

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major funds, and the aggregate remaining fund information of the City of Lake Butler, Florida, (City) as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lake Butler's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, the major funds, and the aggregate remaining fund information of the City of Lake Butler, Florida as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 25, 2011, on our consideration of the City of Lake Butler's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The budgetary comparison information presented for the major governmental funds is not a required part of the basic financial statements of the City of Lake Butler, Florida, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of

inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Management's Discussion and Analysis on page 9 through 13, is also not a required part of the basic financial statements of the City of Lake Butler, Florida, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining fund financial statements and schedule of expenditures of federal awards and state financial assistance listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements of the City of Lake Butler, Florida. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in cursive script that reads "Powell & Jones".

POWELL & JONES
Certified Public Accountants
March 25, 2011

CITY OF LAKE BUTLER, FLORIDA
Management's Discussion and Analysis

This discussion and analysis is intended to be an easily readable analysis of the City of Lake Butler (City) financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements that follow.

Report Layout

The City has implemented Governmental Accounting Standards Board (GASB) Statement 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. This statement requires governmental entities to report finances in accordance with specific guidelines. Among those guidelines are the components of this section dealing with management's discussion and analysis. Besides this Management's Discussion and Analysis (MD&A), the report consists of government-wide statements, fund financial statements, notes to the financial statements, and supplementary information. The first two statements are condensed and present a government-wide view of the City's finances. Within this view, all City operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as law enforcement and fire control, public works, parks and recreation, library, community development and general governmental administration. The City's water, sewer, and solid waste management services are reported as business-type activities. These government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the City.

Basic Financial Statements

- The Statement of Net Assets focuses on resources available for future operations. In simple terms, this statement presents a snap-shot view of the assets the City owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts. For the first time, governmental activities reflect capital assets including infrastructure and long-term liabilities. Business-type activities have long been reported capital assets and long-term liabilities. Also, governmental activities are reported on the accrual basis of accounting.
- The Statement of Activities focuses gross and net costs of the City's programs and the extent to which such programs rely upon general tax and other revenues. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.
- Fund financial statements focus separately on governmental and proprietary funds. Governmental fund statements follow the more traditional presentation of financial statements. The City has four major governmental funds which are presented in separate columns. A budgetary comparison is presented for each of the governmental funds. Statements for the City's proprietary fund follow the governmental funds and include net assets, revenue, expenses and changes in net assets, and cash flows.

- The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.
- The MD&A is intended to serve as an introduction to the City's basic financial statements and to explain the significant changes in financial position and differences in operations between the current and prior years.

City as a Whole

Government-wide Financial Statements

Net Assets at September 30, 2010 and 2009

	Governmental	Business-type	Total Government	
	Activities	Activities	2010	2009
Assets				
Cash and investments	\$ 954,354	\$ 396,167	\$ 1,350,521	\$ 1,599,288
Other assets	27,596	146,484	174,080	140,319
Capital assets	1,517,504	2,817,340	4,334,844	4,609,947
Total assets	2,499,454	3,359,991	5,859,445	6,349,554
Liabilities				
Current liabilities	52,981	173,131	226,112	185,726
Long term liabilities	-	1,460,358	1,460,358	1,725,471
Total liabilities	52,981	1,633,489	1,686,470	1,911,197
Net assets				
Invested in capital assets, net				
of related debt	1,517,504	1,282,119	2,799,623	2,858,841
Restricted	-	167,997	167,997	260,859
Restricted - redevelopment	82,469	-	82,469	153,826
Unrestricted	846,500	276,386	1,122,886	1,164,831
Total net assets	\$ 2,446,473	\$ 1,726,502	\$ 4,172,975	\$ 4,438,357

The majority all of the City's net assets reflect its investment in capital assets (land, buildings, infrastructure, and equipment), less any related outstanding debt used to acquire those assets. 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.

Restricted assets consist of earmarked funds of \$82,469 in the community redevelopment program and \$167,997 in the City's Proprietary Fund.

The City's net assets decreased \$265,382 over the year. This decrease is primarily due to depreciation of capital assets in the Utility Fund and Governmental Fund.

The following schedule provides a summary of the changes in net assets. The decrease in Governmental Activities net assets is due primarily to depreciation of capital assets. The decrease during the year through Business-type Activities net assets is due to depreciation of capital assets.

A condensed version of the Statement of Activities follows:

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

	Governmental	Business-type	Total Government	
	Activities	Activities	2010	2009
Revenues				
Program revenues				
Charges for services	\$ 48,615	\$ 1,268,720	\$ 1,317,335	\$ 1,260,293
Grants and contributions	10,095	-	10,095	50,291
General revenues				
Taxes	403,752	-	403,752	402,915
Franchise fees	147,801	-	147,801	146,726
Licenses and permits	13,470	-	13,470	18,787
State shared revenues	121,218	-	121,218	120,401
Interest and other	24,892	1,991	26,883	37,447
Rents and royalties	15,849	8,000	23,849	45,577
Reclassification/ deletion of surplus assets	-	-	-	(99,334)
Total revenues	<u>785,692</u>	<u>1,278,711</u>	<u>2,064,403</u>	<u>1,983,103</u>
Expenses				
General government	369,099	-	369,099	275,673
Public safety	136,118	-	136,118	123,496
Transportation	273,097	-	273,097	246,653
Economic environment	24,474	-	24,474	12,844
Human services	19,250	-	19,250	23,236
Culture/recreation	186,679	-	186,679	205,577
Interest on long-term debt	-	106,934	106,934	68,233
Water	-	431,367	431,367	348,572
Garbage services	-	125,709	125,709	127,960
Sewer	-	729,945	729,945	741,610
Total expenses	<u>1,008,717</u>	<u>1,393,955</u>	<u>2,402,672</u>	<u>2,173,854</u>
Transfers in (out)	66,793	(66,793)	-	-
Change in net assets	(156,232)	(182,037)	(338,269)	(190,751)
Beginning net assets	2,529,818	1,908,539	4,438,357	4,469,108
Prior period adjustment	72,887	-	72,887	160,000
Ending net assets	<u>\$ 2,446,473</u>	<u>\$ 1,726,502</u>	<u>\$ 4,172,975</u>	<u>\$ 4,438,357</u>

Governmental activities:

Taxes provide 51% of the revenues for Governmental Activities, while franchise fees provide 19%. Most of the Governmental Activities resources are spent for General Government (37%), Culture/recreation (19%), and Transportation (27%).

Business-type activities:

Business-type activities decreased the City's net assets by \$182,037. This decrease is primarily due to the depreciation of capital assets.

Budgetary Highlights

The City operated substantially within its budgetary appropriations during the current year.

Capital Assets and Debt Administration

Capital Assets

At September 30, 2010, the City had \$4.3 million invested in capital assets, including fire equipment, park and recreation facilities, buildings, roads, bridges and water and sewer facilities. This amount represents a net decrease (additions, deductions, and depreciation) of \$275,103 or 6% less than last year. This decrease was primarily attributable to the depreciation expense charges for the year.

Capital Assets at September 30, 2010 and 2009

	Governmental		Business-type		Totals	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Land	\$ 84,551	\$ 84,551	\$ 541,813	\$ 541,813	\$ 626,364	\$ 626,364
Buildings	2,141,681	1,530,449	135,000	135,000	2,276,681	1,665,449
Improvements	15,225,374	375,000	5,553,568	5,533,800	20,778,942	5,908,800
Equipment	633,268	652,407	260,996	231,572	894,264	883,979
Subtotal	18,084,874	2,642,407	6,491,377	6,442,185	24,576,251	9,084,592
Accumulated depreciation	(16,567,370)	(1,086,559)	(3,674,037)	(3,388,086)	(20,241,407)	(4,474,645)
Capital assets, net	<u>\$ 1,517,504</u>	<u>\$ 1,555,848</u>	<u>\$ 2,817,340</u>	<u>\$ 3,054,099</u>	<u>\$ 4,334,844</u>	<u>\$ 4,609,947</u>

Debt Outstanding

At year-end, the City had \$1,581,920 in debt outstanding versus \$1,743,383 last year, a decrease of \$211,463.

Debt Outstanding at September 30, 2010 and 2009

	Governmental		Business-type		Totals	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Revenue bonds	\$ -	\$ -	\$ 1,289,000	\$ 1,331,000	\$ 1,289,000	\$ 1,331,000
Loan payable	-	-	246,219	420,106	246,219	420,106
	-	-	1,535,219	1,751,106	1,535,219	1,751,106
Compensated absences	23,290	21,540	23,411	20,737	46,701	42,277
Total	\$ 23,290	\$ 21,540	\$ 1,558,630	\$ 1,771,843	\$ 1,581,920	\$ 1,793,383

More detailed information on the City long-term liabilities is presented in the notes to the financial statements.

OTHER FINANCIAL INFORMATION

Economic Factors and Rates

- The current unemployment rate for Union County was 9.0%. This rate represents an increase over the prior year rate of 8.4%.
- The official population for the City in 2010 was 1,952 and is estimated to be approximately the same in 2011.
- The ad valorem tax rate for the City was 2.2881 mills in 2010.

Financial Contact

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City Manager at 200 SW First Street, Lake Butler, Florida 32054.