

CITY OF LAKE HELEN, FLORIDA

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008



MAYOR

Honorable Joan L. Duffy

VICE MAYOR

William V. Snowden, Jr.

CITY COMMISSIONERS

Lou Benton
Alan B. Cooke
Ann Robbins

CITY ADMINISTRATOR

Donald L. Findell

CITY ATTORNEY

Kenneth W. McIntosh, Esq.

INDEPENDENT AUDITORS

Brent Millikan & Company, P.A.

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 September 30, 2008
 CITY OF LAKE HELEN, FLORIDA

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BM&C

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Lake Helen, Florida, as of and for the year ended September 30, 2008, 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, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2009, on our consideration of the City of Lake Helen, Florida's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Honorable Mayor, and
Members of the City Commission
City of Lake Helen, Florida
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The management's discussion and analysis and required supplementary information on pages 3 through 10 and pages 40 through 45, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Brent Milliken & Co., P.A.

November 30, 2009

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, 2008. 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 \$5,266,949 (net assets). Of this amount, \$913,907 (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 \$382,673 in fiscal year 2008. Net assets of the City's governmental activities (General, Stormwater Management and General Trust funds) increased by \$409,456 (11.6%), while net assets of its business type activities (Water Utility Fund) decreased by \$26,783 (2.0%). The decrease in the Water Utility Fund assets closely approximates the budget expenditure of \$27,650 in Water Utility reserve funds anticipated to be necessary to avoid scheduled water rate increases for fiscal year 2008.
- The City's governmental funds reported combined ending fund balances of \$1,021,306 at the end of the current fiscal year, a decrease of \$70,652 in comparison to the \$1,091,958 reported at the end of the prior fiscal year. Approximately one-half of this amount (\$619,091), is available for spending at the City's discretion (unreserved fund balance). The decrease in governmental fund balances closely approximates \$69,092 in unbudgeted expenditures approved by the City Commission to be funded from City reserves for the Lake Helen-Cassadaga Cemetery fence construction, Hopkins Hall and City Hall restoration, and installation of an audio-video system in the new City Commission Chambers.
- At the end of the 2008 fiscal year, unreserved fund balance for the General Fund was \$599,765 or 24.6% of the total fiscal year 2008 General Fund expenditures. This represents a decrease of \$91,120 from the amount reported at the end of 2007.
- The City's total long-term debt increased by \$12,193 during the fiscal year, due to scheduled current-year principal maturities/reductions on these obligations, new debt agreements, and new capital lease obligations.

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 14 and 16.

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 17 to 19 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 20 to 21 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 \$5,266,949 at the end of 2008, compared to \$4,884,276 at the end of 2007. This represents a total increase of \$382,673 or 7.8% over the amount reported at the end of the prior fiscal year.

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

Net Assets
September 30, 2008 and 2007

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Assets:						
Current and other assets.....	\$ 1,388,804	1,580,723	548,624	502,502	1,937,428	2,083,225
Capital assets, net.....	<u>2,866,334</u>	<u>2,435,995</u>	<u>2,281,666</u>	<u>2,303,138</u>	<u>5,148,000</u>	<u>4,739,133</u>
Total assets	<u>4,255,138</u>	<u>4,016,718</u>	<u>2,830,290</u>	<u>2,805,640</u>	<u>7,085,428</u>	<u>6,822,358</u>
Liabilities:						
Long-term debt outstanding.....	10,691	-	1,341,001	1,339,499	1,351,692	1,339,499
Other liabilities.....	<u>306,527</u>	<u>488,254</u>	<u>160,260</u>	<u>110,329</u>	<u>466,787</u>	<u>598,583</u>
Total liabilities	<u>317,218</u>	<u>488,254</u>	<u>1,501,261</u>	<u>1,449,828</u>	<u>1,818,479</u>	<u>1,938,082</u>
Net assets:						
Invested in capital assets, net of related debt.....	2,855,643	2,435,995	940,665	963,639	3,796,308	3,399,634
Restricted.....	402,215	401,221	154,519	94,244	556,734	495,465
Unrestricted	<u>680,062</u>	<u>691,248</u>	<u>233,845</u>	<u>297,929</u>	<u>913,907</u>	<u>989,177</u>
Total net assets	<u>\$ 3,937,920</u>	<u>3,528,464</u>	<u>1,329,029</u>	<u>1,355,812</u>	<u>5,266,949</u>	<u>4,884,276</u>

The most significant component of the City's net assets (72.1%) 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 (10.6%) represents resources that are subject to external restrictions on how they may be used. Consequently, the remaining 17.3% 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 \$913,907 at the end of 2008, compared to \$989,177 at the end of the prior fiscal year.

Changes in Net Assets. While the statement of net assets shows a snapshot of the City's financial position at the end of the fiscal year, the statement of changes in net assets provides answers as to the nature and source of those changes. During 2008, the City's total revenues increased to a total of \$2,934,851 from \$2,611,282 for the prior year. Approximately 20.5% of the City's revenue came from property taxes, and 20.6% of every dollar raised came from some other type of tax. Another 32.4% came from fees charged for services, while most of the remaining revenue is state and federal financial assistance, along with interest and other earnings.

The total cost of routine governmental programs and services for general government decreased \$78,578, (12.1%) from 2007. This decrease is due to decreases in operating expenditures and differences attributed to capital expenditures as compared to depreciation. The total cost of routine programs and services for public safety, physical environment, and transportation increased \$90,745 (9.5%) from 2007. This increase is due to a combination of increased personal expenditures and increased solid waste service expenses. The cost of routine programs and services for culture and recreation increased \$221,223 (102.1%). This increase is, for the most part, the result of reporting as a General Fund expense, costs incurred in operating the Creative Arts Café restaurant. The total costs of routine program and services for business-type activities remained relatively stable with a slight decrease of approximately 1.4%

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

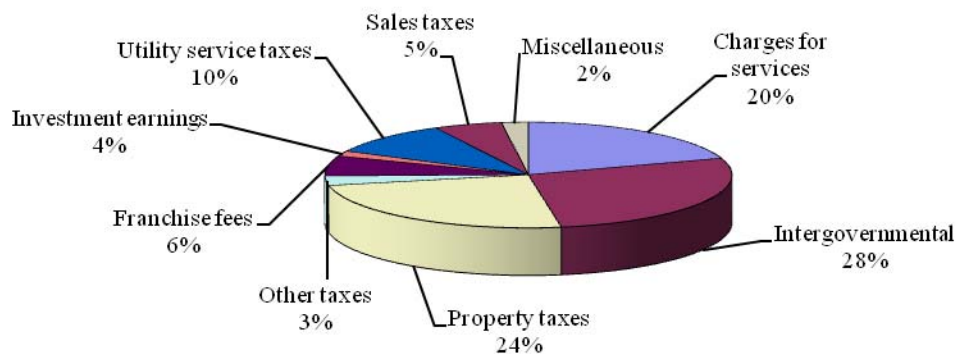
Changes in Net Assets
For the Fiscal Years Ended September 30, 2008 and 2007

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues:						
Program revenues:						
Charges for services.....	\$ 492,208	269,235	459,566	486,588	951,774	755,823
Operating grants/other.....	92,398	69,707	-	-	92,398	69,707
Capital grants/other.....	516,859	128,404	1,000	2,000	517,859	130,404
General revenues:					-	-
Property taxes.....	601,053	658,198	-	-	601,053	658,198
Other taxes.....	605,799	625,543	-	-	605,799	625,543
Intergovernmental.....	94,713	107,767	-	107,120	94,713	214,887
Other revenues.....	<u>66,835</u>	<u>142,445</u>	<u>4,420</u>	<u>14,275</u>	<u>71,255</u>	<u>156,720</u>
Total revenues.....	<u>2,469,865</u>	<u>2,001,299</u>	<u>464,986</u>	<u>609,983</u>	<u>2,934,851</u>	<u>2,611,282</u>
Expenses:						
General government.....	571,972	650,550	-	-	571,972	650,550
Public safety.....	634,377	592,011	-	-	634,377	592,011
Physical environment.....	135,281	141,497	-	-	135,281	141,497
Transportation.....	280,082	225,487	-	-	280,082	225,487
Culture/recreation.....	437,983	216,760	-	-	437,983	216,760
Water and sewer utilities.....	-	-	491,769	498,878	491,769	498,878
Interest on long-term debt.....	<u>714</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>714</u>	<u>-</u>
Total expenses.....	<u>2,060,409</u>	<u>1,826,305</u>	<u>491,769</u>	<u>498,878</u>	<u>2,552,178</u>	<u>2,325,183</u>
Transfers in (out).....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase in net assets.....	<u>\$ 409,456</u>	<u>174,994</u>	<u>(26,783)</u>	<u>111,105</u>	<u>382,673</u>	<u>286,099</u>

Governmental Activities

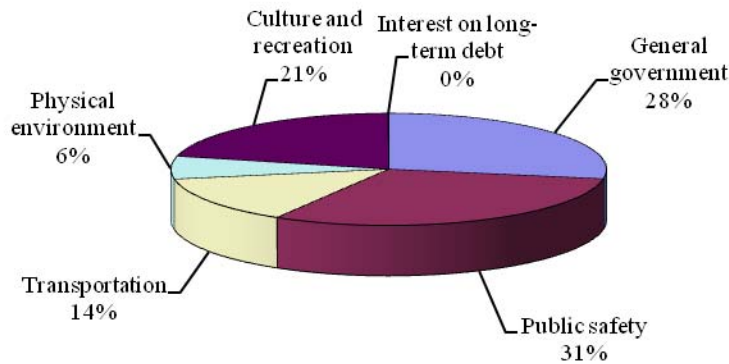
Revenues for the City’s governmental activities increased to \$2,469,865 during 2008. This represents an increase of \$468,566, or 23.4%, more than last year’s reported revenues of \$2,001,299. This increase was primarily attributable to the reporting of Creative Arts Café restaurant sales, and revenues derived from grants for capital improvements.

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



Governmental expenses totaled \$1,826,305, which represents an increase of \$234,104, or 12.8% from the prior year's total of \$2,060,409. This increase in reported expenditures is primarily attributable to the reporting of Creative Arts Café restaurant expenses, due to the Café operating for an entire year.

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



Business-Type Activities

The major source of operating revenues for the City's business-type activities is charges for services (potable water), which decreased \$27,022 during the year to a total of \$459,566, which is 5.6% below utility billings of \$486,588 in 2007. This decrease was attributable to decreased consumption for the year compared to the prior fiscal year. Investment income decreased from \$14,275 in 2007 to \$4,420 in 2008, largely as a result of financial trends experienced on a national level. Customer contributions (in the form of impact fees) totaled \$1,000 for the year, down \$1,000 from \$2,000 received in 2007.

Operating expenses of the water utility fund decreased 1.4% in 2008 to \$491,769 from \$498,878 incurred in 2007. Included in these totals are interest and depreciation expense of \$24,522 and \$75,051 in 2008 and \$75,144 and \$76,985 in 2007, respectively.

Financial Analysis of the City's Funds

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

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As the City completed the year, its governmental funds reported a combined fund balance of \$1,021,306, which was \$70,652, or 6.5%, less than the \$1,091,058 reported last year.

The general fund is the chief operating fund of the City. As of September 30, 2008, the unreserved fund balance in the general fund totaled \$599,765. This unreserved fund balance represents approximately 24.6% (12.8 weeks) of the City's spending requirements experienced during 2008.

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 2008, there was a fund balance of \$19,326, an increase of \$20,616 from amounts reported at the end of 2007.

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 \$233,845 which is \$64,084 less than last year’s reported amount of \$297,929. 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 \$54,108 greater than the amounts originally anticipated to be received during the year in the City’s General Fund. Actual expenses incurred were \$158,025 greater than originally anticipated. The result was a net difference of unanticipated expenses over unanticipated revenues of \$103,917. Approximately \$58,000 in anticipated grant revenues supporting capital improvement projects, for which expenses were incurred in 2008, was not received in time to be recognized as revenue received for this fiscal year, but, instead, will be included in revenue received in fiscal year 2009 (this will be unanticipated revenue for 2009). Also, \$69,092 in unanticipated expenses was associated with projects/purchases not originally budgeted for, but later approved by the City Commission to be funded by the use of City reserve funds. These projects/purchases included: (a) construction of Lake Helen-Cassadaga Cemetery fence; (b) Hopkins Hall restoration; (c) City Hall restoration; and (d) purchase of an audio-video system for the new City Commission Chambers.

Capital Assets and Debt Administration

Capital Assets. At September 30, 2008, the City had \$5.148 million invested in a broad range of capital assets, including land buildings, park facilities, police equipment, public works equipment and water lines. This investment in capital assets, net of depreciation, for all activities is reflected in the following schedule, which reflects a \$408,867 increase in capital assets since the prior year.

Capital Assets
For the Fiscal Years Ended September 30, 2008 and 2007

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land.....	\$ 477,526	438,997	-	-	477,526	438,997
Construction work in progress.....	-	566,787	52,779	120,546	52,779	687,333
Buildings.....	1,494,850	676,698	-	-	1,494,850	676,698
Improvements other than buildings.....	1,240,224	1,051,456	2,800,736	2,680,190	4,040,960	3,731,646
Machinery and equipment.....	647,997	615,667	363,977	363,177	1,011,974	978,844
Accumulated depreciation.....	<u>(994,263)</u>	<u>(913,610)</u>	<u>(935,826)</u>	<u>(860,775)</u>	<u>(1,930,089)</u>	<u>(1,774,385)</u>
Net total.....	<u>\$ 2,866,334</u>	<u>2,435,995</u>	<u>2,281,666</u>	<u>2,303,138</u>	<u>5,148,000</u>	<u>4,739,133</u>

During 2008, the City invested \$564,571 in capital assets which includes: land purchased in the Stormwater Management Fund in the amount of \$36,500; completions to the Multiuse Trail and Trailhead Facilities of \$83,210; rehabilitation costs associated with City Hall and Hopkins Hall of \$324,730; costs associated with the construction of the Lake Helen-Cassadaga Cemetery fence of \$29,613; audio-visual equipment for the City Commission Chamber of \$16,116; costs associated with well improvements of \$52,779; and other miscellaneous items in the amount of \$21,623. This compares to capital spending of approximately \$470,118 in 2007.

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 \$1,341,001 at year end compared to \$1,339,499 one year earlier. The proceeds of these loans, which were drawn in increments over preceding years, are 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 entered into two capital lease obligations during the year, where the obligations must be recognized as long-term liabilities, the balance at year end totaled \$10,691. 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 7.2% at the end of September 2008, which is significantly higher than the 4.3% rate experienced one year earlier. These estimates are consistent with the State of Florida 6.9% and 4.4% unemployment rates at September 2008 and 2007, 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 2008-2009 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, Florida, P.O. Box 39, Lake Helen, Florida 32744-0039.

STATEMENT OF NET ASSETS
September 30, 2008
CITY OF LAKE HELEN, FLORIDA

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and cash equivalents.....	\$ 500,397	43,434	543,831
Investments.....	703,555	89,717	793,272
Receivables, net.....	154,060	149,728	303,788
Other assets.....	-	20,757	20,757
Internal balances.....	30,792	(30,792)	-
Temporarily restricted assets:			
Cash and cash equivalents.....	-	217,111	217,111
Investments.....	-	58,669	58,669
Capital assets:			
Land.....	477,526	-	477,526
Buildings.....	1,494,850	-	1,494,850
Improvements other than buildings.....	1,240,224	2,800,736	4,040,960
Machinery and equipment.....	647,997	363,977	1,011,974
Less: accumulated depreciation.....	(994,263)	(935,826)	(1,930,089)
Construction work in progress.....	-	52,779	52,779
Total assets.....	<u>4,255,138</u>	<u>2,830,290</u>	<u>7,085,428</u>
Liabilities:			
Accounts payable.....	78,411	56,854	135,265
Accrued liabilities.....	127,263	45,201	172,464
Due to pension trust fund.....	17,122	-	17,122
Deposits/unearned revenue.....	83,731	58,205	141,936
Long-term debt:			
Due within one year.....	2,287	79,828	82,115
Due in more than one year.....	8,404	1,261,173	1,269,577
Total liabilities.....	<u>317,218</u>	<u>1,501,261</u>	<u>1,818,479</u>
Net Assets:			
Invested in capital assets, net of related debt.....	2,855,643	940,665	3,796,308
Restricted for:			
Capital projects.....	43,801	95,238	139,039
Debt service.....	-	59,281	59,281
Reserved for law enforcement.....	8,262	-	8,262
Reserved for other purposes.....	350,152	-	350,152
Unrestricted.....	680,062	233,845	913,907
Total net assets.....	<u>\$ 3,937,920</u>	<u>1,329,029</u>	<u>5,266,949</u>

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

STATEMENT OF ACTIVITIES
 For the Year Ended September 30, 2008
 CITY OF LAKE HELEN, FLORIDA

Functions / Programs	Expenses	Program Revenues		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government.....	\$ 571,972	12,833	6,170	268,600
Public safety.....	634,377	61,360	3,404	400
Physical environment.....	135,281	211,222	-	28,850
Transportation.....	280,082	-	-	1,100
Culture/recreation.....	437,983	206,793	82,824	217,909
Interest on long-term debt.....	<u>714</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities.....	<u>2,060,409</u>	<u>492,208</u>	<u>92,398</u>	<u>516,859</u>
Business-type Activities:				
Water utilities.....	<u>491,769</u>	<u>459,566</u>	<u>-</u>	<u>1,000</u>
Total primary government.....	<u>\$ 2,552,178</u>	<u>951,774</u>	<u>92,398</u>	<u>517,859</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 Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
(284,369)		(284,369)
(569,213)		(569,213)
104,791		104,791
(278,982)		(278,982)
69,543		69,543
<u>(714)</u>		<u>(714)</u>
<u>(958,944)</u>		<u>(958,944)</u>
	<u>(31,203)</u>	<u>(31,203)</u>
<u>(958,944)</u>	<u>(31,203)</u>	<u>(990,147)</u>
601,053	-	601,053
56,415	-	56,415
248,639	-	248,639
15,638	-	15,638
151,596	-	151,596
133,511	-	133,511
94,713	-	94,713
39,341	4,420	43,761
<u>27,494</u>	<u>-</u>	<u>27,494</u>
<u>1,368,400</u>	<u>4,420</u>	<u>1,372,820</u>
409,456	(26,783)	382,673
<u>3,528,464</u>	<u>1,355,812</u>	<u>4,884,276</u>
<u>\$ 3,937,920</u>	<u>1,329,029</u>	<u>5,266,949</u>

BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2008
CITY OF LAKE HELEN, FLORIDA

	General	Stormwater Management	General Trust Fund	Total Governmental Funds
Assets:				
Cash and cash equivalents.....	\$ 499,457	940	-	500,397
Investments.....	353,555	-	350,000	703,555
Receivables, net:				
Delinquent taxes.....	2,192	-	-	2,192
Accounts.....	28,702	-	152	28,854
Due from other funds.....	30,792	21,269	-	52,061
Due from other governments.....	<u>123,014</u>	<u>-</u>	<u>-</u>	<u>123,014</u>
Total assets.....	<u>\$ 1,037,712</u>	<u>22,209</u>	<u>350,152</u>	<u>1,410,073</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable.....	\$ 78,411	-	-	78,411
Accrued liabilities.....	124,335	2,883	-	127,218
Due to other funds.....	38,391	-	-	38,391
Deposits.....	80,391	-	-	80,391
Deferred revenues.....	<u>64,356</u>	<u>-</u>	<u>-</u>	<u>64,356</u>
Total liabilities.....	<u>385,884</u>	<u>2,883</u>	<u>-</u>	<u>388,767</u>
Fund Balances:				
Reserved for:				
Capital projects.....	43,801	-	-	43,801
Law enforcement.....	8,262	-	-	8,262
Other purposes.....	-	-	350,152	350,152
Unreserved:				
Designated.....	133,080	19,326	-	152,406
Undesignated.....	<u>466,685</u>	<u>-</u>	<u>-</u>	<u>466,685</u>
Total fund balances.....	<u>651,828</u>	<u>19,326</u>	<u>350,152</u>	1,021,306
Total liabilities and fund balances.....	<u>\$ 1,037,712</u>	<u>22,209</u>	<u>350,152</u>	

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

Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	2,866,334
Other long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the funds.....	61,016
Accrued interest is not due and payable in the current period and, accordingly, is not reported in the funds.....	(45)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.....	<u>(10,691)</u>
Net assets of governmental activities.....	<u>\$ 3,937,920</u>

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2008
CITY OF LAKE HELEN, FLORIDA

	General	Stormwater Management	General Trust Fund	Total- Governmental Funds
Revenue:				
Property taxes.....	\$ 599,372	-	-	599,372
Local option gas taxes.....	56,415	-	-	56,415
Utility service taxes.....	248,639	-	-	248,639
Other taxes.....	27,623	-	-	27,623
Franchise fees.....	151,596	-	-	151,596
Permits and other fees.....	18,766	489	-	19,255
Intergovernmental revenue.....	724,816	28,850	-	753,666
Charges for services.....	163,342	48,384	-	211,726
Creative Arts Café revenue.....	206,793	-	-	206,793
Fines and forfeitures.....	42,449	-	-	42,449
Investment earnings.....	25,958	-	13,383	39,341
Miscellaneous revenue.....	52,485	-	-	52,485
Total revenue.....	2,318,254	77,723	13,383	2,409,360
Expenditures:				
Current:				
General government.....	939,875	-	-	939,875
Public safety.....	617,930	-	-	617,930
Physical environment.....	164,216	-	-	164,216
Transportation.....	215,050	57,107	-	272,157
Culture/recreation.....	495,856	-	-	495,856
Debt Service:				
Principal retirement.....	1,467	-	-	1,467
Interest.....	669	-	-	669
Total expenditures.....	2,435,063	57,107	-	2,492,170
Excess of revenue over (under) expenditures	(116,809)	20,616	13,383	(82,810)
Other Financing Sources (Uses):				
Transfers in (out).....	13,531	-	(13,531)	-
Capital lease proceeds.....	12,158	-	-	12,158
Total other financing sources (uses).....	25,689	-	(13,531)	12,158
Net change in fund balances.....	(91,120)	20,616	(148)	(70,652)
Fund balances, beginning of year.....	742,948	(1,290)	350,300	1,091,958
Fund balances, end of year.....	\$ 651,828	19,326	350,152	1,021,306

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

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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2008
CITY OF LAKE HELEN, FLORIDA

Net change in fund balances - total governmental funds..... \$ (70,652)

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

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

Expenditures for capital assets.....	510,993	
Less: current year provision for depreciation.....	<u>(80,654)</u>	430,339

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

Delinquent taxes receivable - end of year.....	2,192	
Delinquent taxes receivable - beginning of year.....	<u>(511)</u>	1,681

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

58,824

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

Proceeds from capital leases.....	(12,158)	
Principal payments.....	<u>1,467</u>	(10,691)

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

Accrued interest on long-term debt.....		<u>(45)</u>
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Change in net assets of governmental activities..... \$ 409,456

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

STATEMENT OF FUND NET ASSETS
WATER UTILITY PROPRIETARY FUND
September 30, 2008
CITY OF LAKE HELEN, FLORIDA

Assets:		
Current Assets:		
Cash and cash equivalents.....	\$ 43,434	
Investments.....	89,717	
Accounts receivable (net).....	149,728	
Restricted cash and cash equivalents.....	217,111	
Restricted investments.....	<u>58,669</u>	
Total current assets.....		<u>558,659</u>
Noncurrent Assets:		
Unamortized debt issuance costs.....		20,757
Capital assets:		
Improvements other than buildings.....	2,800,736	
Machinery and equipment.....	363,977	
Construction in progress.....	52,779	
Less: accumulated depreciation.....	<u>(935,826)</u>	<u>2,281,666</u>
Total noncurrent assets.....		<u>2,302,423</u>
Total assets.....		<u>2,861,082</u>
Liabilities:		
Current Liabilities:		
Accounts payable and accrued liabilities.....	80,371	
Due to other funds.....	30,792	
Customer deposits.....	58,205	
Notes payable - current maturities.....	<u>79,828</u>	
Total current liabilities.....		249,196
Noncurrent Liabilities:		
Compensated absences.....	21,684	
Notes payable.....	<u>1,261,173</u>	
Total noncurrent liabilities.....		<u>1,282,857</u>
Total liabilities.....		<u>1,532,053</u>
Net Assets:		
Invested in capital assets, net of related debt.....	940,665	
Restricted for debt service.....	59,281	
Restricted for utility expansion.....	95,238	
Unrestricted.....	<u>233,845</u>	
Total net assets.....		<u>\$ 1,329,029</u>

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
WATER UTILITY PROPRIETARY FUND
For the Year Ended September 30, 2008
CITY OF LAKE HELEN, FLORIDA

Operating Revenues:		
Charges for services.....	\$ 459,086	
Miscellaneous.....	<u>480</u>	
Total operating revenues.....		459,566
Operating Expenses:		
Personal services.....	176,115	
Materials and supplies.....	78,357	
Utilities.....	31,197	
Maintenance and repairs.....	33,764	
Contractual services.....	71,827	
Other expenses.....	936	
Depreciation.....	<u>75,051</u>	
Total operating expenses.....		<u>467,247</u>
Operating income.....		(7,681)
Nonoperating revenue (expense):		
Investment earnings.....	4,420	
Interest and debt expense.....	<u>(24,522)</u>	
Total nonoperating revenue (expense).....		<u>(20,102)</u>
Income before contributions.....		(27,783)
Capital contributions.....		<u>1,000</u>
Change in net assets.....		(26,783)
Net assets, beginning of year.....		<u>1,355,812</u>
Net assets, end of year.....		<u>\$ 1,329,029</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, 2008
CITY OF LAKE HELEN, FLORIDA

Cash Flows From Operating Activities:		
Cash received from customers.....	\$ 465,910	
Cash paid to suppliers.....	(151,523)	
Cash paid for personal services.....	<u>(169,333)</u>	
Net cash provided by (used in) operating activities.....		145,054
Cash Flows From Capital and Related Financing Activities:		
Advances from other funds.....	(30,341)	
Proceeds from long-term debt.....	37,369	
Payments of long-term debt principal.....	(35,867)	
Interest payments.....	(27,671)	
Capital contributions.....	1,000	
Acquisition and construction of capital assets.....	<u>(53,579)</u>	
Net cash provided by (used in) capital and related financing activities.....		(109,089)
Cash Flows From Investing Activities:		
Interest earnings received.....	4,420	
Acquisition of investments.....	<u>(1,591)</u>	
Net cash provided by (used in) investing activities.....		<u>2,829</u>
Net increase (decrease) in cash and cash equivalents.....		38,794
Cash and cash equivalents, beginning of year.....		<u>221,751</u>
Cash and cash equivalents, end of year.....		<u>\$ 260,545</u>
Reconciliation of cash and cash equivalents:		
Unrestricted.....	\$ 43,434	
Restricted.....	217,111	
Total - all sources.....	<u>\$ 260,545</u>	
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income (loss).....	\$ (7,681)	
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation.....	75,051	
Changes in assets and liabilities:		
Accounts receivable (net).....	6,754	
Inventories.....	20,000	
Accounts payable.....	44,558	
Accrued liabilities.....	1,439	
Compensated absences.....	5,343	
Customer deposits.....	<u>(410)</u>	
Net cash provided by operating activities.....		<u>\$ 145,054</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, 2008
CITY OF LAKE HELEN, FLORIDA

Assets:		
Cash and cash equivalents.....	\$	11,785
Receivables:		
Employer.....		17,122
Investments in mutual funds at fair value.....		<u>408,861</u>
Total assets.....		<u>437,768</u>
Liabilities.....		<u>-</u>
Net Assets:		
Held in trust for pension benefits.....	\$	<u>437,768</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, 2008
CITY OF LAKE HELEN, FLORIDA

Additions:

Contributions from:

Employees.....	\$	1,836
Employer (City).....		59,040
State-Casualty Insurance Premium Taxes.....		<u>15,638</u>

Total contributions..... 76,514

Investment income:

Net investment earnings, including appreciation (depreciation) in fair value of investments.....		<u>(58,631)</u>
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Total additions..... 17,883

Deductions:

Administrative expenses.....		<u>2,053</u>
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Total deductions..... 2,053

Net increase..... 15,830

Net Assets Held in Trust for Pension Benefits:

Beginning of year.....		<u>421,938</u>
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End of year.....	\$	<u>437,768</u>
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The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2008

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, 2008

CITY OF LAKE HELEN, FLORIDA

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or as soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 180 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City reports the following major governmental funds:

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund type:

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

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2008

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, 2008

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, 2008

CITY OF LAKE HELEN, FLORIDA

6. *Compensated Absences*

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

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

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

7. *Deferred Revenue*

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

8. *Long-term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Debt issuance costs are deferred and amortized over the life of the obligations using the effective interest method.

9. *Fund Equity*

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

10. *Use of Estimates*

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

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2008

CITY OF LAKE HELEN, FLORIDA

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

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

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

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

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

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

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

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2008

CITY OF LAKE HELEN, FLORIDA

B. Excess of Expenditures over Appropriations

During the year ended September 30, 2008, expenditures exceeded budgetary appropriations in the following fund:

General Fund (major) – actual expenditures (\$2,435,063) exceeded budgetary appropriations (\$2,277,038) by \$158,025 during 2008. This amount is primarily the result of unbudgeted expenditures related to the Creative Arts Café (part of the Culture/recreation function in the General Fund). This amount was funded through unbudgeted revenues generated by the Café. The City intends to separate this activity from the General Fund in the upcoming year by establishing a separate proprietary fund.

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 (2007 tax levy) was 4.2 mills for ad valorem taxes collected by the City during the year ended September 30, 2008. 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, 2008

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, 2008, the carrying value of the City’s cash deposit accounts was \$755,442 and the bank balance totaled \$764,318. The cash deposits are held by banks that qualify as public depositories under the Florida Security for Public Deposits Act as required by Chapter 280, Florida Statutes and are fully insured. Amounts do not include \$5,500 in cash funds on hand at the end of the fiscal year.

Investments. As of September 30, 2008, the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (Years)			
		Less Than 1	From 1 - 5	From 6 - 10	Over 10
Certificates of deposit.....	\$ 563,501	563,501	-	-	-
Local Government Surplus Funds Trust fund.....	288,104	288,104	-	-	-
Ad Valorem tax certificates.....	336	-	336	-	-
Mutual Fund - Bonds.....	180,278	-	-	180,278	-
Equity Securities - Domestic.....	198,576	198,576	-	-	-
Equity Securities - International..	30,007	30,007	-	-	-
Totals.....	<u>\$1,260,802</u>	<u>1,080,188</u>	<u>336</u>	<u>180,278</u>	<u>-</u>

Interest Rate Risk. Generally, the City limits its exposure to fair value losses arising from increases in interest rates by limiting the investment of its operating funds in investments with maturities of less than one year. Substantially all of the City’s surplus funds are invested in the City’s certificates of deposit, or in the Local Government Surplus Funds Trust Fund. Investments held in the City’s Police pension trust funds 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. While potential current period fair value losses can occur with these investments in any given year, the ultimate realization of fair value losses is mitigated by the holding of these investments to maturity. Investments in U.S. Treasuries typically include discounted, fixed-price notes and bonds that mature within one to fifteen years. The fair values of these investments are less sensitive to interest rate increases since they are held to maturity. Investments in U.S. agencies typically include long-term, fixed-rate collateralized mortgage obligations with maturities of greater than ten years. Their fair values are particularly sensitive to prepayments by mortgagees, which may result from a decline in interest rates, and inversely sensitive to changes in interest rates. Investments in fixed rate domestic corporate bonds are generally made to guaranty the production of cash flows necessary to fund the plan’s required payments and operating expenses. These fixed rate investments earn slightly higher

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2008

CITY OF LAKE HELEN, FLORIDA

rates of return, which are necessary to support the plan's blended interest rate assumptions. Their fair values are inversely sensitive to changes in interest rates.

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.

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, 2008, the carrying amount of the City's deposits in the Local Government Surplus Funds Trust Fund was \$288,104, all of which was covered by collateral securities in accordance with the Act. The carrying amount of the City's \$563,501 investment in certificates of deposit was collateralized with securities pledged or deposited to the State's Chief Financial Officer (under statutory provisions mentioned above) by the City's depository banks. All remaining deposits of the City were adequately covered by federal depository insurance and the statutory provisions of the Act. All investments held by the City's police and fire pension trust funds were uninsured, unregistered and held by the Plans' trustees.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2008

CITY OF LAKE HELEN, FLORIDA

NOTE 6 - RECEIVABLES

A summary of receivables at September 30, 2008, is as follows:

Type	Governmental Activities	Business-type Activities	Total
Delinquent taxes receivable.....	\$ 2,192	-	2,192
Accounts receivable.....	28,854	137,382	166,236
Unbilled accounts receivable.....	-	15,343	15,343
Due from other governments.....	<u>123,014</u>	<u>-</u>	<u>123,014</u>
	154,060	152,725	306,785
Less: allowance for doubtful accounts.....	<u>-</u>	<u>(2,997)</u>	<u>(2,997)</u>
Net receivables.....	<u>\$ 154,060</u>	<u>149,728</u>	<u>303,788</u>

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, 2008, are comprised of the following:

Fund	Due From	Due To
General:		
Stormwater Management.....	\$ -	21,269
Water Utility.....	30,792	-
Stormwater Management:		
General.....	21,269	-
Water Utility:		
General.....	<u>-</u>	<u>30,792</u>
Totals.....	<u>\$ 52,061</u>	<u>52,061</u>

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2008

CITY OF LAKE HELEN, FLORIDA

NOTE 8 - CAPITAL ASSETS

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

A. Governmental Activities

	<u>Balances</u> 9/30/2007	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> 9/30/2008
Capital assets not being depreciated:				
Land.....	\$ 438,997	38,529	-	477,526
Construction in progress.....	<u>566,787</u>	<u>131,093</u>	<u>(697,880)</u>	<u>-</u>
Total capital assets not being depreciated..	<u>1,005,784</u>	<u>169,622</u>	<u>(697,880)</u>	<u>477,526</u>
Capital assets being depreciated:				
Buildings.....	676,698	818,152	-	1,494,850
Improvements other than buildings.....	1,051,456	188,768	-	1,240,224
Machinery and equipment.....	<u>615,667</u>	<u>32,330</u>	<u>-</u>	<u>647,997</u>
Total capital assets being depreciated.....	<u>2,343,821</u>	<u>1,039,250</u>	<u>-</u>	<u>3,383,071</u>
Less accumulated depreciation for:				
Buildings.....	(249,031)	(20,177)	-	(269,208)
Improvements other than buildings.....	(142,048)	(22,372)	-	(164,420)
Machinery and equipment.....	<u>(522,531)</u>	<u>(38,104)</u>	<u>-</u>	<u>(560,635)</u>
Total accumulated depreciation.....	<u>(913,610)</u>	<u>(80,653)</u>	<u>-</u>	<u>(994,263)</u>
Total capital assets being depreciated, net..	<u>1,430,211</u>	<u>958,597</u>	<u>-</u>	<u>2,388,808</u>
Total capital assets, net.....	<u>\$ 2,435,995</u>	<u>1,128,219</u>	<u>(697,880)</u>	<u>2,866,334</u>

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

Governmental Activities:	
General government.....	\$ 14,092
Public safety.....	20,447
Physical environment.....	7,565
Transportation.....	10,632
Culture/recreation.....	<u>27,917</u>
Total depreciation expense - governmental activities.....	<u>\$ 80,653</u>

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2008

CITY OF LAKE HELEN, FLORIDA

B. Business-Type Activities

	<u>Balances</u> 9/30/2007	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> 9/30/2008
Capital assets not being depreciated:				
Construction in progress.....	\$ 120,546	52,779	(120,546)	52,779
Capital assets being depreciated:				
Improvements other than buildings.....	2,680,190	120,546	-	2,800,736
Machinery and equipment.....	363,177	800	-	363,977
Total capital assets being depreciated.....	<u>3,043,367</u>	<u>121,346</u>	<u>-</u>	<u>3,164,713</u>
Less accumulated depreciation for:				
Improvements other than buildings.....	(548,917)	(62,877)	-	(611,794)
Machinery and equipment.....	(311,858)	(12,174)	-	(324,032)
Total accumulated depreciation.....	<u>(860,775)</u>	<u>(75,051)</u>	<u>-</u>	<u>(935,826)</u>
Total capital assets being depreciated, net..	<u>2,182,592</u>	<u>46,295</u>	<u>-</u>	<u>2,228,887</u>
Total capital assets, net.....	<u>\$ 2,303,138</u>	<u>99,074</u>	<u>(120,546)</u>	<u>2,281,666</u>

There was no capitalized interest on outstanding tax-exempt debt obligations charged to completed and uncompleted projects during the year. There was no interest earnings recognized from the temporary investment of tax-exempt debt proceeds during the year. Depreciation expense for the year totaled \$75,051.

NOTE 9 - LONG-TERM DEBT

The City's long-term debt outstanding at September 30, 2008, is as follows:

Governmental Activities

	<u>Balance</u> <u>Due</u>	<u>Current</u> <u>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 \$7,206 as of 9/30/2008.	\$ 7,347	1,379
\$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 \$3,467 as of 9/30/2008.....	<u>3,344</u>	<u>908</u>
Total governmental activities long-term debt.....	<u>\$ 10,691</u>	<u>2,287</u>

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2008

CITY OF LAKE HELEN, FLORIDA

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

	Balances <u>9/30/2007</u>	Additions	Deletions	Balances <u>9/30/2008</u>
Capital Lease Obligations:				
\$8,158 capital lease dated 3/10/2008.....	\$ -	8,158	(811)	7,347
\$4,000 capital lease dated 1/28/2008.....	<u>-</u>	<u>4,000</u>	<u>(656)</u>	<u>3,344</u>
Totals.....	<u>\$ -</u>	<u>12,158</u>	<u>(1,467)</u>	<u>10,691</u>

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

Fiscal Year	Capital Lease dated 3/10/2008	Capital Lease dated 1/28/2008	Total
September 30, 2009.....	\$ 2,088	1,224	3,312
September 30, 2010.....	2,088	1,224	3,312
September 30, 2011.....	2,088	1,224	3,312
September 30, 2012.....	2,088	306	2,394
September 30, 2013.....	<u>870</u>	<u>-</u>	<u>870</u>
Total requirements.....	9,222	3,978	13,200
Less: interest.....	<u>(1,875)</u>	<u>(634)</u>	<u>(2,509)</u>
Net amount.....	<u>\$ 7,347</u>	<u>3,344</u>	<u>10,691</u>

Business-Type Activities

	Balance <u>Due</u>	Current <u>Maturities</u>
Notes Payable:		
State of Florida, Department of Environmental Protection-Drinking Water State Revolving Fund Loan Agreement, 3.05% to 3.57% construction loan dated 6/14/2000 in the amount of \$1,377,456, with amendments authorizing additional financing of \$318,512, providing for an amended obligation totaling \$1,695,969, due semi-annually with payments of \$59,273 beginning 10/15/2003 through 4/15/2022.....	\$ 1,303,632	73,624
State of Florida, Department of Environmental Protection-Drinking Water State Revolving Fund Loan Agreement, 2.77% construction loan dated 6/5/2008 in the amount of \$219,850 (amount drawn to date \$37,369), due semi-annually with payments of \$7,341 until adjusted by a final amendment, beginning 9/15/2009.....	<u>37,369</u>	<u>6,204</u>
Total business-type activities long-term debt.....	<u>\$ 1,341,001</u>	<u>79,828</u>

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2008

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:

	<u>Balances</u>			<u>Balances</u>
	<u>9/30/2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>9/30/2008</u>
Notes Payable:				
State of Florida Department of Environmental Protection-Clean Water State Revolving Fund Loans:				
\$1,695,969 loan dated 6/14/2000.....	\$ 1,339,499	-	(35,867)	1,303,632
\$219,850 loan dated 6/5/2008.....	<u>-</u>	<u>37,369</u>	<u>-</u>	<u>37,369</u>
Totals.....	<u>\$ 1,339,499</u>	<u>37,369</u>	<u>(35,867)</u>	<u>1,341,001</u>

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

<u>Fiscal Year</u>	<u>\$1,695,969 loan dated 6/14/2000</u>	<u>\$219,850 loan dated 6/5/2008</u>	<u>Total</u>
September 30, 2009.....	\$ 118,547	7,341	125,888
September 30, 2010.....	118,547	14,682	133,229
September 30, 2011.....	118,546	14,682	133,228
September 30, 2012.....	118,546	2,987	121,533
September 30, 2013.....	118,547	-	118,547
September 30, 2013 through 2018.....	592,731	-	592,731
September 30, 2019 through 2022.....	<u>474,185</u>	<u>-</u>	<u>474,185</u>
Total requirements.....	1,659,649	39,692	1,699,341
Less: interest.....	<u>(356,017)</u>	<u>(2,323)</u>	<u>(358,340)</u>
Net amount.....	<u>\$ 1,303,632</u>	<u>37,369</u>	<u>1,341,001</u>

As a part of the Loan Agreement of the \$1,695,969 loan dated June 14, 2000, the City is required to establish and maintain a Loan Payment Reserve Account with a balance of at least \$46,864 through maturity and to make mandatory monthly payments to a Loan Payment Sinking Fund sufficient to service the loan obligation. The City must also make mandatory monthly payments to a Loan Payment Sinking Fund sufficient to service the loan obligation for the \$219,850 loan dated June 5, 2008 beginning no later than March 15, 2009. 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.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2008

CITY OF LAKE HELEN, FLORIDA

NOTE 10 - EMPLOYEES' PENSION PLANS

A. Florida Retirement System

Plan Description. The City contributes to the Florida (public employee) Retirement System of the State of Florida, a cost-sharing multiple-employer retirement system 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 plan members and beneficiaries. All retirement legislation must comply with Article X, Section 14 of the State Constitution and with Part VII, Chapter 112, Florida Statutes. 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.

The City's contributions to the plan for the fiscal years ended September 30, 2008, 2007, and 2006 totaled \$71,425, \$71,875, and \$63,159, 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 Employees</u>	<u>Special Risk</u>
From July 1, 2005 to June 30, 2006.....	7.83%	18.53%
From July 1, 2006 to June 30, 2007.....	9.85%	20.92%
From July 1, 2007 to June 30, 2008.....	9.85%	20.92%
From July 1, 2008 to September 30, 2008.....	9.85%	20.92%

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2008

CITY OF LAKE HELEN, FLORIDA

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

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

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

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

Funding Policy. The contribution requirements of Plan members and the City are established and may be amended by the State Legislature. Plan members are required to contribute 1% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 30.19% of annual covered payroll. State appropriations (from casualty insurance premium excise taxes) received by the City are used to reduce the annual commitment of the City.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2008

CITY OF LAKE HELEN, FLORIDA

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

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

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

NOTE 11 - EXCESS EXPENDITURES OVER REVENUES

The General Fund incurred expenditures in excess of revenues in the amount of \$91,120. This was an anticipated planned use of General Fund surplus funds.

The General Trust Fund incurred expenditures in excess of revenues in the amount of \$148.

NOTE 12 - 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.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2008

CITY OF LAKE HELEN, FLORIDA

NOTE 13 - 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.

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Fiscal Year Ended September 30, 2008
CITY OF LAKE HELEN, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenue:				
Taxes:				
Property taxes.....	\$ 620,000	620,000	599,372	(20,628)
Local option gas taxes.....	60,000	60,000	56,415	(3,585)
State-casualty insurance premium tax.....	-	-	15,638	15,638
Utility service taxes.....	244,500	244,500	248,639	4,139
Local business taxes.....	10,500	10,500	11,985	1,485
	<u>935,000</u>	<u>935,000</u>	<u>932,049</u>	<u>(2,951)</u>
Permits and Fees:				
Franchise fees.....	141,000	141,000	151,596	10,596
Building permits.....	10,000	10,000	14,074	4,074
Other permits and fees.....	8,500	8,500	4,692	(3,808)
	<u>159,500</u>	<u>159,500</u>	<u>170,362</u>	<u>10,862</u>
Intergovernmental Revenue:				
State grants.....	104,000	104,000	114,062	10,062
State Shared Revenues:				
State revenue sharing proceeds.....	98,000	98,000	88,069	(9,931)
Mobile home licenses.....	6,000	6,000	5,602	(398)
Alcoholic beverage licenses.....	750	750	148	(602)
Local half-cent sales tax.....	150,000	150,000	133,511	(16,489)
Motor fuel tax rebate.....	1,000	1,000	894	(106)
Other Shared Revenues:				
County and other grants.....	536,346	536,346	382,530	(153,816)
	<u>896,096</u>	<u>896,096</u>	<u>724,816</u>	<u>(171,280)</u>
Charges for Services:				
General government.....	250	250	643	393
Public safety.....	300	300	350	50
Garbage/solid waste.....	160,000	160,000	162,349	2,349
Creative Arts Café revenue.....	-	-	206,793	206,793
	<u>160,550</u>	<u>160,550</u>	<u>370,135</u>	<u>209,585</u>
Fines and Forfeitures:				
Court cases.....	47,500	47,500	29,618	(17,882)
Local ordinance violations.....	-	-	12,831	12,831
	<u>47,500</u>	<u>47,500</u>	<u>42,449</u>	<u>(5,051)</u>
Miscellaneous Revenues:				
Investment earnings.....	40,500	40,500	25,958	(14,542)
Rents and royalties.....	2,000	2,000	7,345	5,345
Development impact fees.....	6,000	6,000	2,300	(3,700)
Miscellaneous revenues.....	17,000	17,000	42,840	25,840
	<u>65,500</u>	<u>65,500</u>	<u>78,443</u>	<u>12,943</u>
Total revenue.....	<u>2,264,146</u>	<u>2,264,146</u>	<u>2,318,254</u>	<u>54,108</u>

REQUIRED SUPPLEMENTARY INFORMATION (Continued)
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Fiscal Year Ended September 30, 2008
CITY OF LAKE HELEN, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Expenditures:				
General Government:				
Legislative:				
Personal services.....	\$ 24,100	24,100	24,866	(766)
Operating expenditures.....	3,800	3,800	2,234	1,566
Capital outlay.....	-	16,116	16,116	-
	<u>27,900</u>	<u>44,016</u>	<u>43,216</u>	<u>800</u>
Executive:				
Personal services	110,600	110,600	108,257	2,343
Operating expenditures	<u>2,000</u>	<u>2,000</u>	<u>687</u>	<u>1,313</u>
	<u>112,600</u>	<u>112,600</u>	<u>108,944</u>	<u>3,656</u>
Financial and Administrative:				
Personal services.....	38,100	38,100	43,154	(5,054)
Operating expenditures.....	<u>25,000</u>	<u>25,000</u>	<u>33,080</u>	<u>(8,080)</u>
	<u>63,100</u>	<u>63,100</u>	<u>76,234</u>	<u>(13,134)</u>
Legal Counsel:				
Operating expenditures.....	<u>45,000</u>	<u>45,000</u>	<u>59,012</u>	<u>(14,012)</u>
Other General Government:				
Personal services.....	128,200	128,200	104,821	23,379
Operating expenditures.....	150,300	179,912	181,769	(1,857)
Capital outlay.....	<u>582,846</u>	<u>606,210</u>	<u>365,879</u>	<u>240,331</u>
	<u>861,346</u>	<u>914,322</u>	<u>652,469</u>	<u>261,853</u>
Total general government.....	<u>1,109,946</u>	<u>1,179,038</u>	<u>939,875</u>	<u>239,163</u>
Public Safety:				
Law Enforcement:				
Personal services.....	464,700	464,700	507,675	(42,975)
Operating expenditures.....	79,000	79,000	80,163	(1,163)
Capital outlay.....	<u>1,500</u>	<u>1,500</u>	<u>4,000</u>	<u>(2,500)</u>
	<u>545,200</u>	<u>545,200</u>	<u>591,838</u>	<u>(46,638)</u>
Protective Inspections:				
Operating expenditures.....	<u>16,500</u>	<u>16,500</u>	<u>21,569</u>	<u>(5,069)</u>
Emergency and Disaster Relief Services:				
Operating expenditures.....	-	-	4,523	(4,523)
Total public safety.....	<u>561,700</u>	<u>561,700</u>	<u>617,930</u>	<u>(56,230)</u>
Physical Environment:				
Garbage/Solid Waste Control Services:				
Operating expenditures.....	<u>160,000</u>	<u>160,000</u>	<u>164,216</u>	<u>(4,216)</u>
Total physical environment	<u>160,000</u>	<u>160,000</u>	<u>164,216</u>	<u>(4,216)</u>

REQUIRED SUPPLEMENTARY INFORMATION (Continued)
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Fiscal Year Ended September 30, 2008
CITY OF LAKE HELEN, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Transportation:				
Road and Street Facilities:				
Personal services.....	\$ 120,450	120,450	126,790	(6,340)
Operating expenditures.....	91,000	91,000	85,553	5,447
Capital outlay.....	-	-	2,707	(2,707)
Total transportation.....	<u>211,450</u>	<u>211,450</u>	<u>215,050</u>	<u>(3,600)</u>
Culture/Recreation:				
Parks and Recreation:				
Personal services.....	96,850	96,850	80,537	16,313
Operating expenditures.....	65,500	65,500	99,217	(33,717)
Capital outlay.....	2,500	2,500	83,210	(80,710)
	<u>164,850</u>	<u>164,850</u>	<u>262,964</u>	<u>(98,114)</u>
Creative Arts Café:				
Personal services.....	-	-	64,804	(64,804)
Operating expenditures.....	-	-	165,508	(165,508)
Capital outlay.....	-	-	2,580	(2,580)
	<u>-</u>	<u>-</u>	<u>232,892</u>	<u>(232,892)</u>
Total culture/recreation.....	<u>164,850</u>	<u>164,850</u>	<u>495,856</u>	<u>(331,006)</u>
Debt Service:				
Principal.....	-	-	1,467	(1,467)
Interest.....	-	-	669	(669)
Total debt service.....	<u>-</u>	<u>-</u>	<u>2,136</u>	<u>(2,136)</u>
Total expenditures.....	<u>2,207,946</u>	<u>2,277,038</u>	<u>2,435,063</u>	<u>(158,025)</u>
Excess of revenue over (under) expenditures.....	56,200	(12,892)	(116,809)	(103,917)
Other Financing Sources (Uses):				
Transfers in (out).....	-	-	13,531	13,531
Capital lease proceeds.....	-	-	12,158	12,158
Appropriated fund balance.....	(56,200)	12,892	-	(12,892)
Total other financing sources (uses).....	<u>(56,200)</u>	<u>12,892</u>	<u>25,689</u>	<u>12,797</u>
Net change in fund balance.....	-	-	(91,120)	(91,120)
Fund balance, beginning of year.....	<u>742,948</u>	<u>742,948</u>	<u>742,948</u>	<u>-</u>
Fund balance, end of year.....	<u>\$ 742,948</u>	<u>742,948</u>	<u>651,828</u>	<u>(91,120)</u>

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - STORMWATER MANAGEMENT FUND
For the Fiscal Year Ended September 30, 2008
CITY OF LAKE HELEN, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenue:				
Permits and Fees:				
Stormwater permits.....	\$ -	-	489	489
Intergovernmental Revenue:				
Grants from other governments.....	30,000	30,000	28,850	(1,150)
Charges for Services:				
Stormwater management.....	<u>47,000</u>	<u>47,000</u>	<u>48,384</u>	<u>1,384</u>
Total revenue.....	<u>77,000</u>	<u>77,000</u>	<u>77,723</u>	<u>723</u>
Expenditures:				
Transportation:				
Stormwater Management:				
Personal services.....	9,850	9,850	8,866	984
Operating expenditures.....	60,000	60,000	11,741	48,259
Capital outlay.....	<u>-</u>	<u>36,500</u>	<u>36,500</u>	<u>-</u>
Total transportation.....	<u>69,850</u>	<u>106,350</u>	<u>57,107</u>	<u>49,243</u>
Total expenditures.....	<u>69,850</u>	<u>106,350</u>	<u>57,107</u>	<u>49,243</u>
Excess of revenue over (under) expenditures.....	7,150	(29,350)	20,616	49,966
Other Financing Sources (Uses):				
Appropriated fund balance.....	<u>(7,150)</u>	<u>29,350</u>	<u>-</u>	<u>(29,350)</u>
Total other financing sources (uses).....	<u>(7,150)</u>	<u>29,350</u>	<u>-</u>	<u>(29,350)</u>
Net change in fund balance.....	-	-	20,616	20,616
Fund balance, beginning of year.....	<u>(1,290)</u>	<u>(1,290)</u>	<u>(1,290)</u>	<u>-</u>
Fund balance, end of year.....	<u><u>\$ (1,290)</u></u>	<u><u>(1,290)</u></u>	<u><u>19,326</u></u>	<u><u>20,616</u></u>

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL TRUST FUND
For the Fiscal Year Ended September 30, 2008
CITY OF LAKE HELEN, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenue:				
Investment earnings.....	\$ -	-	13,383	13,383
Total revenue.....	-	-	13,383	13,383
Other Financing Sources (Uses):				
Transfers in (out).....	-	-	(13,531)	(13,531)
Total other financing sources (uses).....	-	-	(13,531)	(13,531)
Net change in fund balance.....	-	-	(148)	(148)
Fund balance, beginning of year.....	350,300	350,300	350,300	-
Fund balance, end of year.....	<u>\$ 350,300</u>	<u>350,300</u>	<u>350,152</u>	<u>(148)</u>

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPAL POLICE OFFICERS' RETIREMENT TRUST FUND
September 30, 2008
CITY OF LAKE HELEN, FLORIDA

SCHEDULE OF FUNDING PROGRESS (1)

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

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

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

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

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, 2008, which collectively comprise the City of Lake Helen, Florida's basic financial statements and have issued our report thereon dated November 30, 2009. 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 the 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Lake Helen, Florida's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Lake Helen, Florida's financial statements that is more than inconsequential will not be prevented or detected by the City of Lake Helen, Florida's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as 2008-1 through 2008-5 to be significant deficiencies in internal control over financial reporting.

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008-1 through 2008-4 to be material weaknesses.

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 2008-6 through 2008-8.

We noted certain matters that we reported to management of City of Lake Helen, Florida, in a separate letter dated November 30, 2009.

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

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

Brent Milliken & Co., P.A.

November 30, 2009

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended September 30, 2008

CITY OF LAKE HELEN, FLORIDA

Internal Control Over Financial Reporting

2008-1 Year End Closing Procedures

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

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

Auditee Response: *Staff turnover and staff workload continues to contribute to the issues raised. Staff will recommend to the City Commission that consultant assistance be employed to assist in addressing the Auditor's recommendation.*

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

SCHEDULE OF FINDINGS AND RESPONSES - (Continued)

Year Ended September 30, 2008

CITY OF LAKE HELEN, FLORIDA

checks, preparing bank reconciliations, and recording all related financial accounting data (by data entry into the City's computer systems) associated with these functions. The existence of these conditions (primarily from the limitations on the number of personnel) causes the City to assume substantial additional risks from its lack of ability to appropriately delegate these essential control responsibilities to more than one individual to strengthen administrative oversight and to ensure significant independent review of these functions.

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

Auditee Response: *As noted, current staffing levels limit the City's ability to fully implement the Auditor's recommendation. Staff believes that partial implementation of the recommendation (receiving and reviewing unopened bank statements and cancelled checks) can be achieved with limited difficulty with current staffing. However, since the Finance Manager is the sole employee, and supervisor, of the Finance Department, implementing the recommendation to have an independent person review and approve all completed bank reconciliations (which task is performed by the Finance Manager), is not accomplishable without employing outside assistance.*

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

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

While asset capitalization thresholds have changed substantially over the years, many governmental units have implemented policies that specifically place emphasis on monitoring their investments in assets that are susceptible to misappropriation or theft. Typically, these investments are composed of electronic equipment and other personal property that are small in size relative to their costs (i.e., desktop/laptop computers, printers, audio/visual equipment, firearms, etc.). The asset types in question are (1) used more frequently, (2) capable of being shared by more than one employee, (3) readily usable by virtually everyone in, or outside, of their work environment, and (4) more susceptible to theft for these reasons. While your current capitalization policies require the inventorying of these asset types, we noted that no steps were taken during the year to document the performing of an annual physical inventory of tangible personal property. Although Section 41, Chapter 2006-122, Florida Laws, repealed the Auditor General of Florida's rulemaking authority as it relates to governing the management and inventorying of tangible personal property, we noted that no similar authoritative procedures have been developed by the City that require these procedures.

SCHEDULE OF FINDINGS AND RESPONSES - (Continued)

Year Ended September 30, 2008

CITY OF LAKE HELEN, FLORIDA

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

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

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

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

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

Auditee Response: *Staff has investigated the potential for addressing this recommendation and has determined that a software module is available for the City's new financial management system software that will allow for the implementation of computerized asset management. The City Commission will be apprised of the availability and cost of the module, and a determination will be made as to whether the implementation of the recommendation warrants the purchase of the module.*

SCHEDULE OF FINDINGS AND RESPONSES - (Continued)

Year Ended September 30, 2008

CITY OF LAKE HELEN, FLORIDA

2008-4 Payroll Process and Reconciliation

During the current year's audit, we noted that the City had not performed a bank reconciliation for payroll accounts since September 2007. Although the reconciliation process has become more difficult in recent years due to the City maintaining separate payroll accounts in each of its operating funds, timely reconciliations will substantially increase control over cash and payroll expenditures. Monthly reconciliations will allow for all differences to be investigated on a timely basis by accounting personnel so that errors and adjustments can be quickly identified and corrected. Due to limited accounting staff, bank reconciliations are performed and reviewed by the same person, therefore, there is not a proper form of checks and balances in place. An appropriate process would include a review by another staff member, such as the City Clerk, or City Administrator. Similarly, the payroll liabilities and expenditures in the general ledger did not reflect the actual activity during the year. The lack of reconciliation leads to inaccurate stated account balances during the year, as well as year-end, which leads to misleading reports issued to management.

Recommendation: We strongly recommend that procedures be in place to ensure that all cash accounts are reconciled on a monthly basis and in a timely manner, and that all discrepancies are identified, investigated, and resolved. We would also suggest that a procedure be in place that allows for a member of management to review reconciliations and investigate discrepancies independently for a stronger control of cash. Likewise, we propose that a similar process be in place to reconcile payroll liability and expenditure accounts to actual activity. This can be accomplished by reconciling payroll to W-2 income forms and other forms which are required by the Internal Revenue Service, as well as retirement and pension plans. An employee other than the payroll processor should review these reconciliations and perform an independent review of payroll records for stronger controls over cash and payroll related expenditures.

Auditee Response: *Staff will recommend to the City Commission that consultant assistance be employed to assist in addressing the Auditor's recommendation.*

2008-5 Accounts Payable Reconciliation

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

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

SCHEDULE OF FINDINGS AND RESPONSES - (Continued)

Year Ended September 30, 2008

CITY OF LAKE HELEN, FLORIDA

differences exist, they should be investigated and resolved promptly. These procedures will ensure that the balance in the general ledger reflects the accurate accounts payable balance supported by the subsidiary system.

Auditee Response: The City is in the process of implementing a new financial management system that should be instrumental in addressing the Auditor's recommendation.

Compliance and Other Matters

2008-6 Net Pension Obligation

In 1995, the City established a defined benefit pension plan for its municipal police officers pursuant to the provisions of Chapter 185, Florida Statutes. Since the assets and related plan commitments had not accumulated to amounts of relative significance overall, the trustees previously elected to not contract with an actuary to perform annual actuarial valuations.

In recent years, we have noted that significant plan changes and amendments have been made without first obtaining the necessary actuarial information that adequately measures and discloses the total effect of the related pending plan amendments. As a result, pension plan liabilities have substantially increased between the periods of the actuarial valuations solely because of these significant plan amendments. Furthermore, the amounts required to be contributed to the plan by the City are not adequately calculated or contributed in a timely manner, some of which have been materially over- or under-funded.

During the current year, we also noted that the City did not contribute the full amount of the required contribution to the police plan, which was required to be supplemented in the fiscal year ending September 30, 2009.

Recommendation: We recommend that you encourage the plan's trustees to include in the actuarial valuations the City's assumed pension obligations and mandatory contribution requirements for two years, rather than the current method of only calculating one year and having no guidelines to follow for the second. We also recommend that all required plan contribution and funding deficiencies be corrected at the earliest possible convenience.

Auditee Response: Pension Trust Fund actuarial valuations are performed biennially, per Trust Fund stipulations. Annual outstanding pension obligations, if any, are corrected by the City upon notification by the FMIT (Pension Plan Trustee). The Auditor's recommendation has been previously provided to the FMIT. The FMIT has not acted upon the recommendation.

2008-7 Audit Filing Requirements

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

SCHEDULE OF FINDINGS AND RESPONSES - (Continued)

Year Ended September 30, 2008

CITY OF LAKE HELEN, FLORIDA

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

Auditee Response: City financial staff turnover, subsequent financial staff transition issues, and extended financial staff learning curve issues resulted in the noted difficulties. The current year's situation was an anomaly and is not expected to occur in future years.

2008-8 Long-term Debt Rate Coverage

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

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

Auditee Response: Water rate increases were delayed in order to minimize financial impact to consumers during the current recession. SRF loan payments have been made on time and without financial difficulty. The Water Utility Fund has sufficient reserves available to address loan "coverage" issues should they arise. Staff will conduct a rate study in Fiscal Year 2009-2010.

BM&C

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

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, 2008, and have issued our report thereon dated November 30, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters, and Schedule of Findings and Responses. Disclosures in that report and schedule, which are dated November 30, 2009, should be considered in conjunction with this management letter.

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

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, except as noted in the accompanying pages under the heading *Prior Year Matters*.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City of Lake Helen, Florida, complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, our recommendations are noted in the accompanying pages under the headings *Prior Year Matters* and *Current Year Matters*.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

The Honorable Mayor, and
Members of the City Commission
City of Lake Helen, Florida
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- Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) control deficiencies 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, 2008, 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, 2008. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City of Lake Helen, Florida's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Brent Milliken & Co., P.A.

November 30, 2009

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:

New Accounting Pronouncements

As we have discussed with management during the past several years, the provisions of Governmental Accounting Standards Board (GASB) Statements No. 43, 45 and 47, relating to accounting and reporting by employers for post-employment benefits other than pensions, known as "OPEB," will become effective for the fiscal year beginning October 1, 2009. Implementing the provisions of these new accounting pronouncements may be more difficult to comply with, since the financial data required may need to be compiled by non-finance personnel from other departments of the City and will also require consultation with your current insurance providers and underwriters.

These new standards have the potential for tremendous increases in the expenses and liabilities reported in the financial statements of many governmental entities even when an employer that provides no postretirement benefits, such as medical, dental, long-term care or life insurance, but permits retired employees to continue health insurance by paying 100% of the premium, may have an employer expense under the new GASB rules. This stems from an implicit rate subsidy for retirees, which the GASB considers to be an OPEB.

Recommendation: We continue to recommend that management should consider taking immediate steps to consult with an actuary to identify the data that will need to be compiled for determining the extent of the financial information necessary for inclusion in the City's financial statements.

Auditee Response: *Staff will recommend that the City Commission seek consultant assistance to address the Auditor's recommendation.*

Perform a Fraud Risk Assessment

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

Recommendation: To address this risk, we continue to strongly recommend that the City conduct a formal risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the

City's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

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

- What individuals in the City have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, you should consider whether there is any information that indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the City are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use. Inventory or other assets can be stolen through sales to fictitious customers. Assets can also be stolen by unauthorized trading in securities.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored for those purposes
- What factors might indicate that the City has a culture or environment that would enable management or employees to rationalize committing fraud?

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

Auditee Response: Staff will recommend to the City Commission that a committee be appointed, as has been done in the past, to perform this task.

Turnover of Accounting Personnel and Managerial Oversight Function

The City's recent turnover in the finance department has lead to conflicting procedures and priorities, a growing backlog of current transaction processing, lost and misplaced documentation, and frequent duplication of effort due to the lack of coordinated efforts. This accounting function disorganization will continue to weaken internal controls until corrected and the ability to produce accurate financial statements is clearly in question. Due to the turnover in this important position, we believe that the City must also consider the importance of the oversight function as it relates to the basic accounting and recordkeeping requirements of the City. This will result in the lack of a higher-level supervisory or review function typically performed by a Chief Financial Officer (CFO) or equivalent.

Recommendation: We strongly recommend that the City should consider the development of a process to implement efforts to retain sufficient accounting personnel, as well as train and expand the knowledge of such 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 recommend that you should consider the appointment of a CFO, either hired or contracted and possibly on a part-time basis, who could provide the needed higher-level accounting supervisory role consistently throughout the year.

Auditee Response: *As noted earlier, financial staff turnover, and subsequent financial staff transition issues, resulted in the described issues. The City's current Finance Manager is in the process of implementing a new financial management system that should prove beneficial in addressing the Auditor's concerns. Staff will discuss with the City Commission the potential for the utilization of consultant assistance to provide additional support to the Finance Department.*

Uniform Accounting Policies and Procedures Manual

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

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

- Establish consistent City accounting practices.
- Establish and designate accounting and bookkeeping responsibilities.
- Reduce the likelihood of coding errors and assist in the preparation of timely and accurate monthly financial statements.
- Aid in review by management for adherence to City policies.
- Aid in exchange of management ideas.
- Provide the City with a source of information that will not be lost if key personnel leave.

- Aid in the training of new employees, especially in the event of an untimely resignation of key accounting staff.
- A well-devised accounting manual can also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management.
- Also, in the process of the comprehensive review of existing accounting procedures, for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.

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

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

Auditee Response: Financial staff workload demands preclude said staff from preparing the recommended accounting manual. Staff will recommend to the City Commission that consultant assistance be sought to aid in this task.

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 auditor's 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 based on professional judgment, (3) 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:

Accounting for Police Trust Fund State Insurance Tax Premiums

The City has established a Municipal Police Officers' Retirement Trust Fund under the guidelines of Chapter 185, Florida Statutes. As a participating city, the City of Lake Helen receives an annual distribution of a portion of the casualty insurance premium tax levied by the State of Florida on casualty insurance premiums generated within the municipal boundaries. While the dedicated taxes received from the State of Florida to supplement this retirement trust fund are legally restricted and properly deposited into the retirement plan when received, we noted that the accounting treatment in the General Fund had precluded the City from reporting the respective pension costs, as required by generally accepted accounting principles. Accordingly, the revenue and the corresponding expenditure are not budgeted in the General Fund and actual amounts received and disbursed are netted.

Recommendation: We understand that the State of Florida Division of Retirement requires these taxes to be deposited into each pension trust fund; however, this requirement should not result in treating these taxes as direct revenues of the pension trust funds. The General Fund of the City should record the Annual Pension Cost for each pension, usually based on the actuarially determined Annual Required Contribution, as Public Safety personal service expenditures, and the revenue should be recorded as taxes received by the State on behalf of the City in accordance with the provisions of GASB Statement No. 24.

Auditee Response: *Staff will incorporate the Auditor's recommendation into future practice.*

Credit Cards

During the audit process, we noted that the City issued credit cards to a number of employees, and that several purchases are made with these cards monthly. During our review of expenditures and other substantive work, we found that the purchases were not always completely supported or maintained, including the lack of receipts, and in some cases only a receipt with a total purchase amount was provided. The lack of substantiation could result in claims for reimbursable type grants being denied or disallowed. This practice results in the serious internal control weaknesses and could result in the payment of unsubstantiated expenses, as well as a loss from reimbursable type grant revenues. We also found that some credit card purchases were also charged sales tax. The City should never encounter sales taxes on purchases. Although these amounts are immaterial individually and in total, the City is incurring expenses in which it should never be charged.

Recommendation: We strongly recommend that the City enforce existing policies upon credit card holders and make certain that all purchases are adequately supported with receipts, invoices, and other documentation in order to substantiate all expenses. We also recommend that the City take the time to setup and/or convey all necessary information to all vendors to avoid having sales taxes applied on purchases.

Auditee Response: As noted in the Auditor's comments, the issues related to use of City credit cards are currently minor, or immaterial, in nature. However, administrative staff believes such issues should be addressed in order to avoid the occurrence of more significant future problems. Administrative staff will prepare administrative guidelines for the use of credit cards and for the reimbursement of expenses incurred in the use of credit cards. Said guidelines will also be presented for City Commission approval for incorporation into the City's Policies and Procedures Manual.

Accurate Postings

During our audit procedures, we noted numerous posting errors, which required that corrections be made to ensure accurate financial reporting. This particular type of error is such that some may never be discovered. Posting errors should occur only on a very limited basis. Due to this, we encountered extreme difficulty in obtaining accurate balances for balance sheet accounts, as well as income accounts. 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 recommend that the City implement procedures to guarantee that all activity is reviewed before entry to the general ledger system to ensure accurate financial reporting throughout the year.

Auditee Response: Financial staff turnover, and subsequent staff transition issues, resulted in the above-described issues. There has been a significant learning curve experienced by Finance Department staff, but as staff gains experience with City and State financial codes, these issues will be minimized in the future.