense remained relatively the same at \$79,359 in 2010, compared to \$78,870 in 2009. Similarly, interest expense on outstanding FDEP debt obligations totaled \$47,200 during 2010, compared to \$43,739 during 2009. This increase was exclusively attributable to increased loan proceeds of \$56,482 received during the fiscal year.

## **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 \$1,281,840, which was \$88,214, or 7.4%, more than the \$1,193,626 restated amount reported last year. Governmental fund balances previously reported were restated at the beginning of the current year to reflect an increase of \$126,687, associated with the manner in which accumulated unpaid employee compensatory (sick, vacation and personal leave) time is reported exclusively in the entity-wide financial statements and not in the individual governmental fund financial statements. This adjustment had no effect on the City's entity-wide financial statements.

The general fund is the chief operating fund of the City. As of September 30, 2010, the unreserved fund balance in the general fund totaled \$813,633. This unreserved fund balance represents approximately 39.5% (144 days / 20.6 weeks) of the City's spending requirements experienced during 2010.

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 2010, there was a fund balance of \$44,670, a decrease of \$11,868 below the amount reported at the end of 2009.

**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 \$197,491 which is \$58,317 greater than last year’s reported amount of \$139,174. 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 \$188,793 greater than the amounts originally anticipated to be received during the year in the City’s General Fund. Actual expenditures incurred were \$46,658 greater than originally anticipated. The result was a net difference of unanticipated revenues over unanticipated expenses of \$142,135. Virtually all of these differences were attributable to the unanticipated receipt of federal pass-through grant funds of \$91,169 and related transportation system and road resurfacing improvements.

**Capital Assets and Debt Administration**

**Capital Assets.** At September 30, 2010, 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:

**Capital Assets**  
For the Fiscal Years Ended September 30, 2010 and 2009

|  | Governmental Activities |                    | Business-Type Activities |                    | Total              |                    |
|--|-------------------------|--------------------|--------------------------|--------------------|--------------------|--------------------|
|  | 2010                    | 2009               | 2010                     | 2009               | 2010               | 2009               |
| Land.....                              | \$ 477,526              | 477,526            | -                        | -                  | 477,526            | 477,526            |
| Construction work in progress.....     | 103,105                 | -                  | 2,610                    | 229,097            | 105,715            | 229,097            |
| Buildings.....                         | 1,504,581               | 1,504,581          | -                        | -                  | 1,504,581          | 1,504,581          |
| Improvements other than buildings..... | 1,241,096               | 1,241,096          | 3,047,114                | 2,800,736          | 4,288,210          | 4,041,832          |
| Machinery and equipment.....           | 689,359                 | 683,862            | 370,572                  | 367,872            | 1,059,931          | 1,051,734          |
| Accumulated depreciation.....          | <u>(1,189,988)</u>      | <u>(1,093,634)</u> | <u>(1,089,707)</u>       | <u>(1,012,561)</u> | <u>(2,279,695)</u> | <u>(2,106,195)</u> |
| Net total.....                         | <u>\$ 2,825,679</u>     | <u>2,813,431</u>   | <u>2,330,589</u>         | <u>2,385,144</u>   | <u>5,156,268</u>   | <u>5,198,575</u>   |

During 2010, the City invested \$108,512 in governmental capital assets and \$22,591 in business-type capital assets. The significant additions included: police computer system enhancements in the governmental funds of \$5,497; costs of constructing and paving City streets (\$103,015); costs associated with replacing customer water meters (\$17,280); and general water system and well improvements of \$5,311. This compares to combined capital spending of approximately \$230,000 in 2009.

**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 \$1,404,317 at year end compared to \$1,434,927 one year earlier. The proceeds of these loans, which were drawn in increments over 2010 and 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 remaining balance at year end totaled \$5,862. 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 12.2% at the end of September 2010, which is slightly higher than the 11.1% rate experienced one year earlier. These estimates are consistent with the State of Florida's 11.8% and 11.0% unemployment rates at September 2010 and 2009, 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 2010-2011 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.

This Page Intentionally Left Blank.

## ***BASIC FINANCIAL STATEMENTS***

This Page Intentionally Left Blank.

**STATEMENT OF NET ASSETS**  
September 30, 2010  
CITY OF LAKE HELEN, FLORIDA

|  | Primary Government         |                             |                  |
|--|----------------------------|-----------------------------|------------------|
|  | Governmental<br>Activities | Business-type<br>Activities | Total            |
| <b>Assets:</b>                                       |                            |                             |                  |
| Cash and cash equivalents.....                       | \$ 566,067                 | 83,643                      | 649,710          |
| Investments.....                                     | 745,272                    | -                           | 745,272          |
| Receivables, net.....                                | 85,958                     | 134,650                     | 220,608          |
| Inventories.....                                     | 6,798                      | -                           | 6,798            |
| Other assets.....                                    | 21,240                     | 17,464                      | 38,704           |
| Internal balances.....                               | 10,132                     | (10,132)                    | -                |
| Temporarily restricted assets:                       |                            |                             |                  |
| Cash and cash equivalents.....                       | -                          | 246,548                     | 246,548          |
| Capital assets:                                      |                            |                             |                  |
| Land.....  | 477,526                    | -                           | 477,526          |
| Buildings.....                                       | 1,504,581                  | -                           | 1,504,581        |
| Improvements other than buildings.....               | 1,241,096                  | 3,047,114                   | 4,288,210        |
| Machinery and equipment.....                         | 689,359                    | 370,572                     | 1,059,931        |
| Less: accumulated depreciation.....                  | (1,189,988)                | (1,089,707)                 | (2,279,695)      |
| Construction work in progress.....                   | 103,015                    | 2,610                       | 105,625          |
| Total assets.....                                    | <u>4,261,056</u>           | <u>2,802,762</u>            | <u>7,063,818</u> |
| <b>Liabilities:</b>                                  |                            |                             |                  |
| Accounts payable.....                                | 52,949                     | 1,652                       | 54,601           |
| Accrued liabilities.....                             | 8,695                      | 18,834                      | 27,529           |
| Due to pension trust fund.....                       | -                          | -                           | -                |
| Deposits/unearned revenue.....                       | 88,103                     | 50,836                      | 138,939          |
| Long-term debt:                                      |                            |                             |                  |
| Due within one year.....                             | 2,826                      | 89,200                      | 92,026           |
| Due in more than one year.....                       | 3,036                      | 1,315,117                   | 1,318,153        |
| Other postemployment benefit obligation.....         | 36,900                     | 4,100                       | 41,000           |
| Compensated absences.....                            | 121,172                    | 26,483                      | 147,655          |
| Total liabilities.....                               | <u>313,681</u>             | <u>1,506,222</u>            | <u>1,819,903</u> |
| <b>Net Assets:</b>                                   |                            |                             |                  |
| Invested in capital assets, net of related debt..... | 2,819,727                  | 926,271                     | 3,745,998        |
| Restricted for:                                      |                            |                             |                  |
| Capital projects.....                                | 49,220                     | 99,237                      | 148,457          |
| Debt service.....                                    | -                          | 77,641                      | 77,641           |
| Law enforcement training.....                        | 1,690                      | -                           | 1,690            |
| Recreation programs.....                             | 22,627                     | -                           | 22,627           |
| Unrestricted.....                                    | 1,054,111                  | 193,391                     | 1,247,502        |
| Total net assets.....                                | <u>\$ 3,947,375</u>        | <u>1,296,540</u>            | <u>5,243,915</u> |

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

**STATEMENT OF ACTIVITIES**  
 For the Year Ended September 30, 2010  
 CITY OF LAKE HELEN, FLORIDA

| Functions / Programs               | Expenses            | Program Revenues     |                                    |                                  |
|------------------------------------|---------------------|----------------------|------------------------------------|----------------------------------|
|                                    |                     | Charges For Services | Operating Grants and Contributions | Capital Grants and Contributions |
| <b>Primary Government:</b>         |                     |                      |                                    |                                  |
| Governmental activities:           |                     |                      |                                    |                                  |
| General government.....            | \$ 508,613          | 14,003               | 20,633                             | 400                              |
| Public safety.....                 | 606,951             | 57,833               | -                                  | 400                              |
| Physical environment.....          | 267,773             | 303,016              | 250                                | -                                |
| Transportation.....                | 206,390             | -                    | 73,431                             | 1,100                            |
| Culture/recreation.....            | 549,676             | 370,801              | 76,855                             | 400                              |
| Interest on long-term debt.....    | <u>761</u>          | <u>-</u>             | <u>-</u>                           | <u>-</u>                         |
| Total governmental activities..... | <u>2,140,164</u>    | <u>745,653</u>       | <u>171,169</u>                     | <u>2,300</u>                     |
| Business-type Activities:          |                     |                      |                                    |                                  |
| Water utilities.....               | <u>501,288</u>      | <u>500,175</u>       | <u>-</u>                           | <u>2,000</u>                     |
| Total primary government.....      | <u>\$ 2,641,452</u> | <u>1,245,828</u>     | <u>171,169</u>                     | <u>4,300</u>                     |

General revenues:

- Property taxes, levied for general purposes.....
- Local option gas taxes.....
- Utility service taxes.....
- State-casualty insurance premium tax.....
- 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<br>Changes in Net Assets |                  |                    |
|--|------------------|--------------------|
| Primary Government                                 |                  |                    |
| Governmental                                       | Business-type    | Total              |
| Activities   | Activities       |                    |
| (473,577)  |                  | (473,577)          |
| (548,718)  |                  | (548,718)          |
| 35,493   |                  | 35,493             |
| (131,859)  |                  | (131,859)          |
| (101,620)  |                  | (101,620)          |
| <u>(761)</u>                                       |                  | <u>(761)</u>       |
| <u>(1,221,042)</u>                                 |                  | <u>(1,221,042)</u> |
|  | <u>887</u>       | <u>887</u>         |
| <u>(1,221,042)</u>                                 | <u>887</u>       | <u>(1,220,155)</u> |
| 510,045  | -                | 510,045            |
| 56,074   | -                | 56,074             |
| 288,101  | -                | 288,101            |
| 17,333   | -                | 17,333             |
| 192,526  | -                | 192,526            |
| 116,076  | -                | 116,076            |
| 85,570   | -                | 85,570             |
| 6,401  | -                | 6,401              |
| <u>19,765</u>                                      | <u>-</u>         | <u>19,765</u>      |
| <u>1,291,891</u>                                   | <u>-</u>         | <u>1,291,891</u>   |
| 70,849   | 887              | 71,736             |
| <u>3,876,526</u>                                   | <u>1,295,653</u> | <u>5,172,179</u>   |
| <u>\$ 3,947,375</u>                                | <u>1,296,540</u> | <u>5,243,915</u>   |

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
September 30, 2010  
CITY OF LAKE HELEN, FLORIDA

|  | General                    | Special<br>Revenue<br>Stormwater<br>Management | Permanent<br>General<br>Trust | Total<br>Governmental<br>Funds |
|--|----------------------------|--|-------------------------------|--------------------------------|
| <b>Assets:</b>   |                            |  |                               |                                |
| Cash and cash equivalents.....                         | \$ 565,008                 | 1,059  | -                             | 566,067                        |
| Investments.....                                       | 395,272                    | -  | 350,000                       | 745,272                        |
| Receivables (net of allowance for uncollectibles)..... | 38,089                     | -  | -                             | 38,089                         |
| Due from other funds.....                              | 10,132                     | 43,611   | -                             | 53,743                         |
| Due from other governments.....                        | 47,869                     | -  | -                             | 47,869                         |
| Inventories.....                                       | 6,798                      | -  | -                             | 6,798                          |
| Prepaid expenses.....                                  | 21,240                     | -  | -                             | 21,240                         |
| <b>Total assets.....</b>                               | <b><u>\$ 1,084,408</u></b> | <b><u>44,670</u></b>                           | <b><u>350,000</u></b>         | <b><u>1,479,078</u></b>        |
| <b>Liabilities and Fund Balances:</b>                  |                            |  |                               |                                |
| <b>Liabilities:</b>                                    |                            |  |                               |                                |
| Accounts payable.....                                  | \$ 52,949                  | -  | -                             | 52,949                         |
| Accrued liabilities.....                               | 8,668                      | -  | -                             | 8,668                          |
| Due to other funds.....                                | 43,611                     | -  | -                             | 43,611                         |
| Deposits.....  | 80,391                     | -  | -                             | 80,391                         |
| Deferred revenues.....                                 | 11,619                     | -  | -                             | 11,619                         |
| <b>Total liabilities.....</b>                          | <b><u>197,238</u></b>      | <b><u>-</u></b>                                | <b><u>-</u></b>               | <b><u>197,238</u></b>          |
| <b>Fund Balances:</b>                                  |                            |  |                               |                                |
| <b>Reserved for:</b>                                   |                            |  |                               |                                |
| Capital projects.....                                  | 49,220                     | -  | -                             | 49,220                         |
| Law enforcement.....                                   | 1,690                      | -  | -                             | 1,690                          |
| Recreation grants.....                                 | 22,627                     | -  | -                             | 22,627                         |
| <b>Unreserved:</b>                                     |                            |  |                               |                                |
| Designated.....  | -                          | 44,670   | 350,000                       | 394,670                        |
| Undesignated.....                                      | 813,633                    | -  | -                             | 813,633                        |
| <b>Total fund balances.....</b>                        | <b><u>887,170</u></b>      | <b><u>44,670</u></b>                           | <b><u>350,000</u></b>         | <b>1,281,840</b>               |
| <b>Total liabilities and fund balances.....</b>        | <b><u>\$ 1,084,408</u></b> | <b><u>44,670</u></b>                           | <b><u>350,000</u></b>         |                                |

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..... | 2,825,589                  |
| Other long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the funds.....                                      | 3,907                      |
| Accrued interest is not due and payable in the current period and, accordingly, is not reported in the funds.....   | (27)                       |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:  |                            |
| Capital lease obligations.....  | (5,862)                    |
| Postemployment benefit obligation.....  | (36,900)                   |
| Compensated absence liabilities.....  | (121,172)                  |
| <b>Net assets of governmental activities.....</b>   | <b><u>\$ 3,947,375</u></b> |

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, 2010  
CITY OF LAKE HELEN, FLORIDA

|  | General          | Special<br>Revenue<br>Stormwater<br>Management | Permanent<br>General<br>Trust | Total<br>Governmental<br>Funds |
|--|------------------|--|-------------------------------|--------------------------------|
| <b>Revenues:</b>                                     |                  |  |                               |                                |
| Property taxes.....                                  | \$ 510,734       | -  | -                             | 510,734                        |
| Local option gas taxes.....                          | 56,074           | -  | -                             | 56,074                         |
| Utility service taxes.....                           | 288,101          | -  | -                             | 288,101                        |
| Other taxes.....                                     | 29,525           | -  | -                             | 29,525                         |
| Franchise fees.....                                  | 192,526          | -  | -                             | 192,526                        |
| Permits and other fees.....                          | 44,245           | 569  | -                             | 44,814                         |
| Intergovernmental revenue.....                       | 362,523          | -  | -                             | 362,523                        |
| Charges for services.....                            | 254,121          | 48,792   | -                             | 302,913                        |
| Creative Arts Café revenue.....                      | 365,510          | -  | -                             | 365,510                        |
| Fines and forfeitures.....                           | 15,982           | -  | -                             | 15,982                         |
| Investment earnings.....                             | 5,454            | -  | 947                           | 6,401                          |
| Miscellaneous revenue.....                           | 36,598           | -  | -                             | 36,598                         |
| <b>Total revenues.....</b>                           | <b>2,161,393</b> | <b>49,361</b>                                  | <b>947</b>                    | <b>2,211,701</b>               |
| <b>Expenditures:</b>                                 |                  |  |                               |                                |
| <b>Current:</b>                                      |                  |  |                               |                                |
| General government.....                              | 460,366          | -  | -                             | 460,366                        |
| Public safety.....                                   | 583,217          | -  | -                             | 583,217                        |
| Physical environment.....                            | 255,321          | -  | -                             | 255,321                        |
| Transportation.....                                  | 241,965          | 61,229   | -                             | 303,194                        |
| Culture/recreation.....                              | 518,077          | -  | -                             | 518,077                        |
| <b>Debt Service:</b>                                 |                  |  |                               |                                |
| Principal retirement.....                            | 2,542            | -  | -                             | 2,542                          |
| Interest.....  | 770              | -  | -                             | 770                            |
| <b>Total expenditures.....</b>                       | <b>2,062,258</b> | <b>61,229</b>                                  | <b>-</b>                      | <b>2,123,487</b>               |
| Excess of revenues over<br>(under) expenditures..... | 99,135           | (11,868)                                       | 947                           | 88,214                         |
| <b>Other Financing Sources (Uses):</b>               |                  |  |                               |                                |
| Transfers in (out).....                              | 947              | -  | (947)                         | -                              |
| <b>Total other financing sources (uses).....</b>     | <b>947</b>       | <b>-</b>                                       | <b>(947)</b>                  | <b>-</b>                       |
| <b>Net change in fund balances.....</b>              | <b>100,082</b>   | <b>(11,868)</b>                                | <b>-</b>                      | <b>88,214</b>                  |

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

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS - (Continued)**  
For the Year Ended September 30, 2010  
CITY OF LAKE HELEN, FLORIDA

|  | General           | Special<br>Revenue<br>Stormwater<br>Management | Permanent<br>General<br>Trust | Total<br>Governmental<br>Funds |
|--|-------------------|--|-------------------------------|--------------------------------|
| <b>Fund Balances:</b>  |                   |  |                               |                                |
| Beginning of year-as previously stated.....  | 663,082           | 53,857   | 350,000                       | 1,066,939                      |
| Adjustment for long-term compensated absences. ....  | <u>124,006</u>    | <u>2,681</u>                                   | <u>-</u>                      | <u>126,687</u>                 |
| Beginning of year-as restated.....   | <u>787,088</u>    | <u>56,538</u>                                  | <u>350,000</u>                | <u>1,193,626</u>               |
| Fund balances, end of year.....  | <u>\$ 887,170</u> | <u>44,670</u>                                  | <u>350,000</u>                | <u>1,281,840</u>               |
| Net change in fund balances - total governmental funds.....  |                   |  |                               | \$ 88,214                      |
| Differences in amounts reported for governmental activities in the statement of activities are:  |                   |  |                               |                                |
| 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.  |                   |  |                               |                                |
| Expenditures for capital assets.....   |                   |  |                               | 108,512                        |
| Current year provision for depreciation.....   |                   |  |                               | (96,354)                       |
| Long-term debt proceeds are reported as financial sources in the governmental funds. However, the issuance of debt is reported as long-term debt payable in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment of debt principal reduces long-term liabilities in the statement of net assets. These amounts are as follows:  |                   |  |                               |                                |
| Proceeds from long-term debt obligations.....  |                   |  |                               | -                              |
| Principal repayments on general long-term debt obligations.....  |                   |  |                               | 2,542                          |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:   |                   |  |                               |                                |
| Change in delinquent taxes receivable.....   |                   |  |                               | (689)                          |
| Deferred revenues.....   |                   |  |                               | 5,514                          |
| 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. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due; rather than as it accrues. These adjustments are as follows: |                   |  |                               |                                |
| Change in accrued interest on long-term debt obligations.....  |                   |  |                               | 10                             |
| Change in other postemployment benefit obligation.....   |                   |  |                               | <u>(36,900)</u>                |
| Change in net assets of governmental activities.....   |                   |  |                               | <u>\$ 70,849</u>               |

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

**STATEMENT OF FUND NET ASSETS**  
**WATER UTILITY PROPRIETARY FUND**  
September 30, 2010  
CITY OF LAKE HELEN, FLORIDA

|  |                    |                     |
|--|--------------------|---------------------|
| <b>Assets:</b>                                       |                    |                     |
| Current Assets:                                      |                    |                     |
| Cash and cash equivalents.....                       | \$ 83,643          |                     |
| Accounts receivable (net).....                       | 134,650            |                     |
| Restricted cash and cash equivalents:                |                    |                     |
| Revenue note debt service funds.....                 | 49,406             |                     |
| Revenue note reserve fund.....                       | 47,069             |                     |
| Customer deposits.....                               | 50,836             |                     |
| Impact fees.....                                     | <u>99,237</u>      |                     |
| Total current assets.....                            |                    | <u>464,841</u>      |
| Noncurrent Assets:                                   |                    |                     |
| Unamortized debt issuance costs.....                 |                    | 17,464              |
| Capital assets:                                      |                    |                     |
| Improvements other than buildings.....               | 3,047,114          |                     |
| Machinery and equipment.....                         | 370,572            |                     |
| Construction in progress.....                        | 2,610              |                     |
| Less: accumulated depreciation.....                  | <u>(1,089,707)</u> | <u>2,330,589</u>    |
| Total noncurrent assets.....                         |                    | <u>2,348,053</u>    |
| Total assets.....                                    |                    | <u>2,812,894</u>    |
| <b>Liabilities:</b>                                  |                    |                     |
| Current Liabilities:                                 |                    |                     |
| Accounts payable and accrued liabilities.....        | 20,486             |                     |
| Due to other funds.....                              | 10,132             |                     |
| Customer deposits.....                               | 50,836             |                     |
| Notes payable - current maturities.....              | <u>89,200</u>      |                     |
| Total current liabilities.....                       |                    | 170,654             |
| Noncurrent Liabilities:                              |                    |                     |
| Compensated absences.....                            | 26,483             |                     |
| Other postemployment benefit obligation.....         | 4,100              |                     |
| Notes payable.....                                   | <u>1,315,117</u>   |                     |
| Total noncurrent liabilities.....                    |                    | <u>1,345,700</u>    |
| Total liabilities.....                               |                    | <u>1,516,354</u>    |
| <b>Net Assets:</b>                                   |                    |                     |
| Invested in capital assets, net of related debt..... | 926,271            |                     |
| Restricted for debt service.....                     | 77,641             |                     |
| Restricted for utility expansion.....                | 99,237             |                     |
| Unrestricted.....                                    | <u>197,491</u>     |                     |
| Total net assets.....                                |                    | <u>\$ 1,296,540</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, 2010  
CITY OF LAKE HELEN, FLORIDA

---

|  |                 |                     |
|--|-----------------|---------------------|
| Operating Revenues:                        |                 |                     |
| Charges for services.....                  | \$ 500,174      |                     |
| Miscellaneous.....                         | <u>1</u>        |                     |
| Total operating revenues.....              |                 | 500,175             |
| Operating Expenses:                        |                 |                     |
| Personal services.....                     | 185,844         |                     |
| Depreciation and amortization.....         | 79,359          |                     |
| Materials and supplies.....                | 58,185          |                     |
| Contractual services.....                  | 46,589          |                     |
| Utilities.....                             | 25,634          |                     |
| Maintenance and repairs.....               | 15,802          |                     |
| Bad debt expense.....                      | 32,235          |                     |
| Other charges.....                         | <u>10,440</u>   |                     |
| Total operating expenses.....              |                 | <u>454,088</u>      |
| Operating income.....                      |                 | 46,087              |
| Nonoperating revenue (expense):            |                 |                     |
| Interest and debt expense.....             | <u>(47,200)</u> |                     |
| Net nonoperating revenue (expense).....    |                 | <u>(47,200)</u>     |
| Income before contributions.....           |                 | (1,113)             |
| Capital contributions.....                 |                 | <u>2,000</u>        |
| Net increase (decrease) in net assets..... |                 | 887                 |
| Net assets, beginning of year.....         |                 | <u>1,295,653</u>    |
| Net assets, end of year.....               |                 | <u>\$ 1,296,540</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, 2010  
CITY OF LAKE HELEN, FLORIDA

|   |                          |
|---|--------------------------|
| <b>Cash Flows From Operating Activities:</b>  |                          |
| Cash received from customers.....   | \$ 485,911               |
| Cash paid to suppliers.....   | (163,914)                |
| Cash paid for personal services.....  | <u>(182,046)</u>         |
| Net cash provided by (used in) operating activities.....                                    | 139,951                  |
| <b>Cash Flows From Capital and Related Financing Activities:</b>                            |                          |
| Advances from other funds.....  | (34,163)                 |
| Proceeds from long-term debt.....   | 56,482                   |
| Payments of long-term debt principal.....   | (88,092)                 |
| Interest payments.....  | (48,377)                 |
| Capital contributions.....  | 2,000                    |
| Acquisition and construction of capital assets.....   | <u>(22,591)</u>          |
| Net cash provided by (used in) capital and related financing activities.                    | (134,741)                |
| Net increase (decrease) in cash and cash equivalents.....                                   | 5,210                    |
| Cash and cash equivalents, beginning of year.....   | <u>324,981</u>           |
| Cash and cash equivalents, end of year.....   | <u><u>\$ 330,191</u></u> |
| <b>Reconciliation of cash and cash equivalents:</b>   |                          |
| Unrestricted.....   | \$ 83,643                |
| Restricted.....   | <u>246,548</u>           |
| Total - all sources.....  | <u><u>\$ 330,191</u></u> |
| <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>     |                          |
| Operating income (loss).....  | \$ 46,087                |
| Adjustments to reconcile net operating income to net cash provided by operating activities: |                          |
| Depreciation and amortization.....  | 79,359                   |
| Bad debt provision.....   | 32,235                   |
| Post employment benefit obligation.....   | 4,100                    |
| Changes in assets and liabilities:  |                          |
| Accounts receivable (net).....  | (11,988)                 |
| Accounts payable.....   | (7,264)                  |
| Accrued liabilities.....  | (3,018)                  |
| Compensated absences.....   | 2,716                    |
| Customer deposits.....  | <u>(2,276)</u>           |
| Net cash provided by operating activities.....  | <u><u>\$ 139,951</u></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, 2010  
CITY OF LAKE HELEN, FLORIDA

---

|   |               |                   |
|---|---------------|-------------------|
| Assets:                                 |               |                   |
| Cash and cash equivalents.....          |               | \$ 2,433          |
| Receivables:                            |               |                   |
| Employer.....                           | \$ 5,651      |                   |
| Due from other governments.....         | <u>17,333</u> |                   |
|   |               | 22,984            |
| Investments:                            |               |                   |
| Mutual Funds.....                       |               | <u>605,903</u>    |
| Total assets.....                       |               | <u>631,320</u>    |
| Liabilities.....                        |               |                   |
|   |               | <u>-</u>          |
| Net Assets:                             |               |                   |
| Held in trust for pension benefits..... |               | <u>\$ 631,320</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, 2010  
CITY OF LAKE HELEN, FLORIDA

---

Additions:

Contributions from:

|   |    |               |
|---|----|---------------|
| Employees.....                              | \$ | 1,824         |
| Employer (City).....                        |    | 48,804        |
| State-Casualty Insurance Premium Taxes..... |    | <u>35,130</u> |

Total contributions..... 85,758

Investment income:

|   |  |               |
|---|--|---------------|
| Net investment earnings, including appreciation (depreciation)<br>in fair value of investments..... |  | <u>48,484</u> |
|---|--|---------------|

Total additions..... 134,242

Deductions:

|                              |  |              |
|------------------------------|--|--------------|
| Administrative expenses..... |  | <u>2,294</u> |
|------------------------------|--|--------------|

Total deductions..... 2,294

Net increase..... 131,948

Net Assets Held in Trust for Pension Benefits:

|                        |    |                |
|------------------------|----|----------------|
| Beginning of year..... |    | <u>499,372</u> |
| End of year.....       | \$ | <u>631,320</u> |

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

This Page Intentionally Left Blank.

***NOTES TO THE FINANCIAL STATEMENTS***

This Page Intentionally Left Blank.

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2010

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, 2010

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 90 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.
- The Stormwater Management (special revenue) Fund accounts for the financial resources related to the development and maintenance of the City's stormwater management system. This 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, 2010

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, 2010

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, 2010

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<br>Leave | Personal<br>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 annual leave and personal leave up to a maximum of 240 and 360 hours, respectively. All employees will receive 100% and 25% of accumulated annual leave benefits and personal leave benefits, respectively, 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, 2010

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 15<sup>th</sup>, 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, 2010

CITY OF LAKE HELEN, FLORIDA

---

**B. Excess of Expenditures over Appropriations**

During the year ended September 30, 2010, expenditures exceeded budgetary appropriations in the General Fund (major) – actual expenditures (\$2,062,258) exceeded budgetary appropriations (\$2,015,600) by \$25,127. This amount is primarily the result of actual expenditures exceeding budgetary appropriations within the Creative Arts Café Restaurant operations (part of the Culture/Recreation function). This amount was funded in its entirety from surplus governmental revenue in the General Fund, which recognized actual revenues of \$188,793 greater than those amounts anticipated in the 2010 budget.

**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 (2009 tax levy) was 5.218 mills for ad valorem taxes collected by the City during the year ended September 30, 2010. 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 |
|--|---------|

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2010

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, 2010, the carrying value of the City’s cash deposit accounts was \$895,558 and the bank balance totaled \$939,416. 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. The above reported amounts do not include \$700 in cash funds on hand at the end of the fiscal year.

**Investments.** As of September 30, 2010, 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.....   | \$ 735,422          | 735,422                       | -              | -            |
| Fund B.....  | 9,803               | -                             | -              | 9,803        |
| Florida Municipal Investment Trust.....  | 605,903             | 375,952                       | 229,951        | -            |
| Ad Valorem tax certificates.....   | 47                  | -                             | 47             | -            |
| Totals.....  | <u>\$ 1,351,175</u> | <u>1,111,374</u>              | <u>229,998</u> | <u>9,803</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 remaining \$13,865 (at cost) investment in Fund B is \$9,803 as of September 30, 2010, based on the NAV factor of \$0.70706 reported by the trustees of Fund B.

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2010

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, 2010, the asset allocations for the various investment models were as follows:

| Investment Portfolios/Funds             | Percent        |
|---|----------------|
| Cash.....                               | 0.40%          |
| FMIvT Broad Market High Quality Bond..  | 37.80%         |
| FMIvT High Quality Growth.....          | 8.20%          |
| FMIvT Diversified Small to Mid Cap..... | 11.40%         |
| FMIvT Russell 1000 Enhanced Index.....  | 23.50%         |
| FMIvT International Blend.....          | 10.70%         |
| FMIvT Diversified Value.....            | 8.00%          |
| 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 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.

| Fixed Income Fund                      | Effective<br>Duration | WAM  |
|--|-----------------------|------|
| FMIvT Broad Market High Quality Bond.. | 3.70                  | 4.09 |

**Foreign Currency Risk.** This category applies only if a government's deposits or investments are exposed to foreign currency risk. If subject to such exposure, the government should disclose the dollar

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2010

CITY OF LAKE HELEN, FLORIDA

---

balances subject to such risks, organized by currency denomination and investment type. The City's investments in the FMIvT are not subject to foreign currency risk.

**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 AA+ as of September 30, 2010; Fund B is not rated by any nationally recognized statistical rating agency. Other ratings as of September 30, 2010 are as follows:

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

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2010

CITY OF LAKE HELEN, FLORIDA

**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 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, 2010, the carrying amount of the City's deposits in the Local Government Surplus Funds Trust Fund was \$745,225, all of which was covered by collateral securities in accordance with the Act. The carrying amount of the City's remaining deposits was 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, 2010, is as follows:

| Type                                       | Governmental Business-type |                 | Total           |
|--|----------------------------|-----------------|-----------------|
|  | Activities                 | Activities      |                 |
| Delinquent taxes receivable.....           | \$ 3,907                   | -               | 3,907           |
| Accounts receivable.....                   | 34,182                     | 150,814         | 184,996         |
| Unbilled accounts receivable.....          | -                          | 19,850          | 19,850          |
| Due from other governments.....            | <u>47,869</u>              | <u>-</u>        | <u>47,869</u>   |
|  | 85,958                     | 170,664         | 256,622         |
| Less: allowance for doubtful accounts..... | <u>-</u>                   | <u>(36,014)</u> | <u>(36,014)</u> |
| Net receivables.....                       | <u>\$ 85,958</u>           | <u>134,650</u>  | <u>220,608</u>  |

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2010

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, 2010, are comprised of the following:

|                                 | <u>Due<br/>From</u> | <u>Due<br/>To</u> |
|---------------------------------|---------------------|-------------------|
| Governmental Activities:        |                     |                   |
| General Fund:                   |                     |                   |
| Stormwater Management Fund..... | \$ -                | 43,611            |
| Water Utility Fund.....         | 10,132              | -                 |
| Stormwater Management Fund:     |                     |                   |
| General Fund.....               | <u>43,611</u>       | <u>-</u>          |
|                                 | <u>53,743</u>       | <u>43,611</u>     |
| Business-type Activities:       |                     |                   |
| Water Utility Fund:             |                     |                   |
| General Fund.....               | <u>-</u>            | <u>10,132</u>     |
| Totals - all funds.....         | <u>\$ 53,743</u>    | <u>53,743</u>     |

**NOTE 8 - CAPITAL ASSETS**

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

**A. Governmental Activities**

|  | <u>Balances<br/>9/30/2009</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balances<br/>9/30/2010</u> |
|--|-------------------------------|------------------|------------------|-------------------------------|
| Capital assets not being depreciated:        |                               |                  |                  |                               |
| Land.....                                    | \$ 477,526                    | -                | -                | 477,526                       |
| Construction in progress.....                | <u>-</u>                      | <u>103,015</u>   | <u>-</u>         | <u>103,015</u>                |
| Total capital assets not being depreciated.. | <u>477,526</u>                | <u>103,015</u>   | <u>-</u>         | <u>580,541</u>                |
| Capital assets being depreciated:            |                               |                  |                  |                               |
| Buildings.....                               | 1,504,581                     | -                | -                | 1,504,581                     |
| Improvements other than buildings.....       | 1,241,096                     | -                | -                | 1,241,096                     |
| Machinery and equipment.....                 | <u>683,862</u>                | <u>5,497</u>     | <u>-</u>         | <u>689,359</u>                |
| Total capital assets being depreciated.....  | <u>3,429,539</u>              | <u>5,497</u>     | <u>-</u>         | <u>3,435,036</u>              |
| Less accumulated depreciation for:           |                               |                  |                  |                               |
| Buildings.....                               | (313,556)                     | (44,626)         | -                | (358,182)                     |
| Improvements other than buildings.....       | (194,301)                     | (29,969)         | -                | (224,270)                     |
| Machinery and equipment.....                 | <u>(585,777)</u>              | <u>(21,759)</u>  | <u>-</u>         | <u>(607,536)</u>              |
| Total accumulated depreciation.....          | <u>(1,093,634)</u>            | <u>(96,354)</u>  | <u>-</u>         | <u>(1,189,988)</u>            |
| Total capital assets being depreciated, net. | <u>2,335,905</u>              | <u>(90,857)</u>  | <u>-</u>         | <u>2,245,048</u>              |
| Total capital assets, net.....               | <u>\$ 2,813,431</u>           | <u>12,158</u>    | <u>-</u>         | <u>2,825,589</u>              |

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2010

CITY OF LAKE HELEN, FLORIDA

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

|   |                  |
|---|------------------|
| Governmental Activities:                                  |                  |
| General government.....                                   | \$ 40,814        |
| Public safety.....  | 10,684           |
| Physical environment.....                                 | 10,603           |
| Transportation.....                                       | 3,826            |
| Culture/recreation.....                                   | <u>30,427</u>    |
| Total depreciation expense - governmental activities..... | <u>\$ 96,354</u> |

**B. Business-Type Activities**

|  | Balances<br>9/30/2009 | Additions       | Deletions        | Balances<br>9/30/2010 |
|--|-----------------------|-----------------|------------------|-----------------------|
| Capital assets not being depreciated:        |                       |                 |                  |                       |
| Construction in progress.....                | \$ 229,097            | 2,610           | (229,097)        | 2,610                 |
| Capital assets being depreciated:            |                       |                 |                  |                       |
| Improvements other than buildings.....       | 2,800,736             | 246,378         | -                | 3,047,114             |
| Machinery and equipment.....                 | <u>367,872</u>        | <u>2,700</u>    | -                | <u>370,572</u>        |
| Total capital assets being depreciated.....  | <u>3,168,608</u>      | <u>249,078</u>  | -                | <u>3,417,686</u>      |
| Less accumulated depreciation for:           |                       |                 |                  |                       |
| Improvements other than buildings.....       | (677,508)             | (66,217)        | -                | (743,725)             |
| Machinery and equipment.....                 | <u>(335,053)</u>      | <u>(10,929)</u> | -                | <u>(345,982)</u>      |
| Total accumulated depreciation.....          | <u>(1,012,561)</u>    | <u>(77,146)</u> | -                | <u>(1,089,707)</u>    |
| Total capital assets being depreciated, net. | <u>2,156,047</u>      | <u>171,932</u>  | -                | <u>2,327,979</u>      |
| Total capital assets, net.....               | <u>\$ 2,385,144</u>   | <u>174,542</u>  | <u>(229,097)</u> | <u>2,330,589</u>      |

Depreciation expense for the year totaled \$77,146.

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2010

CITY OF LAKE HELEN, FLORIDA

**NOTE 9 - LONG-TERM DEBT**

The City’s long-term debt outstanding at September 30, 2010, is as follows:

**Governmental Activities**

|  | <u>Balance<br/>Due</u> | <u>Current<br/>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 \$3,943 as of 9/30/2010... | \$ 4,437               | 1,701                         |
| \$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 \$1,867 as of 9/30/2010.....          | <u>1,425</u>           | <u>1,125</u>                  |
|  | 5,862                  | <u><u>2,826</u></u>           |
| Compensated absences.....  | 121,172                |                               |
| Other postemployment benefit obligation.....   | <u>36,900</u>          |                               |
| Total governmental activities long-term debt.....  | <u>\$ 163,934</u>      |                               |

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

|  | <u>Balances<br/>9/30/2009</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balances<br/>9/30/2010</u> |
|--|-------------------------------|------------------|------------------|-------------------------------|
| Capital Lease Obligations:                   |                               |                  |                  |                               |
| \$8,158 capital lease dated 3/10/2008.....   | \$ 5,968                      | -                | (1,531)          | 4,437                         |
| \$4,000 capital lease dated 1/28/2008.....   | 2,436                         | -                | (1,011)          | 1,425                         |
| Compensated absences.....                    | 126,687                       | 14,782           | (20,297)         | 121,172                       |
| Other postemployment benefit obligation..... | <u>-</u>                      | <u>36,900</u>    | <u>-</u>         | <u>36,900</u>                 |
| Totals.....                                  | <u>\$ 135,091</u>             | <u>51,682</u>    | <u>(22,839)</u>  | <u>163,934</u>                |

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2010

CITY OF LAKE HELEN, FLORIDA

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

| Fiscal Year             | Capital Lease<br>dated<br>3/10/2008 | Capital Lease<br>dated<br>1/28/2008 | Total        |
|-------------------------|-------------------------------------|-------------------------------------|--------------|
| 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..... | 5,046                               | 1,530                               | 6,576        |
| Less: interest.....     | <u>(609)</u>                        | <u>(105)</u>                        | <u>(714)</u> |
| Net amount.....         | <u>\$ 4,437</u>                     | <u>1,425</u>                        | <u>5,862</u> |

Total interest incurred for governmental activities for the year ended September 30, 2010 was \$770.

**Business-Type Activities**

|  | Balance<br>Due      | Current<br>Maturities |
|--|---------------------|-----------------------|
| 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..... | \$ 1,153,790        | 78,903                |
| State of Florida, Department of Environmental Protection-Drinking Water State Revolving Fund Loan Agreement, 2.57 to 2.77% construction loan dated 6/5/2008 in the amount of \$260,922, due semi-annually with payments of \$8,694 through 3/15/2029.....  | <u>250,527</u>      | <u>10,297</u>         |
|  | <u>1,404,317</u>    | <u>89,200</u>         |
| Compensated absences.....  | 26,483              |                       |
| Other postemployment benefit obligation.....   | <u>4,100</u>        |                       |
| Total business-type activities long-term debt.....   | <u>\$ 1,434,900</u> | <u>89,200</u>         |

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2010

CITY OF LAKE HELEN, FLORIDA

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

|   | Balances<br><u>9/30/2009</u> | Additions     | Deletions       | Balances<br><u>9/30/2010</u> |
|---|------------------------------|---------------|-----------------|------------------------------|
| Notes Payable:  |                              |               |                 |                              |
| State of Florida Department of<br>Environmental Protection-Clean Water<br>State Revolving Fund Loans: |                              |               |                 |                              |
| \$1,695,969 loan dated 6/14/2000.....   | \$ 1,230,008                 | -             | (76,218)        | 1,153,790                    |
| \$219,850 loan dated 6/5/2008.....  | 204,919                      | 56,482        | (10,874)        | 250,527                      |
| Compensated absences.....   | 23,767                       | 5,882         | (3,166)         | 26,483                       |
| Other postemployment benefit obligation.....  | <u>-</u>                     | <u>4,100</u>  | <u>-</u>        | <u>4,100</u>                 |
| Totals.....   | <u>\$ 1,458,694</u>          | <u>66,464</u> | <u>(90,258)</u> | <u>1,434,900</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>Principal</u>        | <u>Interest</u> | <u>Total</u>     |
| September 30, 2011.....              | \$ 89,201               | 46,439          | 135,640          |
| September 30, 2012.....              | 92,564                  | 43,371          | 135,935          |
| September 30, 2013.....              | 95,743                  | 40,192          | 135,935          |
| September 30, 2014.....              | 99,031                  | 36,904          | 135,935          |
| September 30, 2015.....              | 102,433                 | 33,502          | 135,935          |
| September 30, 2016 through 2020..... | 567,470                 | 112,205         | 679,675          |
| September 30, 2021 through 2025..... | 300,495                 | 23,541          | 324,036          |
| September 30, 2026 through 2029..... | <u>57,380</u>           | <u>3,199</u>    | <u>60,579</u>    |
| Totals.....                          | <u>\$ 1,404,317</u>     | <u>339,353</u>  | <u>1,743,670</u> |

As a part of the FDEP Loan Agreement 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 (2023). On both FDEP loan obligations, the City is also required to make mandatory monthly payments to established Loan Payment Sinking Funds sufficient to service the loan obligations. In addition to these requirements, the City has agreed to comply with other covenants and restrictions contained within these agreements. Specifically, the City is required to maintain a loan debt service coverage ratio of 1.15 times throughout the term of the loans. For the year ended September 30, 2010, the City did not meet this requirement by maintaining a coverage ratio of 96% of the mandatory annual debt service requirements.

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. Under the

Total interest incurred for business-type activities for the year ended September 30, 2010 was \$47,200. Of this amount, \$-0- was capitalized as a component of the costs of capital assets constructed during the year and \$47,200 was charged to expense.

## NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

CITY OF LAKE HELEN, FLORIDA

---

### 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 \$1,404,317 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 (pledged revenues) and are payable semi-annually through 2029. The total principal and interest remaining to be paid on the loans is \$1,743,672, with annual payments expected to require 100 percent of net revenues. Principal and interest paid for the current year and net pledged system revenues were \$136,468 and \$131,546, respectfully.

### NOTE 11 - RESTRICTED NET ASSETS

The government-wide statement of net assets reports \$250,415 in restricted net assets, of which \$148,457 is restricted for capital projects through local resolution and state legislation related to the use of revenues collected for impact fees and development reviews; \$77,641 is restricted for debt service obligations established through externally imposed loan agreements and covenants; \$22,627 is restricted for teen program costs through externally imposed legislative restrictions; and \$1,690 is restricted for police education and training by enabling state 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 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.

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2010

CITY OF LAKE HELEN, FLORIDA

---

The City’s contributions to the plan for the fiscal years ended September 30, 2010, 2009, and 2008 totaled \$89,387, \$96,504, and \$71,425, 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<br/>Employees</u> | <u>Special<br/>Risk</u> |
|--|------------------------------|-------------------------|
| 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 June 30, 2010.....      | 9.85%                        | 20.92%                  |
| From July 1, 2010 to September 30, 2010..... | 10.77%                       | 23.25%                  |

**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, 2010, there were 4 active participating members enrolled in the Plan, and two deferred (terminated) vested participants, one of which is 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.

**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. State contributions representing casualty insurance premium excise tax collections are recognized in the accounting periods in which they are earned, which differs from state policy that prohibits the accrual of such revenues until subsequent to the receipt and approval of the prior year Annual Report submitted to the Florida Division of Retirement.

**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.

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2010

CITY OF LAKE HELEN, FLORIDA

**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 rate in effect during 2010 was 26.24% of annual covered payroll. Based on the most current actuarial valuation (10/01/10), the minimum required contribution is 25.01% of covered payroll. State appropriations (from casualty insurance premium excise taxes) received by the City are used to reduce the annual commitment of the City.

**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, 2010 is as follows:

|  | 2008/2009<br><u>Plan Year</u> | 2009/2010<br><u>Plan Year</u> |
|--|-------------------------------|-------------------------------|
| Annual required contribution .....                 | \$ 48,297                     | 52,945                        |
| Interest on net pension obligation.....            | 0                             | 0                             |
| Adjustment to annual required contribution.....    | <u>0</u>                      | <u>0</u>                      |
| Annual pension cost .....                          | 48,297                        | 52,945                        |
| Contributions made .....                           | <u>(48,297)</u>               | <u>(52,945)</u>               |
| Increase (decrease) in net pension obligation..... | 0                             | 0                             |
| Net Pension Obligation (NPO):                      |                               |                               |
| Beginning of year.....                             | <u>0</u>                      | <u>0</u>                      |
| End of year.....                                   | <u>\$ 0</u>                   | <u>0</u>                      |

The City’s annual required contribution for the 2009/2010 plan 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.

Based on the October 1, 2010, actuarial valuation, actuarial assumptions included (a) 7.50% per annum investment rate of return, and (b) projected salary increases of 5.36% per year. Plan compensation is generally assumed to increase at the rate of 5.00% per annum, unless actual plan compensation is known for a prior plan year. 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 no unfunded actuarial liability at October 1, 2010.

The summary valuation information pertinent to the required supplementary information schedules is provided above. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**NOTE 13 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

**Plan Description.** Effective October 1, 2009, the City implemented GASB Statement No. 45, *Accounting and Reporting for Post Employment Benefits Other Than Pensions* (OPEB), for certain post employment healthcare benefits provided by the City. City of Lake Helen, Florida, Post-employment Benefits Plan

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2010

CITY OF LAKE HELEN, FLORIDA

(the “Plan”) is a single-employer healthcare plan administered by the City. Pursuant to Section 112.0801, Florida Statutes, the City is required to permit participation in the Plan to retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active employees.

An “implicit rate subsidy” exists when the composite premiums charged by the insurance company are based on a blending of the experience among younger active employees and older retired employees. Since the older retirees actually have higher incremental health costs, the City is subsidizing the cost of the retiree coverage because it pays all or a significant portion of the premium on behalf of the active employee.

Eligible individuals include all regular employees of the City who retire from active service under one of the pension plans sponsored by the City. Under certain conditions, eligible individuals also include spouses and dependent children. At October 1, 2009, the date of the latest actuarial valuation, plan participation included 2 active employees eligible for benefits, and 18 active employees not yet eligible for benefits with no current retirees accepting benefits.

The Plan does not issue a publicly available financial report.

**Funding Policy.** The contribution requirements of plan members and the City are based on composite health insurance premium costs and may be amended by the City Commission. The required contribution is based on projected pay-as-you-go financing requirements and is subject to constant revision. The City has not established a trust fund or equivalent to advance fund the net OPEB obligation or the resulting unfunded actuarial accrued liability on an annual basis. Instead, the ultimate subsidies that are recognized over time are financed directly by the City from the individual funds responsible for the employees’ salary obligations.

**Annual OPEB Cost and Net OPEB Obligation.** The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a fifteen-year open period. The following table shows the components of the City’s annual OPEB for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation to the Plan based on a the most recent actuarial valuation dated October 1, 2009:

|   | Estimated<br><u>09/30/2010</u> |
|---|--------------------------------|
| Annual required contribution .....              | \$ 47,000                      |
| Interest on net OPEB obligation.....            | 0                              |
| Adjustment to annual required contribution..... | <u>0</u>                       |
| Annual OPEB cost.....                           | 47,000                         |
| Contributions made .....                        | <u>(6,000)</u>                 |
| Increase (decrease) in net OPEB obligation..... | 41,000                         |
| Net OPEB Obligation:                            |                                |
| Beginning of year.....                          | <u>0</u>                       |
| End of year.....                                | <u>\$ 41,000</u>               |

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2010

CITY OF LAKE HELEN, FLORIDA

---

The City's annual OPEB cost (expense) of \$41,000 was equal to the ARC for the fiscal year, as the transition liability was set at zero as of October 1, 2009. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 with no applicable preceding years were as follows:

| <u>Fiscal<br/>Year<br/>Ended</u> | <u>Annual<br/>OPEB<br/>Cost</u> | <u>Percent<br/>of Annual<br/>OPEB Cost<br/>Contributed</u> | <u>Net<br/>OPEB<br/>Obligation</u> |
|----------------------------------|---------------------------------|--|------------------------------------|
| 09/30/10                         | \$47,000                        | 12.77%   | \$41,000                           |

In the Statement of Net Assets, the City reports a Net OPEB Obligation of \$36,900 in governmental activities and \$4,100 in business-type activities.

**Funding Status and Funding Progress.** As of October 1, 2009, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$237,000, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$237,000. The covered payroll (annual payroll of active employees covered under the plan) was \$727,000, and the ratio of the UAAL to the covered payroll was 32.6%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions** Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The projections do not explicitly incorporate the potential effects of legal or contractual funding limitations. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2009 actuarial valuation, the Projected Unit Credit Cost Method was used. The actuarial assumptions included a 4.0% percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10% percent initially, reduced by 0.5% annual decreases to an ultimate rate of 6.0% in 2018. If, and when, funded, the actuarial value of assets will be determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized over a 15-year open period, level-dollar payment.

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2010

CITY OF LAKE HELEN, FLORIDA

---

**NOTE 14 - 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 15 - 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 16 - PRIOR YEAR RESTATEMENT**

Effective October 1, 2009, the City restated the manner in which it previously reported its compensated absence liabilities in its governmental funds. Long-term accrued (compensated absences) obligations that the City does not expect to liquidate with expendable available financial resources are recognized only in the government-wide financial statements and not in the governmental fund financial statements. Amounts reported in the governmental funds are limited to that portion of the liability representing unused vacation or sick leave payable to employees who had terminated their employment as of the end of the fiscal year. As a result of this change, the General and Stormwater Funds were adjusted to reflect the following at October 1, 2009:

|                                       | General<br>Fund   | Stormwater<br>Fund |
|---------------------------------------|-------------------|--------------------|
| Accrued liabilities – Beginning ..... | \$ 124,006        | 2,681              |
| Adjustment .....                      | <u>(124,006)</u>  | <u>(2,681)</u>     |
| Accrued liabilities - Restated.....   | <u>\$ 0</u>       | <u>0</u>           |
| <br>                                  |                   |                    |
| Fund balance – Beginning .....        | \$ 663,082        | 53,857             |
| Adjustment .....                      | <u>124,006</u>    | <u>2,681</u>       |
| Fund balance - Restated .....         | <u>\$ 787,088</u> | <u>56,538</u>      |

**NOTE 17 - SUBSEQUENT EVENTS**

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through August 30, 2011, the date the financial statements were available to be issued.

***REQUIRED SUPPLEMENTARY INFORMATION***

This Page Intentionally Left Blank.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
For the Fiscal Year Ended September 30, 2010  
CITY OF LAKE HELEN, FLORIDA

|   | Budgeted Amounts |                | Actual<br>Amounts | Variance with<br>Final Budget<br>Favorable<br>(Unfavorable) |
|---|------------------|----------------|-------------------|---|
|   | Original         | Final          |                   |   |
| <b>Revenues:</b>                          |                  |                |                   |   |
| <b>Taxes:</b>                             |                  |                |                   |   |
| Property taxes.....                       | \$ 523,000       | 523,000        | 510,734           | (12,266)  |
| Local option gas taxes.....               | 55,000           | 55,000         | 56,074            | 1,074   |
| State-casualty insurance premium tax..... | -                | -              | 17,333            | 17,333  |
| Utility service taxes.....                | 245,000          | 245,000        | 288,101           | 43,101  |
| Local business taxes.....                 | 5,000            | 5,000          | 12,192            | 7,192   |
|   | <u>828,000</u>   | <u>828,000</u> | <u>884,434</u>    | <u>56,434</u>   |
| <b>Permits and Fees:</b>                  |                  |                |                   |   |
| Franchise fees.....                       | 165,000          | 165,000        | 192,526           | 27,526  |
| Building permits.....                     | 11,700           | 11,700         | 38,606            | 26,906  |
| Development impact fees.....              | 2,300            | 2,300          | 2,300             | -   |
| Other permits and fees.....               | 4,800            | 4,800          | 3,339             | (1,461)   |
|   | <u>183,800</u>   | <u>183,800</u> | <u>236,771</u>    | <u>52,971</u>   |
| <b>Intergovernmental Revenues:</b>        |                  |                |                   |   |
| Federal grants.....                       | -                | -              | 91,169            | 91,169  |
| State grants.....                         | -                | -              | 966               | 966   |
| <b>State Shared Revenues:</b>             |                  |                |                   |   |
| Municipal revenue sharing program.....    | 77,000           | 77,000         | 76,626            | (374)   |
| Mobile home licenses.....                 | 5,900            | 5,900          | 6,272             | 372   |
| Alcoholic beverage licenses.....          | 800              | 800            | 392               | (408)   |
| Local half-cent sales tax.....            | 113,000          | 113,000        | 116,075           | 3,075   |
| Fuel tax refunds.....                     | 1,000            | 1,000          | 1,316             | 316   |
| <b>Other Shared Revenues:</b>             |                  |                |                   |   |
| County and other grants.....              | 69,600           | 69,600         | 69,707            | 107   |
|   | <u>267,300</u>   | <u>267,300</u> | <u>362,523</u>    | <u>95,223</u>   |
| <b>Charges for Services:</b>              |                  |                |                   |   |
| General government.....                   | 150              | 150            | 336               | 186   |
| Public safety.....                        | 100              | 100            | 130               | 30  |
| Garbage/solid waste.....                  | 252,000          | 252,000        | 253,655           | 1,655   |
| Creative Arts Café Restaurant.....        | 343,200          | 343,200        | 365,510           | 22,310  |
|   | <u>595,450</u>   | <u>595,450</u> | <u>619,631</u>    | <u>24,181</u>   |
| <b>Fines and Forfeitures:</b>             |                  |                |                   |   |
| Court cases.....                          | 29,000           | 29,000         | 15,323            | (13,677)  |
| Confiscated property.....                 | -                | -              | 177               | 177   |
| Local ordinance violations.....           | -                | -              | 482               | 482   |
|   | <u>29,000</u>    | <u>29,000</u>  | <u>15,982</u>     | <u>(13,018)</u>   |

**REQUIRED SUPPLEMENTARY INFORMATION (Continued)**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
For the Fiscal Year Ended September 30, 2010  
CITY OF LAKE HELEN, FLORIDA

|                                      | Budgeted Amounts     |                      | Actual<br>Amounts    | Variance with<br>Final Budget<br>Favorable<br>(Unfavorable) |
|--------------------------------------|----------------------|----------------------|----------------------|---|
|                                      | Original             | Final                |                      |   |
| <b>Miscellaneous Revenues:</b>       |                      |                      |                      |   |
| Investment earnings.....             | \$ 13,000            | 13,000               | 5,454                | (7,546)   |
| Rents and royalties.....             | 30,500               | 30,500               | 12,615               | (17,885)  |
| Miscellaneous revenue.....           | 25,550               | 25,550               | 23,983               | (1,567)   |
|                                      | <u>69,050</u>        | <u>69,050</u>        | <u>42,052</u>        | <u>(26,998)</u>   |
| <br>Total revenues.....              | <br><u>1,972,600</u> | <br><u>1,972,600</u> | <br><u>2,161,393</u> | <br><u>188,793</u>  |
| <b>Expenditures:</b>                 |                      |                      |                      |   |
| <b>General Government:</b>           |                      |                      |                      |   |
| <b>Legislative:</b>                  |                      |                      |                      |   |
| Personal services.....               | 24,300               | 24,300               | 24,558               | (258)   |
| Operating expenditures.....          | 3,300                | 3,300                | 2,935                | 365   |
|                                      | <u>27,600</u>        | <u>27,600</u>        | <u>27,493</u>        | <u>107</u>  |
| <b>Executive:</b>                    |                      |                      |                      |   |
| Personal services.....               | 111,300              | 111,300              | 121,306              | (10,006)  |
| Operating expenditures.....          | -                    | -                    | 313                  | (313)   |
|                                      | <u>111,300</u>       | <u>111,300</u>       | <u>121,619</u>       | <u>(10,319)</u>   |
| <b>Financial and Administrative:</b> |                      |                      |                      |   |
| Personal services.....               | 28,500               | 28,500               | 28,441               | 59  |
| Operating expenditures.....          | 26,050               | 26,050               | 36,968               | (10,918)  |
|                                      | <u>54,550</u>        | <u>54,550</u>        | <u>65,409</u>        | <u>(10,859)</u>   |
| <b>Legal Counsel:</b>                |                      |                      |                      |   |
| Operating expenditures.....          | 41,000               | 41,000               | 22,394               | 18,606  |
| <b>Other General Government:</b>     |                      |                      |                      |   |
| Personal services.....               | 113,700              | 113,700              | 112,202              | 1,498   |
| Operating expenditures.....          | 168,300              | 168,300              | 111,249              | 57,051  |
|                                      | <u>282,000</u>       | <u>282,000</u>       | <u>223,451</u>       | <u>58,549</u>   |
| <br>Total general government.....    | <br><u>516,450</u>   | <br><u>516,450</u>   | <br><u>460,366</u>   | <br><u>56,084</u>   |
| <b>Public Safety:</b>                |                      |                      |                      |   |
| <b>Law Enforcement:</b>              |                      |                      |                      |   |
| Personal services.....               | 468,200              | 468,200              | 478,631              | (10,431)  |
| Operating expenditures.....          | 73,900               | 73,900               | 76,604               | (2,704)   |
| Capital outlay.....                  | 5,000                | 5,000                | 5,497                | (497)   |
|                                      | <u>547,100</u>       | <u>547,100</u>       | <u>560,732</u>       | <u>(13,632)</u>   |
| <b>Protective Inspections:</b>       |                      |                      |                      |   |
| Operating expenditures.....          | 15,000               | 15,000               | 22,485               | (7,485)   |
| <br>Total public safety.....         | <br><u>562,100</u>   | <br><u>562,100</u>   | <br><u>583,217</u>   | <br><u>(21,117)</u>   |

**REQUIRED SUPPLEMENTARY INFORMATION (Continued)**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
For the Fiscal Year Ended September 30, 2010  
CITY OF LAKE HELEN, FLORIDA

|  | Budgeted Amounts |           | Actual<br>Amounts | Variance with<br>Final Budget<br>Favorable<br>(Unfavorable) |
|--|------------------|-----------|-------------------|---|
|  | Original         | Final     |                   |   |
| <b>Physical Environment:</b>                         |                  |           |                   |   |
| <b>Garbage/Solid Waste Control Services:</b>         |                  |           |                   |   |
| Operating expenditures.....                          | \$ 256,750       | 256,750   | 255,321           | 1,429   |
| Total physical environment .....                     | 256,750          | 256,750   | 255,321           | 1,429   |
| <b>Transportation:</b>                               |                  |           |                   |   |
| <b>Road and Street Facilities:</b>                   |                  |           |                   |   |
| Personal services.....                               | 77,600           | 77,600    | 70,908            | 6,692   |
| Operating expenditures.....                          | 86,750           | 86,750    | 68,042            | 18,708  |
| Capital outlay.....                                  | 23,000           | 23,000    | 103,015           | (80,015)  |
| Total transportation.....                            | 187,350          | 187,350   | 241,965           | (54,615)  |
| <b>Culture/Recreation:</b>                           |                  |           |                   |   |
| <b>Parks and Recreation:</b>                         |                  |           |                   |   |
| Personal services.....                               | 87,800           | 87,800    | 71,797            | 16,003  |
| Operating expenditures.....                          | 61,950           | 61,950    | 65,613            | (3,663)   |
|  | 149,750          | 149,750   | 137,410           | 12,340  |
| <b>Creative Arts Café Restaurant:</b>                |                  |           |                   |   |
| Personal services.....                               | 129,750          | 129,750   | 169,258           | (39,508)  |
| Operating expenditures.....                          | 213,450          | 213,450   | 211,409           | 2,041   |
|  | 343,200          | 343,200   | 380,667           | (37,467)  |
| Total culture/recreation.....                        | 492,950          | 492,950   | 518,077           | (25,127)  |
| <b>Debt Service:</b>                                 |                  |           |                   |   |
| Principal.....                                       | -                | -         | 2,542             | (2,542)   |
| Interest.....  | -                | -         | 770               | (770)   |
| Total debt service.....                              | -                | -         | 3,312             | (3,312)   |
| Total expenditures.....                              | 2,015,600        | 2,015,600 | 2,062,258         | (46,658)  |
| Excess of revenues over (under)<br>expenditures..... | (43,000)         | (43,000)  | 99,135            | 142,135   |

**REQUIRED SUPPLEMENTARY INFORMATION (Continued)**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
For the Fiscal Year Ended September 30, 2010  
CITY OF LAKE HELEN, FLORIDA

|  | Budgeted Amounts  |                | Actual<br>Amounts | Variance with<br>Final Budget<br>Favorable<br>(Unfavorable) |
|--|-------------------|----------------|-------------------|---|
|  | Original          | Final          |                   |   |
| <b>Other Financing Sources (Uses):</b>           |                   |                |                   |   |
| Transfers in (out).....                          | \$ -              | -              | 947               | 947   |
| Appropriated fund balance.....                   | <u>43,000</u>     | <u>43,000</u>  | <u>-</u>          | <u>(43,000)</u>   |
| Total other financing sources (uses).....        | <u>43,000</u>     | <u>43,000</u>  | <u>947</u>        | <u>(42,053)</u>   |
| Net change in fund balance.....                  | <u>-</u>          | <u>-</u>       | <u>100,082</u>    | <u>100,082</u>  |
| <b>Fund Balance:</b>                             |                   |                |                   |   |
| Beginning of year, as previously stated.....     | 663,082           | 663,082        | 663,082           | -   |
| Ajustment for long-term compensated absences.... | <u>-</u>          | <u>-</u>       | <u>124,006</u>    | <u>124,006</u>  |
| Beginning of year, as restated.....              | <u>663,082</u>    | <u>663,082</u> | <u>787,088</u>    | <u>124,006</u>  |
| End of year.....                                 | <u>\$ 663,082</u> | <u>663,082</u> | <u>887,170</u>    | <u>224,088</u>  |

**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - STORMWATER MANAGEMENT FUND**  
For the Fiscal Year Ended September 30, 2010  
CITY OF LAKE HELEN, FLORIDA

|  | Budgeted Amounts |               | Actual<br>Amounts | Variance with<br>Final Budget<br>Favorable<br>(Unfavorable) |
|--|------------------|---------------|-------------------|---|
|  | Original         | Final         |                   |   |
| <b>Revenues:</b>                                     |                  |               |                   |   |
| Permits and Fees:                                    |                  |               |                   |   |
| Stormwater permits.....                              | \$ 500           | 500           | 569               | 69  |
| Charges for Services:                                |                  |               |                   |   |
| Stormwater management.....                           | <u>47,700</u>    | <u>47,700</u> | <u>48,792</u>     | <u>1,092</u>  |
| Total revenues.....                                  | <u>48,200</u>    | <u>48,200</u> | <u>49,361</u>     | <u>1,161</u>  |
| <b>Expenditures:</b>                                 |                  |               |                   |   |
| Transportation:                                      |                  |               |                   |   |
| Stormwater Management:                               |                  |               |                   |   |
| Personal services.....                               | 50,350           | 50,350        | 59,519            | (9,169)   |
| Operating expenditures.....                          | <u>2,000</u>     | <u>2,000</u>  | <u>1,710</u>      | <u>290</u>  |
| Total transportation.....                            | <u>52,350</u>    | <u>52,350</u> | <u>61,229</u>     | <u>(8,879)</u>  |
| Total expenditures.....                              | <u>52,350</u>    | <u>52,350</u> | <u>61,229</u>     | <u>(8,879)</u>  |
| Excess of revenues over (under)<br>expenditures..... | (4,150)          | (4,150)       | (11,868)          | (7,718)   |
| <b>Other Financing Sources (Uses):</b>               |                  |               |                   |   |
| Appropriated fund balance.....                       | <u>4,150</u>     | <u>4,150</u>  | -                 | <u>(4,150)</u>  |
| Total other financing sources (uses).....            | <u>4,150</u>     | <u>4,150</u>  | -                 | <u>(4,150)</u>  |
| Net change in fund balance.....                      | -                | -             | <u>(11,868)</u>   | <u>(11,868)</u>   |
| <b>Fund Balance:</b>                                 |                  |               |                   |   |
| Beginning of year, as previously stated.....         | 53,857           | 53,857        | 53,857            | -   |
| Ajustment for long-term compensated absences....     | -                | -             | <u>2,681</u>      | <u>2,681</u>  |
| Beginning of year, as restated.....                  | <u>53,857</u>    | <u>53,857</u> | <u>56,538</u>     | <u>2,681</u>  |
| End of year.....                                     | <u>\$ 53,857</u> | <u>53,857</u> | <u>44,670</u>     | <u>(9,187)</u>  |

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPAL POLICE OFFICERS' RETIREMENT TRUST FUND**  
September 30, 2010  
CITY OF LAKE HELEN, FLORIDA

SCHEDULE OF FUNDING PROGRESS

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability <sup>(1)</sup> (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------|---------------------------|--|---------------------|--------------|-----------------|---|
| Not applicable           | \$193,497                 | N/A  | N/A                 | N/A          | N/A             | N/A                                     |
| 10/01/06                 | \$242,346                 | \$242,346  | \$0                 | 100.00%      | \$204,913       | 0.00%                                   |
| Not applicable           | \$342,838                 | N/A  | N/A                 | N/A          | N/A             | N/A                                     |
| 10/01/08                 | \$349,903                 | \$398,032  | \$48,129            | 87.91%       | \$193,463       | 24.88%                                  |
| Not applicable           | \$414,239                 | N/A  | N/A                 | N/A          | N/A             | N/A                                     |
| 10/01/10                 | \$515,198                 | \$468,313  | \$0                 | 110.01%      | \$150,291       | 0.00%                                   |

<sup>(1)</sup> After 2006, the AAL has been calculated under the entry age normal cost method.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

| Year Ended | Annual Required Contribution | Percent Contributed | Annual Pension Cost | Percent Contributed |
|------------|------------------------------|---------------------|---------------------|---------------------|
| 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%                |
| 09/30/09   | \$48,297                     | 100%                | \$48,297            | 100%                |
| 09/30/10   | \$52,945                     | 100%                | \$52,945            | 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, 2010    |
| Actuarial cost method      | Aggregate          |
| Amortization method        | Level dollar, open |
| Amortization period        | 30 years           |
| Asset valuation method     | Market value       |
| Actuarial assumptions:     |                    |
| Investment rate of return  | 7.50%              |
| Projected salary increases | 5.12%              |

**REQUIRED SUPPLEMENTARY INFORMATION**  
**OTHER POST EMPLOYMENT BENEFIT OBLIGATION**  
September 30, 2010  
CITY OF LAKE HELEN, FLORIDA

SCHEDULE OF FUNDING PROGRESS

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability (AAL)</u> | <u>Unfunded AAL (UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a Percentage of Covered Payroll</u> |
|---------------------------------|----------------------------------|--|----------------------------|---------------------|------------------------|--|
| 10/01/09                        | \$0                              | \$237,000                                | \$237,000                  | 0.0%                | \$727,000              | 32.6%  |

SCHEDULE OF EMPLOYER CONTRIBUTIONS

| <u>Year Ended</u> | <u>Annual Required Contribution</u> | <u>Percent Contributed</u> | <u>Annual Pension Cost</u> | <u>Percent Contributed</u> |
|-------------------|-------------------------------------|----------------------------|----------------------------|----------------------------|
| 09/30/10          | \$47,000                            | 13%                        | \$47,000                   | 13%                        |
| 09/30/11          | \$54,000                            | 13%                        | \$52,000                   | 13%                        |

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, 2009  |
| Actuarial cost method          | Projected unit credit                                      |
| Amortization method            | 15-year open period; level dollar payment                  |
| Investment return              | 4.00% per annum<br>(includes inflation at 2.75% per annum) |
| Healthcare cost trend rate(s): | <u>Insurance Premiums</u>                                  |
| Select rates                   | 10.00% for 2009/10 graded<br>to 6.00% for 2017/18          |
| Ultimate rate                  | 5.00% per annum  |

This Page Intentionally Left Blank.

***SUPPLEMENTAL AUDIT REPORTS***

This Page Intentionally Left Blank.

# 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, 2010, which collectively comprise the City of Lake Helen, Florida's basic financial statements and have issued our report thereon dated August 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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, and 2010-1 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, 2009-1, and 2010-2 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, 2009-3, and 2010-3 through 2010-5.

We noted certain other matters that we reported to management of City of Lake Helen, Florida, in a separate letter dated August 30, 2011.

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.

*Brett Milliken & Co., P.A.*

August 30, 2011

## SCHEDULE OF FINDINGS AND RESPONSES

Year Ended September 30, 2010

CITY OF LAKE HELEN, FLORIDA

---

### Financial Statement Findings

#### Material Weaknesses:

##### **Finding No. 2008-1: Year End Closing Procedures**

The City has experienced delays in its accounting, financial closing and reporting processes. We have observed this is mainly due to an understaffed finance department. The lack of accounting staff contributes to delays in processing critical accounting information, including cash receipts and cash disbursements processing. This, we believe, is a situation that results in inefficiency and weakens internal controls. As a direct result of these conditions, the City has continued to experience significant delays in performing critical year-end closing procedures that are essential to both the City's financial reporting requirements and the related independent audit process.

We noted that the City encountered difficulties in preparing for the annual audit of the financial statements. This included the maintenance of an accurate final general ledger and the development of adequate supporting schedules for balances in the general ledger. Furthermore, we continued to note that no formal procedures were developed or employed to provide adequate assurance that all pre-closing accounting activities were appropriately resolved and/or completed prior to the closing of the accounting records and rollover to the subsequent accounting period.

We also noted that the audited financial statements often included 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. All of the above factors contributed to the significant delays in the ability to finalize the year-end financial statements.

*Recommendation-* The City should improve its financial reporting procedures to ensure that financial statement account balances, transactions, and note disclosures are properly reported. To accomplish this, formal written year-end closing procedures should 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/sharing administrative duties among 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:* We have continued to note that current 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, 2010

CITY OF LAKE HELEN, FLORIDA

---

### **Finding No. 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:* The City should develop operating procedures that provide for sufficient, effective, and independent oversight of its financial activities. 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:* We believe that current staff levels severely limit the City's ability to fully implement the Auditor's recommendation. However, it is believed that partial implementation can be 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) must be accomplished with the use of additional qualified personnel or from obtaining independent contractor assistance.

### **Finding No. 2008-3: Property and Equipment Records and Maintenance**

The City has not performed a physical inventory of its general and utility fixed assets to determine if the assets actually exist, or are no longer in use. We also noted that the City has not developed or employed a formal system to internally account for its investment in capital assets. Instead, the City has relied on externally prepared asset depreciation schedules that do not contain sufficient asset descriptions or provide other essential information (i.e. asset serial numbers, locations, custodians, etc.) that is necessary to properly distinguish, or separately identify the City's investment in these assets in the event of misappropriation, loss or disposition. 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 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, 2010

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 record these assets in an established inventory control system that facilitates 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:* The City should take the appropriate steps to develop 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.

The City should also 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.

The City should also supplement its annual physical inventory count procedures to include physical counts of all tangible personal property delegated to the City's department heads for custody and control. This 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.

We also 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 is currently in the process of concluding a comprehensive physical inventory count. We are also currently investigating several options to successfully implement the recommendation in concert with the implementation of the City new financial accounting software system in FY 2010/2011 to resolve this issue.

## SCHEDULE OF FINDINGS AND RESPONSES – (Continued)

Year Ended September 30, 2010

CITY OF LAKE HELEN, FLORIDA

---

### **Finding No. 2010-1: Bank Reconciliation Procedures**

The City currently invests its current and surplus operating funds in approximately fifteen active individual depository accounts. Bank reconciliations should be performed on all active bank accounts on a timely basis as a control functions to provide assurance that city funds have not been misappropriated or stolen. During the current year, we noted that the City did not perform bank reconciliations on all its bank accounts on a timely basis, as is evidenced by the number and type of account adjustments posted to the general ledger at the end of the fiscal year. We also noted that many of these bank accounts had not been reconciled for extended periods up to eight months indicating that the internal controls over the City's depository accounts is not sufficient to provide some level of assurance that the cash deposits are secure and not subject to misuse or theft. This lack of control allows for differences to occur and accumulate over a period of time without detection or correction

*Recommendation:* The City should develop procedures that require that all City depository, broker and investment accounts be reconciled on a timely basis (on the same frequency as receipt of bank/broker statements). Comprehensive bank, broker and depository account reconciliation procedures should be performed, and reviewed by oversight personnel, on all of the City's depository accounts at the end of each month's business to serve as a check on the accuracy of the record keeping process and provide assurance that the bank accounts are managed and maintained on a timely and accurate basis. Any differences should then be investigated and resolved as soon as possible.

*Auditee Response:* The City will take steps to have all bank reconciliations completed timely and explore the feasibility of training other non-finance personnel to assume the respective oversight duties.

### **Significant Deficiencies:**

#### **Finding No. 2008-4: Accounts Payable Reconciliation**

The City continued to experience significant difficulties in reconciling its computerized accounts payable subsidiary ledger with the general ledger. This process should be completed at the end of each closing period to firmly establish and document all open items pending payment. We noted that numerous accounting entries were posted to the general ledger after the closing of the year end accounting period. However, no reconciliations have been prepared that separately account for these transactions, or to provide a means to document that these payables were accounted for in the proper accounting period(s). As a direct result, we were not able to readily ascertain or confirm 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 significant differences to occur and accumulate over a period of time without detection or correction. Ultimately, the determination of the actual payables balance is virtually impossible without a significant time investment in a lengthy reconciliation process.

*Recommendation:* The City should produce an accounts payable aging analysis on the last day of each operating cycle and closing period (and particularly at the end of the fiscal year) that is 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.

## SCHEDULE OF FINDINGS AND RESPONSES – (Continued)

Year Ended September 30, 2010

CITY OF LAKE HELEN, FLORIDA

---

*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.*

### **Finding No. 2009-1: Accuracy of Account Postings**

While some progress was made in this area, throughout the conduct of the audit we continued to note that significant 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 posting 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.*

### **Finding No. 2010-2: Inventory Procedures – Creative Arts Café Restaurant**

During our audit procedures we noted that management of the Creative Arts Cafe Restaurant currently performs a physical inventory count only once a year. We also noted that the restaurant's inventory records do not reconcile to the general ledger, which suggests that management is not monitoring or using the inventory reports. Keeping current, accurate records of inventory provides an up-to-date listing of on-hand inventory, as well as tighter control over assets.

*Recommendation: The City should develop an inventory system that facilitates that tracking of all pertinent stores information for food stocks and non-food stocks so that each inventory component can be tracked and monitored for sales, purchases, turnover rates and spoilage, if necessary. In addition, the City should require restaurant management to perform comprehensive and timely detailed physical inventory taking procedures for all stores items so that they can be accounted for on a more current basis. This would benefit management by providing an up-to-date stores information and significantly enhance managerial control of the assets. Also, management's decision-making ability will be improved and timelier.*

*Auditee Response: The City will establish more frequent intervals for taking inventory counts.*

## SCHEDULE OF FINDINGS AND RESPONSES – (Continued)

Year Ended September 30, 2010

CITY OF LAKE HELEN, FLORIDA

---

### Compliance and Other Matters

#### **Finding No. 2009-2: Audit Filing Requirements**

In 2009, the City experienced difficulties and delays in preparing for, and completing, 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 within 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 copies of its audit reports to the Florida Auditor General within 12 months after the end of the fiscal years as is required pursuant to Section 218.39(1), Florida Statutes.

*Recommendation:* The City should take the appropriate steps to ensure that the financial audit is completed timely and that all required statutory filings are completed within the specified time periods. This time period has been shortened for FY 2011 and later years to the nine-month period ending July 31. We also recommend that procedures be implemented to ensure compliance with all federal, state, and local audit completion requirements. Similarly, 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 taken steps to ensure that the 2010 audit report is completed and submitted to the appropriate state officials within the required statutory time periods.

#### **Finding No. 2009-3: Long-term Debt Rate Coverage**

Pursuant to Article V, Section 5.01 of the State of Florida, Department of Environmental Protection-Drinking Water State Revolving Fund Loan Agreement, dated June 14, 2000, the City is required to 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. During each of the past several years, the City's Water System has not generated utility revenues that are sufficient to comply with this long-term debt covenant.

*Recommendation:* The City should perform a comprehensive review of its current customer account billings and underlying utility billing rates to ensure that its current billed revenues are sufficient to provide for the funding of all normal operating and maintenance expenses, its mandatory debt service requirements and mandatory coverage requirements. A formal 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.

*Auditee Response:* The City has worked diligently to successfully improve its debt service coverage ratio in each of the past three years, notwithstanding the significant downturn in the local economy. Furthermore, the City has always been able to meet its minimum monthly sinking fund requirements and make its debt service payments timely. Pursuant to a formal rate study completed last year, effective 10/01/2010, the City 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.

## SCHEDULE OF FINDINGS AND RESPONSES – (Continued)

Year Ended September 30, 2010

CITY OF LAKE HELEN, FLORIDA

---

### **Finding No. 2010-3: FDEP Loan Repayment Reserve**

Pursuant to Article III, Section 3.04 and Article X, Section 10.07 of the State of Florida, Department of Environmental Protection- Drinking Water State Revolving Fund Loan Agreement, dated June 14, 2000 (DW6406010), the City is required to establish and maintain a Loan Repayment Reserve Account with a minimum account balance of \$46,864 throughout the term of the FDEP obligation. On 08/16/2011, the City inadvertently closed this previously maintained bank account in an attempt to consolidate its surplus cash funds and to maximize its investment returns. As a result, the City was not in compliance with Sections 3.04 and 11.07 of the FDEP Loan Agreement, as amended.

It should be noted that management of the City conveyed to us that they were not aware of these contractual requirements for continued maintenance of this Loan Repayment Reserve. Immediately subsequent to being informed of the existence of this condition, steps were taken by management to separately recognize the balance of these restricted funds with the establishment of a “pooled” cash account that separately reports the balance of the required Loan Repayment Reserve in the City’s general ledger. However, a separate bank account was not maintained at year end.

*Recommendation:* The City should re-establish and fund a separate Loan Repayment Reserve Account at its earliest possible convenience to be in complete compliance with the conditions of the FDEP Loan Agreement.

*Auditee Response:* This occurred purely as an oversight matter that was purposely intended to streamline the management of the City’s investment of surplus funds and to maximize its investment earnings capabilities. Immediately subsequent to being informed of this situation, the City reclassified its cash funds with the establishment of a “pooled cash” account to properly reflect the balance of the restricted loan repayment reserve. Steps have already been taken to establish a distinctly separate account with the City’s depository in response to this matter.

### **Finding No. 2010-4: Timely Deposit of Police Pension Funds**

Pursuant to the provisions of Chapter 185.11, Florida Statutes, all state and other funds received by municipalities in a local law plan under the provisions of Chapter 185, F.S., shall be deposited by the municipality immediately, and under no circumstances more than 5 days after receipt, with the board of trustees. In lieu thereof, the municipality may provide authorization to the Division of Retirement for the direct payment of the premium tax to the board of trustees. The board shall deposit such moneys in the Municipal Police Officers’ Retirement Trust Fund immediately, and under no circumstances more than 5 days after receipt. During the current year, the City did not deposit the state-provided Casualty Insurance Premium Tax funds in the local law plan with the required 5 day limit. The amount received on 12/20/2009 was not deposited to the trust until 01/12/2010.

*Recommendation:* The City should develop the necessary policies and procedures to ensure that future deposits are made within the statutory time limits.

*Auditee Response:* The City’s financial management staff has been notified of the statutory time limitations associated with the receipt and subsequent deposit of the casualty insurance premium tax funds so that this will not reoccur in the future.

## **SCHEDULE OF FINDINGS AND RESPONSES – (Continued)**

Year Ended September 30, 2010

CITY OF LAKE HELEN, FLORIDA

---

### **Finding No. 2010-5: Impact Fee Funds**

Pursuant to the provisions of Chapter 166.201, Florida Statutes, water utility impact fees charged and collected by the City shall be kept separate from other revenues of the City and must be used exclusively to acquire, purchase, or construct new facilities or portions thereof needed to provide additional water utility capacity. During each of the past three years, the City did not deposit the proceeds of its water utility development (impact) fees into the required and restricted water development account. Amounts totaling \$5,000, plus accrued investment interest, should be transferred to the restricted account as of September 30, 2010.

*Recommendation:* The City should monitor its current policies and procedures to ensure that future deposits of restricted funds are made to the appropriate accounts pursuant to statutory requirements.

*Auditee Response:* The City's financial management staff has been advised of the statutory requirements to maintain distinctly separate depository accounts for the City's development and impact fee funds. The designated amounts will be transferred as has been recommended.

# 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, 2010, and have issued our report thereon dated August 30, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our 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 August 30, 2011, 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.

- 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, 2010, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2010. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City of 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.*

August 30, 2011

**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:

**Managerial Oversight Function (2008)**

Virtually all of the City's financial transactions are managed and recorded by a single person who is also responsible for maintaining the general ledgers and all subsidiary customer accounts. Due to a lack of personnel available to assume delegated independent responsibilities, the City has established and implemented a new series of policies and procedures to manage and oversee the essential accounting requirements. 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 and oversight. We believe that the continued existence of these conditions will continue to 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 has been 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 is severely limited by its current staff size to fully address this important 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. The City will continue to review its current staffing to determine the best means of developing an effective oversight system, including the feasibility of contracting for outside assistance to meet these needs.

**Uniform Accounting Policies and Procedures Manual (2008)**

While the City has developed extensive written documentation of its human resource policies and procedures, some of which includes other approved management practices and operational systems and procedures, we noted that it has not yet 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 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.

Year Ended September 30, 2010

CITY OF LAKE HELEN, FLORIDA

---

*Recommendation:* We continue to recommend that management should 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:* The development and preparation of the recommended manual is beyond the capability of the City's current 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 to prepare the manual.

#### **Utility Accounts Receivable (2009)**

Our audit procedures disclosed that the City is continuing to experience difficulty in reconciling the computerized customer accounts receivable subsidiary ledger with the general ledger. This is further complicated when customer account payments have not posted to the general ledger on a timely basis, or for periods that have extended over eight months. Since we can conclusively determine that these amounts have not been fully reconciled, it is difficult to determine what procedures, if any, are employed by the City to determine the adequacy of the customer accounts and related utility billings. Customer account reconciliation procedures should be performed, and reviewed by oversight personnel, on a routine and timely basis. A routine reconciliation serves as a check on the accuracy of the record keeping process and provides additional assurance that the customer accounts are managed and maintained on a timely

Year Ended September 30, 2010

CITY OF LAKE HELEN, FLORIDA

---

and accurate basis, as well as providing a means to assess account aging and payment cycles. The detail listing of accounts receivable should be reconciled to the general ledger control account at least quarterly (preferably monthly), 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 without detection or correction.

*Recommendation:* We recommend that customer account payments should be deposited and posted to the proper cash accounts so that the underlying amounts and customer data can be reconciled to the general ledger on a timely basis. The customer 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 the next fiscal year as a result of the successful implementation of the City's new financial accounting software system.

### **Interfund Balances (2009)**

We have continued to note that the City deposits virtually all of its collected funds, including utility customer accounts receivable collections, into the General Fund operating bank account, regardless of their source. Similarly, virtually all of the City's cash disbursements and other critical financial transactions are made through the General Fund operating account. As a result, to appropriately allocate these revenues and expenditures among the affected funds, the City is required to recognize temporary interfund borrowings and advances from one fund to finance the activities in another fund. The City's continued and extensive use of these types of interfund debt obligations makes routine transactions appear extremely complicated, unable to understand, and exceedingly difficult to analyze and track through your accounting records. Consequentially, the stockpiling of cash in the General Fund caused by the temporary interfund debt created by the excess investment of other funds' surplus cash funds does not allow for the proper recognition and allocation of interest and investment earnings to the appropriate investing fund.

*Recommendation:* The City should limit the use of interfund debt to transactions that are specifically authorized by the City Commission. To increase accounting transparency, the City should deposit all fund revenues collected by it in the appropriately recognized receiving funds' cash accounts, rather than being deposited in aggregate in from the General Fund. Similarly, all cash disbursements should be drawn on the respective fund's bank account, rather than from the General Fund.

*Auditee Response:* As previously noted, it is believed that this issue will be adequately addressed next year as a result of the implementation of the City's new financial accounting software system.

Year Ended September 30, 2010

CITY OF LAKE HELEN, FLORIDA

---

**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:

**Purchase Orders and Procurements**

At the present time, the City does not formally utilize a formally approved Purchase Order system to manage its contractual purchasing commitments, budget authorizations and related procurements. As a result, virtually all City-wide procurements are made under the direct authority of the various department heads without any significant pre-approved acceptance of the financial commitments by management. This practice could allow for unauthorized purchases to occur and not otherwise be detected.

*Recommendation:* We suggest that a formal purchase order system should be employed to manage the City's combined purchasing commitments and to reduce the inherent risks associated with these procurements. The implementation and use of purchase orders will provide the City with more timely information and it will facilitate management in addressing budget concerns more timely and effectively. We would like to suggest that the accounting function now go one step further by also tracking accounts payable from the point of purchase order approval. We suggest that these amounts could be recorded as a separate account or subset of the standard accounts payable, however, we strongly feel that knowledge of the open purchase orders at any given point in time would be very useful information. We understand that there are some training and time availability issues that would need to be resolved before undertaking this task. As with any change in the accounting system, an organized plan that is well thought out in design and development and followed well will have a major impact on the success of this new policy.

*Auditee Response:* The City will investigate the feasibility of developing and implementing a formal purchase requisition and purchase order system as a component of the new financial software system.