

**CITY OF LAKE HELEN, FLORIDA**

***ANNUAL FINANCIAL REPORT***

***FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012***



**MAYOR**

Honorable William V. Snowden, Jr.

**CITY COMMISSIONERS**

Rick Basso  
Vernon Burton  
Cameron Lane  
Ann Robbins

**CITY ADMINISTRATOR**

Donald L. Findell

**CITY ATTORNEY**

Lonnie N. Groot, Esq.

**INDEPENDENT AUDITORS**

Brent Millikan & Company, P.A.

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***INDEPENDENT AUDITORS' REPORT***

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**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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake Helen, Florida, as of September 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparisons for the General and Stormwater Management funds 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 13, 2013, on our consideration of the City of Lake Helen, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Honorable Mayor, and  
Members of the City Commission  
City of Lake Helen, Florida  
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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress and employer contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

June 13, 2013

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

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

As financial management of the City of Lake Helen, Florida, (hereinafter referred to as the "City"), we offer the readers of these basic financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended September 30, 2012. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements, which follow this section, taken as a whole.

### **Financial Highlights**

- The total assets of the City of Lake Helen, Florida exceeded its liabilities at the close of the most recent fiscal year by \$5,322,050 (net position). Of this amount, \$1,161,882 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$55,044 in fiscal year 2012. Net position of the City's governmental activities (General, Stormwater Management and General Trust funds) increased by \$13,775 (0.4%), while net position of its business type activities (Water Utility Fund) increased by \$41,269 (3.0%).
- The City's governmental funds reported combined ending fund balances of \$1,127,243 at the end of the current fiscal year, a decrease of \$116,478 in comparison to the \$1,243,721 reported at the end of the prior fiscal year. Approximately 61% of this amount (\$682,503) is available for spending at the City's discretion (unassigned fund balance).
- At the end of the 2012 fiscal year, unassigned fund balance for the General Fund was \$682,503 or 32.9% (120 days) of the total fiscal year 2012 General Fund expenditures (\$2,075,357). This represents a decrease of \$113,845 from the amount reported at the end of 2011.
- The City's total long-term debt obligations decreased by \$94,754 during the fiscal year, due to scheduled current-year principal maturities/reductions on these obligations. The City's combined long-term commitment for compensated absences increased \$13,903 in 2012 and totaled \$138,115 at year end while its reported other postemployment benefit obligation (OPEB) totaled \$135,000.

### **Overview of the Financial Statements**

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

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

The basic financial statements include two kinds of statements that present different views of the City. The first two statements consist of entity-wide financial statements that provide both the short- and long-term financial information about the City's overall financial status, including its governmental activities and its business-type activities. These statements report information about the City using full accrual accounting methods and economic resources focus as utilized by similar business activities in the private

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

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

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

### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. The basic financial statements of the City include a statement of net position and a statement of activities, which are described as follows:

- A statement of net position 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 position. Over time, increases or decreases in net position may serve as a useful indicator of whether the City's financial position is improving or deteriorating. Net position increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net position, 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 position changed during the year. All changes in net position 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 27 and 29.

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 35 to 37 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 position and changes in fiduciary net position. 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 38 and 39 of this report.

## Financial Analysis of the City as a Whole

**Net position.** As noted previously, net position 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 position) by \$5,322,050 at the end of 2012, compared to \$5,267,006 at the end of 2011. This represents a total increase of \$55,044 or 1.0% over the amount reported at the end of the prior fiscal year.

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

	<b>Net Position</b>					
	September 30, 2012 and 2011					
	Governmental Activities		Business-Type Activities		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Assets:</b>						
Current and other assets.....	\$ 1,316,124	1,429,697	327,117	295,438	1,643,241	1,725,135
Restricted assets.....	-	-	249,208	239,849	249,208	239,849
Capital assets, net.....	<u>3,000,988</u>	<u>2,815,391</u>	<u>2,175,480</u>	<u>2,252,754</u>	<u>5,176,468</u>	<u>5,068,145</u>
Total assets.....	<u>4,317,112</u>	<u>4,245,088</u>	<u>2,751,805</u>	<u>2,788,041</u>	<u>7,068,917</u>	<u>7,033,129</u>
<b>Liabilities:</b>						
Long-term obligations.....	233,329	180,795	1,263,467	1,347,852	1,496,796	1,528,647
Other liabilities.....	<u>177,936</u>	<u>172,221</u>	<u>72,135</u>	<u>65,255</u>	<u>250,071</u>	<u>237,476</u>
Total liabilities.....	<u>411,265</u>	<u>353,016</u>	<u>1,335,602</u>	<u>1,413,107</u>	<u>1,746,867</u>	<u>1,766,123</u>
<b>Net position:</b>						
Invested in capital assets, net of related debt.....	3,000,140	2,812,353	952,647	937,357	3,952,787	3,749,710
Restricted.....	21,421	19,169	185,960	177,750	207,381	196,919
Unrestricted.....	<u>884,286</u>	<u>1,060,550</u>	<u>277,596</u>	<u>259,827</u>	<u>1,161,882</u>	<u>1,320,377</u>
Total net position.....	<u>\$ 3,905,847</u>	<u>3,892,072</u>	<u>1,416,203</u>	<u>1,374,934</u>	<u>5,322,050</u>	<u>5,267,006</u>

The most significant component of the City's net position (74.3%) 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 position (3.9%) represents resources that are subject to external restrictions on how they may be used. Consequently, the remaining 21.8% of unrestricted net position, representing amounts that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, totaled \$1,161,882 at year end, compared to \$1,320,377 one year earlier.

**Changes in Net position.** While the statement of net position shows a snapshot of the City's financial position at the end of the fiscal year, the statement of changes in net position provides answers as to the nature and source of those changes. During 2012, total revenues increased \$58,485 to a total of \$2,468,666, compared to \$2,410,181 in the prior year. Approximately 17.2% of the City's revenue came from property taxes, and 25.2% of every dollar raised came from some other type of tax. Another 46.4% came from fees charged for services, while most of the remaining revenue (11.2%) included state and federal financial assistance, along with interest and other earnings.

The total cost of providing routine governmental programs and services for general government increased in 2012 by \$96,871, or 19.8%. This major portion of this increase was attributed to the contracting for additional finance support services needed during the year. Overall costs incurred for public safety decreased by \$59,290, or 11.1%, from decreased personal service costs. The costs of providing and maintaining the City's solid waste disposal system decreased slightly in 2012 by \$10,272, or 3.9%, while the related costs of maintaining the transportation systems increased slightly by \$8,265. The cost of routine programs and services for culture and recreation decreased \$37,760, or 7.4%. This decrease was, for the most part, related to an overall reduction in operating costs of the Creative Arts Café, which was roughly equivalent to the current period reduction of Café revenues. The total costs of providing water services, excluding bad debt expense, for business-type activities increased by \$29,005 in 2012, largely due to the reassignment of personnel costs to non-business-type activities and from an overall increase in costs in most other major expense areas.

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

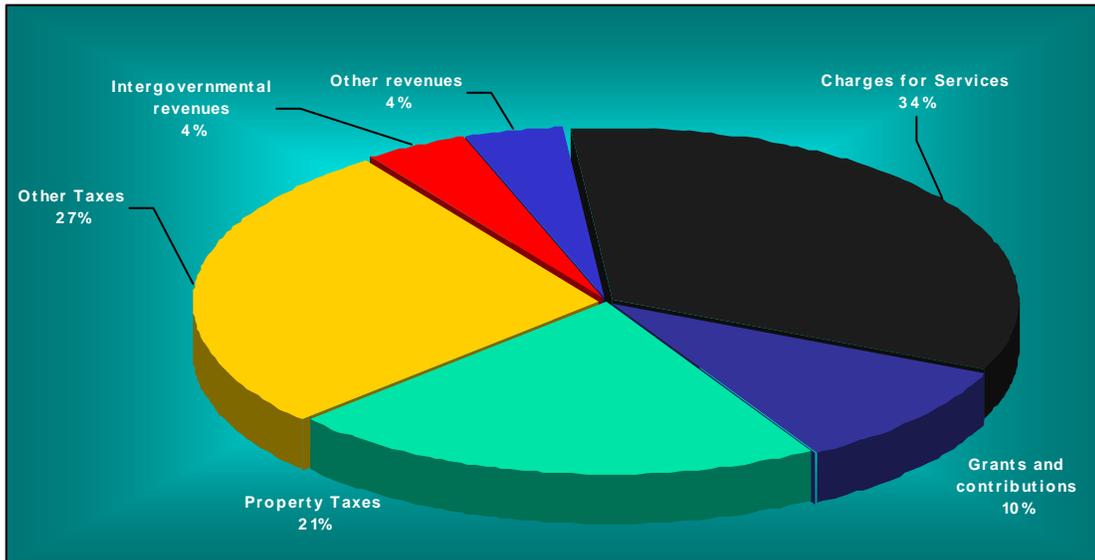
**Changes in Net Position**  
For the Fiscal Years Ended September 30, 2012 and 2011

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services.....	\$ 665,073	693,275	478,585	484,717	1,143,658	1,177,992
Operating grants/other.....	49,173	60,152	-	-	49,173	60,152
Capital grants/other.....	147,065	55,396	4,000	1,000	151,065	56,396
General revenues:					-	-
Property taxes.....	425,308	427,943	-	-	425,308	427,943
Other taxes.....	366,866	387,714	-	-	366,866	387,714
Franchise fees.....	171,661	181,020	-	-	171,661	181,020
Intergovernmental.....	84,812	83,672	-	-	84,812	83,672
Other revenues.....	76,123	30,304	-	4,988	76,123	35,292
Total revenues.....	<u>1,986,081</u>	<u>1,919,476</u>	<u>482,585</u>	<u>490,705</u>	<u>2,468,666</u>	<u>2,410,181</u>
Expenses:						
General government.....	585,760	488,889	-	-	585,760	488,889
Public safety.....	472,877	532,167	-	-	472,877	532,167
Physical environment.....	253,454	263,726	-	-	253,454	263,726
Transportation.....	188,597	180,332	-	-	188,597	180,332
Culture/Recreation.....	471,426	509,186	-	-	471,426	509,186
Water and sewer utilities.....	-	-	441,316	412,311	441,316	412,311
Interest on long-term debt.....	192	479	-	-	192	479
Total expenses.....	<u>1,972,306</u>	<u>1,974,779</u>	<u>441,316</u>	<u>412,311</u>	<u>2,413,622</u>	<u>2,387,090</u>
Transfers in (out).....	-	-	-	-	-	-
Increase (decrease) in net position.	13,775	(55,303)	41,269	78,394	55,044	23,091
Net position, beginning of year.....	<u>3,892,072</u>	<u>3,947,375</u>	<u>1,374,934</u>	<u>1,296,540</u>	<u>5,267,006</u>	<u>5,243,915</u>
Net position, end of year.....	<u>\$ 3,905,847</u>	<u>3,892,072</u>	<u>1,416,203</u>	<u>1,374,934</u>	<u>5,322,050</u>	<u>5,267,006</u>

**Governmental Activities**

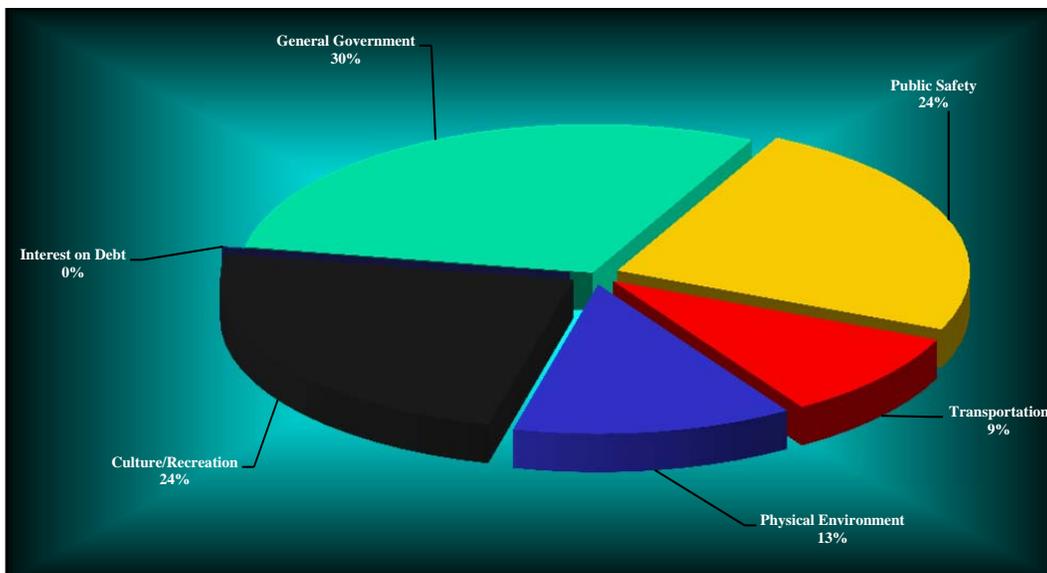
Revenues for the City's governmental activities totaled \$1,986,081 in 2012. This represents an increase of \$66,605 or 3.5% greater than last year's reported revenues of \$1,919,476. This year's increase was primarily attributable to an increase in capital and operating grant funds associated with the Community Development Block Grant Program.

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



Governmental expenses totaled \$1,972,306, which represents a decrease of \$2,473, or 0.1% from the prior year's total of \$1,974,779. This decrease in reported expenditures is attributable primarily to a reduction in personnel costs and grant-related expenditures.

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 \$6,132 during the year to a total of \$484,717, or 3.1% less than utility billings of \$484,717 in 2011. This minimal decrease was reflective of consumer water usage in 2012 compared to 2011. Customer contributions (in the form of impact fees) remained relatively low, and totaled \$4,000 for the year, compared to \$1,000 received in 2011.

Total operating expenses of the water utility fund increased 7.0% in 2012 and totaled \$441,316, compared to \$412,341 incurred in 2011. The increase was primarily due to increased allocations of personnel costs realized through the restructuring of personnel assignments, as well as inflationary increases in materials costs, contractual services costs and energy costs.

## **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 \$1,127,243, which was \$116,478, or 9.4% less than the \$1,243,721 amount reported last year.

The general fund is the chief operating fund of the City. As of September 30, 2012, the unreserved fund balance in the general fund totaled \$682,503. This unreserved fund balance represents approximately 32.9% (120 days / 17.2 weeks) of the City's spending requirements experienced during 2012.

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 2012, there was a fund balance of \$56,264, an increase of \$15,052 over the amount reported at the end of 2011.

***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 position of the Water Utility Fund at the end of the year amounted to \$277,596 which is \$17,769 greater than last year's reported amount of \$259,827. 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 \$22,895 less than the amounts originally anticipated to be received during the year in the City's General Fund. Actual expenditures incurred were \$109,707 greater than originally anticipated. The result was a net difference of unanticipated expenses over unanticipated revenues of \$132,602. Major areas of unanticipated expenses were the capital costs of \$70,000 incurred in the Police Department and from increased departmental operating costs experienced throughout the City.

## Capital Assets and Debt Administration

**Capital Assets.** At September 30, 2012, the City had \$5.2 million invested in a broad range of capital assets, including land buildings, park facilities, police equipment, public works equipment and water lines. This investment in capital assets, net of depreciation, for all activities is reflected in the following schedule:

<b>Capital Assets</b>						
For the Fiscal Years Ended September 30, 2012 and 2011						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land.....	\$ 473,983	477,526	-	-	473,983	477,526
Construction work in progress.....	379,071	172,307	-	2,610	379,071	174,917
Buildings.....	1,504,581	1,504,581	-	-	1,504,581	1,504,581
Improvements other than buildings.....	1,255,622	1,255,622	2,999,149	2,999,149	4,254,771	4,254,771
Machinery and equipment.....	650,385	666,084	370,572	370,572	1,020,957	1,036,656
Accumulated depreciation.....	<u>(1,262,654)</u>	<u>(1,260,729)</u>	<u>(1,194,241)</u>	<u>(1,119,577)</u>	<u>(2,456,895)</u>	<u>(2,380,306)</u>
Net total.....	<u>\$ 3,000,988</u>	<u>2,815,391</u>	<u>2,175,480</u>	<u>2,252,754</u>	<u>5,176,468</u>	<u>5,068,145</u>

During 2012, the City invested \$279,674 in governmental capital assets and \$-0- in business-type capital assets. The significant additions included: costs of improving City streets (\$206,764) funded in part from a Community Development Block Grant; and the costs of new police equipment (\$72,910) funded from the City's surplus funds. In addition, the City sold governmental fund assets totaling \$92,152 during the fiscal year.

**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 \$1,222,833 at year end, compared to \$1,315,397 one year earlier. The proceeds of these loans, which were drawn in increments over 2011 and preceding years, were used to finance the construction of improvements to the City's potable water system. Under these agreements, the City must repay these loans with semiannual payments.

The City also has one remaining capital lease obligation for office copiers, where the obligation must be recognized as a long-term liability. The remaining balance at year end totaled \$848. This lease is scheduled to expire in 2013. More detailed information about the City's long-term debt is presented in Note 9 to the financial statements.

## Economic Factors and Next Year's Budgets and Rates

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

- The most recent estimates available for unemployment data in Volusia County, Florida are compiled by the Florida Agency for Workforce Innovation on the Florida Research and Economic Information Database Application (FREIDA). This agency estimates a countywide unemployment rate of 6.8% as of April 2013, which is lower than the 8.6% rate experienced one year earlier.

- Inflationary trends for Volusia County are consistent with those trends experienced at the state and national levels.

The budgets adopted for the General Fund, Stormwater Utility Fund and Water Utility Fund for 2012-2013 utilized the prior year's final adopted budgets as the baseline from which priority setting and decisions were made to formulate the new budgets, as well as analysis of previous, current and projected revenue and expenditure trends.

### **Requests for Information**

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

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***BASIC FINANCIAL STATEMENTS***

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**STATEMENT OF NET POSITION**

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets:</b>			
Cash and cash equivalents.....	\$ 445,675	201,336	647,011
Investments.....	753,028	-	753,028
Receivables, net.....	82,407	133,631	216,038
Inventories.....	5,583	-	5,583
Other assets.....	8,546	13,035	21,581
Internal balances.....	20,885	(20,885)	-
Temporarily restricted assets:			
Cash and cash equivalents.....	-	249,208	249,208
Capital assets:			
Land.....	473,983	-	473,983
Buildings.....	1,504,581	-	1,504,581
Improvements other than buildings.....	1,255,622	2,999,149	4,254,771
Machinery and equipment.....	650,385	370,572	1,020,957
Less: accumulated depreciation.....	(1,262,654)	(1,194,241)	(2,456,895)
Construction work in progress.....	379,071	-	379,071
Total assets.....	<u>4,317,112</u>	<u>2,751,805</u>	<u>7,068,917</u>
<b>Liabilities:</b>			
Accounts payable.....	59,880	5,425	65,305
Accrued liabilities.....	33,150	19,699	52,849
Deposits/unearned revenue.....	84,906	47,011	131,917
Long-term debt:			
Due within one year.....	848	95,743	96,591
Due in more than one year.....	-	1,127,090	1,127,090
Other postemployment benefit obligation.....	118,598	16,402	135,000
Compensated absences.....	113,883	24,232	138,115
Total liabilities.....	<u>411,265</u>	<u>1,335,602</u>	<u>1,746,867</u>
<b>Net Position:</b>			
Invested in capital assets, net of related debt.....	3,000,140	952,647	3,952,787
Restricted for:			
Capital projects.....	19,130	104,237	123,367
Debt service.....	-	81,723	81,723
Law enforcement training.....	2,291	-	2,291
Unrestricted.....	884,286	277,596	1,161,882
Total net position.....	<u>\$ 3,905,847</u>	<u>1,416,203</u>	<u>5,322,050</u>

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

**STATEMENT OF ACTIVITIES**  
 For the Year Ended September 30, 2012  
 CITY OF LAKE HELEN, FLORIDA

Functions / Programs	Expenses	Program Revenues		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental activities:				
General government.....	\$ 585,760	17,826	-	-
Public safety.....	472,877	30,274	17,094	-
Physical environment.....	253,454	253,462	-	-
Transportation.....	188,597	48,619	32,079	147,065
Culture/recreation.....	471,426	314,892	-	-
Interest on long-term debt.....	<u>192</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities.....	<u>1,972,306</u>	<u>665,073</u>	<u>49,173</u>	<u>147,065</u>
Business-type Activities:				
Water utilities.....	<u>441,316</u>	<u>478,585</u>	<u>-</u>	<u>4,000</u>
Total primary government.....	<u>\$ 2,413,622</u>	<u>1,143,658</u>	<u>49,173</u>	<u>151,065</u>

<b>General revenues:</b>	
Property taxes, levied for general purposes.....	
Utility service taxes	
Franchise fees	
Sales taxes.	
Intergovernmental revenues	
Investment earnings	
Miscellaneous	
Total general revenues.....	
Change in net position.....	
Net position - beginning of year.....	
Net position - end of year.....	

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

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
(567,934)		(567,934)
(425,509)		(425,509)
8		8
39,166		39,166
(156,534)		(156,534)
<u>(192)</u>		<u>(192)</u>
<u>(1,110,995)</u>		<u>(1,110,995)</u>
	<u>41,269</u>	<u>41,269</u>
<u>(1,110,995)</u>	<u>41,269</u>	<u>(1,069,726)</u>
425,308	-	425,308
252,308	-	252,308
171,661	-	171,661
114,558	-	114,558
84,812	-	84,812
4,490	-	4,490
<u>71,633</u>	<u>-</u>	<u>71,633</u>
<u>1,124,770</u>	<u>-</u>	<u>1,124,770</u>
13,775	41,269	55,044
<u>3,892,072</u>	<u>1,374,934</u>	<u>5,267,006</u>
<u>\$ 3,905,847</u>	<u>1,416,203</u>	<u>5,322,050</u>

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
September 30, 2012  
CITY OF LAKE HELEN, FLORIDA

	General	Special Revenue Stormwater Management	Permanent General Trust	Total Governmental Funds
<b>Assets:</b>				
Cash and cash equivalents.....	\$ 383,740	61,935	-	445,675
Investments.....	403,028	-	350,000	753,028
Receivables (net of allowance for uncollectibles).....	39,401	-	-	39,401
Due from other funds.....	25,817	-	-	25,817
Due from other governments.....	43,006	-	-	43,006
Inventories.....	5,583	-	-	5,583
Prepaid expenses.....	8,546	-	-	8,546
<b>Total assets.....</b>	<b>\$ 909,121</b>	<b>61,935</b>	<b>350,000</b>	<b>1,321,056</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable.....	\$ 59,614	266	-	59,880
Accrued liabilities.....	32,671	473	-	33,144
Due to other funds.....	-	4,932	-	4,932
Deposits.....	80,391	-	-	80,391
Unearned revenues.....	15,466	-	-	15,466
<b>Total liabilities.....</b>	<b>188,142</b>	<b>5,671</b>	<b>-</b>	<b>193,813</b>
<b>Fund Balances:</b>				
Nonspendable.....	14,129	-	-	14,129
<b>Restricted:</b>				
General government capital projects.....	7,150	-	-	7,150
Law enforcement capital projects.....	9,980	-	-	9,980
Law enforcement training.....	2,291	-	-	2,291
Recreation capital projects.....	2,000	-	-	2,000
<b>Committed:</b>				
Recreation and park improvements.....	2,926	-	-	2,926
Stormwater improvements.....	-	56,264	-	56,264
General government.....	-	-	350,000	350,000
Unassigned.....	682,503	-	-	682,503
<b>Total fund balances.....</b>	<b>720,979</b>	<b>56,264</b>	<b>350,000</b>	<b>1,127,243</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 909,121</b>	<b>61,935</b>	<b>350,000</b>	

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

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS**

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

Fund balances - total governmental funds.....	\$ 1,127,243
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.....	3,000,988
Other long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the funds.....	10,951
Accrued interest is not due and payable in the current period and, accordingly, is not reported in the funds.....	(6)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Capital lease obligations.....	(848)
Postemployment benefit obligation.....	(118,598)
Compensated absence liabilities.....	<u>(113,883)</u>
Net position of governmental activities.....	<u>\$ 3,905,847</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, 2012  
CITY OF LAKE HELEN, FLORIDA

	General	Special Revenue Stormwater Management	Permanent General Trust	Total Governmental Funds
<b>Revenues:</b>				
Property taxes.....	\$ 428,130	-	-	428,130
Local option gas taxes.....	56,069	-	-	56,069
Utility service taxes.....	252,308	-	-	252,308
Other taxes.....	26,131	-	-	26,131
Franchise fees.....	171,661	-	-	171,661
Permits and other fees.....	19,756	250	-	20,006
Intergovernmental revenue.....	323,445	-	-	323,445
Charges for services.....	254,954	48,369	-	303,323
Creative Arts Café revenue.....	313,889	-	-	313,889
Fines and forfeitures.....	17,818	-	-	17,818
Investment earnings.....	3,418	-	1,072	4,490
Miscellaneous revenue.....	75,176	-	-	75,176
<b>Total revenues.....</b>	<b>1,942,755</b>	<b>48,619</b>	<b>1,072</b>	<b>1,992,446</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government.....	553,049	-	-	553,049
Public safety.....	514,355	-	-	514,355
Physical environment.....	253,454	-	-	253,454
Transportation.....	301,002	33,567	-	334,569
Culture/recreation.....	451,103	-	-	451,103
<b>Debt Service:</b>				
Principal retirement.....	2,190	-	-	2,190
Interest.....	204	-	-	204
<b>Total expenditures.....</b>	<b>2,075,357</b>	<b>33,567</b>	<b>-</b>	<b>2,108,924</b>
Excess of revenues over (under) expenditures.....	(132,602)	15,052	1,072	(116,478)
<b>Other Financing Sources (Uses):</b>				
Transfers in (out).....	1,072	-	(1,072)	-
<b>Total other financing sources (uses).....</b>	<b>1,072</b>	<b>-</b>	<b>(1,072)</b>	<b>-</b>
<b>Net change in fund balances.....</b>	<b>(131,530)</b>	<b>15,052</b>	<b>-</b>	<b>(116,478)</b>
Fund balances, beginning of year.....	852,509	41,212	350,000	1,243,721
<b>Fund balances, end of year.....</b>	<b>\$ 720,979</b>	<b>56,264</b>	<b>350,000</b>	<b>1,127,243</b>

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

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

For the Year Ended September 30, 2012  
CITY OF LAKE HELEN, FLORIDA

Net change in fund balances - total governmental funds..... \$ (116,478)

Differences in amounts reported for governmental activities in the statement of activities are:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives.

Expenditures for capital assets.....	279,674
Current year provision for depreciation.....	(90,534)
Adjusted basis of assets sold.....	(3,543)

Long-term debt proceeds are reported as financial sources in the governmental funds. However, the issuance of debt is reported as long-term debt payable in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment of debt principal reduces long-term liabilities in the statement of net assets.

These amounts are as follows:

Proceeds from long-term debt obligations.....	-
Principal repayments on general long-term debt obligations.....	2,190

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

Change in delinquent taxes receivable.....	(2,822)
--	---------

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due; rather than as it accrues. These adjustments are as follows:

Change in accrued interest on long-term debt obligations.....	12
Change in compensated absences obligation.....	(11,714)
Change in other postemployment benefit obligation.....	(43,010)

Change in net position of governmental activities..... \$ 13,775

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

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**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND**

For the Fiscal Year Ended September 30, 2012

CITY OF LAKE HELEN, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues:</b>				
<b>Taxes:</b>				
Property taxes.....	\$ 425,150	425,150	428,130	2,980
Local option gas taxes.....	70,100	70,100	56,069	(14,031)
State-casualty insurance premium tax.....	-	-	16,094	16,094
Utility service taxes.....	179,700	179,700	158,130	(21,570)
Communicatrions service taxes.....	96,000	96,000	94,178	(1,822)
Local business taxes.....	6,800	6,800	10,037	3,237
	<u>777,750</u>	<u>777,750</u>	<u>762,638</u>	<u>(15,112)</u>
<b>Permits and Fees:</b>				
Building permits.....	9,550	9,550	12,053	2,503
Franchise fees.....	183,600	183,600	171,661	(11,939)
Development impact fees.....	2,300	2,300	2,300	-
Other permits and fees.....	2,100	2,100	5,403	3,303
	<u>197,550</u>	<u>197,550</u>	<u>191,417</u>	<u>(6,133)</u>
<b>Intergovernmental Revenues:</b>				
Federal grants.....	123,100	123,100	123,075	(25)
State grants.....	-	-	1,000	1,000
Municipal revenue sharing program.....	83,300	83,300	77,703	(5,597)
Mobile home licenses.....	6,300	6,300	6,017	(283)
Alcoholic beverage licenses.....	800	800	147	(653)
Local half-cent sales tax.....	114,000	114,000	114,558	558
Fuel tax refunds.....	1,000	1,000	945	(55)
	<u>328,500</u>	<u>328,500</u>	<u>323,445</u>	<u>(5,055)</u>
<b>Charges for Services:</b>				
General government.....	150	150	86	(64)
Public safety.....	100	100	403	303
Garbage/solid waste.....	252,000	252,000	253,462	1,462
Culture and recreation.....	-	-	1,003	1,003
Creative Arts Café Restaurant.....	361,700	361,700	313,889	(47,811)
	<u>613,950</u>	<u>613,950</u>	<u>568,843</u>	<u>(45,107)</u>
<b>Fines and Forfeitures:</b>				
Court cases.....	17,900	17,900	17,083	(817)
Local ordinance violations.....	350	350	735	385
	<u>18,250</u>	<u>18,250</u>	<u>17,818</u>	<u>(432)</u>
<b>Miscellaneous Revenues:</b>				
Investment earnings.....	2,100	2,100	3,418	1,318
Rents and royalties.....	5,000	5,000	6,735	1,735
Miscellaneous revenue.....	22,550	22,550	68,441	45,891
	<u>29,650</u>	<u>29,650</u>	<u>78,594</u>	<u>48,944</u>

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND - (Continued)**

For the Fiscal Year Ended September 30, 2012  
CITY OF LAKE HELEN, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Total revenues.....	\$ 1,965,650	1,965,650	1,942,755	(22,895)
Expenditures:				
General Government:				
Legislative:				
Personal services.....	23,950	23,950	43,634	(19,684)
Operating expenditures.....	3,000	3,000	3,613	(613)
	<u>26,950</u>	<u>26,950</u>	<u>47,247</u>	<u>(20,297)</u>
Executive:				
Personal services.....	102,350	102,350	115,788	(13,438)
Operating expenditures.....	1,500	1,500	270	1,230
	<u>103,850</u>	<u>103,850</u>	<u>116,058</u>	<u>(12,208)</u>
Financial and Administrative:				
Personal services.....	28,450	28,450	28,506	(56)
Operating expenditures.....	37,000	37,000	57,684	(20,684)
	<u>65,450</u>	<u>65,450</u>	<u>86,190</u>	<u>(20,740)</u>
Legal Counsel:				
Operating expenditures.....	33,000	33,000	27,450	5,550
Other General Government:				
Personal services.....	115,800	115,800	117,638	(1,838)
Operating expenditures.....	96,350	96,350	133,568	(37,218)
Capital outlay.....	144,000	144,000	24,898	119,102
	<u>356,150</u>	<u>356,150</u>	<u>276,104</u>	<u>80,046</u>
Total general government.....	<u>585,400</u>	<u>585,400</u>	<u>553,049</u>	<u>32,351</u>
Public Safety:				
Law Enforcement:				
Personal services.....	333,550	333,550	384,679	(51,129)
Operating expenditures.....	61,750	61,750	52,122	9,628
Capital outlay.....	-	-	70,000	(70,000)
	<u>395,300</u>	<u>395,300</u>	<u>506,801</u>	<u>(111,501)</u>
Protective Inspections:				
Operating expenditures.....	12,000	12,000	7,554	4,446
Total public safety.....	<u>407,300</u>	<u>407,300</u>	<u>514,355</u>	<u>(107,055)</u>
Physical Environment:				
Garbage/Solid Waste Control Services:				
Operating expenditures.....	\$ 253,500	253,500	253,454	46
Total physical environment .....	<u>253,500</u>	<u>253,500</u>	<u>253,454</u>	<u>46</u>

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND - (Continued)**

For the Fiscal Year Ended September 30, 2012  
CITY OF LAKE HELEN, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Transportation:				
Road and Street Facilities:				
Personal services.....	\$ 67,700	67,700	74,370	(6,670)
Operating expenditures.....	65,150	65,150	60,357	4,793
Capital outlay.....	<u>147,000</u>	<u>147,000</u>	<u>166,275</u>	<u>(19,275)</u>
Total transportation.....	<u>279,850</u>	<u>279,850</u>	<u>301,002</u>	<u>(21,152)</u>
Culture/Recreation:				
Parks and Recreation:				
Personal services.....	25,850	25,850	18,759	7,091
Operating expenditures.....	52,050	52,050	56,945	(4,895)
Capital outlay.....	<u>-</u>	<u>-</u>	<u>18,501</u>	<u>(18,501)</u>
Total culture/recreation.....	<u>77,900</u>	<u>77,900</u>	<u>94,205</u>	<u>(16,305)</u>
Creative Arts Café Restaurant:				
Personal services.....	162,100	162,100	155,184	6,916
Operating expenditures.....	<u>199,600</u>	<u>199,600</u>	<u>201,714</u>	<u>(2,114)</u>
Total culture/recreation.....	<u>361,700</u>	<u>361,700</u>	<u>356,898</u>	<u>4,802</u>
Total culture/recreation.....	<u>439,600</u>	<u>439,600</u>	<u>451,103</u>	<u>(11,503)</u>
Debt Service:				
Principal.....	-	-	2,190	(2,190)
Interest.....	<u>-</u>	<u>-</u>	<u>204</u>	<u>(204)</u>
Total debt service.....	<u>-</u>	<u>-</u>	<u>2,394</u>	<u>(2,394)</u>
Total expenditures.....	<u>1,965,650</u>	<u>1,965,650</u>	<u>2,075,357</u>	<u>(109,707)</u>
Excess of revenues over (under) expenditures.....	<u>-</u>	<u>-</u>	<u>(132,602)</u>	<u>(132,602)</u>
Other Financing Sources (Uses):				
Transfers in (out).....	<u>-</u>	<u>-</u>	<u>1,072</u>	<u>1,072</u>
Net change in fund balance.....	-	-	(131,530)	(131,530)
Fund Balance:				
Beginning of year.....	<u>852,509</u>	<u>852,509</u>	<u>852,509</u>	<u>-</u>
End of year.....	<u>\$ 852,509</u>	<u>852,509</u>	<u>720,979</u>	<u>(131,530)</u>

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
 BUDGET AND ACTUAL - STORMWATER MANAGEMENT FUND**  
 For the Fiscal Year Ended September 30, 2012  
 CITY OF LAKE HELEN, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues:</b>				
Permits and Fees:				
Stormwater permits.....	\$ 200	200	250	50
Charges for Services:				
Stormwater management.....	<u>47,700</u>	<u>47,700</u>	<u>48,369</u>	<u>669</u>
Total revenues.....	<u>47,900</u>	<u>47,900</u>	<u>48,619</u>	<u>719</u>
<b>Expenditures:</b>				
Transportation:				
Stormwater Management:				
Personal services.....	33,100	33,100	32,004	1,096
Operating expenditures.....	<u>4,000</u>	<u>4,000</u>	<u>1,563</u>	<u>2,437</u>
Total transportation.....	<u>37,100</u>	<u>37,100</u>	<u>33,567</u>	<u>3,533</u>
Total expenditures.....	<u>37,100</u>	<u>37,100</u>	<u>33,567</u>	<u>3,533</u>
Excess of revenues over (under) expenditures.....	10,800	10,800	15,052	4,252
<b>Other Financing Sources (Uses):</b>				
Budget contingency.....	<u>(10,800)</u>	<u>(10,800)</u>	-	<u>10,800</u>
Net change in fund balance.....	-	-	15,052	15,052
<b>Fund Balance:</b>				
Beginning of year, as restated.....	<u>41,212</u>	<u>41,212</u>	<u>41,212</u>	-
End of year.....	<u>\$ 41,212</u>	<u>41,212</u>	<u>56,264</u>	<u>15,052</u>

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

**STATEMENT OF FUND NET POSITION**  
**WATER UTILITY PROPRIETARY FUND**  
September 30, 2012  
CITY OF LAKE HELEN, FLORIDA

<b>Assets:</b>		
Current Assets:		
Cash and cash equivalents.....	\$ 201,336	
Accounts receivable (net).....	133,631	
Restricted cash and cash equivalents:		
Revenue note debt service funds.....	50,891	
Revenue note reserve fund.....	47,069	
Customer deposits.....	47,011	
Impact fees.....	<u>104,237</u>	
Total current assets.....		<u>584,175</u>
Noncurrent Assets:		
Unamortized debt issuance costs.....		13,035
Capital assets:		
Improvements other than buildings.....	2,999,149	
Machinery and equipment.....	370,572	
Less: accumulated depreciation.....	<u>(1,194,241)</u>	<u>2,175,480</u>
Total noncurrent assets.....		<u>2,188,515</u>
Total assets.....		<u>2,772,690</u>
<b>Liabilities:</b>		
Current Liabilities:		
Accounts payable and accrued liabilities.....	25,124	
Due to other funds.....	20,885	
Customer deposits.....	47,011	
Notes payable - current maturities.....	<u>95,743</u>	
Total current liabilities.....		188,763
Noncurrent Liabilities:		
Compensated absences.....	24,232	
Other postemployment benefit obligation.....	16,402	
Notes payable-net of current maturities.....	<u>1,127,090</u>	
Total noncurrent liabilities.....		<u>1,167,724</u>
Total liabilities.....		<u>1,356,487</u>
<b>Net Position:</b>		
Invested in capital assets, net of related debt.....	952,647	
Restricted for debt service.....	81,723	
Restricted for utility expansion.....	104,237	
Unrestricted.....	<u>277,596</u>	
Total net position.....		<u>\$ 1,416,203</u>

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

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**WATER UTILITY PROPRIETARY FUND**  
For the Year Ended September 30, 2012  
CITY OF LAKE HELEN, FLORIDA

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Operating Revenues:		
Charges for services.....	\$ 478,585	
Miscellaneous.....	<u>          -</u>	
Total operating revenues.....		478,585
Operating Expenses:		
Personal services.....	138,916	
Depreciation and amortization.....	74,664	
Materials and supplies.....	37,640	
Contractual services.....	47,942	
Utilities.....	35,066	
Maintenance and repairs.....	49,529	
Other charges.....	<u>13,276</u>	
Total operating expenses.....		<u>397,033</u>
Operating income.....		81,552
Nonoperating revenue (expense):		
Interest and debt expense.....	<u>(44,283)</u>	
Net nonoperating revenue (expense).....		<u>(44,283)</u>
Income before contributions.....		37,269
Capital contributions.....		<u>4,000</u>
Net increase (decrease) in net position.....		41,269
Net position, beginning of year.....		<u>1,374,934</u>
Net position, end of year.....		<u>\$ 1,416,203</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, 2012  
CITY OF LAKE HELEN, FLORIDA

Cash Flows From Operating Activities:	
Cash received from customers.....	\$ 476,660
Cash paid to suppliers.....	(172,088)
Cash paid for personal services.....	<u>(127,275)</u>
Net cash provided by (used in) operating activities.....	177,297
Cash Flows From Capital and Related Financing Activities:	
Repayment of advances from other funds.....	(124,044)
Payments of long-term debt principal.....	(92,564)
Interest payments.....	(43,371)
Capital contributions.....	<u>4,000</u>
Net cash provided by (used in) capital and related financing activities.	(255,979)
Net increase (decrease) in cash and cash equivalents.....	(78,682)
Cash and cash equivalents, beginning of year.....	<u>529,226</u>
Cash and cash equivalents, end of year.....	<u>\$ 450,544</u>
Reconciliation of cash and cash equivalents:	
Unrestricted.....	\$ 201,336
Restricted.....	<u>249,208</u>
Total - all sources.....	<u>\$ 450,544</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income (loss).....	\$ 81,552
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation and amortization.....	77,274
Bad debt provision.....	6,486
Post employment benefit obligation.....	5,990
Changes in assets and liabilities:	
Accounts receivable (net).....	(4,400)
Accounts payable.....	2,269
Accrued liabilities.....	3,462
Compensated absences.....	2,189
Customer deposits.....	<u>2,475</u>
Net cash provided by operating activities.....	<u>\$ 177,297</u>

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

**STATEMENT OF FIDUCIARY NET POSITION**  
**MUNICIPAL POLICE OFFICERS' RETIREMENT TRUST FUND**  
September 30, 2012  
CITY OF LAKE HELEN, FLORIDA

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Assets:		
Cash and cash equivalents.....		\$ 20,598
Receivables:		
Employer.....	2,717	
Employee.....	<u>113</u>	
		2,830
Investments:		
Mutual Funds.....		<u>837,669</u>
Total assets.....		<u>861,097</u>
Liabilities.....		
		<u>-</u>
Net Position:		
Held in trust for pension benefits.....		<u>\$ 861,097</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, 2012  
CITY OF LAKE HELEN, FLORIDA

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Additions:

Contributions from:

Employees.....	\$	1,524
Employer (City).....		38,941
State-Casualty Insurance Premium Taxes.....		<u>16,094</u>

Total contributions..... 56,559

Investment income:

Net investment earnings, including appreciation (depreciation) in fair value of investments.....		<u>119,345</u>
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Total additions..... 175,904

Deductions:

Administrative expenses.....	<u>2,503</u>
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Total deductions..... 2,503

Net increase..... 173,401

Net Assets Held in Trust for Pension Benefits:

Beginning of year.....	<u>687,696</u>
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End of year.....	<u>\$ 861,097</u>
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The accompanying notes are an integral part of the financial statements.

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*NOTES TO THE FINANCIAL STATEMENTS*

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## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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### 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, comprised of the statement of net position and the statement of activities, report aggregated information for the overall government for all of the activities of the primary government. These statements do not report fiduciary funds or fiduciary component units such as retirement trust funds. Those activities are reported only in fund financial statements, when required. The effect of interfund activity has been removed from these statements as is further disclosed below under the heading Interfund Activity Eliminations and Reclassifications.

Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange revenues, are reported separately from business-type activities, which are financed wholly or partially by fees charged to external parties for goods or services and are reported in enterprise funds.

The statement of net position presents the overall government's financial position at year-end. The statement of activities presents direct expenses of a given function or segment offset by program revenues for the fiscal reporting period. The resulting net expense or revenue is then totaled and offset by general revenues producing the aggregate change in net position for the period. 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 nonexchange revenues not properly included among program revenues are reported instead as general revenues.

## NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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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.

### 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 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 60 days of the end of the current fiscal period, unless accrued for grant reimbursements of costs previously funded by the City. 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.

Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions. Nonexchange transactions are grouped into four classes, based on their principal characteristics. The accounting treatment for each type of transaction is as follows:

*Derived Tax Revenues* are defined as assessments imposed on exchange transactions. Examples include: sales taxes, franchise tax, utility taxes, etc. Assets from derived tax revenue are recognized in the period when the exchange transaction on which the tax is imposed or when resources are received, whichever occurs first. Revenues are recognized, net of estimated uncollectible amounts, in the same period that the assets are recognized. Resources received in advance are recorded as deferred revenue until the period of the exchange.

*Imposed Nonexchange Revenues* result from assessments on nongovernmental entities, other than assessments on exchange transactions. Examples include: ad valorem (property) taxes, fines and penalties, and property forfeitures. Assets from imposed nonexchange revenues are recognized in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. Property taxes are recognized in the period for which the taxes are levied. All other imposed nonexchange revenues are recognized in the same period that the assets are recognized.

## NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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Government-mandated Nonexchange Transactions establish eligibility requirements before a transaction can occur. Examples include federal awards and state financial assistance. Until the requirements are met, the recipient does not have a receivable and recognition of revenue received in advance is deferred. The providers (usually federal, state, and county governments) often offer resources on a reimbursement (“expenditure-driven”) basis at the time the recipient has incurred allowable costs under the applicable program.

Voluntary Nonexchange Transactions result from legislative or contractual agreements other than exchanges, entered into willingly by two or more parties. Examples include certain grants, entitlements, and donations by nongovernmental entities. Principal characteristics of these types of transactions are (1) they are not imposed on the provider or recipient, and (2) fulfillment of eligibility requirements is essential for a transaction to occur. Assets and revenues are recognized when all applicable eligibility requirements, including time requirements, are met. Resources received in advance are reported as deferred revenue.

The City’s accounts are organized on the basis of funds each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The focus of the governmental and proprietary fund financial statements is on major funds.

The City reports the following major governmental funds:

*General Fund* - The General Fund is the principal fund of the City which accounts for all financial transactions not accounted for in other funds. The majority of current operating expenditures of the City other than proprietary fund activities are financed through revenues received by the General Fund.

*General Trust (Permanent) Fund* - The General Trust Fund is a permanent fund used to account for the financial resources related to the investment of proceeds from the sale of the City’s electric distribution system in 1981. All interest earnings from this fund are transferred to the General Fund for disposition.

*Stormwater Management (Special Revenue) Fund* - This is a special revenue fund to provide for the financial resources related to the development and maintenance of the City’s stormwater management system. This fund is separately captioned in the accompanying government-wide financial statements since it is the only non-major fund of the City.

The City reports the following major proprietary fund:

*Water Utility Fund* – The Water Utility Fund is used to account for the financial activities of the City’s potable water utility system, including the pumping, treatment and distribution systems.

## NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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The City reports the following fiduciary fund type:

*Municipal Police Officers' Retirement Trust (Fiduciary) Fund* – This is a fiduciary trust fund that was established to account for the financial activities of the Municipal Police Officers' Retirement Trust Fund, which accumulates financial resources to pay pension benefits to qualified police officers.

As a general rule the effect of the City's interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water function and various other functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments (when applicable). Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, except those that are statutorily restricted for special functional cost elements.

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 water 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 enterprise funds 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.

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.

### **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.

The City's investment policies are governed by state statutes and local resolution. These policies authorize the City to invest in 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.

All of the City's investments are reported at fair value, with the exception of investments in the SEC Rule 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.

## NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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### 2. *Receivables and payables*

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.”

All trade and property tax receivables and amounts due from other governments are reported net of allowance for uncollectible accounts which is based 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.

All unpaid property taxes receivable at year end are at least 180 days past due, at which time the applicable property is subject to lien, and penalties and interest are assessed.

### 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. The cost of prepaid items is recorded as expenditures/ expenses when consumed rather than when purchased.

### 4. *Restricted Assets*

Certain proceeds from the imposition of the City's impact fee requirements, building permits, and 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 1) to provide a reserve for future debt service, 2) to provide a reserve for maintenance and replacement costs, and 3) to acquire qualifying capital assets.

### 5. *Capital Assets*

Capital assets include property, plant, equipment, certain infrastructure assets, and office furniture, fixtures and equipment, and are reported in the applicable governmental or business-type activities in the government-wide financial statements. The terms general capital assets and general infrastructure assets relate only to the assets associated with governmental activities, whereas the terms capital assets and infrastructure assets relate to all such assets belonging to the City. In accordance with the implementation efforts of GASB Statement No. 34, the City is exempt from reporting all general infrastructure assets and related depreciation expense on these assets, for those assets acquired prior to the year of implementation

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

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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of the pronouncement in the entity-wide statement of net position and statement of activities. All known infrastructure assets acquired in current and prior years are reported in the financial statements.

Capital assets are defined by the City as assets with initial, individual costs that equal or exceed \$750 and have estimated useful lives of over one year. For all infrastructure assets, costs must exceed \$5,000 or more before the assets are capitalized. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are only capitalized if they meet the dollar threshold above for capitalization.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized, but charged to operating expense as incurred. Major outlays for capital assets and improvements are capitalized as projects are constructed. Construction period interest is capitalized net of interest earned on unexpended construction funds and, therefore, depreciated over the remaining useful life of the related asset, when applicable.

Depreciation is reported for the primary government using the straight-line method calculated on a service-life basis to amortize the cost of the assets over their estimated economic 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

The City has historically recorded all easements and rights of way that are determined to have limited useful lives at estimated fair market value on the date received. The City has elected to not retroactively report intangible assets that are determined to have indefinite useful lives. The City does not have any intangible assets previously subjected to amortization that have now been determined to have indefinite useful lives.

*6. Accrued Payroll and Compensated Absences*

The portion of employees' payroll costs paid subsequent to year end attributable to services performed prior to year end is recorded and recognized as a current liability.

The City's personnel policy permits employees to accumulate earned but unused personal leave benefits, which are eligible for partial payment upon separation from City service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences included salary related benefits, where applicable.

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

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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The amount of paid time off available to employees increases each year with the length of employment as follows:

	<u>Annual</u> <u>Leave</u>	<u>Personal</u> <u>Leave</u>
0 to 5 years service .....	10 days	12 days
6 to 10 years service .....	15 days	12 days
Over 11 years service .....	20 days	12 days

City employees may accumulate annual leave and personal leave up to a maximum of 240 and 360 hours, respectively. All employees will receive 100% and 25% of accumulated annual leave benefits and personal leave benefits, respectively, upon retirement or death.

7. *Unearned Revenue*

Unearned revenues are reported when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned 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 unearned revenue is removed and revenue is recognized.

8. *Deferred outflows/inflows of resources*

In addition to assets, when applicable the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has no items that qualify for reporting in this category.

In addition to liabilities, when applicable the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has no items that qualify for reporting in this category.

9. *Net position flow assumption*

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

## NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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### 10. *Fund balance flow assumptions*

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

### 11. *Fund balance policies*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Commission is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Commission has by resolution authorized the City Administrator to assign fund balance. The Commission may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash such as inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

## NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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### 12. *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.

### 13. *Reclassifications*

Certain amounts for 2011 have been reclassified to conform to the 2012 financial statement presentation.

## **E. New Accounting Standards**

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is intended to enhance usefulness of GASB codification by incorporating guidance which previously could only be found in FASB or American Institute of Certified Public Accountants (AICPA) pronouncements. The statement is effective for periods beginning after December 15, 2011. This statement incorporates existing generally accepted accounting guidance into GASB authoritative literature and is not expected to have a material impact on the City's financial position.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement is intended to provide guidance for reporting deferred outflows of resources, deferred inflow of resources, and net position in a statement of financial position and related disclosures. The adoption of this statement requires the City to modify the balance sheets and replace the statements of revenues, expenses and changes in net assets with a statement of revenues, expenses and changes in net position, when applicable. There is no material impact to the City's financial position as a result of this statement.

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions -- an amendment of GASB Statement No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The statement is effective for financial statements for periods beginning after June 15, 2011 and is not expected to have a material impact on the City's financial position because it is not a party to any hedging activities.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. This statement is effective for periods beginning after December 15, 2012 and is not expected to have a material impact on the City's financial position.

In April 2012, GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. This statement amends GASB No. 10 by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. As a result, governments would base their decisions about

## NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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governmental fund type usage for risk financing activities on the definitions in Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This statement also amends GASB No. 62 by modifying the specific guidance on accounting for certain operating lease payments, loan transactions, and loan servicing fees. The statement is effective for financial statements for periods beginning after December 15, 2012 and is not expected to have a material impact on the City's financial position.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. This Statement replaces the requirements of GASB No. 25 and GASB No. 50 as they relate to pension plans that are administered through trusts or equivalent arrangements. This statement is not applicable to the City.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This Statement establishes new accounting and financial reporting standards for governments that provide their employees with pension plans in which a government's contributions to the trust used to administer a pension plan are irrevocable, restricted to paying pension benefits, and are beyond the reach of creditors. Under the new standards, governments will be required to report the amount of unfunded pension obligations in their balance sheets. The liability that must be recognized (net pension obligation) is the total pension liability less the amount of plan assets formally set aside for payment of benefits as of the reporting date. Annual pension expense will be based on a comprehensive measurement of the annual cost of pension benefits, rather than on required funding amounts. Governments participating in multi-employer cost-sharing plans will be required to report a liability equivalent to their proportionate share of the collective net pension liability of the plan. The proportion would essentially equal the government's long-term expected contributions to the plan divided by those of all governments in the plan. Each cost-sharing employer will also be required to recognize its estimated allocated share of the plan's collective pension expense. This statement, which is effective for financial statements for periods beginning after June 15, 2013, is expected to have a material future impact on the City's net position. However, the City's proportionate share of its net pension liability associated with the Florida Retirement System has not yet been determined.

### 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.

## NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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### NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

#### A. Budgetary Information

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

- On or before July 15<sup>th</sup>, the City Administrator submits a preliminary budget to the City Commission for the ensuing fiscal year.
- Budget workshop sessions are scheduled by the City Commission, as needed.
- A general summary of the budget and notice of public hearing is published in a local newspaper.
- Prior to October 1st, the budget is legally enacted through passage of an ordinance.
- The City Commission, by ordinance, may make supplemental appropriations in excess of those estimated for the year up to the amount of available revenue in accordance with Sections 54 to 57 of the City Charter. Prior to the end of the fiscal year, supplemental appropriations are made for unanticipated spending requirements by the Commission.
- The City Commission must approve all inter-departmental budget amendments and/or appropriations transfers. Budgetary control is exercised at the fund level.
- Every appropriation lapses at the close of the fiscal year.

The budgets for governmental funds that were either adopted or amended during the year by the City Commission were prepared using the modified accrual basis of accounting in accordance with generally accepted accounting principles. The general and special revenue funds have legally adopted budgets.

The water fund has a legally adopted annual budget. Presentation of budget/actual comparisons have not been presented in these financial statements as this disclosure would be misleading and is not required by generally accepted accounting principles.

#### B. Excess of Expenditures over Appropriations

During the year ended September 30, 2012, expenditures exceeded budgetary appropriations in the General Fund (major) – actual expenditures (\$2,075,357) exceeded budgetary appropriations (\$1,965,650) by \$109,707. This amount is primarily the result of actual expenditures exceeding budgetary appropriations in the public safety, transportation, and culture/recreation functions. This amount was funded in its entirety from prior year surplus governmental revenue in the General Fund.

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

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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**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 (2011 tax levy) was 5.987 mills for ad valorem taxes collected by the City during the year ended September 30, 2012. 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												
<table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>Month Paid</u></th> <th style="text-align: left;"><u>Discount</u></th> </tr> </thead> <tbody> <tr> <td>November .....</td> <td>4%</td> </tr> <tr> <td>December .....</td> <td>3%</td> </tr> <tr> <td>January .....</td> <td>2%</td> </tr> <tr> <td>February .....</td> <td>1%</td> </tr> <tr> <td>March .....</td> <td>None</td> </tr> </tbody> </table>	<u>Month Paid</u>	<u>Discount</u>	November .....	4%	December .....	3%	January .....	2%	February .....	1%	March .....	None	
<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, 2012

CITY OF LAKE HELEN, FLORIDA

**NOTE 5 - CASH DEPOSITS AND INVESTMENTS**

**Deposits.** At September 30, 2012, the carrying value of the City’s cash deposit accounts was \$895,219 and the bank balance totaled \$958,143. The cash deposits are held by banks that qualify as public depositories under the Florida Security for Public Deposits Act as required by Chapter 280, Florida Statutes and are fully collateralized. The above reported amounts do not include \$1,000 in cash funds on hand at the end of the fiscal year.

**Investments.** As of September 30, 2012, the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (Years)		
		Less Than 1	From 1 - 5	From 6 - 10
Local Government Investment Pool:				
State Board of Administration, Local Government Surplus Trust Fund Investment Pool				
Florida PRIME.....	\$ 744,382	744,382	-	-
Fund B.....	8,600	-	-	8,600
Florida Municipal Investment Trust.....	861,097	527,852	333,245	-
Ad Valorem tax certificates.....	47	-	47	-
Totals.....	<u>\$ 1,614,126</u>	<u>1,272,234</u>	<u>333,292</u>	<u>8,600</u>

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

The SBA is part of the Local Government Surplus Trust Fund and is governed by Chapter 19-7 of the Florida Administrative Code. These rules provide guidance and establish the general operating procedures for the administration of the Local Government Surplus Trust Fund. Florida PRIME is accounted for as a Securities and Exchange Commission (SEC) 2a-7-like fund, which permit money market funds to use amortized cost to maintain a constant net asset value of \$1.00 per share, and are therefore reported at fair value. The investment held in Fund B is accounted for as a fluctuating net asset value (NAV) pool. Its assets are presently restricted and the City is prohibited from withdrawing any amounts from the pool. The fair value of the original remaining \$9,062 (at cost) investment in Fund B is \$8,600 as of September 30, 2012, based on the NAV factor of 0.94896811 reported by the trustees of Fund B.

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

The FMIvT is a Local Government Investment Pool (LGIP) and, therefore, considered an external investment pool for GASB reporting requirements. The City is a Participating Employer in the FMPTF

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

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

and has a beneficial interest in shares in the FMIvT portfolios listed below. The City’s investment is the beneficial interest in the FMIvT portfolio, not the individual securities held within each portfolio. As of September 30, 2012, the asset allocations for the various investment models were as follows:

Investment Portfolios/Funds	Percent
Cash.....	2.40%
FMIvT Broad Market High Quality Bond.....	38.70%
FMIvT High Quality Growth.....	8.00%
FMIvT Diversified Small to Mid Cap.....	10.40%
FMIvT Russell 1000 Enhanced Index.....	22.40%
FMIvT International Blend.....	9.90%
FMIvT Diversified Value.....	8.20%
Total.....	100.00%

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

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

Fixed Income Fund	Effective Duration	WAM
FMIvT Broad Market High Quality Bond.	4.66	5.42

**Foreign Currency Risk.** This category applies only if a government's deposits or investments are exposed to foreign currency risk. If subject to such exposure, the government should disclose the dollar balances subject to such risks, organized by currency denomination and investment type. The City's investments in the FMIvT are not subject to foreign currency risk.

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

Investments in the City’s pension trust fund are limited by state statutes (Chapter 185, Florida Statutes) and by an investment policy adopted by the fund’s Board of Trustees. The basic allowable investment instruments include obligations of, or obligations the principal and interest of which are guaranteed by, the U.S. Government; time deposits or savings accounts of a national bank, a state bank insured by the Federal Deposit Insurance Corporation, or a savings, building and loan association insured by the Federal

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

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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Savings and Loan Insurance Corporation; money market accounts that invest in U.S. Government obligations; bonds issued by the State of Israel; and bonds, stocks or other evidence of indebtedness issued or guaranteed by a corporation organized under the laws of the U.S., any state or organized territory of the U.S., or the District of Columbia.

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

<u>Fixed Income Fund</u>	<u>Fitch Rating</u>
FMIvT Broad Market High Quality Bond.	AA/V4
<u>Equity Portfolios</u>	<u>Rating</u>
FMIvT High Quality Growth.....	Not Rated
FMIvT Large Cap Diversified Value.....	Not Rated
FMIvT Russell 1000 Enhanced Index.....	Not Rated
FMIvT Diversified Small Cap Equity.....	Not Rated
FMIvT International Blend.....	Not Rated

The Florida PRIME is rated by Standard and Poors, with a rating of AAaf as of September 30, 2012; Fund B is not rated by any nationally recognized statistical rating agency.

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

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

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

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

At September 30, 2012, the carrying amount of the City’s deposits in the Local Government Surplus Funds Trust Fund was \$752,982, all of which was covered by collateral securities in accordance with the Act. The carrying amount of the City’s remaining deposits was adequately covered by federal depository insurance and the statutory provisions of the Act. All investments held by the City’s police and fire pension trust funds were uninsured, unregistered and held by the Plans’ trustees.

**NOTE 6 – DISAGGREGATION OF RECEIVABLES AND PAYABLES**

**Receivables:** Amounts are aggregated into single accounts receivable (net of allowance for uncollectible accounts) lines for certain funds and aggregated columns. Below is a detail of receivables anticipated to be collected within an operating cycle:

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Delinquent taxes receivable .....	\$ 10,951	-	10,951
Accounts receivables-utility/franchise .....	27,591	-	27,591
Customer utility accounts .....	-	155,923	155,923
Customer unbilled accounts .....	-	17,769	17,769
Due from other governments .....	43,006	-	43,006
Other miscellaneous receivables .....	<u>859</u>	<u>2,439</u>	<u>3,298</u>
	82,407	176,131	258,538
Less: allowance for doubtful accounts .....	<u>-</u>	<u>(42,500)</u>	<u>(42,500)</u>
Total receivables, net .....	<u>\$ 82,407</u>	<u>133,631</u>	<u>216,038</u>

**Payables:** Amounts are aggregated into single accounts payable and accrued liabilities lines for certain funds and aggregated columns. Below is a detail of payables anticipated to be paid within an operating cycle:

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Accounts payable .....	<u>\$ 59,880</u>	<u>5,425</u>	<u>65,305</u>
Accrued payroll .....	18,324	3,216	21,540
Accrued liabilities – employee benefits .....	14,820	246	15,066
Accrued interest .....	<u>6</u>	<u>16,237</u>	<u>16,243</u>
	<u>33,150</u>	<u>19,699</u>	<u>52,849</u>
Total accounts payable/accrued liabilities ....	<u>\$ 93,030</u>	<u>25,124</u>	<u>118,154</u>

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

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

**NOTE 7 - INTERFUND BALANCES**

The outstanding balances between funds result mainly from the time lag between the dates reimbursable expenditures occur, when transactions are recorded in the accounting system, and when payments between funds are made. Individual fund interfund receivables and payables at September 30, 2012, are comprised of the following:

	<u>Due From</u>	<u>Due To</u>
Governmental Activities:		
General Fund:		
Stormwater Management Fund.....	\$ 4,932	-
Water Utility Fund.....	20,885	-
Stormwater Management Fund:		
General Fund.....	-	4,932
	<u>25,817</u>	<u>4,932</u>
Business-type Activities:		
Water Utility Fund:		
General Fund.....	-	20,885
	<u>-</u>	<u>20,885</u>
Totals - all funds.....	<u>\$ 25,817</u>	<u>25,817</u>

Individual fund interfund transfers for the year ended September 30, 2012, are comprised of the following:

	<u>Transfer To</u>	<u>Transfer From</u>
Governmental Activities:		
General Fund:		
General Trust Fund.....	\$ -	1,072
General Trust Fund		
General Fund.....	1,072	-
	<u>1,072</u>	<u>-</u>
Totals - all funds.....	<u>\$ 1,072</u>	<u>1,072</u>

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

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

**NOTE 8 - CAPITAL ASSETS**

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

**A. Governmental Activities**

	Balances 9/30/2011	Additions	Deletions	Balances 9/30/2012
Capital assets not being depreciated:				
Land.....	\$ 477,526	-	(3,543)	473,983
Construction in progress.....	172,307	206,764	-	379,071
Total capital assets not being depreciated..	<u>649,833</u>	<u>206,764</u>	<u>(3,543)</u>	<u>853,054</u>
Capital assets being depreciated:				
Buildings.....	1,504,581	-	-	1,504,581
Improvements other than buildings.....	1,255,622	-	-	1,255,622
Machinery and equipment.....	666,084	72,910	(88,609)	650,385
Total capital assets being depreciated.....	<u>3,426,287</u>	<u>72,910</u>	<u>(88,609)</u>	<u>3,410,588</u>
Less accumulated depreciation for:				
Buildings.....	(402,808)	(44,626)	-	(447,434)
Improvements other than buildings.....	(254,662)	(30,695)	-	(285,357)
Machinery and equipment.....	(603,260)	(15,212)	88,609	(529,863)
Total accumulated depreciation.....	<u>(1,260,730)</u>	<u>(90,533)</u>	<u>88,609</u>	<u>(1,262,654)</u>
Total capital assets being depreciated, net.	<u>2,165,557</u>	<u>(17,623)</u>	<u>-</u>	<u>2,147,934</u>
Total capital assets, net.....	<u>\$ 2,815,390</u>	<u>189,142</u>	<u>(3,543)</u>	<u>3,000,989</u>

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

Governmental Activities:		
General government.....	\$ 40,368	
Public safety.....	5,341	
Transportation.....	14,109	
Culture/recreation.....	<u>30,716</u>	
Total depreciation expense - governmental activities.....		<u>\$ 90,534</u>

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

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

**B. Business-Type Activities**

	Balances 9/30/2011	Additions	Deletions	Balances 9/30/2012
Capital assets not being depreciated:				
Construction in progress.....	\$ 2,610	-	(2,610)	-
Capital assets being depreciated:				
Improvements other than buildings.....	2,999,149	-	-	2,999,149
Machinery and equipment.....	370,572	-	-	370,572
Total capital assets being depreciated.....	3,369,721	-	-	3,369,721
Less accumulated depreciation for:				
Improvements other than buildings.....	(766,550)	(70,744)	-	(837,294)
Machinery and equipment.....	(353,028)	(3,919)	-	(356,947)
Total accumulated depreciation.....	(1,119,578)	(74,663)	-	(1,194,241)
Total capital assets being depreciated, net.	2,250,143	(74,663)	-	2,175,480
Total capital assets, net.....	\$ 2,252,753	(74,663)	(2,610)	2,175,480

Depreciation expense for the year totaled \$77,835. There was no interest costs capitalized during the year ended September 30, 2012.

**NOTE 9 - LONG-TERM DEBT**

The City's long-term debt outstanding at September 30, 2012, is as follows:

**A. Governmental Activities**

	Balance Due	Current Maturities
Capital Lease Obligations:		
\$8,158 capital lease for machinery and equipment, for the City's general government activities, dated 3/10/2008, payable in monthly installments of \$174 through 2/10/2013, interest rate of 10.545%, secured with machinery and equipment with a book value of \$947 as of 9/30/2012...	\$ 848	<u>848</u>
Compensated absences.....	113,883	
Other postemployment benefit obligation.....	<u>118,598</u>	
Total governmental activities long-term debt.....	\$ 233,329	

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

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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

	Balances <u>9/30/2011</u>	Additions	Deletions	Balances <u>9/30/2012</u>
Capital Lease Obligations:				
\$8,158 capital lease dated 3/10/2008.....	\$ 2,737	-	(1,889)	848
\$4,000 capital lease dated 1/28/2008.....	301	-	(301)	-
Compensated absences.....	102,169	47,784	(36,070)	113,883
Other postemployment benefit obligation.....	<u>75,588</u>	<u>43,010</u>	<u>-</u>	<u>118,598</u>
Totals.....	<u>\$ 180,795</u>	<u>90,794</u>	<u>(38,260)</u>	<u>233,329</u>

Annual debt service requirements to maturity, including principal and interest, on long-term debt obligations are \$870 for 2013.

Total interest expense incurred for governmental activities for the year ended September 30, 2012 was \$192.

**B. Business-Type Activities**

	<u>Balance Due</u>	<u>Current Maturities</u>
Notes Payable:		
State of Florida, Department of Environmental Protection-Drinking Water State Revolving Fund Loan Agreement, 3.05% to 3.57% construction loan dated 6/14/2000 in the amount of \$1,377,456, with amendments authorizing additional financing of \$318,512, providing for an amended obligation totaling \$1,695,969, due semi-annually with payments of \$59,273 beginning 10/15/2003 through 4/15/2022.....	\$ 993,204	84,563
State of Florida, Department of Environmental Protection-Drinking Water State Revolving Fund Loan Agreement, 2.57 to 2.77% construction loan dated 6/5/2008 in the amount of \$260,922, due semi-annually with payments of \$8,694 through 3/15/2029.....	<u>229,629</u>	<u>11,180</u>
	1,222,833	95,743
Compensated absences.....	24,232	-
Other postemployment benefit obligation.....	<u>16,402</u>	<u>-</u>
Total business-type activities long-term debt.....	<u>\$ 1,263,467</u>	<u>95,743</u>

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

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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

	<u>Balances</u> 9/30/2011	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> 9/30/2012
Notes Payable:				
State of Florida Department of Environmental Protection-Clean Water State Revolving Fund Loans:				
\$1,695,969 loan dated 6/14/2000.....	\$ 1,074,888	-	(81,684)	993,204
\$219,850 loan dated 6/5/2008.....	240,509	-	(10,880)	229,629
Compensated absences.....	22,043	10,310	(8,121)	24,232
Other postemployment benefit obligation.....	<u>10,412</u>	<u>5,990</u>	<u>-</u>	<u>16,402</u>
Totals.....	<u>\$ 1,347,852</u>	<u>16,300</u>	<u>(100,685)</u>	<u>1,263,467</u>

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

<u>Fiscal Year</u>	<u>FDEP - SRF Loans</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
September 30, 2013.....	\$ 95,743	40,192	135,935
September 30, 2014.....	99,031	36,904	135,935
September 30, 2015.....	102,433	33,502	135,935
September 30, 2016.....	105,953	29,982	135,935
September 30, 2017.....	109,595	26,340	135,935
September 30, 2018 through 2022.....	607,177	72,498	679,675
September 30, 2023 through 2027.....	77,515	9,428	86,943
September 30, 2028 through 2029.....	<u>25,386</u>	<u>697</u>	<u>26,083</u>
Totals.....	<u>\$ 1,222,833</u>	<u>249,543</u>	<u>1,472,376</u>

As a part of the FDEP Loan Agreement dated June 14, 2000, the City is required to establish and maintain a Loan Payment Reserve Account with a balance of at least \$46,864 (in compliance) through maturity (2023). On both FDEP loan obligations, the City is also required to make mandatory monthly payments to established Loan Payment Sinking Funds sufficient to service the loan obligations (in compliance). In addition to these requirements, the City has agreed to comply with other covenants and restrictions contained within these agreements. Specifically, the City is required to maintain a loan debt service coverage ratio of 1.15 times throughout the term of the loans. For the year ended September 30, 2012, the City met this requirement.

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

Total interest incurred for business-type activities for the year ended September 30, 2012 was \$44,283. Of this amount, \$-0- was capitalized as a component of the costs of capital assets constructed during the year and \$44,283 was charged to expense.

## NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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### NOTE 10 - PLEDGED REVENUES

The City has pledged future revenues derived from the operation of the City's Water Utility Fund, net of operating and maintenance expenses, to repay \$1,222,833 in State of Florida, Department of Environmental Protection-Drinking Water State Revolving Fund loans. Proceeds from the loans provided financing for improvements to the water supply system. The loans are payable solely from the net earnings of the Water Utility Fund (pledged revenues) and are payable semi-annually through 2029. The total principal and interest remaining to be paid on the loans is \$1,472,376, with annual payments expected to require approximately 100 percent of net revenues. Principal and interest paid for the current year and net pledged system revenues were \$135,935 and \$156,216, respectfully.

### NOTE 11 - RESTRICTED NET ASSETS

The government-wide statement of net assets reports \$207,381 in restricted net assets, of which \$123,367 is restricted for capital projects through local resolution and state legislation related to the use of revenues collected for impact fees and development reviews; \$81,723 is restricted for debt service obligations established through externally imposed loan agreements and covenants; and \$2,291 is restricted for police education and training by enabling state legislation.

### NOTE 12 - EMPLOYEES' PENSION PLANS

#### A. Florida Retirement System

**Plan Description.** The City contributes to the Florida Retirement System (the "FRS") of the State of Florida, a cost-sharing, multiple-employer public employee retirement system created in December, 1970, that acts as a common investment and administrative agent for municipalities and other qualifying political subdivisions in the State of Florida. This defined benefit pension plan, which is administered by the State of Florida, Department of Management Services, Division of Retirement, provides retirement and disability benefits and death benefits to plan members and beneficiaries. All retirement legislation must comply with Article X, Section 14 of the State Constitution and with Part VII, Chapter 112, F.S. 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 Florida Retirement System, Department of Management Services, Division of Retirement, P.O. Box 9000, Tallahassee, FL 32315-9000, or calling 850-488-5706.

**Funding Policy.** The FRS funding policy provides for required monthly employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll are adequate to accumulate sufficient assets to pay benefits when due. Level percentages of payroll employer contribution rates, established by state law, are determined using the entry-age actuarial funding method. If an unfunded actuarial liability reemerges, future plan benefit changes, assumption changes, and methodology changes are amortized within 30 years, using level dollar amounts. Except for gains reserved for rate stabilization, it is anticipated future actuarial gains and losses are amortized on a rolling 10% basis, as a level dollar amount.

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

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

The City made the required contributions to the plan for the fiscal years ended September 30, 2012, 2011, and 2010, which were \$36,433, \$67,671, and \$89,387, respectively. Employees are required to contribute 3% of covered wages to the plan effective July 1, 2011. The employee’s contributions to the plan for the fiscal years ended September 30, 2012, 2011, and 2010 were \$15,885, \$3,795, and \$0, respectively.

Effective July 1, 2011, all covered employees, other than those who have elected to enter the Deferred Retirement Option Program (DROP), are required to contribute 3% of their covered payroll. The following is a summary of employer contribution percentages for qualifying compensation paid to general participants, Special Risk participants, and DROP participants in effect during each of the past three fiscal years ended September 30, 2012, 2011, and 2010 by retirement plan periods (rates specified below include an additional 1.11% for the City’s option to include health insurance subsidy contribution):

	<u>Regular Employees</u>	<u>Special Risk Employees</u>	<u>DROP Employees</u>
Plan year beginning July 1, 2012.....	5.18%	14.90%	5.44%
Plan year beginning July 1, 2011.....	4.91%	14.10%	4.42%
Plan year beginning July 1, 2010.....	10.77%	23.25%	12.25%

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

*Plan Description.* The City contributes to the Florida Municipal Pension Trust Fund Defined Benefit Plan and Trust (the “Plan”), a single-employer defined benefit plan which is administered by Florida League of Cities, Inc., P. O. Box 1757, Tallahassee, FL 32302-1757. Under Resolution No. 95-5, the City established this Plan for all full-time sworn police officers hired on or after January 1, 1996, by temporarily revoking its prior participation in the Florida Retirement System pursuant to Chapter 95-338, Laws of Florida with respect to such employees. As of October 1, 2012, there were 4 active participating members enrolled in the Plan, and two deferred (terminated) vested participants, one of which is only due a refund of employee contributions. There were no retired, disabled (receiving benefits from the Plan), beneficiaries receiving benefits nor any terminated employees entitled to but not yet receiving benefits from the Plan. No stand-alone financial report is issued for the Plan.

The funding methods and the determination of benefits payable are provided in the various acts of the Florida Legislature, which created the fund, including subsequent amendments thereto. More information relating to the funding methods, determination of benefits, and permissible investments for the Plan can be found in Chapter 185, Florida Statutes. These statutes provide, in general, that funds are to be accumulated from employee contributions, City contributions, State appropriations 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 revenues which may be lawfully used for said purposes in an amount sufficient to make up the deficiency. The investments of the fund are administered, managed, and operated by the board of trustees using the services of the Florida League of Cities.

All full-time, uniformed police officers employed after 1995 are eligible (and required as a condition of employment) to participate in the Plan upon employment with the City. Employees vest with 100% full benefits after 6 years of service. Employees are eligible for normal retirement after attaining age 55 with 6 years of credited service, or 25 years of credited service, regardless of age. Employees are eligible for early retirement after at any age with 10 years of credited service.

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

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

**Summary of Significant Accounting Policies of the Plans.** The accrual basis of accounting is utilized in presenting the pension trust fund’s combining statement of net position and combining statement of revenue, expenses and changes in net position. Plan receivables are short term and consist of contributions due from the City, State and/or from Plan members. Plan liabilities would generally include benefits due to plan members and beneficiaries and accrued investment and administrative expenses and are recognized when due and payable in accordance with the terms of the Plan. The difference between total plan assets and total plan liabilities at the reporting date are captioned net position held in trust for pension benefits reserved for employees’ pension benefits and represent the net position held in trust for pension benefits.

Investments are reported at fair value and are managed by third party money managers. 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.

**Contribution Requirements and Contributions Made.** The City provides contributions to the Plan under the authority of Chapter 185, Florida Statutes, and pursuant to City ordinances. Employees covered under the plan are required to make contributions of 1% of their compensation. The City is required to contribute the remaining amounts necessary to fund the Plan based on the funding amounts determined by the Plan’s actuary. During the most recent year, the City’s pension contributions included the City’s share of Casualty Insurance Premium Taxes (\$16,094) received annually from the State of Florida on behalf of the plan’s covered employees which is used to reduce the City’s required contribution.

The City has adopted GASB Statement No. 27 on pension accounting and reporting. This statement requires the computation of a net pension obligation (NPO) or asset which would result if the City’s contributions to the pension fund did not equal the annual pension cost as computed by the plan actuary. During the current year, the City evaluated the plan to determine the net pension obligation or asset at October 1, 2012 (the most recent valuation dates).

The City’s annual pension cost and net pension obligation of the Police Plan (based on the most current valuation available-October 1, 2012) were as follows:

<u>Fiscal Year Ending</u> .....	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
09/30/2012.....	\$ 39,563	96%	\$ 1,919
09/30/2011.....	\$ 37,588	99%	471
09/30/2010.....	\$ 52,945	100%	0

The development of the revised Net Pension Obligation (NPO) in the Police Plan to date is as follows:

	<u>09/30/10</u>	<u>09/30/11</u>	<u>09/30/12</u>
Actuarially determined contribution.	\$ 52,945	37,588	39,563
Interest on NPO .....	0	0	0
Adjustment .....	<u>0</u>	<u>0</u>	<u>0</u>
Annual Pension Cost .....	52,945	37,588	39,563
Contributions made .....	<u>(52,945)</u>	<u>(37,117)</u>	<u>(38,115)</u>
Increase (decrease) in NPO .....	0	471	1,448
NPO - beginning of year .....	<u>0</u>	<u>0</u>	<u>471</u>
NPO - end of year.....	<u>\$ 0</u>	<u>471</u>	<u>1,919</u>

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

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

The above net pension obligation has been included in the accrual-based government-wide statements of net position and activities, as required.

The actuarial valuation for the plan was prepared in accordance with GASB Statements No. 25 and 27. Significant actuarial assumptions used in the valuation of the plan (based on the most current valuation available-October 1, 2012) are as follows:

Contribution rates as of 09/30/12:	
City (and state) .....	15.83%
Plan Members.....	1.0%
Annual Pension Cost .....	\$39,563
Contributions made .....	\$38,115
Actuarial valuation dates .....	10/01/12
Actuarial cost method.....	Aggregate
Amortization method.....	Level \$, open
Remaining amortization period .....	30 Years (as of 10/1/12)
Asset valuation method .....	Market value
Actuarial assumptions:	
Investment rate of return .....	7.5%
Projected salary increases * .....	5.0%
*Includes inflation at.....	0.0%
Post retirement cost of living adjustment.....	0.0%

**Funded Status and Funding Progress** - Based on the October 1, 2012 actuarial valuations, the funded status of the Police Plan was as follows:

Actuarial accrued liability (AAL) .....	\$ 456,299
Actuarial value of plan assets.....	<u>710,588</u>
Unfunded actuarial accrued liability (UAAL) .....	<u>\$ 0</u>
Funded ratio (actuarial value of plan assets/AAL).....	155.73%
Covered payroll (annual payroll of active employees covered by the plan).....	\$ 160,017
UAAL as a percentage of covered payroll.....	0.00%

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

**Related Party Transactions.** The City held no securities which were included in the assets of the Police Plan.

**Required Supplementary Information.** The required supplementary information pursuant to GASB No. 25 is contained in Schedules 1 and 2 presented immediately following these notes to the financial statements.

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

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

**C. General Employees – Nationwide Retirement Solutions:**

The City offers employees' participation in an unqualified deferred compensation plan created in accordance with Internal Revenue Code Section 457 to receive employee contribution, which is administered by Nationwide Retirement Solutions, P.O. Box 182797, Columbus, OH 43218-2797. Annual contributions are limited to the amount allowed by federal tax laws. Employees immediately vest in the elective deferral contributions made to the 457 plan. The City may also contribute to the plan for participants, these contributions vest at the time such contributions are made to the plan. Employer Contributions to the 457 Plan for the fiscal years ended September 30, 2012, 2011, and 2010, totaled \$-0-, \$-0-, and \$-0-, respectively. Employee contribution to the 457 Plan for the fiscal years ended September 30, 2012, 2011, and 2010, totaled \$31,718, \$19,302, and \$16,544, respectively.

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

**Plan Description.** City of Lake Helen, Florida, Post-Employment Benefits Plan (the "Plan") is a single-employer healthcare plan administered by the City. Pursuant to Section 112.0801, Florida Statutes, the City is required to permit participation in the Plan to retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active employees. Eligible individuals include all regular employees of the City who retire from active service under one of the pension plans sponsored by the City. Under certain conditions, eligible individuals also include spouses and dependent children. The Plan does not issue a publicly available financial report.

**Funding Policy.** The contribution requirements of plan members and the City are based on composite health insurance premium costs and may be amended by the City Commission. The required contribution is based on projected pay-as-you-go financing requirements and is subject to constant revision. The City has opted to not fund the net OPEB obligation or the resulting unfunded actuarial accrued liability on an annual basis.

**Annual OPEB Cost and Net OPEB Obligation.** The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a fifteen-year open period.

The following table shows the components of the City's annual OPEB for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the Plan based on a the most recent actuarial valuation dated October 1, 2009:

	<u>Estimated</u> <u>09/30/2010</u>	<u>Estimated</u> <u>09/30/2011</u>	<u>Estimated</u> <u>09/30/2012</u>
Annual required contribution (ARC).....	\$ 47,000	54,000	56,000
Interest on prior Net OPEB obligation.....	0	2,000	0
Prior Net OPEB obligation adjustment.....	<u>0</u>	<u>(4,000)</u>	<u>0</u>
Annual OPEB cost (expense).....	47,000	52,000	56,000
Estimated net contributions made.....	<u>(6,000)</u>	<u>(7,000)</u>	<u>(7,000)</u>
Increase in net OPEB obligation.....	41,000	45,000	49,000
Net OPEB obligation-beginning of year.....	<u>0</u>	<u>41,000</u>	<u>86,000</u>
Net OPEB obligation-end of year.....	<u>\$ 41,000</u>	<u>86,000</u>	<u>135,000</u>

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

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percent of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
09/30/10	\$ 47,000	12.77%	\$ 41,000
09/30/11	\$ 52,000	13.46%	\$ 86,000
09/30/12	\$ 56,000	14.00%	\$ 135,000

**Funded Status and Funding Progress.** Based on the October 1, 2009 actuarial valuations, the funded status of the OPEB Plan was as follows:

Actuarial accrued liability (AAL) .....	\$ 237,000
Actuarial value of plan assets.....	<u>0</u>
Unfunded actuarial accrued liability (UAAL) .....	<u>\$ 237,000</u>
Funded ratio (actuarial value of plan assets/AAL).....	0.00%
Covered payroll (annual payroll of active employees covered by the plan).....	\$ 727,000
UAAL as a percentage of covered payroll.....	32.60%

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

**Actuarial Methods and Assumptions.** Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2009 actuarial valuation, the Projected Unit Credit Cost Method was used. The actuarial assumptions included a 2.75% inflation rate, a 4.0% percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10.0% percent initially, reduced by 0.5% annual decreases to an ultimate rate of 6.0% in 2018. If, and when, funded, the actuarial value of assets will be determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized over a 15-year open period, level-dollar payment.

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

September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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### **NOTE 14 - LEGAL MATTERS**

The City is involved in various legal proceedings incidental to the conduct of its municipal affairs. It is the City's policy to accrue for amounts related to these legal matters if it is possible that a liability has been incurred and an amount is reasonably estimable. No amounts have been accrued at September 30, 2012.

### **NOTE 15 - 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 16 - COMMITMENTS AND CONTINGENCIES**

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

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

### **NOTE 17 - SUBSEQUENT EVENTS**

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through June 13, 2013, the date the financial statements were available to be issued.

***REQUIRED SUPPLEMENTARY INFORMATION***

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPAL POLICE OFFICERS' RETIREMENT TRUST FUND**  
September 30, 2012  
CITY OF LAKE HELEN, FLORIDA

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability <sup>(1)</sup> (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Not applicable	\$342,838	N/A	N/A	N/A	N/A	N/A
10/01/08	\$349,903	\$398,032	\$48,129	87.91%	\$193,463	24.88%
Not applicable	\$414,239	N/A	N/A	N/A	N/A	N/A
10/01/10	\$515,198	\$468,313	\$0	110.01%	\$150,291	0.00%
Not applicable	\$560,980	N/A	N/A	N/A	N/A	N/A
10/01/12	\$710,588	\$456,299	\$0	155.73%	\$160,017	0.00%

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended	Annual Required Contribution	Percent Contributed	Annual Pension Cost	Percent Contributed
09/30/07	\$64,948	100%	\$64,948	100%
09/30/08	\$70,858	100%	\$70,858	100%
09/30/09	\$48,297	100%	\$48,297	100%
09/30/10	\$52,945	100%	\$52,945	100%
09/30/11	\$37,588	99%	\$37,588	99%
09/30/12	\$39,561	96%	\$39,563	96%

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, 2012
Actuarial cost method	Aggregate
Amortization method	Level dollar, open
Amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	5.00%

**REQUIRED SUPPLEMENTARY INFORMATION**  
**OTHER POST EMPLOYMENT BENEFIT OBLIGATION**  
September 30, 2012  
CITY OF LAKE HELEN, FLORIDA

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
10/01/09	\$0	\$237,000	\$237,000	0.0%	\$727,000	32.6%
10/01/10	n/a	n/a	n/a	n/a	n/a	n/a
10/01/11	n/a	n/a	n/a	n/a	n/a	n/a
10/01/12	n/a	n/a	n/a	n/a	n/a	n/a

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>	<u>Annual OPEB Cost</u>	<u>Percent Contributed</u>
09/30/10	\$47,000	13%	\$47,000	13%
09/30/11	\$54,000	13%	\$52,000	13%
09/30/12	n/a	n/a	n/a	n/a

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

Valuation date	October 1, 2009
Actuarial cost method	Projected unit credit
Amortization method	15-year open period; level dollar payment
Investment return	4.00% per annum (includes inflation at 2.75% per annum)
Healthcare cost trend rate(s):	
	<u>Insurance Premiums</u>
Select rates	10.00% for 2009/10 graded to 6.00% for 2017/18
Ultimate rate	5.00% per annum

***SUPPLEMENTAL AUDIT REPORTS***

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**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 (the "City"), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 13, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as 2008-01, 2008-02, 2008-03 and 2008-05 in the accompanying schedule of findings and responses to be material weaknesses.

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described as 2008-04, 2009-01, 2009-02, 2010-02, 2012-01 and 2012-02 in the accompanying schedule of findings and responses to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2010-04, 2010-05, and 2012-03.

We noted certain other matters that we reported to management of the City in a separate letter dated June 13, 2013.

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

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

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

June 13, 2013

**SCHEDULE OF FINDINGS AND RESPONSES**

Year Ended September 30, 2012

CITY OF LAKE HELEN, FLORIDA

The following table summarizes the status of the prior year findings and responses included in the external audit 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* issued by the external auditor in fiscal year 2011. The prior year reference number indicates the fiscal year that the comment was first addressed in the schedule of findings and responses.

	Corrective Action Not Yet Complete	Comment Has Been Addressed Or Is No Longer Relevant	Prior Year Reference Number
<b>Internal Control:</b>			
<b>Material Weakness:</b>			
#2008-01 Year End Closing Procedures.....	x		2008-01
#2008-02 Cash Disbursements .....	x		2008-02
#2008-03 Capital Asset Records and Maintenance .....	x		2008-03
#2008-05 Managerial Oversight Function.....	x		ML 2008-01
<b>Significant Deficiencies:</b>			
#2008-04 Accounts Payable Reconciliation .....	x		2008-04
#2009-01 Accuracy of Account Postings .....	x		2009-01
#2010-02 Inventory Procedures- Creative Arts Café Restaurant .....	x		2010-02
<b>Compliance and Other Matters:</b>			
#2010-04 Timely Deposit of Police Pension Funds .....	x		2010-04
#2010-05 Impact Fee Funds .....	x		2010-05

The following is a summary of the status of items for which corrective action is not yet completed:

**Material Weaknesses:**

**Finding No. 2008-01: Year End Closing Procedures**

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

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

We also noted that the audited financial statements often included material adjusting journal entries in order for account balances to be reported in conformity with generally accepted accounting principles and to correct potential material misstatements. Also, the delay in the audit function limits the use of the final financial statements in the preparation of the budget for the upcoming year. All of the above factors contributed to the significant delays in the ability to finalize the year-end financial statements.

## SCHEDULE OF FINDINGS AND RESPONSES – (Continued)

Year Ended September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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Recommendation- The City should improve its financial reporting procedures to ensure that financial statement account balances, transactions, and note disclosures are properly reported. To accomplish this, formal written year-end closing procedures should be established and strictly followed to ensure that all pre-closing requirements are timely recognized and resolved prior to performing the City's mandatory accounting closeout procedures, as well as reducing the non-financial administrative responsibilities for the accounting staff. This can be achieved by either hiring additional employees in the administrative department, or by transferring/sharing administrative duties among other employees who have more available time. This change will greatly benefit the organization with more efficient accounting processes that produce more timely financial statements, which will aid in the planning and budgeting process.

Auditee Response: *Continued progress was made in this area through the engaging of an external contractor to oversee many of the City's accounting functions. The City's finance consultants prepared year-end closeout procedures. Timeliness of processing improved with the assignment of some finance-related tasks to additional City staff and consultants. The City is actively involved in recruiting a Finance Manager to assume these important duties.*

### **Finding No. 2008-02: Cash Disbursements**

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

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

Auditee Response: *Progress continues to be made in this area. Bank reconciliations are now being prepared by consultant staff; delegation of responsibility to other City staff for recording financial data, maintaining procurement documentation, receiving invoices and checks, etc. has been accomplished. While assigning consultants the temporary responsibility for monthly general ledger posting and accounts payable review has been implemented in FY 2012-2013, the City is currently in the process of examining the use of existing staff or supplemental staffing to internally mitigate these control activities with additional oversight responsibilities, as sufficient funding will allow.*

## SCHEDULE OF FINDINGS AND RESPONSES – (Continued)

Year Ended September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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### **Finding No. 2008-03: Capital Asset Records and Maintenance**

For several consecutive years, the City has not performed a physical inventory of its general and utility fixed assets to determine if the assets actually exist, or are no longer in use. We also noted that the City has not developed or employed a formal system to internally account for its investment in capital assets. Instead, the City has relied on externally prepared asset depreciation schedules that do not contain sufficient asset descriptions or provide other essential information (i.e. asset serial numbers, locations, custodians, etc.) that are necessary to properly distinguish, or separately identify the City's investment in these assets in the event of misappropriation, loss or disposition. As these records are separately produced and maintained, they are not integrated into the City's automated financial accounting systems. Instead, the records are updated annually on a manual, batch entry basis.

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

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

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

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

Complete information such as the above on all fixed assets would provide excellent control for the safeguarding of these assets, which are a significant cost of the City. A better assessment and evaluation

## SCHEDULE OF FINDINGS AND RESPONSES – (Continued)

Year Ended September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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could also be made regarding the reliability of certain fixed assets, and the timing and need for their essential replacement.

The City should also supplement its annual physical inventory count procedures to include physical counts of all tangible personal property delegated to the City's department heads for custody and control. This is a good accounting practice, a strong deterrent to theft, and the best means possible to adequately control your government's more prevalent fraud risks over property and equipment.

We also recommend that you should consider adopting the Rules of the Auditor General, Chapter 10.400, as they currently exist and are amended in the future, until such time as the Florida Department of Financial Services issues revised rulings over the custodial maintenance of these assets.

*Auditee Response: The City is continuing its efforts to improve fixed asset accounting procedures and will continue to evaluate the efficacy and cost of computerized fixed asset accounting systems, as well as continue to evaluate the City's financial and manpower resources required to purchase and effectively use said computerized system. During FY 2012-13, the City utilized a part-time intern to assist in performing a capital asset review and monitoring system that should be functional in the next year. A physical inventory was completed during FY 2012-13, incorporating a number of recommendations identified above, as well as other process and procedural improvements. A summary of assets to be removed from the inventory will be presented shortly to the City Commission for approval.*

### **Finding No. 2008-05 Managerial Oversight Function (previously ML 2008-01)**

Virtually all of the City's financial transactions are managed and recorded by a single person who is also responsible for maintaining the general ledgers and all subsidiary customer accounts. Due to a lack of personnel available to assume delegated independent responsibilities, the City has established and implemented a new series of policies and procedures to manage and oversee the essential accounting requirements. In the process of developing and making these changes, the City's finance personnel faced a significant number of conflicting procedures and priorities, many of which resulted in a growing backlog of current transaction processing, lost and misplaced documentation, and frequent duplication of effort due to the lack of coordinated efforts and oversight. We believe that the continued existence of these conditions will continue to adversely weaken the City's internal control systems until they can be appropriately identified and corrected. We also believe that the overall effect of these conditions has been compounded due to the City's small business office environment, which currently does not provide for any extensive managerial oversight of the essential accounting processes.

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

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

*Auditee Response: The City is severely limited by its current staff size to fully address this important issue. Cross training continues to occur, but is limited by staff size, individual staff education and expertise and workload demands placed upon individual staff members in carrying out the day-to-day work responsibilities of their individual job classifications. The City will continue to review its current*

## SCHEDULE OF FINDINGS AND RESPONSES – (Continued)

Year Ended September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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*staffing to determine the best means of developing an effective oversight system, including the feasibility of contracting for outside assistance or use of supplemental staffing to meet these needs, as sufficient funding allows.*

### **Significant Deficiencies:**

#### **Finding No. 2008-04: Accounts Payable Reconciliation**

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

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

Auditee Response: *Ongoing issues associated with the roll-out of the City's new financial accounting software precluded successful implementation of the Auditor's recommendation. While partial implementation was achieved in FY 2011-2012, we expect to achieve full implementation by no later than FY 2013-2014.*

#### **Finding No. 2009-01: Accuracy of Account Postings**

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

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

## SCHEDULE OF FINDINGS AND RESPONSES – (Continued)

Year Ended September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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*Auditee Response:* While it is believed that improvement continues in this area as current financial staff continues to become more familiar with coding protocol, further improvement is necessary. Consultant assistance that has been provided in this area has been of benefit. We expect this matter to be sufficiently resolved in FY 2012-13 with the hiring of a new Finance Manager.

### **Finding No. 2009-02: Utility Accounts Receivable (Previously ML 2009-01)**

We noted that the City is continuing to experience difficulty in reconciling the computerized customer accounts receivable subsidiary ledger with the general ledger. This is further complicated when customer account payments have not posted to the general ledger on a timely basis, or for periods that have extended over eight months. Since we can conclusively determine that these amounts have not been fully reconciled, it is difficult to determine what procedures, if any, are employed by the City to determine the adequacy of the customer accounts and related utility billings. Customer account reconciliation procedures should be performed, and reviewed by oversight personnel, on a routine and timely basis. A routine reconciliation serves as a check on the accuracy of the record keeping process and provides additional assurance that the customer accounts are managed and maintained on a timely and accurate basis, as well as providing a means to assess account aging and payment cycles. The detail listing of accounts receivable should be reconciled to the general ledger control account at least quarterly (preferably monthly), due to the fact that the City's current billing procedures allow for quarterly billings. Any differences should then be investigated and resolved as soon as possible. This lack of control allows for differences to occur and accumulate over a period of time without detection or correction.

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

*Auditee Response:* The City is continuing to work with an external contractor to revise these procedural systems. Management continues to believe that this issue can be satisfactorily resolved with the successful implementation and management of the City's new financial accounting software system.

### **Finding No. 2010-02: Inventory Procedures – Creative Arts Café Restaurant**

During our audit procedures we continued to note that the management of the Creative Arts Cafe Restaurant no longer performs routine physical inventory counts of its food stock items, some of which are stored in an outside building structure with little security. We also noted that no procedures are in place to monitor food cost percentages that are effective management tools to control food stores and costs. Controlling food costs starts with inventory organization and control. Reducing inventory stock levels and organizing food storage areas will significantly reduce food costs.

In prior years, the City provided us with documentation indicating that inventory counts were performed at least one time per year. However, we noted that these procedures were discontinued and have not been performed for over 18 months. When the restaurant's inventory records do not reconcile to the general ledger throughout the year, or immediately subsequent to the physical inventory taking procedures, it suggests that management is not monitoring or using the inventory reports. Keeping current, accurate records of inventory provides an up-to-date listing of on-hand inventory, and provides you the means to

## SCHEDULE OF FINDINGS AND RESPONSES – (Continued)

Year Ended September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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better manage waste from over-buying, as well as provide the ability to improve physical control over all food stocks and related food costs.

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

Auditee Response: *The City has experienced continued turnover in the management of the CAC operating and financial activities. Steps will be taken to ensure that more frequent intervals for taking inventory counts will occur in the management of the CAC's food stores.*

### **Finding No. 2012-01: Utility Billing Conversion and Replacement**

At the end of fiscal 2012, the City elected to perform a complete system-wide conversion/replacement of its customer utility billing software. In the process of implementing the new system, the City failed to continue to perform a series of parallel postings on both its new and old billing systems, as was recommended by the external contractor engaged to assist the city in the conversion process. As a direct result of failing to provide for the continued posting of parallel run activities, which is typically a standard procedure for this type of customer database conversion, the City was unable to compare the finalized results of the new customer billings with the prior system billings to effectively compare and analyze the results of the revised billing for any unusual changes in the customer billing or posting processes.

During our subsequent testing of the customer utility billing processes, we noted the following matters:

- Water utility services are not being billed to any of the City's various customer utility accounts, which is not in compliance with Section 5.02 of the City's revised FDEP loan agreement which was finalized in March 2011. Under GASB Codification 1800.103-107, quasi-external transactions are intra-governmental transactions that would be treated as revenues and expenditures/expenses if they involved organizations external to the government unit. Therefore, these transactions do not constitute a transfer and are appropriately accounted for as fund revenues and expenditures/expenses.
- We noted three instances where the City did not properly compute quarterly customer water consumption, and the related billing amounts, for customer accounts that have had recent meter replacements. In these events, amounts computed were based exclusively on the new meter readings regardless of the date of installation, and did not include any provision for consumption that had occurred during the quarter prior to the meter replacement.
- We noted one instance where the City's water utility billing program did not compute the customer utility consumption amounts properly. While consumption based on physical meter reading documents indicated a consumption value of 265,000 gallons, the actual amounts billed through the new system were for 265 gallons. The billing difference for this single account was a shortfall of \$1,451.91.
- We noted one instance where a residential account that possessed an active meter reading card with a current period meter read was inadvertently omitted from the billing register. We were not able to conclusively determine if the account's physical meter reading was not entered in the

## SCHEDULE OF FINDINGS AND RESPONSES – (Continued)

Year Ended September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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new billing system, or if the software failed to compute and include the billing in the current period billing register.

- We noted one instance where a utility customer account possessed two separate meter reading cards in the meter reading book for two separate meter installations identified under a single named customer account number that was included in the meter book, but was not billed and included in the current period billing register. We also noted that this second account was not rendered a minimum service fee in accordance with the City's utility billing and rate table.
- We noted one instance where a customer account billing was entered and recorded with zero consumption. However, the account was not charged a minimum service fee in accordance with the City's utility billing and rate table.
- We noticed one instance where a commercial customer utility account was billed based on the wrong computation of the user's average equivalent residential units (ERU) consumption level, as established in the City's utility billing and rate table. This customer was actually billed at a commercial rate of \$5.48/gallon, when they should have been billed at \$3.28/gallon producing a current period billing overcharge of \$3,748.80. After a subsequent review of this account, it was determined that the customer account setup criteria had not been recorded in the system properly to reflect the actual number of ERUs associated with the account.
- We noticed on instance where a customer account billing was computed based on one ERU, while the customer meter reading card indicated 2 ERUs, producing an under-billing of \$36.30. It was also established that this account had not been setup properly to reflect the multiple ERU status of the account for billing purposes.
- We noted four instances were noted where the input of the correct customer meter readings were not entered properly which resulted in the wrong consumption amounts being billed.
- We noted nine instances where individual customer accounts were identified as existing in the meter reading book that were not included in the billing register. Of these accounts, six had actual computed consumption amounts that were not billed. One account included the City's well #3 meter placement that was not billed, and two other accounts contained no consumption levels but were not billed minimum charges in accordance with the City's utility billing rate table.

It should be noted that the above errors were identified to exist in a single customer billing book. While seven total billing books exist, it is remotely probable that the same number of errors could be anticipated to exist in each of the six remaining billing books without being detected by the City in its billing processes. These are also the types of utility billing errors that would have possessed a very high probability of being detected by the City had a parallel run process been deployed to ensure the integrity of the customer billing system conversion.

Recommendation: We strongly recommend that you should consider performing a complete and thorough review of all utility customer accounts (residential and commercial) included in the utility customer database to ensure that the customer accounts are accurately coded and that the consumptive readings associated with each billed account are properly recorded and are producing a resultant utility billing that is accurately computed, and is complete, based on the City's current utility billing rate tables. In the process of documenting the completeness of this comprehensive review process, we recommend that you should perform your procedures sufficient to ascertain that:

- All customer accounts in the billing books with current period meter readings are reconciled with the billing register to obtain assurance that all accounts are billed;
- All customer meter readings are properly recorded in the system to ensure accurate billings;
- All customers with multiple ERUs are sufficiently isolated and tested to ensure that accurate billings are produced;

## SCHEDULE OF FINDINGS AND RESPONSES – (Continued)

Year Ended September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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- All customer accounts with multiple meters have separate customer billing accounts;
- All customer accounts which have received meter replacements are billed for all service charges up to the date of the meter replacement; and
- All customers with zero consumption amounts are billed minimum service fees.

*Auditee Response:* The City is aware of the difficulties encountered in the utility conversion and is working diligently with the external contractors to ensure that future utility billings are both accurate and complete.

### **Finding No. 2012-02: Bank Account Setup Matters**

As a part of the audit, we routinely examine the City's bank statements and other supporting documentation. During the audit, we noted that the City previously established a single credit card merchant account for its CAC restaurant operations which includes the names of multiple account holders. The merchant account includes both the name of the City and the individual name of the former finance manager as account holders. Under best accounting practices, the City should establish specific internal controls that prohibit the naming of any employee as an account holder of the public institution to eliminate the possibility of permitting unlimited and unsupervised access to the account.

Recommendation: We recommend that you should take the appropriate actions to remove all personal names from any active municipal-owned bank accounts and to adopt a policy which expressly prohibits these actions for any future accounts.

*Auditee Response:* The City has been notified of this condition and has taken the appropriate steps to remove the personal name from the merchant account.

### **Compliance and Other Matters**

#### **Finding No. 2010-04: Timely Deposit of Police Pension Funds**

Pursuant to the provisions of Chapter 185.11, Florida Statutes, all state and other funds received by municipalities in a local law plan under the provisions of Chapter 185, F.S., shall be deposited by the municipality immediately, and under no circumstances more than 5 days after receipt, with the board of trustees. In lieu thereof, the municipality may provide authorization to the Division of Retirement for the direct payment of the premium tax to the board of trustees. The board shall deposit such moneys in the Municipal Police Officers' Retirement Trust Fund immediately, and under no circumstances more than 5 days after receipt. During the current year, the City continued to fail to deposit the state-provided Casualty Insurance Premium Tax funds in the local law plan within the required 5 day limit. The City received its 2012 state contribution on 08/16/2012 and did not deposit the funds until 08/30/2012.

Recommendation: We recommend that the City should develop the necessary policies and procedures to ensure that future deposits are made within the statutory time limits. The City should also consider requesting the state to forward all future tax distributions directly to the trust to avoid the duplication of this matter in future periods.

*Auditee Response:* The City's new financial management staff will be informed of these necessary time constraints and the importance of transferring these funds to the plan immediately upon receipt by the City. The City will also investigate the feasibility of implementation of the direct payment option identified by the Auditor.

## SCHEDULE OF FINDINGS AND RESPONSES – (Continued)

Year Ended September 30, 2012

CITY OF LAKE HELEN, FLORIDA

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### **Finding No. 2010-05: Impact Fee Funds**

Pursuant to the provisions of Chapter 166.201, Florida Statutes, water utility impact fees charged and collected by the City shall be kept separate from other revenues of the City and must be used exclusively to acquire, purchase, or construct new facilities or portions thereof needed to provide additional water utility capacity. During each of the past three years, the City did not deposit the proceeds of its water utility development (impact) fees into the required and restricted water development account. Amounts totaling \$5,000, plus accrued investment interest, should have been transferred to the restricted account as of September 30, 2010. Additional amounts totaling \$1,000 and \$4,000, plus accrued investment interest, should have been transferred to the restricted account as of September 30, 2011, and 2012, respectively.

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

Auditee Response: *The City will take the steps necessary to transfer all restricted funds in accordance with the Auditor's recommendation.*

### **Finding No. 2012-03: Unclaimed Property**

Pursuant to the provisions of Chapter 717.1035, Florida Statutes, the City is required to perform certain procedures with respect to the possession of unclaimed funds for disposition in accordance with state requirements. Generally, if the City retains unclaimed funds when the owner has not claimed or corresponded in writing concerning the property within 3 years after the date prescribed for payment or delivery, it is presumed to be unclaimed property and subject to the custody of the State of Florida if the last known address of the owner is unknown and the person or entity originating or issuing the intangible property is a political subdivision of the state. The provisions of Chapter 717.108, Florida Statutes, stipulate that any deposit, including any interest thereon, made by a subscriber with a utility to secure payment or any sum paid in advance for utility services to be furnished, less any lawful charges, that remains unclaimed by the owner for more than 1 year after termination of the services for which the deposit or advance payment was made is presumed unclaimed and subject to the custody of the State of Florida. During the year, the City possessed unclaimed funds resulting from long outstanding checks that have remained outstanding for periods of greater than one year of dormancy, and from unclaimed meter deposits which were not processed and turned over to the State of Florida in accordance with the applicable statutory requirements.

Recommendation: We recommend that the City should make a comprehensive review of all unclaimed funds held by the City to ensure that all required payments are made to the State in accordance with the applicable statutory requirements.

Auditee Response: *The City will review these credits to ensure that these and all future unclaimed property receipts are transferred to the state in accordance with state statutes. The City properly performed this transfer during FY 2012-2013.*

# BM&C

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

## MANAGEMENT LETTER

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

We have audited the financial statements of the City of Lake Helen, Florida (the "City"), as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated June 13, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters, and Schedule of Findings and Responses. Disclosures in that report and schedule, which are dated June 13, 2013, should be considered in conjunction with this management letter.

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

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

- Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, our recommendations are noted in the accompanying pages under the heading *Prior Year Matters* and *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 legal authority for the primary government is disclosed in Note 1 of the notes to financial statements. The City 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 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 for the fiscal year ended September 30, 2012, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2012. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.
- Section 10.558(1) Rules of the Auditor General, requires the local government to provide a written statement of explanation or rebuttal concerning the auditor's findings and recommendations, including corrective action to be taken which must be filed with the governing body of the local governmental entity and included in the auditor's reports or management letter prepared pursuant to Section 218.39(4), Florida Statutes. The City's statements of explanation or rebuttal are described herein in the "*Auditee Response*" section, which follows each of the auditor's findings and recommendations. We did not audit the City's response and, accordingly, we express no opinion on it.

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

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

June 13, 2013

**PRIOR YEAR MATTERS**

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we address in the management letter, if not already addressed in the auditor's report on compliance and internal control, whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. The following table summarizes the status of the prior year management letter findings and responses issued by the external auditor in fiscal year 2011. The prior year reference number indicates the fiscal year that the comment was first addressed in the management letter comments.

	Corrective Action Not Yet Complete	Comment Has Been Addressed Or Is No Longer Relevant	Prior Year Reference Number
ML 2008-02 Uniform Accounting Policies and Procedures Manual .....	x		ML 2008-02
ML 2009-01 Utility Accounts Receivable .....	x		ML 2009-01
ML 2009-02 Interfund Balances.....		x	ML 2009-02
ML 2010-01 Purchase Orders and Procurements .....	x		ML 2010-01
ML 2011-01 Utility Customer Deposits .....	x		ML 2011-01
ML 2011-02 Construction Work Orders .....	x		ML 2011-02
ML 2011-03 Accrued Payroll Postings .....		x	ML 2011-03
ML 2011-04 Payroll Department Distributions.....	x		ML 2011-04
ML 2011-05 Investment Earnings Allocation .....		x	ML 2011-05

The following is a summary of the status of items for which corrective action is not yet completed:

**ML 2008-02 Uniform Accounting Policies and Procedures Manual**

While the City has developed extensive written documentation of its human resource policies and procedures, some of which includes other approved management practices and operational systems and procedures, we continue to note that it has not yet fully developed a formal, written, accounting policies and procedures manual or written job descriptions which describe many of the City's accounting functions. While personnel have direct and easy access to management and selected financial management software manuals and documentation when questions arise, we noted that no formal tracking of routine accounting procedures is maintained. We also noted that some personnel have developed their own handwritten notebooks outlining specific procedures relating to their jobs. However, these procedures have not been formally documented or integrated with established departmental policies and directives.

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

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

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

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

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

*Auditee Response:* As was reported last year, the development and preparation of the recommended manual is beyond the capability of the City's current staff. It is agreed, however, that the availability of the manual is a necessary prerequisite to professional sustainability of the City's financial accounting functions, and staff will work toward its development as resources allow. During 2013, the City contracted with an external provider for assistance in the development of a manual with revised accounting policies and procedures, as well as the related job responsibilities and descriptions.

#### **ML 2010-01 Purchase Orders and Procurements**

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

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

Year Ended September 30, 2012

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

**ML 2011-01 Utility Customer Deposits**

During the conduct of our audit, we continued to note that the City has been unable to produce a detailed utility customer deposit report that supported the current utility deposit account balance reported in the general ledger two consecutive years (2011 and 2012). The deposit liability account balance is currently being determined by rolling forward previous balances, and adjusting that balance for current year transactions, such as new deposits, deposit refunds and deposits applied to final billings. The City's current "Meter Deposit Report" was deemed as being inaccurate and could not be readily reconciled to the general ledger balance. Customer utility deposit reports are not produced at the conclusion of the quarterly billings to ascertain the validity of amounts reported at the end of the quarter, or to document the changes in amounts reported for the period. Other schedules to support customer deposit amounts are not documented to have been processed or saved within the proper billing sequence to support this liability. By not performing regular account reconciliations the City increases the risk of having potential for unrecorded liabilities.

Recommendation: We recommend that the City perform a detailed analysis of all utility customers in order to determine the current and accurate customer deposit balance. After the balance is determined to be accurate, steps should be taken to reconcile this updated information with the internally produced "Meter Deposit Report" so that both can be examined and adjusted to be in agreement. Furthermore we recommend that the City implement procedures that provide for monthly reconciliations to the general ledger. We also noted that the City has not developed any formal policies and procedures associated with the maintenance of the customer service deposits to ensure the accuracy of the liability. These policies should typically include (1) procedures that require the development of a detailed customer service deposit listing that can be printed as an electronic file (Adobe .PDF) at the end of each month's postings; (2) procedures that require the reconciliation of the customer deposit balance in the GL with the amounts reported on the quarterly customer billings to ensure that the liability amounts are in agreement; and (3) procedures that provide assurance that the City complies with the statutory requirements (Sec. 717.108, F.S.) for the disposition of unclaimed utility deposits.

*Auditee Response: The City recently performed a conversion to a new utility billing software system. Management expects to place extended emphasis on ensuring that customer meter deposits will also be separately examined and transferred to the new system as part of its implementation. It is expected that this task will be completed no later than FY 2014.*

**ML 2011-02 Construction Work Orders**

In connection with the City's current road restoration program, we noted that the City had erroneously recorded capital outlay type expenditures to normal operating costs, thus requiring reclassifying journal entries to be made. Furthermore, when we examined the supporting documentation for these transactions, there were instances where we were unable to identify which specific asset (or road project) the costs were related to (i.e. in the City-wide milling project, the related pavement invoices were not specific as to which specific roads the materials were being used for). We also noted that the City's force account labor being used to perform the road improvement was not being allocated to the cost of the project, nor were any other construction related costs such as planning and engineering costs. Maintaining detailed and informative documentation is crucial in order to accurately record fixed assets.

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Recommendation: We recommend the City strengthen their financial procedures and employ the proper oversight to ensure that all expenditures are being properly classified and that all capital outlays are specifically identified and are properly budgeted and approved. Furthermore, capital expenditure and fixed asset purchases should be supported by written documentation such as invoices, work orders, etc., that supports amounts, purchase date and detail description of additions to property and equipment. To properly track construction-in-progress related costs that include more than one expense component, we also recommend that you should consider developing a “construction work-order” system to separately accumulate the costs associated with each project to simplify your road capitalization requirements.

Auditee Response: *The City has recently begun an ongoing road replacement program that will continue to future years. Steps will be taken to track these costs by individual streets in the future. The procurement of pavement management software or the development of a pavement management data base is currently being evaluated.*

#### **ML 2011-04 Payroll Department Distributions**

In January, 2011, the City converted its payroll systems to a new (Mainstreet) software application. During our audit, we noted that the City may have experienced some difficulty in setting up the expense distribution codes related to payroll expense/expenditures within the software application. While payroll expenditures can be reconciled in total, we experienced significant difficulties in reconciling the amounts actually distributed to the City’s various functions and departments. Instances were noted where certain department employees were consistently being charged to an entirely different function than what was anticipated. As a direct result of these differences, we also noted that the City was not properly allocating all overhead operating expenses to the Utility Fund, thus expenses were understated for the year. By not reflecting all associated overhead expenditures the utility fund, profits could potentially be distorted.

Recommendation: We recommend that the City review all current employees’ departmental distribution codes as set-up in the new software application (Mainstreet) and verify that the correct departmental distribution codes are being used. Furthermore, we recommend that the City develop procedures to ensure that review and oversight procedures are being employed to reconcile actual payroll to the General ledger after each payroll run.

Auditee Response: *The actual amounts of the payroll distributions allocated to the various functions are established annually as a part of the budget process developed and adopted by the City Commission. During the last two years, the departmental function allocations have changed based on time and personnel allocations. Amounts posted in FY 2013’s operations will be reconciled and adjusted to be consistent with the operating budget.*

**CURRENT YEAR MATTERS**

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

The following is a summary of our current year findings and recommendations:

**ML 2012-01 Creative Arts Café Operations Matters**

As an integral part of the audit, we review the operational and financial activities of the Creative Arts Café. During the audit, we noted that many of the City's critical oversight procedures associated with managing and operating the Café are extremely limited or nonexistent. We also noted that while some operational procedures have been developed and put in place, the City has not yet formally developed or adopted any written operating or internal control policies and procedures, which are essential for the successful establishment and operation of the restaurant's comprehensive control environment. In the absence of these important control procedures, the necessary checks and balances that are associated with obtaining the assurance of proper accountability for these resources and activities cannot be performed.

The CAC has continued to experience increased operating losses over each of the past five years. During this time, it has been difficult to develop a precise determination of the operating losses due to the way in which accountability for the financial operations were originally established and have since been maintained. We noted that no significant attempt has been made by management to develop operational benchmarks or peer group comparisons necessary to properly manage and/or control food stocks, kitchen expenses and labor costs. In addition, many of the expenses typically associated with operating a competitive commercial restaurant are not allocated to the CAC's financial operations such as water utility costs, city management oversight costs, depreciation costs, and ad valorem taxes. The exclusion of these costs contributes to a difficulty in making competitive cost comparisons and in measuring the true efficiency and effectiveness of your financial operations.

We also noted that the many of the essential management, operating, oversight, and internal control systems and procedures typically used by similar commercial entities in the restaurant industry have not been developed or utilized to ensure the proper safeguarding and control of City assets. During our on-site procedures, and from inquiries with City management personnel, we noted the following matters:

- The physical and security controls over the management of the CAC's inventory stores are significantly diminished through off-site storage of certain food stock items. The risks of loss from intentional and/or unintentional unauthorized access to food stores also increase dramatically when employees have to temporarily leave the primary facility without observation or oversight to retrieve food stores items that are stored off-site. This, coupled with the fact that inventory stores physical counts are not performed, presents significant additional risk of loss from management's inability to know, or manage, what food stocks are present at any time.
- We noted instances during regular open-business hours where no members of the management team were at work or present at the facility. All other employees present, who were working

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without any supervision, had complete, unobstructed access to all financial records, cash funds, and kitchen food stocks.

- While reviewing the City's procedures to account for the daily financial activities of the CAC, we noted that all of the CAC's financial activities are recorded on stand-alone cash register system which lacks numerous security and control safeguards.
  - The cash register can be accessed by any employee of the CAC with limited or no supervisory oversight. This lack of physical custodial control over the cash receipts system substantially increases the level of risk assumed by the City.
  - The cash register tapes are not, and never have been, maintained in duplicate form. The lack of control over the cash receipts system created by the inability to verify the completeness of your financial activities substantially increases the level of risk assumed by the City.
  - The cash register sales transactions are not properly entered into the cash register at the point of sale to differentiate credit sales from cash sales. In addition, the tendering of cash payments is not properly recorded in the system to allow for the determination of the proper amount of cash in the cash drawer. As a result, the ability to verify the existence and amounts of cash currency and coins collected during the day cannot be verified or tested for accuracy.
  - The cash register "Z" total on the cash register tape does not contain any reference to a physical count sequence to provide an audit trail for the completeness of the transaction activities. As a result, the ability to verify the completeness of transaction postings cannot be performed (which could be performed if duplicate sales tapes exist).
  - No formal written procedures have been developed, or adopted by the City, to appropriately account for the disposition of tip receipts included in charge sales, including the pay-outs of the tips in the form of cash payments taken from the drawer to pay the waitress staff. As a result, cash funds are removed from the cash register on a daily basis without the ability to track the amounts paid for accuracy and completeness.
  - No formal provision has been made to account for the ongoing differences recognized in cash amounts on hand, or in the cash drawer, at any time(s) throughout the fiscal year. With no accounting for actual on-hand cash funds, it is not possible to obtain any assurance that the cash deposits, amounts short or over, cash paid outs, or any other deposit elements are computed properly.
  - Routine cash over/short amounts appear to be present in each day's financial activities. While many of these are not significant, these occurrences should not be encountered in each day's deposit activities. During July, August and September, the CAC reported cash over (short) activities of \$372.62, \$713.65, and (\$569.56), respectively. No documentation exists that indicates any additional activities or investigations were performed to determine the nature of any of these unusual activities.

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Recommendation: First, we recommend that you should seriously consider the viability of continuing to operate the CAC business due to the continued lack of profitability. If you decide to continue these operations, we strongly recommend that you should develop a comprehensive business plan to support the continued operation of the CAC, and one which establishes explicit performance goals and objectives. We also recommend that you should develop and adopt written policies and procedures for each internal control element of the CAC's fiscal operations that establish the necessary safeguards to ensure complete and proper accounting for all of your financial activities, including those associated with food stocks and inventory control. We also recommend that you should consider the utilization of point-of-sale accounting and software systems to help the city save money through increased functionality and reporting (i.e., learn what is selling, and what's not, identify the peaks and valleys of busy/slack times, and establish complete audit trails for security, etc.); and improve operating efficiencies (eliminate double entry of orders, improve calculation of inventory reorder quantities, provide up-to-the-minute sales reports, etc.).

Auditee Response: *The City is currently in the process of performing a more thorough review of the financial activities of the CAC operations to identify the extent of current intra-fund obligations and to provide for future short-term funding requirements. Subsequent to year end, significant changes in management have also been made which must also be considered in management's review of CAC operations and in the decisions that must be made to support its continued operations.*

#### **ML 2012-02    Intra-fund Cash Transfers**

Authorizations for cash transfers between City bank accounts are typically limited to those provided for specifically in an operating budget developed and approved by the City Commission. Similarly, the composition of operating transfers should be supported with documentation sufficient to identify the reason a transfer is necessary and sufficient to support the determination of the amounts physically transferred. Just prior to the end of the fiscal year, we noted that an unbudgeted intra-fund cash transfer in the amount of \$125,000 was made by the City to advance funds from the General Fund operating account to the Creative Arts Café operating account which was not accompanied with supporting documentation sufficient to establish the authority or determination of the amount transferred.

Recommendation: We recommend that you should develop and approve the appropriate policies and procedures that require the advance preparation and approval of the necessary documentation and support package which corroborates the transfer of operating funds between City-owned cash accounts.

Auditee Response: *The City will develop the necessary policies and procedures which define the documentation support and approval process which must be followed to support interfund and intra-fund cash transfers.*

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