

CITY OF LAKE HELEN, FLORIDA

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007



MAYOR

Honorable Mark R. W. Shuttleworth

VICE MAYOR

Lewis C. Long III

CITY COMMISSIONERS

Lou Benton
Alan B. Cooke
William V. Snowden, Jr.

CITY ADMINISTRATOR

Donald L. Findell

CITY ATTORNEY

Kenneth W. McIntosh, Esq.

INDEPENDENT AUDITORS

Brent Millikan & Company, P.A.

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 September 30, 2007
 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, 2007, which collectively comprise the City of Lake Helen, Florida'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 City of Lake Helen, Florida, as of September 30, 2007, 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 June 2, 2008, on our consideration of 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 37 through 42, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Brest Milliken & Co., P.A.

June 2, 2008

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, 2007. 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 \$4,884,276 (net assets). Of this amount, \$989,177 (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 \$286,099 in fiscal year 2007. Net assets of the City's governmental activities (General, Stormwater Management and General Trust funds) increased by \$174,994 (5.2%), while net assets of its business type activities (Water Utility Fund) increased by \$111,105 (8.9%).
- The City's governmental funds reported combined ending fund balances of \$1,091,958 at the end of the current fiscal year, a decrease of \$104,630 in comparison to the \$1,196,589 reported at the end of the prior fiscal year. Approximately one-half of this amount (\$690,737), is available for spending at the City's discretion (unreserved fund balance).
- At the end of the 2007 fiscal year, unreserved fund balance for the General Fund was \$692,027 or 34.5% of the total fiscal 2007 General Fund expenditures. This represents a decrease of \$76,658 under the amount reported at the end of 2006.
- The City's total long-term debt decreased by \$103,949 during the fiscal year, due exclusively from scheduled current-year principal maturities/reductions on these obligations, as well as an early payment for the next year.

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 \$4,884,276 at the end of 2007, compared to \$4,598,177 at the end of 2006. This represents a total increase of \$286,099 or 6.2% 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, 2007 and 2006

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Assets:						
Current and other assets.....	\$ 1,580,723	1,515,952	502,502	514,972	2,083,225	2,030,924
Capital assets, net.....	<u>2,435,995</u>	<u>2,148,607</u>	<u>2,303,138</u>	<u>2,271,749</u>	<u>4,739,133</u>	<u>4,420,356</u>
Total assets	<u>4,016,718</u>	<u>3,664,559</u>	<u>2,805,640</u>	<u>2,786,721</u>	<u>6,822,358</u>	<u>6,451,280</u>
Liabilities:						
Long-term debt outstanding.....	-	-	1,339,499	1,422,462	1,339,499	1,422,462
Other liabilities.....	<u>488,254</u>	<u>311,089</u>	<u>110,329</u>	<u>119,552</u>	<u>598,583</u>	<u>430,641</u>
Total liabilities	<u>488,254</u>	<u>311,089</u>	<u>1,449,828</u>	<u>1,542,014</u>	<u>1,938,082</u>	<u>1,853,103</u>
Net assets:						
Invested in capital assets, net of related debt.....	2,435,995	2,148,607	963,639	828,301	3,399,634	2,976,908
Restricted.....	401,221	398,996	94,244	149,607	495,465	548,603
Unrestricted	<u>691,248</u>	<u>805,867</u>	<u>297,929</u>	<u>266,799</u>	<u>989,177</u>	<u>1,072,666</u>
Total net assets	<u>\$ 3,528,464</u>	<u>3,353,470</u>	<u>1,355,812</u>	<u>1,244,707</u>	<u>4,884,276</u>	<u>4,598,177</u>

The most significant component of the City's net assets (69.6%) is, by far, its investment in capital assets (land, buildings and equipment), less any related debt used to acquire or construct those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (10.1%) represents resources that are subject to external restrictions on how they may be used. Consequently, the remaining 20.3% 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 \$989,177 at the end of 2007, compared to \$1,072,666 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 2007, the City's total revenues decreased slightly to a total of \$2,611,282 from \$2,716,885 for the prior year. Approximately 25% of the City's revenue comes from property taxes, and 24% of every dollar raised comes from some other type of tax. Another 33% comes 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 increased \$180,304, or approximately 38.3%. This increase is due to general increases in operating expenditures. The total cost of routine programs and services for public safety, physical environment, and transportation remained relatively stable during 2007 with a decrease of approximately 2.7%. The cost of routine programs and services for culture and recreation decreased \$186,139, or approximately 46%. This decrease is, for the most part the result of costs incurred on major capital projects in the prior year. The total costs of routine program and services for business-type activities remained relatively stable with an increase of approximately 1.1%. The City's expenses cover a range of services, with approximately half related to public safety and administration.

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

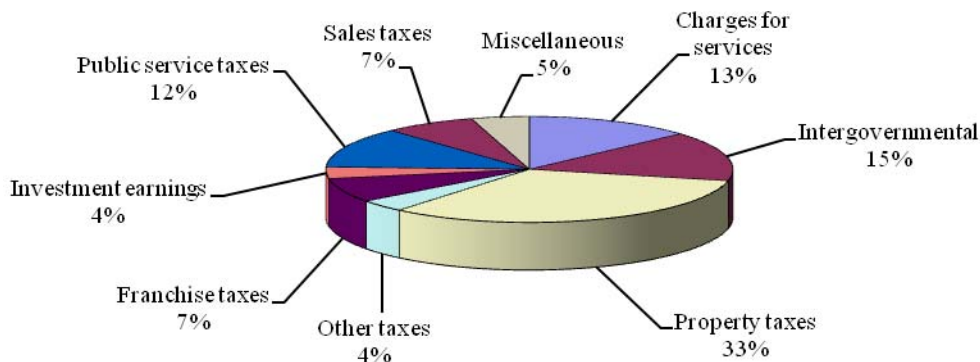
Changes in Net Assets
For the Fiscal Years Ended September 30, 2007 and 2006

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues:						
Program revenues:						
Charges for services.....	\$ 269,235	252,244	486,588	514,064	755,823	766,308
Operating grants/other.....	69,707	150,334	-	-	69,707	150,334
Capital grants/other.....	128,404	372,843	2,000	13,339	130,404	386,182
General revenues:						
Property taxes.....	658,198	498,589	-	-	658,198	498,589
Other taxes.....	625,543	635,224	-	-	625,543	635,224
Intergovernmental.....	107,767	111,221	107,120	-	214,887	111,221
Other revenues.....	142,445	158,288	14,275	10,739	156,720	169,027
Total revenues.....	<u>2,001,299</u>	<u>2,178,743</u>	<u>609,983</u>	<u>538,142</u>	<u>2,611,282</u>	<u>2,716,885</u>
Expenses:						
General government.....	650,550	470,246	-	-	650,550	470,246
Public safety.....	592,011	577,596	-	-	592,011	577,596
Physical environment.....	141,497	111,616	-	-	141,497	111,616
Transportation.....	225,487	296,295	-	-	225,487	296,295
Culture/recreation.....	216,760	402,899	-	-	216,760	402,899
Water and sewer utilities.....	-	-	498,878	493,464	498,878	493,464
Total expenses.....	<u>1,826,305</u>	<u>1,858,652</u>	<u>498,878</u>	<u>493,464</u>	<u>2,325,183</u>	<u>2,352,116</u>
Transfers in (out).....	-	-	-	-	-	-
Increase in net assets.....	<u>\$ 174,994</u>	<u>320,091</u>	<u>111,105</u>	<u>44,678</u>	<u>286,099</u>	<u>364,769</u>

Governmental Activities

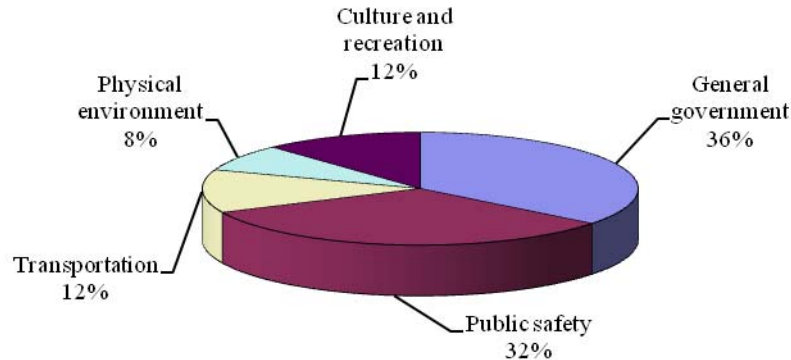
Revenues for the City’s governmental activities decreased to \$2,001,299 during 2007. This represents a decrease of \$177,444, or 8.1% under last year’s reported revenues totaling \$2,178,743. This decrease was primarily attributable to decreases in operating and capital grants of \$325,066, while these were offset by increases in most all of the other sources.

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



Total governmental expenses remained fairly constant from the prior year, for combined governmental activities expenses of \$1,826,305, which represents a decrease of \$32,347, or 1.7% under last year's reported expenditures of \$1,858,652.

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 \$27,476 during the year to a total of \$593,708 which is 5.3% below utility billings of \$514,064 in 2006. This decrease was attributable to decreased consumption for the year compared to the prior fiscal year as a result of apparent conservation efforts and slight rate increases. Investment income increased from \$10,739 in 2006 to \$14,275 in 2007 as a result of financial trends experienced on a national level and from the increase in surplus invested funds experienced this year. Customer contributions (in the form of impact fees) totaled \$2,000 for the year, down \$11,339 from \$13,339 received in 2006.

Operating expenses of the water utility fund increased in 2007 to \$498,878 compared with \$493,464 incurred in 2006. Included in these totals are interest and depreciation expense of \$75,144 and \$76,985 in 2007 and \$53,614 and \$77,122 in 2006, 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 \$1,091,958, which was \$104,630, or 8.7%, less than the \$1,196,588 reported last year.

The general fund is the chief operating fund of the City. As of September 30, 2007, the unreserved fund balance in the general fund totaled \$692,027. This unreserved fund balance represents approximately 34.5% (or 17.9 weeks) of the City's spending requirements experienced during 2007.

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 2007, there was a deficit fund balance of \$1,290, all of which should be replenished in the upcoming year by a reduction in operating expenditures.

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 \$297,929 which is \$31,130 over last year's reported amount of \$266,799. 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 \$585,169 less than the amounts anticipated to be received during the year in the City's General Fund. This net decrease was caused by a reduction of \$726,537 in anticipated grant revenues and an overall increase in earned revenues of \$141,368.

Capital Assets and Debt Administration

Capital Assets. At September 30, 2007, the City had \$4.74 million invested in a broad range of capital assets, including land buildings, park facilities, police equipment, public works equipment and water lines. This investment in capital assets, net of depreciation, for all activities is reflected in the following schedule.

Capital Assets For the Fiscal Years Ended September 30, 2007 and 2006

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land.....	\$ 438,997	438,997	-	-	438,997	438,997
Construction work in progress.....	566,787	517,749	120,546	15,000	687,333	532,749
Buildings.....	676,698	676,698	-	-	676,698	676,698
Improvements other than buildings.....	1,051,456	750,716	2,680,190	2,678,506	3,731,646	3,429,222
Machinery and equipment.....	615,667	604,401	363,177	362,032	978,844	966,433
Accumulated depreciation.....	<u>(913,610)</u>	<u>(839,953)</u>	<u>(860,775)</u>	<u>(783,789)</u>	<u>(1,774,385)</u>	<u>(1,623,742)</u>
Net total.....	<u>\$ 2,435,995</u>	<u>2,148,608</u>	<u>2,303,138</u>	<u>2,271,749</u>	<u>4,739,133</u>	<u>4,420,357</u>

During 2007, the City invested \$470,118 in capital assets which includes preliminary construction costs associated with the rehabilitation of the City Hall building of \$83,071, the Creative Arts Cafe of \$135,522, repair and re-constructions of various roads, and other City-wide equipment purchases. This compares to capital spending of approximately \$417,299 spent in 2006.

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 \$1,339,499 at year end compared to \$1,443,448 one year earlier. The proceeds of these loans, which were drawn in increments over preceding years, were used to finance the construction of a new water treatment facility. Under these agreements, the City began repayment of these loans in October 2003. More detailed information about the City's long-term debt is presented in Note 8 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 water 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 5.0% at the end of September 2007, which is dramatically higher than the 3.1% rate experienced one year earlier. The agency also reports average weekly wage statistics for Volusia County (\$598) are substantially lower than the statewide average (\$740) at September 30, 2007.
- Inflationary trends for Volusia County compare favorably with those trends experienced at the state and national levels.

The budget adopted for the General Fund for 2007-2008 utilized the prior year's final adopted budget as the baseline from which priority setting and decisions were made to formulate the new budget.

During the current fiscal year, unreserved fund balance in the Stormwater Management Fund decreased by \$30,197 to its current deficit level of \$1,290. Anticipated funds, including approximately \$47,000 in 2007 stormwater assessments and state grants, have been appropriated for the construction of drainage system improvements.

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, 2007
CITY OF LAKE HELEN, FLORIDA

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and cash equivalents.....	\$ 451,044	63,396	514,440
Investments.....	896,112	88,695	984,807
Receivables, net.....	171,934	156,482	328,416
Inventories.....	500	20,000	20,500
Other assets.....	-	18,607	18,607
Internal balances.....	61,133	(61,133)	-
Temporarily restricted assets:			
Cash and cash equivalents.....	-	158,355	158,355
Investments.....	-	58,100	58,100
Capital assets:			
Land.....	438,997	-	438,997
Buildings.....	676,698	-	676,698
Improvements other than buildings.....	1,051,456	2,680,190	3,731,646
Equipment and furniture.....	615,667	363,177	978,844
Less: accumulated depreciation.....	(913,610)	(860,775)	(1,774,385)
Construction work in progress.....	566,787	120,546	687,333
Total assets.....	<u>4,016,718</u>	<u>2,805,640</u>	<u>6,822,358</u>
Liabilities:			
Accounts payable.....	122,336	12,296	134,632
Accrued liabilities.....	121,495	39,418	160,913
Due to pension trust fund.....	11,707	-	11,707
Deposits/unearned revenue.....	232,716	58,615	291,331
Long-term debt:			
Due within one year.....	-	35,867	35,867
Due in more than one year.....	-	1,303,632	1,303,632
Total liabilities.....	<u>488,254</u>	<u>1,449,828</u>	<u>1,938,082</u>
Net Assets:			
Invested in capital assets, net of related debt.....	2,435,995	963,639	3,399,634
Restricted for:			
Capital projects.....	43,801	94,238	138,039
Debt service.....	-	6	6
Reserved for law enforcement.....	7,120	-	7,120
Reserved for other purposes.....	350,300	-	350,300
Unrestricted.....	691,248	297,929	989,177
Total net assets.....	<u>\$ 3,528,464</u>	<u>1,355,812</u>	<u>4,884,276</u>

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

STATEMENT OF ACTIVITIES
 For the Year Ended September 30, 2007
 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.....	\$ 650,550	26,487	-	76,452
Public safety.....	592,011	57,187	-	1,000
Physical environment.....	141,497	185,561	-	29,648
Transportation.....	225,487	-	-	-
Culture/recreation.....	<u>216,760</u>	<u>-</u>	<u>69,707</u>	<u>21,304</u>
Total governmental activities.....	<u>1,826,305</u>	<u>269,235</u>	<u>69,707</u>	<u>128,404</u>
Business-type Activities:				
Water utilities.....	<u>498,878</u>	<u>593,708</u>	<u>-</u>	<u>2,000</u>
Total primary government.....	<u>\$ 2,325,183</u>	<u>862,943</u>	<u>69,707</u>	<u>130,404</u>

General revenues:

Taxes:

Property taxes, levied for general purposes.....
Local option sales taxes.....
State-casualty insurance premium taxes.....
Franchise taxes.....
Public service taxes.....
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	Business-type	Total
Activities	Activities	
(547,611)		(547,611)
(533,824)		(533,824)
73,712		73,712
(225,487)		(225,487)
<u>(125,749)</u>		<u>(125,749)</u>
<u>(1,358,959)</u>		<u>(1,358,959)</u>
	<u>96,830</u>	<u>96,830</u>
<u>(1,358,959)</u>	<u>96,830</u>	<u>(1,262,129)</u>
658,198	-	658,198
59,689	-	59,689
16,100	-	16,100
150,470	-	150,470
251,882	-	251,882
147,402	-	147,402
107,767	-	107,767
70,650	14,275	84,925
<u>71,795</u>	<u>-</u>	<u>71,795</u>
<u>1,533,953</u>	<u>14,275</u>	<u>1,548,228</u>
174,994	111,105	286,099
<u>3,353,470</u>	<u>1,244,707</u>	<u>4,598,177</u>
<u>\$ 3,528,464</u>	<u>1,355,812</u>	<u>4,884,276</u>

BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2007
CITY OF LAKE HELEN, FLORIDA

	General	Stormwater Management	General Trust Fund	Total Governmental Funds
Assets:				
Cash and cash equivalents.....	\$ 446,062	4,982	-	451,044
Investments.....	546,112	-	350,000	896,112
Receivables, net:				
Delinquent taxes.....	511	-	-	511
Accounts.....	30,413	-	300	30,713
Due from other funds.....	61,133	7,780	-	68,913
Due from other governments.....	140,710	-	-	140,710
Inventories.....	500	-	-	500
Total assets.....	<u>\$ 1,225,441</u>	<u>12,762</u>	<u>350,300</u>	<u>1,588,503</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable.....	\$ 122,336	-	-	122,336
Accrued liabilities.....	107,443	14,052	-	121,495
Due to other funds.....	19,487	-	-	19,487
Deposits.....	80,391	-	-	80,391
Deferred revenues.....	<u>152,836</u>	-	-	<u>152,836</u>
Total liabilities.....	<u>482,493</u>	<u>14,052</u>	<u>-</u>	<u>496,545</u>
Fund Balances:				
Reserved for:				
Reserved for capital projects.....	43,801	-	-	43,801
Reserved for law enforcement.....	7,120	-	-	7,120
Reserved for other purposes.....	-	-	350,300	350,300
Unreserved:				
Designated.....	142,200	(1,290)	-	140,910
Undesignated.....	<u>549,827</u>	-	-	<u>549,827</u>
Total fund balances.....	<u>742,948</u>	<u>(1,290)</u>	<u>350,300</u>	1,091,958
Total liabilities and fund balances.....	<u>\$ 1,225,441</u>	<u>12,762</u>	<u>350,300</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.....	2,435,995
Other long-term assets are not available to pay current-period expenditures and therefore are deferred in the funds.....	<u>511</u>
Net assets of governmental activities.....	<u>\$ 3,528,464</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, 2007
CITY OF LAKE HELEN, FLORIDA

	General	Stormwater Management	General Trust Fund	Total- Governmental Funds
Revenue:				
Property taxes.....	\$ 665,961	-	-	665,961
Local option sales taxes.....	59,689	-	-	59,689
State-casualty insurance premium taxes.....	16,100	-	-	16,100
Franchise taxes.....	150,470	-	-	150,470
Public service taxes.....	251,882	-	-	251,882
Fines and forfeitures.....	57,187	-	-	57,187
Licenses and permits.....	25,406	327	-	25,733
Intergovernmental revenue.....	423,632	29,648	-	453,280
Charges for services.....	137,677	48,638	-	186,315
Investment earnings.....	53,992	-	16,658	70,650
Miscellaneous revenue.....	<u>71,795</u>	<u>-</u>	<u>-</u>	<u>71,795</u>
Total revenue.....	<u>1,913,791</u>	<u>78,613</u>	<u>16,658</u>	<u>2,009,062</u>
Expenditures:				
Current:				
General government.....	699,027	21,850	-	720,877
Public safety.....	573,088	-	-	573,088
Physical environment.....	139,134	-	-	139,134
Transportation.....	218,578	86,960	-	305,538
Culture/recreation.....	<u>375,055</u>	<u>-</u>	<u>-</u>	<u>375,055</u>
Total expenditures.....	<u>2,004,882</u>	<u>108,810</u>	<u>-</u>	<u>2,113,692</u>
Excess of revenue over expenditure.....	(91,091)	(30,197)	16,658	(104,630)
Other Financing Sources (Uses):				
Operating transfers from:				
General Trust Fund.....	16,690	-	-	16,690
Operating transfers (to):				
General Fund.....	<u>-</u>	<u>-</u>	<u>(16,690)</u>	<u>(16,690)</u>
Total other financing sources (uses).....	<u>16,690</u>	<u>-</u>	<u>(16,690)</u>	<u>-</u>
Net change in fund balances.....	(74,401)	(30,197)	(32)	(104,630)
Fund Balances:				
Beginning of year.....	<u>817,349</u>	<u>28,907</u>	<u>350,332</u>	<u>1,196,588</u>
End of year.....	<u>\$ 742,948</u>	<u>(1,290)</u>	<u>350,300</u>	<u>1,091,958</u>

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, 2007
CITY OF LAKE HELEN, FLORIDA

Net change in fund balances - total governmental funds..... \$ (104,630)

Amounts reported for governmental activities in the statement of activities
(Exhibit 2) 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.....	361,743	
Less: current year provision for depreciation.....	<u>(74,356)</u>	287,387

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.....	511	
Delinquent taxes receivable - beginning of year.....	<u>(8,274)</u>	<u>(7,763)</u>

Change in net assets of governmental activities..... \$ 174,994

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

STATEMENT OF FUND NET ASSETS
WATER UTILITY PROPRIETARY FUND
September 30, 2007
CITY OF LAKE HELEN, FLORIDA

Assets:		
Current Assets:		
Cash and cash equivalents.....	\$ 63,396	
Investments.....	88,695	
Accounts receivable (net).....	156,482	
Inventories.....	20,000	
Restricted cash and cash equivalents.....	158,355	
Restricted investments.....	<u>58,100</u>	
Total current assets.....		<u>545,028</u>
Noncurrent Assets:		
Unamortized debt issuance costs.....		18,607
Capital assets:		
Pumping and treatment plant.....	2,078,153	
Distribution systems.....	602,037	
General utilities equipment.....	363,177	
Construction in progress.....	120,546	
Less: accumulated depreciation.....	<u>(860,775)</u>	<u>2,303,138</u>
Total noncurrent assets.....		<u>2,321,745</u>
Total assets.....		<u>2,866,773</u>
Liabilities:		
Current Liabilities:		
Accounts payable and accrued liabilities.....	35,373	
Due to other funds.....	61,133	
Customer deposits.....	58,615	
Note payable - current maturities.....	<u>35,867</u>	
Total current liabilities.....		190,988
Noncurrent Liabilities:		
Compensated absences.....	16,341	
Note payable.....	<u>1,303,632</u>	
Total noncurrent liabilities.....		<u>1,319,973</u>
Total liabilities.....		<u>1,510,961</u>
Net Assets:		
Invested in capital assets, net of related debt.....	963,639	
Restricted for debt service.....	6	
Restricted for utility expansion.....	94,238	
Unrestricted.....	<u>297,929</u>	
Total net assets.....		<u>\$ 1,355,812</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, 2007
CITY OF LAKE HELEN, FLORIDA

Operating Revenues:		
Charges for services.....	\$ 466,852	
Miscellaneous.....	<u>19,736</u>	
Total operating revenue.....		486,588
Operating Expenses:		
Personal services.....	179,507	
Materials and supplies.....	59,754	
Utilities.....	21,504	
Maintenance and repairs.....	25,540	
Contractual services.....	57,486	
Other expenses.....	2,958	
Depreciation.....	<u>76,985</u>	
Total operating expenses.....		<u>423,734</u>
Operating income.....		62,854
Nonoperating revenues (expenses):		
Intergovernmental.....	107,120	
Interest earnings.....	14,275	
Interest expense.....	<u>(75,144)</u>	
Total nonoperating revenue (expense).....		<u>46,251</u>
Income before contributions.....		109,105
Capital contributions.....		<u>2,000</u>
Change in net assets.....		111,105
Net Assets:		
Beginning of year.....		<u>1,244,707</u>
End of year.....		<u>\$ 1,355,812</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, 2007
CITY OF LAKE HELEN, FLORIDA

Cash Flows From Operating Activities:	
Cash received from customers.....	\$ 581,955
Cash paid to suppliers.....	(172,149)
Cash paid for personal services.....	<u>(183,378)</u>
Net cash provided by (used in) operating activities.....	226,428
Cash Flows From Capital and Related Financing Activities:	
Advances from other funds.....	44,283
Payments of long-term debt principal.....	(103,949)
Interest payments.....	(73,870)
Contributed capital received.....	2,000
Acquisition of capital assets.....	<u>(108,375)</u>
Net cash provided by (used in) capital and related financing activities....	(239,911)
Cash Flows From Investing Activities:	
Interest earnings received.....	14,275
Acquisition of investments.....	<u>(4,413)</u>
Net cash provided by (used in) investing activities.....	<u>9,862</u>
Net increase (decrease) in cash and cash equivalents.....	(3,621)
Cash and cash equivalents - Beginning of year.....	<u>225,372</u>
Cash and cash equivalents - End of year.....	<u>\$ 221,751</u>
Reconciliation of cash and cash equivalents:	
Unrestricted.....	\$ 63,396
Restricted.....	<u>158,355</u>
Total - all sources.....	<u>\$ 221,751</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income (loss).....	\$ 169,974
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation and amortization.....	76,985
Changes in assets and liabilities:	
Accounts receivable (net).....	(12,413)
Accounts payable.....	(4,908)
Accrued liabilities.....	(461)
Compensated absences.....	(3,410)
Customer deposits.....	<u>661</u>
Net cash provided by operating activities.....	<u>\$ 226,428</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, 2007
CITY OF LAKE HELEN, FLORIDA

Assets:	
Cash and cash equivalents.....	\$ 16,358
Receivables:	
Employer.....	11,707
Due from other governments.....	<u>16,100</u>
Total receivables.....	27,807
Investments in mutual funds at fair value.....	<u>377,773</u>
Total assets.....	<u>421,938</u>
Liabilities.....	<u>-</u>
Net Assets:	
Held in trust for pension benefits.....	<u>\$ 421,938</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, 2007
CITY OF LAKE HELEN, FLORIDA

Additions:

Contributions from:

Employees.....	\$	1,944
Employer (City).....		37,486
State-Casualty Insurance Premium Taxes.....		<u>16,100</u>

Total contributions..... 55,530

Investment income:

Net investment earnings, including appreciation (depreciation) in fair value of investments.....		<u>40,763</u>
---	--	---------------

Total additions..... 96,293

Deductions:

Refunds of contributions.....		1,021
Administrative expenses.....		<u>3,059</u>

Total deductions..... 4,080

Net increase..... 92,213

Net Assets Held in Trust for Pension Benefits:

Beginning of year..... 329,725

End of year..... \$ 421,938

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

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2007

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, 2007

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, 2007

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, 2007

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, 2007

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	Sick Leave
1 to 4 years service	10 days	12 days
5 to 10 years service	15 days	12 days
11 to 15 years service	20 days	12 days
Over 15 years service	25 days	12 days

City employees may accumulate sick leave up to a maximum of 360 hours. Full-time employees with a minimum of five consecutive years of employment may receive payment of 25% of accumulated sick leave upon request (with two weeks notice). All employees will receive 25% of accumulated sick 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, 2007

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, 2007

CITY OF LAKE HELEN, FLORIDA

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 (2006 tax levy) was 5.2 mills for ad valorem taxes collected by the City during the year ended September 30, 2007. 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

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

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2007

CITY OF LAKE HELEN, FLORIDA

NOTE 5 - CASH DEPOSITS AND INVESTMENTS

At September 30, 2007 the City had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (Years)</u>			
		<u>Less Than 1</u>	<u>From 1-5</u>	<u>From 6-10</u>	<u>Over 10</u>
Certificates of deposit.....	\$ 561,795	561,795	-	-	-
Local Government Surplus Funds					
Trust fund	479,697	479,697	-	-	-
Ad Valorem tax certificates.....	1,415	-	1,415	-	-
Mutual Fund - Bonds.....	152,148	-	-	152,148	-
Equity Securities - Domestic	189,468	189,468	-	-	-
Equity Securities - International	<u>36,157</u>	<u>36,157</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	\$ <u>1,420,680</u>	<u>1,267,117</u>	<u>1,415</u>	<u>152,148</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 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;

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2007

CITY OF LAKE HELEN, FLORIDA

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, 2007, the carrying amount of the City's deposits in the Local Government Surplus Funds Trust Fund was \$479,697, all of which was covered by collateral securities in accordance with the Act. The carrying amount of the City's \$561,795 investment in certificates of deposit was collateralized with securities pledged or deposited to the State's Chief Financial Officer (under statutory provisions mentioned above) by the City's depository banks. All remaining deposits of the City were adequately covered by federal depository insurance and the statutory provisions of the Act. All investments held by the City's police and fire pension trust funds were uninsured, unregistered and held by the Plans' trustees.

NOTE 6 - RECEIVABLES

A summary of receivables at September 30, 2007, is as follows:

	Governmental Activities	Business-Type Activities	Total
Delinquent taxes receivable.....	\$ 511	-	511
Accounts receivable	30,713	142,374	173,087
Unbilled accounts receivable.....	-	17,105	17,105
Due from other governments.....	<u>140,710</u>	<u>-</u>	<u>140,710</u>
	171,934	159,479	331,413
Less: allowance for doubtful accounts	<u>-</u>	<u>2,997</u>	<u>2,997</u>
Net receivables.....	<u>\$ 171,934</u>	<u>156,482</u>	<u>328,416</u>

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2007

CITY OF LAKE HELEN, FLORIDA

Interfund receivables/payables reported in the fund financial statements (and eliminated in the basic government-wide financial statements) are as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund:		
Due from Utility Fund	\$ 61,133	-
Due to Stormwater Management Fund	-	7,780
Stormwater Management Fund:		
Due from General Fund	7,780	-
Utility Fund:		
Due to General Fund	<u>-</u>	<u>61,133</u>
Totals	<u>\$ 68,913</u>	<u>68,913</u>

NOTE 7 - CAPITAL ASSETS

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

A. Governmental Activities	<u>Balances</u> <u>09/30/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>09/30/07</u>
Capital assets, not being depreciated:				
Land	\$ 438,997	-	-	438,997
Construction in progress	<u>517,748</u>	<u>349,779</u>	<u>300,740</u>	<u>566,787</u>
	<u>956,745</u>	<u>349,779</u>	<u>300,740</u>	<u>1,005,784</u>
Capital assets, being depreciated:				
Buildings	676,698	-	-	676,698
Improvements other than buildings	750,717	300,739	-	1,051,456
Equipment and furniture	<u>604,401</u>	<u>11,965</u>	<u>699</u>	<u>615,667</u>
	2,031,816	312,704	-	2,343,821
Less: accumulated depreciation	<u>(839,953)</u>	<u>(74,356)</u>	<u>(699)</u>	<u>(913,610)</u>
	<u>1,191,863</u>	<u>238,348</u>	<u>-</u>	<u>1,430,211</u>
Totals	<u>\$2,148,608</u>	<u>588,127</u>	<u>300,740</u>	<u>2,435,995</u>

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

Governmental Activities:	
General government	\$ 12,744
Public safety	23,287
Physical environment	2,363
Transportation	11,474
Culture/recreation	<u>24,356</u>
Total	<u>\$ 74,356</u>

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2007

CITY OF LAKE HELEN, FLORIDA

B. Business-Type Activities	Balances <u>09/30/06</u>	Additions	Deletions	Balances <u>09/30/07</u>
Capital assets, not being depreciated:				
Construction in progress	\$ <u>15,000</u>	<u>105,546</u>	-	<u>120,546</u>
Capital assets, being depreciated:				
Improvements other than buildings	2,678,506	1,684	-	2,680,190
Equipment and furniture	<u>362,032</u>	<u>1,145</u>	-	<u>363,177</u>
	3,040,538	2,829	-	3,043,367
Less: accumulated depreciation	<u>(783,790)</u>	<u>(76,985)</u>	-	<u>(860,775)</u>
	<u>2,256,748</u>	<u>(74,156)</u>	-	<u>2,182,592</u>
Total	\$ <u>2,271,748</u>	<u>31,390</u>	-	<u>2,303,138</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 \$76,985.

NOTE 8 - LONG-TERM DEBT

During the year ended September 30, 2007, the following changes in long-term debt occurred:

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
Balance, October 1, 2006.....	\$ -	1,443,448	1,443,448
Additions.....	-	-	-
Principal reductions	-	<u>(103,949)</u>	<u>(103,949)</u>
Balance, September 30, 2007.....	-	1,339,499	1,339,499
Amount due within one year.....	-	<u>35,867</u>	<u>35,867</u>
Amount due in more than one year.....	<u>\$ -</u>	<u>1,303,632</u>	<u>1,303,632</u>

Revenue Notes Payable - State of Florida, Department of Environmental Protection Drinking Water State Revolving Fund Loan Agreement. On June 14, 2000, the City executed a \$1,377,456 construction loan agreement with the State of Florida, Department of Environmental Protection, through the Capitalization Grants for Drinking Water State Revolving Fund program, for the purpose of constructing water storage facilities and upgrading existing central water mains. Subsequent to the original loan agreement, two separate loan agreement amendments (collectively referred to as the "Loan Agreement") were authorized that provided for additional financing of \$318,512 thereby providing for an amended obligation totaling \$1,695,969. Repayment of the aggregate loans will be in the form of 40 semi-annual payments of principal and interest (with rates ranging from 3.05% to 3.57%) of \$59,273, commencing October 15, 2003. As a part of the Loan Agreement, the City is also 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.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2007

CITY OF LAKE HELEN, FLORIDA

The aggregate annual long-term debt service requirements to maturity are as follows:

<u>Year Ending</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
September 30, 2008	\$ 23,406	35,867	59,273
September 30, 2009	44,923	73,624	118,547
September 30, 2010	42,329	76,218	118,547
September 30, 2011	39,643	78,903	118,546
September 30, 2012	36,862	81,684	118,546
September 30, 2013	33,984	84,563	118,547
September 30, 2014	31,003	87,543	118,546
September 30, 2015	27,917	90,629	118,546
September 30, 2016	24,722	93,824	118,546
September 30, 2017	21,415	97,132	118,547
September 30, 2018	17,990	100,556	118,546
September 30, 2019	14,444	104,102	118,546
September 30, 2020	10,774	107,773	118,547
September 30, 2021	6,973	111,573	118,546
September 30, 2022	<u>3,038</u>	<u>115,508</u>	<u>118,546</u>
Totals	<u>\$ 379,423</u>	<u>1,339,499</u>	<u>1,718,922</u>

NOTE 9 - 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 defined benefit pension plan created in December, 1970, that acts as a common investment and administrative agent for municipalities and other qualifying political subdivisions in the State of Florida. The pension plan, which is administered by the State of Florida, Department of Administration, 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. Both of these provisions require that any increase in retirement benefits must be funded concurrently on an actuarially sound basis. 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.

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. In previous years, these acts provided that funds were to be accumulated from employee contributions, employer contributions, State appropriations and income from investments of accumulated funds. The act also provides that, should the accumulated funds in the fund at any time be insufficient to meet and pay the benefits due, the employer shall supplement the funds by an appropriation from current funds, or from any revenues which may lawfully be used for said purposes, in an amount sufficient to make up the deficiency.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2007

CITY OF LAKE HELEN, FLORIDA

The City’s contributions to the plan for the fiscal years ended September 30, 2007, 2006, and 2005 were \$71,548, \$63,159, and \$52,412, 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 special risk participants in effect during each of the past three fiscal years ended September 30, 2007, 2006, and 2005 by retirement plan periods (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, 2004 to June 30, 2005.....	7.39%	18.53%
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 September 30, 2007.....	9.85%	20.92%

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

Plan Description. The City contributes to the Florida Municipal Pension Trust Fund Defined Benefit Plan and Trust (the “Plan”), a single-employer defined benefit plan which is administered by Florida League of Cities, Inc., P. O. Box 1757, Tallahassee, FL 32302-1757. Under Resolution No. 95-5, the City established this Plan for all full-time sworn police officers hired on or after January 1, 1996, by temporarily revoking its prior participation in the Florida Retirement System pursuant to Chapter 95-338, Laws of Florida with respect to such employees. As of October 1, 2006, there were 6 active participating members enrolled in the Plan. 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.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2007

CITY OF LAKE HELEN, FLORIDA

Funding Policy. The contribution requirements of Plan members and the City are established and may be amended by the State Legislature. Plan members are required to contribute 1% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 14.50% 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.

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, 2006 is as follows:

	2005/2006	2006/2007
	<u>Plan Year</u>	<u>Plan Year</u>
Annual required contribution	\$ 29,604	64,948
Interest on net pension obligation.....	0	0
Adjustment to annual required contribution.....	<u>0</u>	<u>0</u>
Annual pension cost	29,604	64,948
Contributions made	<u>(29,604)</u>	<u>(54,992)</u>
Increase (decrease) in net pension obligation.....	0	9,956
Net Pension Obligation (NPO):		
Beginning of year.....	<u>0</u>	<u>0</u>
End of year.....	<u>\$ 0</u>	<u>9,956</u>

The City’s annual required contribution for the current year was determined as part of the October 1, 2006, 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) 7.5% per annum investment rate of return, (b) projected salary increases of 5.6% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include any post-retirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four year period. There was no unfunded actuarial liability at October 1, 2006

Trend Information

Fiscal Year <u>Ending</u>	Annual Pension Cost (APC) <u>Cost (APC)</u>	Percentage of APC Contributed <u>Contributed</u>	Net Pension Obligation <u>Obligation</u>
09/30/04	\$ 26,543	100%	\$ 0
09/30/05	\$ 28,096	100%	\$ 0
09/30/06	\$ 29,604	100%	\$ 0

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2007

CITY OF LAKE HELEN, FLORIDA

NOTE 10 - EXCESS EXPENDITURES OVER REVENUES

The General Fund incurred expenditures in excess of revenues in the amount of \$74,401. This was a planned use of General Fund surplus funds.

The Stormwater Management Fund incurred expenditures in excess of revenues in the amount of \$30,197. This was a planned use of stormwater surplus funds which are all restricted to Stormwater projects.

The General Trust Fund incurred expenditures in excess of revenues in the amount of \$32.

NOTE 12 - DEFICIT FUND BALANCE

The Stormwater Management Fund had a deficit fund balance of \$1,290 as a result of operations for the year ended September 30, 2007. This deficit was funded by advances from the General Fund. Repayment of these advances will be accomplished from operational savings resulting from a reduction in operational expenditures.

NOTE 13 - RISK MANAGEMENT

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

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

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

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2007

CITY OF LAKE HELEN, FLORIDA

NOTE 15 - SUBSEQUENT EVENTS

At September 30, 2007, the City of Lake Helen had \$479,697 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool (Pool). In the face of extraordinary liquidity demands due to an unprecedented amount of withdrawals experienced by the Fund coupled with the absence of market liquidity for certain securities within the Pool, on November 29, 2007, the State Board of Administration Trustees took action to freeze a portion of the assets held in the Pool and consider new procedures moving forward. The significant amount of withdrawals followed reports that the Pool held asset-backed commercial paper that was subject to substantial sub-prime mortgage risk.

On December 4, 2007, based on recommendations from an outside financial advisor, the Trustees approved a plan to divide the Pool into two portions. Pool A, which was approximately \$12 billion or 86% of all Pool assets, consisted of rated securities that were sufficient to assist the pool in securing an AAAM rating from Standard and Poor's. Assets placed in Pool B consisted of: (a) securities that were in default status (from a single issuer with a par value of \$175 million or 1.25% of total pool assets when frozen); (b) securities that had defaulted in October, whose obligations had been restructured and were in current pay status (from three issuers with a par value of \$666 million or 4.74% of total pool assets when frozen); and (c) securities that had not defaulted and were still within purchase guidelines, but were causing some market anxiety (from three issuers with a par value of \$1,999 million or 8.54% of total pool assets when frozen).

The Pool's operating procedures were also revised. Each participant with an account in the Pool at the time of the freeze retains a pro rata interest in Pool B, based on their account value on November 29, 2007. The investment objective for Pool B is to maximize the present value of distributions to participants, to the extent reasonable and prudent, net of fees; thus weight is given not only to the realized value of security sales, but also to the speed with which monies are distributed (liquidity). As cash becomes available in Pool B, whether from coupon (interest) receipts, maturities, or sales, it will be distributed among participant accounts in Pool A, according to each participant's pro rata share of Pool B. All such distributions from Pool B will be 100% available liquid balance (ALB) upon transfer. Participants cannot conduct transactions in Pool B.

On December 5, 2007, the City of Lake Helen had \$481,987 invested in the Pool, of which \$69,331 was transferred to Pool B. On April 30, 2008, \$38,812 of these funds remained on deposit with in Pool B. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Fiscal Year Ended September 30, 2007
CITY OF LAKE HELEN, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Resources (inflows):				
Taxes:				
Property taxes.....	\$ 670,000	670,000	665,961	(4,039)
Local option gas tax.....	65,000	65,000	59,689	(5,311)
Casualty insurance premium tax.....	-	-	16,100	16,100
Franchise taxes.....	125,000	125,000	150,470	25,470
Public service taxes.....	<u>230,000</u>	<u>230,000</u>	<u>251,882</u>	<u>21,882</u>
	<u>1,090,000</u>	<u>1,090,000</u>	<u>1,144,102</u>	<u>54,102</u>
Licenses and permits:				
Business	8,000	8,000	8,099	99
Nonbusiness	<u>25,000</u>	<u>25,000</u>	<u>17,307</u>	<u>(7,693)</u>
	<u>33,000</u>	<u>33,000</u>	<u>25,406</u>	<u>(7,594)</u>
Intergovernmental Revenue:				
Federal grants.....	-	-	-	-
State grants.....	200,000	200,000	81,870	(118,130)
State Shared Revenues:				
State revenue sharing proceeds.....	90,000	90,000	97,062	7,062
Mobile home licenses.....	6,000	6,000	5,907	(93)
Alcoholic beverage licenses.....	1,500	1,500	789	(711)
Local half-cent sales tax.....	150,000	150,000	147,402	(2,598)
Motor fuel tax rebate.....	1,000	1,000	-	(1,000)
Other Shared Revenues:				
County and other grants.....	695,000	695,000	86,593	(608,407)
County shared revenues.....	<u>3,000</u>	<u>3,000</u>	<u>4,009</u>	<u>1,009</u>
	<u>1,146,500</u>	<u>1,146,500</u>	<u>423,632</u>	<u>(722,868)</u>
Charges for services:				
General government.....	250	250	754	504
Garbage/solid waste.....	135,000	135,000	136,883	1,883
Human Services.....	<u>400</u>	<u>400</u>	<u>40</u>	<u>(360)</u>
	<u>135,650</u>	<u>135,650</u>	<u>137,677</u>	<u>2,027</u>
Fines and forfeitures:				
Court cases.....	46,500	46,500	40,922	(5,578)
Local ordinance violations.....	<u>-</u>	<u>-</u>	<u>16,265</u>	<u>16,265</u>
	<u>46,500</u>	<u>46,500</u>	<u>57,187</u>	<u>10,687</u>
Miscellaneous Revenues:				
Interest earnings.....	35,000	35,000	53,992	18,992
Rents and royalties.....	2,000	2,000	8,142	6,142
Development impact fees.....	15,000	15,000	2,300	(12,700)
Miscellaneous revenues.....	<u>12,000</u>	<u>12,000</u>	<u>61,353</u>	<u>49,353</u>
	<u>64,000</u>	<u>64,000</u>	<u>125,787</u>	<u>61,787</u>

REQUIRED SUPPLEMENTARY INFORMATION (Continued)
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Fiscal Year Ended September 30, 2007
CITY OF LAKE HELEN, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Transfers from other funds.....	\$ -	-	16,690	16,690
Amounts available for appropriation.....	<u>2,515,650</u>	<u>2,515,650</u>	<u>1,930,481</u>	<u>(585,169)</u>
Charges to Appropriations (Outflows):				
General Government:				
Legislative:				
Personal services.....	24,100	24,100	24,519	(419)
Operating expenditures.....	<u>3,800</u>	<u>3,800</u>	<u>3,542</u>	<u>258</u>
	<u>27,900</u>	<u>27,900</u>	<u>28,061</u>	<u>(161)</u>
Executive:				
Personal services	106,300	106,300	111,827	(5,527)
Operating expenditures	<u>2,500</u>	<u>2,500</u>	<u>43</u>	<u>2,457</u>
	<u>108,800</u>	<u>108,800</u>	<u>111,870</u>	<u>(3,070)</u>
Finance:				
Personal services.....	35,600	35,600	38,536	(2,936)
Operating expenditures.....	<u>23,000</u>	<u>23,000</u>	<u>27,349</u>	<u>(4,349)</u>
	<u>58,600</u>	<u>58,600</u>	<u>65,885</u>	<u>(7,285)</u>
Legal:				
Operating expenditures.....	<u>45,000</u>	<u>45,000</u>	<u>61,089</u>	<u>(16,089)</u>
Other General Government:				
Personal services.....	124,050	124,050	112,063	11,987
Operating expenditures.....	271,800	271,800	236,988	34,812
Capital outlay.....	<u>207,500</u>	<u>207,500</u>	<u>83,071</u>	<u>124,429</u>
	<u>603,350</u>	<u>603,350</u>	<u>432,122</u>	<u>171,228</u>
Total general government.....	<u>843,650</u>	<u>843,650</u>	<u>699,027</u>	<u>144,623</u>
Public Safety:				
Law Enforcement:				
Personal services.....	452,050	452,050	482,862	(30,812)
Operating expenditures.....	77,000	77,000	73,230	3,770
Capital outlay.....	<u>1,500</u>	<u>1,500</u>	<u>4,364</u>	<u>(2,864)</u>
	<u>530,550</u>	<u>530,550</u>	<u>560,456</u>	<u>(29,906)</u>
Protective Inspection:				
Operating expenditures.....	<u>16,500</u>	<u>16,500</u>	<u>12,632</u>	<u>3,868</u>
Total public safety.....	<u>547,050</u>	<u>547,050</u>	<u>573,088</u>	<u>(26,038)</u>
Physical Environment:				
Garbage/solid waste:				
Operating expenditures.....	<u>132,000</u>	<u>132,000</u>	<u>139,134</u>	<u>(7,134)</u>
Total physical environment	<u>132,000</u>	<u>132,000</u>	<u>139,134</u>	<u>(7,134)</u>

REQUIRED SUPPLEMENTARY INFORMATION (Continued)
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Fiscal Year Ended September 30, 2007
CITY OF LAKE HELEN, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Road and Street Facilities:				
Personal services.....	\$ 125,900	125,900	110,743	15,157
Operating expenditures.....	87,000	87,000	92,452	(5,452)
Capital outlay.....	-	-	15,383	(15,383)
Total transportation.....	<u>212,900</u>	<u>212,900</u>	<u>218,578</u>	<u>(5,678)</u>
Culture/Recreation:				
Parks and Recreation:				
Personal services.....	89,550	89,550	93,866	(4,316)
Operating expenditures.....	63,000	63,000	98,406	(35,406)
Capital outlay.....	<u>627,500</u>	<u>627,500</u>	<u>182,783</u>	<u>444,717</u>
Total culture/recreation.....	<u>780,050</u>	<u>780,050</u>	<u>375,055</u>	<u>404,995</u>
Total charges to appropriations.....	<u>2,515,650</u>	<u>2,515,650</u>	<u>2,004,882</u>	<u>510,768</u>
Net change in budgetary fund balance.....	-	-	(74,401)	(74,401)
Fund Balance:				
Beginning of year.....	<u>817,349</u>	<u>817,349</u>	<u>817,349</u>	-
End of year.....	<u>\$ 817,349</u>	<u>817,349</u>	<u>742,948</u>	<u>(74,401)</u>

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - STORMWATER MANAGEMENT FUND
For the Fiscal Year Ended September 30, 2007
CITY OF LAKE HELEN, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Resources (inflows):				
Intergovernmental Revenue:				
Grants from other governments.....	\$ 28,850	28,850	29,648	798
Charges for services:				
Stormwater management.....	50,000	50,000	48,638	(1,362)
Licenses and permits:				
Non-business.....	-	-	327	327
Appropriated fund balance.....	<u>16,000</u>	<u>16,000</u>	<u>-</u>	<u>(16,000)</u>
Amounts available for appropriation.....	<u>94,850</u>	<u>94,850</u>	<u>78,613</u>	<u>(16,237)</u>
Charges to Appropriations (Outflows):				
General Government:				
Executive:				
Personal services.....	9,425	9,425	21,850	(12,425)
Other General Government:				
Operating expenditures.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total general government.....	<u>9,425</u>	<u>9,425</u>	<u>21,850</u>	<u>(12,425)</u>
Transportation:				
Stormwater Management:				
Operating expenditures	10,425	10,425	10,818	(393)
Capital outlay.....	<u>75,000</u>	<u>75,000</u>	<u>76,142</u>	<u>(1,142)</u>
Total transportation.....	<u>85,425</u>	<u>85,425</u>	<u>86,960</u>	<u>(1,535)</u>
Transfers to other funds.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total charges to appropriations.....	<u>94,850</u>	<u>94,850</u>	<u>108,810</u>	<u>(13,960)</u>
Net change in budgetary fund balance.....	-	-	(30,197)	(30,197)
Fund Balance:				
Beginning of year.....	<u>28,907</u>	<u>28,907</u>	<u>28,907</u>	<u>-</u>
End of year.....	<u>\$ 28,907</u>	<u>28,907</u>	<u>(1,290)</u>	<u>(30,197)</u>

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL TRUST FUND
For the Fiscal Year Ended September 30, 2007
CITY OF LAKE HELEN, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Resources (inflows):				
Investment earnings.....	\$ -	-	16,658	16,658
Amounts available for appropriation.....	-	-	16,658	16,658
Charges to Appropriations (Outflows):				
Transfer to other funds.....	-	-	16,690	(16,690)
Net change in budgetary fund balance.....	-	-	(32)	(32)
Fund Balance:				
Beginning of year.....	350,332	350,332	350,332	-
End of year.....	<u>\$ 350,332</u>	<u>350,332</u>	<u>350,300</u>	<u>(32)</u>

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPAL POLICE OFFICERS' RETIREMENT TRUST FUND
September 30, 2007
CITY OF LAKE HELEN, FLORIDA

SCHEDULE OF FUNDING PROGRESS (1)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
10/01/01	\$91,747	\$91,747	\$0	100%	\$105,901	0%
10/01/02	\$114,430	\$114,430	\$0	100%	\$126,730	0%
10/01/03	\$114,340	\$114,340	\$0	100%	\$142,931	0%
10/01/04	\$146,177	\$146,177	\$0	100%	\$151,292	0%
10/01/05	\$193,497	\$193,497	\$0	100%	\$159,417	0%
10/01/06	\$242,346	\$242,346	\$0	100%	\$204,913	0%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>	<u>Annual Pension Cost</u>	<u>Percent Contributed</u>
09/30/01	\$17,551	100%	\$17,551	100%
09/30/02	\$22,694	100%	\$22,694	100%
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%

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, 2006
Actuarial cost method	Aggregate
Amortization method	Not applicable
Amortization period	Not applicable
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.6%
Includes inflation at	3.75%
Cost-of-living adjustments	0.0%

- (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, 2007, which collectively comprise the City of Lake Helen, Florida's basic financial statements and have issued our report thereon dated June 2, 2008. 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 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 2007-1 through 2007-4 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 as item 2007-5.

We noted certain matters that we reported to management of City of Lake Helen, Florida, in a separate letter dated June 2, 2008.

This report is intended solely for the information and use of the City Commission, management, others within the organization, 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.

June 2, 2008

SCHEDULE OF FINDINGS
Year Ended September 30, 2007
CITY OF LAKE HELEN, FLORIDA

Internal Control Over Financial Reporting

2007-1 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. Also, the accounting staff's overlapping administrative duties often take precedence over their accounting duties. This neglect of accounting duties 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 the performing of essential year-end closing procedures that are essential to both the City's financial reporting requirements and the related independent audit process. 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.

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. We also strongly recommend that you should seriously consider reducing the administrative responsibilities for the accounting staff so that more time can be spent in the accounting area. 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.

Auditee Response: *Formal pre-closing and year end closing procedures have been implemented but not documented. Once the task is completed, the procedures will be incorporated into the City's Policies and Procedures Manual.*

2007-2 Cash Disbursements

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

SCHEDULE OF FINDINGS - (Continued)

Year Ended September 30, 2007

CITY OF LAKE HELEN, FLORIDA

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 takes no more than an hour each month and 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: *The City has implemented a number of the controls identified in this recommendation through the cross-training of the part-time office assistant in the City's administrative offices.*

2007-3 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 assets that had not been correctly recorded in the City's records. Similarly, we noted that there may be assets recorded in the City's records that are no longer in use.

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

SCHEDULE OF FINDINGS - (Continued)

Year Ended September 30, 2007

CITY OF LAKE HELEN, FLORIDA

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. A better assessment and evaluation could also be made regarding the reliability of certain fixed assets, and the need for replacements, and so on.

Auditee Response: The City will investigate the feasibility of implementing this recommendation in FY 2008-2009, subject to budgetary and staffing constraints.

2007-4 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 also able to ascertain that monthly reconciliations between the balances in the general ledger, the subsidiary ledger and the open invoices are not being performed. The lack of this control feature allows for differences to occur and accumulate over a period of time. Ultimately, the determination of the actual payables balance is virtually impossible without a significant time investment in a lengthy reconciliation process.

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

Auditee Response: The recommendation has been partially implemented and will continue to proceed forward.

Compliance and Other Matters

2007-5 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.

During the audit, we noted that over the years significant plan changes have been made in the way that benefits are earned by and provided to plan members without first obtaining the necessary actuarial information that adequately discloses the total effect of the related plan amendments. As a result, the related plan liabilities have substantially increased between the periods of the actuarial valuations.

SCHEDULE OF FINDINGS - (Continued)

Year Ended September 30, 2007

CITY OF LAKE HELEN, FLORIDA

Furthermore, the amounts required to be contributed annually to the plan by the City are not adequately calculated annually and may be 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, 2008.

Recommendation: We strongly recommend that you should encourage the plan's trustees to perform annual actuarial valuations to fully identify the extent of the City's assumed pension obligations and mandatory contribution requirements. We also recommend that all required plan contribution and funding deficiencies be corrected at the earliest possible convenience.

Auditee Response: *Contribution and funding deficiencies were corrected in FY 2007/2008.*

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

MANAGEMENT LETTER

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

We have audited the financial statements of City of Lake Helen, Florida, as of and for the fiscal year ended September 30, 2007, and have issued our report thereon dated June 2, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Report on Internal Control over Financial Reporting and on Compliance and Other Matters and Schedule of Findings. Disclosures in those reports and schedule, which are dated June 2, 2008, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and, unless otherwise required to be reported in the report on compliance and internal controls or schedule of findings and responses, this letter is required to include the following information:

- 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 significant findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address significant 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, accounting procedures, and internal controls. 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 and 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, our recommendations are noted in the accompanying pages under the headings *Prior Year Matters* and *Current Year Matters*.

- Section 10.554(1)(i)5., Rules of the Auditor General, requires, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. 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, 2007, 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, 2007. In connection with our audit, we determined that these two reports were in agreement.
- Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity'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. The results of our assessment procedures indicate that the City is continuing to experience deterioration in its financial condition. The following is a summary of our procedures and findings:

Our financial condition assessment, which was based exclusively on the methodology used by the Auditor General's Office to evaluate financial indicators for assessing a local governmental entity's financial condition, was performed as of September 30, 2007, and included an analysis of the City's historical financial data for each of the five fiscal years ended September 30, 2003 through 2007. In evaluating the results of these financial indicators, we also compared the results with similar entities (benchmark comparison).

We chose a benchmark grouping of municipalities utilizing governmental and proprietary funds with similar fund composition and populations ranging from 2,000 to 5,999 citizens to make valid comparisons in determining the overall financial condition of the City. The City's estimated population was 2,893 at September 30, 2006. The results of our trend analyses and comparisons of financial indicators with selected benchmarks indicate an unfavorable decline in the trend of the City's financial position and results of operations over the last five years. Of the 19 required financial indicators evaluated, 3 (or 17%) were determined to be favorable, 9 (or 50%) were determined to be unfavorable, 6 (or 33%) were determined to be inconclusive. Only 1 was determined to be not applicable to the City for the period(s) analyzed. An analysis of the unfavorable trends and/or comparisons is as follows:

Decline in Governmental Funds' Unreserved Fund Balance and in the Ratio of Governmental Funds' Unreserved Fund Balance to Total Expenditures – The amounts of unreserved fund equity in the City's governmental funds at the end of the fiscal year have declined in four of the past five fiscal years. The amount available at the end of 2007 (\$692,027) was approximately 11% lesser than the amount held in reserve at the end of 2002 (\$774,282). During this same period, the ratio of unreserved fund balance to total expenditures has dropped from 57.61% in 2003 to 32.74% at the end of 2007. While amounts held in reserve at the end of 2007 represent approximately 120 days of reserve funding, the overall downward trend in accumulating sufficient surplus funds to meet the City's continuing spending needs has continued to be negative.

Decline in the Ratio of Governmental Funds' Unreserved Fund Balance to Total Revenues and in the Ratio of Proprietary Fund Unrestricted Net Assets to Total Revenues – As has been noted above, the amounts of unreserved fund equity and unrestricted net assets have both correspondingly declined over the past four years. The ratios of fund equity to both governmental and proprietary revenues earned have similarly declined in the same period. These declining ratios further indicate the existence of a downward trend in revenue growth, which is anticipated to compound the continuing problem of generating surplus funds in future years.

Declining Ratios of Cash and Investments to Current Liabilities and to Total Operating Expenses – For the fourth consecutive year, the City has continued to experience declining ratios of cash and investments to current liabilities and to operation expenses in both its governmental operations and in its water utility operations. These deteriorating trends indicate that the City has been required to place more reliance on short-term borrowings and/or the use of accumulated prior years' surplus funds to meet current period spending needs rather than to generate surplus cash funds from current period operations.

The Honorable Mayor, and
Members of the City Commission
City of Lake Helen, Florida
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Increasing Ratios of Current Liabilities to Total Revenues—In direct correlation to the above described declining ratios of cash and investments, the City has continued to experience corresponding increases in the ratios of current liabilities to total revenues in its governmental funds' operations. This deteriorating trend supports the above described conclusion that the City has increased its reliance on short term borrowings to provide the necessary working capital to fund its current period operating needs.

Declining Ratio of Governmental Fund Net Revenues over Total Revenues—As the City continues to experience declining revenues and increasing expenditures, the impending gap between the two has continued to increase during each of the past four consecutive years. During 2007, current period spending exceeded governmental revenues by \$104,630. Furthermore, the ratio of net revenue to total revenue has continued to decline during this same period. This downward trend indicates that the City could experience difficulty in continuing to generate operating revenues sufficient to finance its governmental fund operations in current and future periods.

To reverse the negative trends identified above we offer the following recommendations:

Governmental Activities We recommend that the City should consider expanding its present oversight and monitoring of the City's financial operations. We also recommend that the City should seriously explore all options available to seek and/or develop recurring revenue sources and related charges for services, to control expenditures, and to utilize the City's ad valorem taxing capabilities to stabilize the revenue base sufficient to keep pace with the rapid growth of expenditures. While the City's present accumulated surplus funds are adequate, we recommend that the City continue to increase revenues sufficient not only to support the growing rate in spending, but to also provide sufficient surplus funds to meet any extraordinary or unanticipated future needs or emergencies that could be incurred by the City.

Business-type Activities We recommend that the City should consider developing a comprehensive long-term business plan for its proprietary water utility operations that includes planning for anticipated utility production and treatment, consumption and customer billings, current and proposed customer utility rates, operating expense control and profit planning. In addition, we also recommend that your business planning procedures include sufficient consideration of the City's present (FDEP SRF) loan covenants to adequately ensure that they are incorporated in your financial projections.

This management letter is intended solely for the information of the City Commission and 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.

June 2, 2008

PRIOR YEAR MATTERS

Section 10.554(1)(i), Rules of the Auditor General, require that we address in the management letter, if not already addressed in the auditor's report on compliance and internal control, whether or not inaccuracies, shortages, defalcations, fraud, and/or violations of laws, rules, regulations, and contractual provisions reported in the preceding annual financial audit report have been corrected. In connection therewith, 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: *The City Commission will take this recommendation under advisement in FY 2007-2008.*

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: The City Commission will take this recommendation under advisement in FY 2008-2009.

CURRENT YEAR MATTERS

Section 10.554(1)(i), Rules of the Auditor General, also requires disclosure in the management letter of the following matters if not already addressed in the auditor's report on compliance and internal control: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. The following is a summary of our Current Year Findings and Recommendations:

Deficit Fund Balance – Stormwater Management Fund

During the recent year, the City incurred qualified stormwater management costs in excess of the amount of current and prior year surplus funds accumulated for this purpose. As a result of these excess operating costs, the stormwater management fund developed a deficit net assets balance (\$1,290) at the end of the fiscal year.

Recommendation: We strongly recommend that you should consider establishing more stringent fiscal policies that require the continued monitoring of all governmental fund expenditures to provide assurance that your spending does not exceed the amounts available and on hand for such activities throughout the year.

Auditee Response: *The City anticipates reimbursing the stormwater management fund in the amount of \$5,850 from the water utility fund in FY 2008 for a portion of the joint engineering costs that were originally incurred in its capital improvement program.*

Maintenance of Personnel Files

While conducting our audit, we noted that several personnel files contain data that is either old or incomplete. Maintaining current personnel files is an important internal control. Complete and current personnel files should be established and maintained for each employee. Files should include the following information:

- Employment history, including hire date
- Address of next of kin and emergency contact notification information
- Authorized salary data and withholding/adjustment authorization
- Employment contracts
- Authorized and current payroll deductions
- Current federal and state withholding tax forms
- Vacation data
- Sick leave data
- Reference checks and responses
- Management authorization of all personnel changes

Recommendation: All personnel files should be updated and kept current with all pertinent information by establishing procedures and policies that allow for all information to be gathered and updated for new hires and existing employees at date of hire, beginning of each calendar year, and at employee reviews.

Auditee Response: *The City has experienced several personnel changes in the past few years which have apparently affected the consistency of maintaining personnel records. In order to address this situation, the City Commission must assign an individual staff member with the responsibility to maintain the records and to implement the recommended data management procedures. Implementation will be dependent upon Commission action and personnel workload demands.*

Turnover of Accounting Personnel and Managerial Oversight Function

The City is continuing to experience sustained turnover in the finance department leading 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 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 determine why this turnover exists and subsequently implement efforts to retain sufficient accounting personnel. Possible considerations may be introducing incentive packages and benefits such as more competitive salaries and benefits. Some inexpensive concepts can be very important to today's workforce such as flexible work schedules, casual dress, and the ability to work remotely from home or another location

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: *The City had one Finance Manager for 29 years. Her replacement was in place for a two-year period until resigning recently to open a new business. A new Finance Manager has been hired and has received transitional training from the previous Finance Manager.*

Uniform Accounting Policies and Procedures Manual

We noted 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 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: *Comments and recommendations are agreed with. Implementation will be dependent upon funding and workload constraints.*

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: *Recommendation duly noted.*

Deteriorating Financial Condition

As an integral part of performing the annual audit, Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General require us to perform financial condition assessment procedures regarding the financial status of the City at year end. While it is management's responsibility to monitor the City's financial condition, our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. The preliminary results of our assessment procedures indicate that the City is continuing to experience deterioration in its financial condition. The results of our procedures are listed in the preceding section of the Management Letter.

The existence of deteriorating financial conditions should be of extreme importance to all units of local government. Because of the inherent difficulties involved in identifying how and why municipal government operations experience deteriorating financial conditions, the Office of the Auditor General has developed two primary indicators that are helpful in performing these required procedures. They consist of various local factors and environmental factors that, when present individually or in the aggregate, significantly contribute to deteriorating financial conditions, which are identified as follows:

Local Factors that Contribute to Deteriorating Financial Conditions

1. Lack of Timely, Accurate, and Usable Financial Information
 - a. Annual Financial Reports
 - b. Audit Reports
 - c. Budgets
 - d. Accounting Records
 - e. Interim Financial Reports
 - f. Performance Indicators
 - g. Information on Cost of Goods/Services

Note: Each of the above may be a cause of fiscal stress if one or more of the following conditions exist:

- i. They are not prepared.
- ii. They are not accurate.
- iii. They are not timely.
- iv. They are not given to the appropriate personnel.
- v. They are not in a useable format.

2. Lack of Knowledge
 - a. Time
 - b. Interest
 - c. Education
 - d. Training
 - e. Ability (Physical or other)
 - f. Access to Information (Accounting updates, financial management guide, law books, etc.)

3. Lack of Management Action, Oversight, Planning, and Continuity
 - a. Lack of Management Action – Management is aware of fiscal stress but fails to act.
 - b. Management Policies and Procedures – Management fails to adopt or adopts incomplete policies and procedures (e.g., internal controls, budgetary controls, investment, procurement, etc.). This includes the failure to periodically review, ensure compliance with, or to designate responsibilities for policies and procedures.
 - c. Lack of an Adequate Management Information System – Decision makers do not receive the information needed or do not receive it in a timely fashion.
 - d. Lack of Long-term Capital Asset Planning – This includes failure to adequately plan for maintenance of, and future replacement or renovation of, capital assets. Evidence of this could include the following:
 - i. Lack of multi-year operating budget
 - ii. Lack of capital outlay plan
 - iii. Deferred maintenance
 - e. Lack of Cash Management System
 - f. Frequent Turnover of Key Employees/Officials
 - g. Lack of Cost Controls (e.g., lack of purchase orders, budgetary controls, etc.)
 - h. Overlapping Services (e.g., Police)
 - i. Increasing Levels of Unfunded Obligations – This includes the failure to ensure that future financing sources will be sufficient to cover future debt service requirements.

Environmental Factors that Contribute to Deteriorating Financial Conditions

1. Unfavorable Economic Conditions
 - a. Inflation
 - b. Decreasing Economic Activity (e.g., Retail Sales)
 - c. Downsizing of Industries
 - d. Lack of Business Diversity
 - e. Business Failure Rate
 - f. Unemployment
 - g. Failure to Create Jobs
 - h. Increase in the Number of Abandoned Properties
 - i. Household Vacancy Rates
 - j. Increase in Unpaid Taxes
 - k. Level or Decreasing Real Property Assessments
 - l. Overlapping Tax Burden

2. Unfavorable Population Trends
 - a. Significant Increase/Decrease in Population
 - b. Change/Fluctuation in Age of Population
 - c. Decrease in Per Capita Personal Income
 - d. Decrease in Household Income
 - e. Increase in Demand for Social Services
 - f. Increase in Crime Rate

3. Lack of Local Control Over Spending or Income

Spending

- a. Natural Disasters
- b. Essential Services:
 - i. Police
 - ii. Fire
- c. State and Federal Mandates
- d. Binding Arbitration
- e. Litigation
- f. Increase in Health Care Costs
- g. Long-term Contracts

Income

- h. Cuts in State and Federal Assistance
- i. Cuts in Other Intergovernmental Revenues
- j. Debt and Tax Limits
- k. Increase in Exempt Properties
- l. Reliance on Outside Income
- m. Dropping Real Property Tax Assessments

Recommendation: While the above factors are both fairly comprehensive and wide-ranging, we believe that they are self-explanatory. We strongly recommend that you should review each of these factors and compare them with your own financial operations to assist you in identifying the specific factors that have the potential to contribute to the City's continuing deterioration of financial condition. After determining the overall extent of these conditions, we recommend that the appropriate actions and/or steps be considered to initiate a reversal of these continuing negative financial trends.

Auditee Response: *When analyzing the parameters that are used as the measurement tools for conducting financial condition assessments, it is understandable that the conclusion reached is that the City is experiencing a deteriorating financial condition when measured against the same parameters several years ago. While the City remains, in total, financially strong, it should be recognized that increases in personnel costs, service costs, insurance costs, operational costs, and capital improvement costs are outpacing revenue generation. As a result, from a statistical comparative analysis standpoint, the City's financial condition is declining when compared to the City's financial condition earlier in the decade. Recent property tax "reform" and the declining state of the national and state economy will further erode the City's revenue base. Thus, it is extremely important that the City plan for and monitor its expenditures wisely, as well as continue to seek alternative revenue sources where available.*