

CITY OF LAKE BUTLER, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2011

CITY OF LAKE BUTLER, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2011

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INTRODUCTORY SECTION

CITY OF LAKE BUTLER, FLORIDA

LIST OF PRINCIPAL OFFICIALS

September 30, 2011

MAYOR

Fred Sirmones

VICE MAYOR

Lonnie Norman

CITY COMMISSION

Jimmy Beasley

LeRoy Stalvey

Scott Cason

CITY MANAGER

David Mecusker

CITY ATTORNEY

John E. Maines, IV

FINANCIAL STATEMENTS

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, 2011, 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, 2011, 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.

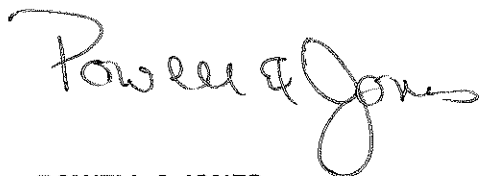
In accordance with *Government Auditing Standards*, we have also issued a report dated March 4, 2012, on our consideration of the City of Lake Butler's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and 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 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". The signature is written in black ink and is positioned above the printed name of the firm.

POWELL & JONES
Certified Public Accountants
March 4, 2012

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, 2011 and 2010

	Governmental Activities	Business-type Activities	Total Government	
			2011	2010
Assets				
Cash and investments	\$ 964,530	\$ 410,857	\$ 1,375,387	\$ 1,350,521
Other assets	36,697	94,733	131,430	174,080
Capital assets	1,467,640	2,541,508	4,009,148	4,334,844
Total assets	2,468,867	3,047,098	5,515,965	5,859,445
Liabilities				
Current liabilities	8,528	194,542	203,070	226,112
Long term liabilities	18,378	1,381,355	1,399,733	1,460,358
Total liabilities	26,906	1,575,897	1,602,803	1,686,470
Net assets				
Invested in capital assets, net				
of related debt	1,467,640	1,081,874	2,549,514	2,799,623
Restricted	346,791	101,001	447,792	167,997
Restricted - redevelopment	82,478	-	82,478	82,469
Unrestricted	545,052	288,326	833,378	1,122,886
Total net assets	\$ 2,441,961	\$ 1,471,201	\$ 3,913,162	\$ 4,172,975

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 \$429,228 in the governmental funds and

\$101,001 in the City's Proprietary Fund.

The City's net assets decreased \$259,812 over the year. This decrease is primarily due to depreciation of capital assets in the Utility Fund and Governmental Funds.

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, 2011 and 2010				
	Governmental	Business-type	Total Government	
	Activities	Activities	2011	2010
Revenues				
Program revenues				
Charges for services	\$ 88,813	\$ 1,211,887	\$ 1,300,700	\$ 1,330,805
Grants and contributions	1,000	-	1,000	10,095
General revenues				
Taxes	370,566	-	370,566	403,752
Franchise fees	136,064	-	136,064	147,801
State shared revenues	121,534	-	121,534	121,218
Interest and other	5,524	12,279	17,803	52,731
Total revenues	<u>723,501</u>	<u>1,224,166</u>	<u>1,947,667</u>	<u>2,066,402</u>
Expenses				
General government	417,396	-	417,396	369,099
Public safety	129,313	-	129,313	136,118
Physical environment				
Water	-	313,038	313,038	431,367
Sewer	-	776,977	776,977	125,709
Garbage	-	132,080	132,080	729,945
Other	3,666	-	3,666	-
Transportation	184,394	-	184,394	273,097
Economic environment	10,035	-	10,035	24,474
Human services	8,950	-	8,950	19,250
Culture/recreation	162,302	-	162,302	186,679
Interest on long-term debt	-	69,328	69,328	106,934
Total expenses	<u>916,056</u>	<u>1,291,423</u>	<u>2,207,479</u>	<u>2,402,672</u>
Transfers in (out)	<u>188,044</u>	<u>(188,044)</u>	<u>-</u>	<u>-</u>
Change in net assets	(4,511)	(255,301)	(259,812)	(336,270)
Beginning net assets	2,446,472	1,726,502	4,172,974	4,438,357
Prior period adjustment	-	-	-	70,887
Ending net assets	<u>\$ 2,441,961</u>	<u>\$ 1,471,201</u>	<u>\$ 3,913,162</u>	<u>\$ 4,172,974</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 (46%), Culture/recreation (18%), and Transportation (20%).

Business-type activities:

Business-type activities decreased the City's net assets by \$255,301. 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, 2011, the City had \$4.009 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 \$325,695 or 8% less than last year. This decrease was primarily attributable to the depreciation expense charges for the year.

Capital Assets at September 30, 2011 and 2010

	Governmental		Business-type		Totals	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Land	\$ 84,551	\$ 84,551	\$ 541,813	\$ 541,813	\$ 626,364	\$ 626,364
Buildings	2,141,681	2,141,681	135,000	135,000	2,276,681	2,276,681
Improvements	15,272,708	15,225,374	5,566,916	5,553,568	20,839,624	20,778,942
Equipment	642,558	633,268	260,568	260,996	903,126	894,264
Subtotal	18,141,498	18,084,874	6,504,297	6,491,377	24,645,795	24,576,251
Accumulated depreciation	(16,673,858)	(16,567,370)	(3,962,788)	(3,674,037)	(20,636,646)	(20,241,407)
Capital assets, net	\$ 1,467,640	\$ 1,517,504	\$ 2,541,509	\$ 2,817,340	\$ 4,009,149	\$ 4,334,844

Debt Outstanding

At year-end, the City had \$1,459,634 in debt outstanding versus \$1,535,219 last year, a decrease of \$75,585.

Debt Outstanding at September 30, 2011 and 2010

	Governmental		Business-type		Totals	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Revenue bonds	\$ -	\$ -	\$ 1,245,000	\$ 1,289,000	\$ 1,245,000	\$ 1,289,000
Loan payable	-	-	214,634	246,219	214,634	246,219
	-	-	1,459,634	1,535,219	1,459,634	1,535,219
Compensated absences	18,378	23,290	-	23,411	18,378	46,701
Total	\$ 18,378	\$ 23,290	\$ 1,459,634	\$ 1,558,630	\$ 1,478,012	\$ 1,581,920

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 7.8%. This rate represents a decrease over the prior year rate of 9.0%.
- The estimated population for the City in 2011 was 2,123 and is estimated to be approximately the same in 2012.
- The ad valorem tax rate for the City was 2.2599 mills in 2011.

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.

BASIC FINANCIAL STATEMENTS

CITY OF LAKE BUTLER, FLORIDA
STATEMENT OF NET ASSETS
September 30, 2011

	Governmental Activities	Business - type Activities	Total
ASSETS			
Current Assets			
Cash	\$ 964,530	\$ 304,336	\$ 1,268,866
Accounts receivable	14,394	39,624	54,018
Due from other funds	8,256	3,281	11,537
Due from other governmental units	13,064	51,828	64,892
Total current assets	<u>1,000,244</u>	<u>399,069</u>	<u>1,399,313</u>
Noncurrent Assets			
Restricted assets			
Cash	-	369	369
Investments	-	106,152	106,152
Total restricted assets	<u>-</u>	<u>106,521</u>	<u>106,521</u>
Capital assets, net	1,467,640	2,541,508	4,009,148
Total noncurrent assets	<u>1,467,640</u>	<u>2,648,029</u>	<u>4,115,669</u>
Total assets	<u>\$ 2,467,884</u>	<u>\$ 3,047,098</u>	<u>\$ 5,514,982</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 2,220	\$ 5,084	\$ 7,304
Accrued payroll liabilities	2,044	2,662	4,706
Due to other funds	3,281	8,256	11,537
Current portion notes payable	-	32,279	32,279
Accrued compensated absences	2,756	35,512	38,268
Total current liabilities	<u>10,301</u>	<u>83,793</u>	<u>94,094</u>
Current Liabilities Payable from Restricted Assets			
Accrued interest payable	-	5,520	5,520
Deposits	-	59,229	59,229
Current portion serial bonds	-	46,000	46,000
	<u>-</u>	<u>110,749</u>	<u>110,749</u>
Noncurrent Liabilities			
Due in more than one year:			
Notes and loans payable	-	182,355	182,355
Bonds payable	-	1,199,000	1,199,000
Accrued compensated absences	15,622	-	15,622
Total noncurrent liabilities	<u>15,622</u>	<u>1,381,355</u>	<u>1,396,977</u>
Total liabilities	<u>25,923</u>	<u>1,575,897</u>	<u>1,601,820</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,467,640	1,114,153	2,581,793
Restricted for:			
Road projects	339,931	-	339,931
Other purposes	89,338	-	89,338
Unrestricted	545,052	357,048	902,100
Total net assets	<u>\$ 2,441,961</u>	<u>\$ 1,471,201</u>	<u>\$ 3,913,162</u>

See notes to financial statements.

CITY OF LAKE BUTLER, FLORIDA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2011

Functions/Programs	Program Services		Net (Expenses) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental Activities						
General Government	\$ 417,396	\$ 13,423	\$ 1,000	\$ (402,973)	\$ -	\$ (402,973)
Public Safety	129,313	4,000	-	(125,313)	-	(125,313)
Physical Environment	3,666	500	-	(3,166)	-	(3,166)
Transportation	184,394	45,850	-	(138,544)	-	(138,544)
Economic Environment	10,035	-	-	(10,035)	-	(10,035)
Human Services	8,950	135	-	(8,815)	-	(8,815)
Culture/recreation	162,302	24,905	-	(137,397)	-	(137,397)
Total governmental activities	916,056	88,813	1,000	(826,243)	-	(826,243)
Business - type activities						
Physical Environment	1,291,423	1,211,887	-	-	(79,536)	(79,536)
Landfill	2,207,479	1,300,700	1,000	(826,243)	(79,536)	(905,779)
Total business - type activities						
Total government						
General revenues						
Ad valorem taxes				127,112	-	127,112
Franchise taxes				136,064	-	136,064
Utility taxes				36,201	-	36,201
Sales and use taxes				207,253	-	207,253
Federal and state shared revenue				121,534	-	121,534
Interest				824	391	1,215
Miscellaneous				4,700	11,888	16,588
Transfers in (out)				188,044	(188,044)	-
Total general revenue				821,732	(175,765)	645,967
Change in net assets				(4,511)	(255,301)	(259,812)
Net assets beginning of year				2,446,472	1,726,502	4,172,974
Net assets end of year				\$ 2,441,961	\$ 1,471,201	\$ 3,913,162

See notes to financial statements.

CITY OF LAKE BUTLER, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2011
Special Revenue Funds

	General Fund	Downtown Development	Street Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS					
Current assets					
Cash	\$ 536,244	\$ 82,478	\$ 339,391	\$ 6,417	\$ 964,530
Accounts receivable	14,394	-	-	-	14,394
Due from other funds	8,256	-	540	443	9,239
Due from other governmental units	13,064	-	-	-	13,064
Total assets	\$ 571,958	\$ 82,478	\$ 339,931	\$ 6,860	\$ 1,001,227
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 2,220	\$ -	\$ -	\$ -	\$ 2,220
Due to other funds	4,264	-	-	-	4,264
Accrued payroll liabilities	2,044	-	-	-	2,044
Total liabilities	8,528	-	-	-	8,528
Fund balances					
Restricted	-	82,478	-	-	82,478
Committed	-	-	339,931	6,860	346,791
Unassigned	563,430	-	-	-	563,430
Total fund balances	563,430	82,478	339,931	6,860	992,699
Total liabilities and fund balances	\$ 571,958	\$ 82,478	\$ 339,931	\$ 6,860	

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

Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.	1,467,640
Long-term liabilities are not due in the current period and, therefore are not reported in the funds.	(18,378)
	<u>\$ 2,441,961</u>

See notes to financial statements.

CITY OF LAKE BUTLER, FLORIDA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended September 30, 2011
Special Revenue Funds

	General Fund	Downtown Redevelopment	Street Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 449,475	\$ 57,261	\$ -	\$ -	\$ 506,736
Licenses and permits	13,423	-	-	-	13,423
Intergovernmental	122,428	-	-	-	122,428
Charges for services	75,390	-	-	-	75,390
Interest	426	116	268	14	824
Miscellaneous	4,700	-	-	-	4,700
Total revenues	665,842	57,377	268	14	723,501
EXPENDITURES					
Current expenditures					
General government	379,466	-	-	28,683	408,149
Public safety	113,494	-	-	-	113,494
Physical environment	3,666	-	-	-	3,666
Transportation	167,576	-	-	-	167,576
Economic environment	-	10,035	-	-	10,035
Human services	8,950	-	-	-	8,950
Culture/recreation	102,503	-	-	-	102,503
Capital outlay					
General government	1,717	-	-	-	1,717
Transportation	7,680	-	-	-	7,680
Economic environment	-	47,334	-	-	47,334
Total expenditures	785,052	57,369	-	28,683	871,104
Excess of revenues over (under) expenditures	(119,210)	8	268	(28,669)	(147,603)
Other financing sources					
Interfund transfers in	138,135	-	50,000	-	188,135
Interfund transfers out	-	-	-	(91)	(91)
sources (uses)	138,135	-	50,000	(91)	188,044
Net change in fund balances	18,925	8	50,268	(28,760)	40,441
Fund balances beginning of year	544,505	82,470	289,663	35,620	952,258
Fund balances end of year	\$ 563,430	\$ 82,478	\$ 339,931	\$ 6,860	\$ 992,699

See notes to financial statements.

CITY OF LAKE BUTLER, FLORIDA

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

For the Fiscal Year Ended September 30, 2011

Net change in fund balances - total governmental funds		\$	40,441
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.			
Expenditures for capital assets	56,731		
Dispositions and adjustments	(107)		
Less current year depreciation	<u>(106,488)</u>		(49,864)
Some expenses reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds.			
Net decrease in compensated absences			<u>4,912</u>
Change in net assets of governmental activities		\$	<u><u>(4,511)</u></u>

See notes to financial statements.

**CITY OF LAKE BUTLER, FLORIDA
PROPRIETARY FUND**

**STATEMENT OF NET ASSETS
September 30, 2011**

	Enterprise Fund
ASSETS	
Current Assets	
Cash	\$ 304,336
Accounts receivable	82,845
Allowance for doubtful accounts	(43,221)
Due from other funds	3,281
Due from other governmental units	51,828
Total current assets	399,069
Noncurrent Assets	
Restricted assets	
Cash	369
Investments	106,152
Total restricted assets	106,521
Fixed assets	
Land	541,813
Buildings	135,000
Improvements other than buildings	5,566,916
Equipment	260,568
Allowance for depreciation	(3,962,789)
Total fixed assets	2,541,508
Total noncurrent assets	2,648,029
Total assets	\$ 3,047,098
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 5,084
Accrued liabilities	2,662
Due to other funds	8,256
Current portion note payable	32,279
Accrued compensated absences	35,512
Total current liabilities	83,793
Current Liabilities Payable from Restricted Assets	
Accrued interest payable	5,520
Deposits	59,229
Current portion serial bonds	46,000
Total current liabilities payable from restricted assets	110,749
Noncurrent Liabilities	
Long-term portion note payable	182,355
Long-term portion serial bonds payable	1,199,000
Total noncurrent liabilities	1,381,355
Total liabilities	1,575,897
NET ASSETS	
Invested in capital assets, net of related debt	1,081,874
Restricted	101,001
Unrestricted	288,326
Total net assets	\$ 1,471,201

See notes to financial statements.

CITY OF LAKE BUTLER, FLORIDA

**PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS
For the Fiscal Year Ended September 30, 2011**

	<u>Enterprise Fund</u>
OPERATING REVENUES	
Physical environment	
Charges for services	
Water utility services	\$ 304,336
Garbage solid waste services	157,053
Sewer utility services	735,995
Tap in and connection fees	204
Cut on/off fees	12,230
Other	2,069
Miscellaneous	11,888
Total operating revenues	<u>1,223,775</u>
 OPERATING EXPENSES	
Water services	
Personal services	185,178
Operating expenses	127,860
Total water services	<u>313,038</u>
 Garbage and solid waste services	
Operating expenses	132,080
Total garbage and solid waster services	<u>132,080</u>
 Sewer services	
Personal services	173,235
Operating expenses	603,742
Total sewer services	<u>776,977</u>
Total operating expenses	<u>1,222,095</u>
 Operating income	<u>1,680</u>
 NONOPERATING REVENUES (EXPENSES)	
Interest earnings	391
Debt service costs	
Interest	(69,328)
Total nonoperating revenues (expenses)	<u>(68,937)</u>
Change in net assets before operating transfers	<u>(67,257)</u>
Operating transfer out	(188,044)
Total operating transfers	<u>(188,044)</u>
Change in net assets after operating transfers	<u>(255,301)</u>
Net assets at beginning of year	1,726,502
Net assets at end of year	<u>\$ 1,471,201</u>

See notes to financial statements.

CITY OF LAKE BUTLER, FLORIDA

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS**

For the Fiscal Year Ended September 30, 2011

	<u>Enterprise Fund</u>
CASH FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 1,251,885
Miscellaneous receipts	11,888
Cash payments for goods and services	(468,956)
Cash payments to employees	(406,305)
Net cash provided by operating activities	<u>388,512</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of property and equipment	(60,028)
Principal paid on revenue bonds	(44,000)
Principal paid on loan payable	(31,585)
Net transfers from/to governmental funds	(169,165)
Interest paid	(69,044)
Net cash used in capital and related financing activities	<u>(373,822)</u>
 Net increase in cash and cash equivalents	14,690
 Cash and cash equivalents, beginning of year	<u>396,167</u>
 Cash and cash equivalents, end of year	<u>\$ 410,857</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	<u>\$ 1,680</u>
 Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	324,012
Loss on disposition of fixed assets	12,239
Change in operating assets - decrease (increase) and operating liabilities - increase (decrease)	
Accounts receivable	43,125
Other receivables	(1,997)
Accounts payable	(1,272)
Accrued liabilities	(245)
Customer deposits	(1,130)
Accrued leave payable	12,100
Total adjustments	<u>386,832</u>
Net cash provided by operating activities	<u>\$ 388,512</u>

See notes to financial statements.

CITY OF LAKE BUTLER, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Lake Butler (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting principles. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, are not applied in the preparation of the financial statements of the proprietary fund type in accordance with GASB Statement 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

In June, 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement 34-Basic Financial Statement and Management's Discussion and Analysis - for State and Local Governments. As provided by GASB 34, the City has elected not to report retroactive infrastructure improvements in its financial statements due to the fact that its annual revenues are less than ten million. The City has implemented all other applicable provisions of this Statement.

A. Reporting Entity - The City of Lake Butler, Florida is a municipality created under Chapter 5507, *Laws of Florida*, 1905, and is governed by a five member City Commission, all of whom are individually elected, who select from among themselves one member to serve as Mayor.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, management determined that the following component unit existed which should be included within the reporting entity.

City of Lake Butler Community Redevelopment Agency - This dependent special district was established for the fostering of economic development within the downtown district under Ordinance #96-05. The governing board is the City Commission which also establishes the agency's annual budget. Because this component unit is in substance part of the City's operations,

it has been reported on a blended basis in the City's financial statements as a separate special revenue fund.

B. Measurement Focus and Basis of Accounting - The basic financial statements of the City are comprised of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

1. Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from any legally separate component unit for which the primary government is financially accountable.

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and agency fund financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement 33 - Accounting and Financial Reporting for Nonexchange Transactions.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. As applicable, the City also chooses to eliminate the indirect costs between governmental activities to avoid the "doubling up" effect.

2. Fund Financial Statements

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be 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. Governmental 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.

Fund financial statements for the City's governmental and proprietary funds are presented after the government-wide financial statements. These statements display information about major funds individually, and nonmajor funds in the aggregate for governmental and enterprise funds.

Governmental Funds - 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Franchise fees, licenses, sales taxes, gas taxes, operating and capital grants, 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 only when cash is received by the City.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be measure of "available spendable resources." Governmental funds operating statements present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Any non-current portions of long-term receivables (special assessments) due to governmental funds are reported on their balance sheets in spite of their spending measurement focus.

Non-current portions of other long-term receivables are offset by fund balance reserve accounts. Because of their spending measurement focus, expenditure recognition for governmental fund types exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an other financing source rather than as a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Proprietary Funds - The City's Water and Sewer Enterprise Fund is a proprietary fund. In the fund financial statements, proprietary funds are presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods and services are delivered. In the fund financial statements, proprietary funds are presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net assets. The City applies all GASB pronouncements as well as all FASB Statements and Interpretations, APB Opinions and Accounting Research Bulletins, issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements.

Proprietary fund operation revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies, taxes, and investment earnings, result from nonexchange transactions or ancillary activities.

Amounts paid to acquire capital assets are capitalized as assets in the fund financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the fund financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness are reported as a reduction of the related liabilities, rather than as an expense.

C. Basis of Accounting - GASB Statement 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures, expenses of either fund category and the governmental and enterprise combined) for the determination of major funds. The City has used GASB 34 minimum criteria for major fund determination. The City has five major funds and four nonmajor funds.

1. Governmental Major Funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

Downtown Redevelopment Fund - Used to account for tax increment and other revenues associated with the City's Community Redevelopment Agency and the expenditure of these funds in the redevelopment district.

Street Improvement Fund - used to account for expenditures associated with the City's street paving program.

2. Proprietary Major Fund:

Enterprise Fund - The Enterprise Fund accounts for the revenues, expenses, assets, and liabilities associated with the City operated water, sewer, and solid waste disposal services.

3. Special Revenue Nonmajor Fund:

Tillis Building Fund - Used to account for lease payments and expenditures associated with the City's Tillis Industrial Building.

4. Capital Projects Nonmajor Funds:

Trailhead Park Fund - Established by the City to administer the Florida Recreation Development Assistance Program (FRDAP) Grant awarded by the Florida Department of Environmental Protection for the purpose of developing the Trailhead Park.

Community Development Block Grant Fund - Established by the City to administer a previous Community Development Block Grant Program, which was awarded the City by the Department of Community Affairs to make residential housing improvements and construction. This fund was closed out in the current year.

5. Non-current Governmental Assets/Liabilities:

GASB Statement 34 requires non-current governmental assets, such as land and building, and non-current governmental liabilities, such as general obligation bonds and capital leases, be reported in the governmental activities column in the government-wide statement of net assets.

D. Assets, Liabilities and Net Assets or Equity

1. **Cash and Investments** - Cash includes amounts in demand deposits as well as short-term money market investment accounts. Investments, consisting of certificates of deposit, are stated at cost which approximates market value. All such deposits and investments are insured and collateralized as required by state law.
2. **Cash Equivalents** - For purposes of the statement of cash flows, the City considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents. As of September 30, 2011, the City's cash consisted solely of checking accounts and money market accounts; it has no other cash equivalents.
3. **Allowance for Doubtful Accounts** - The City provides an allowance for Enterprise Fund accounts receivable that may become uncollectible. At September 30, 2011, this allowance account totaled \$43,221; based upon prior collection history. No other allowances for doubtful accounts are maintained since other fund accounts receivable are considered to be fully collectible as reported at September 30, 2011.
4. **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 "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."
5. **Inventories** - The costs of governmental inventories are recorded as expenditures when purchased rather than when consumed. The actual amounts of any such inventory type goods on hand at year end would not be material.
6. **Restricted Assets** - As applicable, year to year, certain proceeds of enterprise fund debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

The fund balance related to the City Community Redevelopment Agency is also classified as restricted due to legal limitations on the use of these funds.

7. **Encumbrances** - Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not utilized by the City.
8. **Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., streets, bridges, right-of-ways, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$500 or more and an estimated useful life in excess of one year. Except for roads and bridges constructed prior to October 1, 1981, assets are recorded at historical cost. Roads and bridges constructed prior to October 1, 1981 are generally not reported. Donated capital assets are recorded at estimated fair market value at the date of donations.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City, as well as of component units, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Building and improvements	40
Machinery and equipment	5 - 10
Street and related infrastructure	20 - 40

9. **Capitalization of Interest** - Interest related to borrowings are capitalized during the construction period. These costs are netted against applicable interest earnings on construction fund investments. During the current period, the City did not have any capitalized interest.
10. **Deferred Revenues** - Deferred revenues reported in government-wide financial statements represent unearned revenues. The deferred revenues will be recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting. Deferred revenues reported in governmental fund financial statements represent unearned revenues which are measurable but not available and, in accordance with the modified accrual basis of accounting, are reported as deferred revenues. During the current period, the City did not have any deferred revenues.
11. **Accrued Compensated Absences** - The City accrues accumulated unpaid vacation and sick leave when earned by the employee. The current portion is the amount estimated to be used in the following year. The non-current portion is the amount estimated to be used in subsequent fiscal years. Both the current and non-current estimated accrued compensated absences amounts for governmental funds are maintained separately and represent a reconciling item between the fund and government-wide presentation.
12. **Capital Contributions** - Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers or other funds. Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.
13. **Fund Balances – Governmental Funds** – As of September 30, 2011, fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. There were no nonspendable fund balances at year end.

Restricted – amounts that can be spent either only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of

constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the City Commission. The City Commission is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through resolutions approved by the Council.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. Under current practices, the assignment of amounts for specific purposes is approved by the Commission. There were no assigned fund balances at year end.

Unassigned - all other spendable amounts.

As of September 30, 2011, fund balances are comprised of the following:

Restricted	\$ 82,478
Committed	346,791
Unassigned	563,430
Total fund balances	<u>\$992,699</u>

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

A. Explanation of Differences Between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Assets.

“Total fund balances” of the City’s governmental funds \$952,258 differs from “net assets” of governmental activities \$2,446,472 reported in the statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental funds balance sheet.

Capital related items

When capital assets (property, plant, equipment) that are to be used in governmental activities are purchased or constructed, the cost of these assets are reported as expenditures in governmental funds. However, the statement of net assets included those capital assets among the assets of the City as a whole.

Cost of capital assets	\$ 18,141,498
Accumulated depreciation	(16,673,858)
Total	<u>\$ 1,467,640</u>

Long-term debt transactions

Long-term liabilities applicable to the City’s governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net assets. Balances at September 30, 2011, were:

Compensated absences

\$ 18,378

CITY OF LAKE BUTLER, FLORIDA

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

A. Explanation of Differences Between the Governmental Fund Balance and the Government-wide Statement of Net assets

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

A. Explanation of Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

ASSETS	Total Governmental Funds	Capital Related Items	Long-Term Debt Transactions	Eliminations	Statement of Net Assets
Cash and cash equivalents	\$ 964,530	-	-	-	\$ 964,530
Accounts receivable - net	14,394	-	-	-	14,394
Due from other funds	9,239	-	-	(983)	8,256
Due from other governmental units	13,064	-	-	-	13,064
Capital assets - net	-	1,467,640	-	-	1,467,640
Total assets	<u>\$ 1,001,227</u>	<u>\$ 1,467,640</u>	<u>-</u>	<u>\$(983)</u>	<u>\$ 2,467,884</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 2,220	-	-	-	\$ 2,220
Accrued interest payable	-	-	-	-	-
Accrued payroll liabilities	2,044	-	-	-	2,044
Due to other funds	4,264	-	-	(983)	3,281
Accrued compensated absences	-	-	18,378	-	18,378
Total liabilities	<u>8,528</u>	<u>-</u>	<u>18,378</u>	<u>\$(983)</u>	<u>25,923</u>
Fund balances/net assets	<u>992,699</u>	<u>1,467,640</u>	<u>(18,378)</u>	<u>-</u>	<u>2,441,961</u>
Total liabilities and fund balance/net assets	<u>\$ 1,001,227</u>	<u>\$ 1,467,640</u>	<u>\$ -</u>	<u>\$(983)</u>	<u>\$ 2,467,884</u>

B. Explanation of Differences Between Governmental Fund Operating Statements and the Statement of Activities

The "net change in fund balances" for governmental funds \$40,441 differs from the "change in net assets" for governmental activities \$(4,511) reported in the statement of activities. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of the differences is illustrated below.

Capital related items

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balances decrease by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charges for the year.

Capital outlay	\$ 56,731
Dispositions	(107)
Depreciation expense	<u>(106,488)</u>
Difference	<u>\$ (49,864)</u>

Some expenses reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds.

Net increase in compensated absences	<u>\$ 4,912</u>
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CITY OF LAKE BUTLER, FLORIDA

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

B. Explanation of Differences Between Governmental Funds Operating Statement and the Statement of Activities

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

B. Explanation of Differences Between Government Fund Operating Statements and the Statement of Activities

	Total Governmental Funds	Capital Related Items	Compensated Absences	Statement of Activities
REVENUES				
Taxes	\$ 506,736	\$ -	\$ -	\$ 506,736
Licenses and permits	13,423	-	-	13,423
Intergovernmental	122,428	-	-	122,428
Charges for services	75,390	-	-	75,390
Interest	824	-	-	824
Miscellaneous	4,700	-	-	4,700
Total revenues	<u>723,501</u>	<u>-</u>	<u>-</u>	<u>723,501</u>
EXPENDITURES				
Current Expenditures			(4,912)	
General government	408,149	14,159	-	417,396
Public safety	113,494	15,819	-	129,313
Physical environment	3,666	-	-	3,666
Transportation	167,576	16,818	-	184,394
Economic environment	10,035	-	-	10,035
Human services	8,950	-	-	8,950
Culture/recreation	102,503	59,799	-	162,302
Capital outlay				
General government	1,717	(1,717)	-	-
Transportation	7,680	(7,680)	-	-
Economic environment	47,334	(47,334)	-	-
Total expenditures	<u>871,104</u>	<u>49,864</u>	<u>(4,912)</u>	<u>916,056</u>
Excess of revenues over (under) expenditures	<u>(147,603)</u>	<u>(49,864)</u>	<u>4,912</u>	<u>(192,555)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	188,135	-	-	188,135
Transfers out	(91)	-	-	(91)
Total other financing sources (uses)	<u>188,044</u>	<u>-</u>	<u>-</u>	<u>188,044</u>
Net change in fund balance	40,441	(49,864)	4,912	(4,511)
Fund balances at beginning of year	952,258	1,517,504	(23,290)	2,446,472
Fund balances at end of year	<u>992,699</u>	<u>1,467,640</u>	<u>(18,378)</u>	<u>2,441,961</u>

NOTE 3. LEGAL COMPLIANCE–BUDGETS

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the City Manager develops a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to September 30, the budget is legally enacted by the City Commission through passage of an ordinance.
4. Any revision that alters the total expenditures of any fund or transfers budgeted amounts between departments within any fund must be approved by the City Commission.
5. Budgets for all City funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Commission. Individual amendments were not material in relation to the original appropriations which were amended.

NOTE 4. DEPOSITS AND INVESTMENTS

Deposits. The bank balances of the City deposits and investments totaling \$1,375,387 were insured by federal depository insurance or pledged collateral under state law.

Investments. Under state law, the City is allowed to invest surplus funds in guaranteed obligations of the U.S. government, interest bearing accounts of financial institutions which are legally secured, and the Local Government Surplus Funds Trust Fund. At year end, all invested funds consisted of bank cash accounts which were fully insured or collateralized. These deposits are classified as Category 1 in accordance with GASB Standard No. 3, "Deposits with Financial Institutions, Investments, and Reserve Repurchase Agreements."

NOTE 5. PROPERTY TAX REVENUES

All real and tangible personal property taxes are due and payable on November 1 of each year or as soon thereafter as the assessment roll is certified by the County Property Appraiser. The County Tax Collector mails to each property owner on the assessment roll a notice of taxes levied by the City and other governmental entities in the County. Taxes may be paid upon receipt of such notice with discounts at the rate of four percent (4%) if paid in the month of November, three percent (3%) if paid in the month of December, two percent (2%) if paid in the month of January, and one percent (1%) if paid in the month of February. Taxes paid during the month of March are without discount. All unpaid taxes on real and tangible personal property become delinquent taxes, including applicable tax certificate sales, tax deed sales, and tangible personal property seizure and sales are provided for by the laws of Florida. Due to those collection procedures, no material amounts of delinquent taxes were due the City at year end. Collections of City taxes and remittances are accounted for in the County Tax Collector's office.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Additions	Reclassifications Deletions	Ending Balance
Governmental activities:				
Capital assets:				
Land	\$ 84,551	\$ -	\$ -	\$ 84,551
Buildings	2,141,681	-	-	2,141,681
Other improvements	15,225,374	47,334	-	15,272,708
Machinery and equipment	633,268	9,290	-	642,558
Total capital assets	18,084,874	56,624	-	18,141,498
Less accumulated depreciation	(16,567,370)	(106,488)	-	(16,673,858)
Governmental activities capital assets, net	<u>\$ 1,517,504</u>	<u>\$ (49,864)</u>	<u>\$ -</u>	<u>\$ 1,467,640</u>
Business-type activities:				
Land	\$ 541,813	\$ -	\$ -	\$ 541,813
Buildings	135,000	-	-	135,000
Improvements other than buildings	5,553,568	13,348	-	5,566,916
Machinery and equipment	260,996	69,572	(70,000)	260,568
Total capital assets	6,491,377	82,920	(70,000)	6,504,297
Less accumulated depreciation	(3,674,038)	(324,012)	35,261	(3,962,789)
Business-type activities capital assets, net	<u>\$ 2,817,339</u>	<u>\$ (241,092)</u>	<u>\$ (34,739)</u>	<u>\$ 2,541,508</u>

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

Governmental activities:	
General Government	\$ 14,052
Public Safety	15,819
Transportation	16,818
Parks and recreation	59,799
Total depreciation expense - governmental entities	<u>\$ 106,488</u>
Business-type activities:	
Water and sewer utility	<u>\$ 324,012</u>

NOTE 7. INTERFUND RECEIVABLES/PAYABLES

The following is a schedule of interfund receivables and payables at September 30, 2011.

Fund	Receivable	Payable
General	\$ 8,256	\$ 4,264
Street Improvement	540	-
Tillis Building	443	-
Proprietary	3,281	8,256
	<u>\$ 12,520</u>	<u>\$ 12,520</u>

NOTE 8. INTERFUND TRANSFERS

Interfund transfers for the year ended September 30, 2011, consisted of the following:

Fund	Transfers in	Transfers out
General	\$ 138,135	\$ -
Street Improvement	50,000	-
Proprietary	-	188,044
CDBG	-	91
	<u>\$ 188,135</u>	<u>\$ 188,135</u>

Transfers were used for capital projects.

NOTE 9. RECEIVABLE AND PAYABLE BALANCES

Receivables

Receivables at September 30, 2011, were as follows:

	Account	Due from Others/ Governmental Units	Total Receivables
Governmental activities:	\$ 14,394	\$ 13,064	\$ 27,458
Business-type activities:	39,624	51,828	91,452
	<u>\$ 54,018</u>	<u>\$ 64,892</u>	<u>\$ 118,910</u>

Based upon collection history, the City has included a reserve for doubtful accounts for its Enterprise Fund accounts receivable of \$43,221.

Payables

Payables at September 30, 2011, were as follows:

	Vendors	Due to Other Governmental Units	Total Payables
Governmental activities:	\$ 2,220	\$ -	\$ 2,220
Business-type activities:	\$ 5,084	\$ -	\$ 5,084

NOTE 10. LONG-TERM LIABILITIES

Governmental Activities

Summary of changes in governmental activities long-term liabilities

The following summarizes the changes in the City's governmental long-term liabilities during the year ended September 30, 2011:

	Balance October 1, 2010	Increases	Decreases	Balance September 30, 2011
Compensated Absences	\$ 23,290	\$ -	\$ (4,912)	\$ 18,378

Business-type Activities

A summary of proprietary fund debt as of September 30, 2011, follows:

Water and Sewer Revenue Bonds 1980 - Gross revenues of the water and sewer system primarily, and secondarily the City's proceeds of its utility services taxes and guaranteed entitlement portion of State Revenue Sharing are pledged to service this debt. The outstanding balance at September 30, 2011, is \$239,000. The remaining bonds mature annually from September 1, 2012 through September 1, 2019, at averaged payments of \$36,981, including interest at 5%.

Water and Sewer Revenue Bonds 1998 - Gross revenues of the water and sewer system primarily, and secondarily the City's proceeds of its utility services taxes are pledged to service this debt. The outstanding balance at September 30, 2011, is \$1,006,000. The remaining bonds mature annually from September 1, 2012 through September 1, 2037, at averaged payments of \$66,404, including interest at 4.5%.

Reserve Funds - The following reserves are required to be maintained for the revenue bonds:

Water and Sewer Revenue Bonds 1980 - A reserve is required by the bond ordinance to

accumulate sufficient funds to be used for: (a) repair and replacement of the water system due to catastrophe, (b) constructing improvements to increase net revenues of the Enterprise Fund, and (c) payment of any principal and interest if the funds of the Sinking Fund are insufficient. The reserve is maintained by transferring monthly from the revenue account \$310, until a maximum amount of \$37,200 is attained. This reserve was fully funded at September 30, 2011.

Water and Sewer Revenue Bonds 1998 - A reserve is required by the bond ordinance to accumulate sufficient funds to be used for: (a) repair and replacement of the water system due to catastrophe, (b) constructing improvements to increase net revenues of the Enterprise Fund, and (c) payment of any principal and interest if the funds of the Sinking Fund are insufficient. The reserve is maintained by transferring monthly from the revenue account \$560, until a maximum amount of \$67,148 is attained. This reserve was fully funded at September 30, 2011.

Revenue bond debt service requirements to maturity, including \$777,351 of interest, are as follows:

Fiscal Year Ending September 30	1980 Bonds	1998 Bonds	Total
2012	\$ 36,950	\$ 66,394	\$ 103,344
2013	36,700	66,325	103,025
2014	37,400	66,335	103,735
2015	37,000	66,184	103,184
2016	36,550	66,333	102,883
2017-2021	111,250	333,052	444,302
2022-2026	-	332,366	332,366
2027-2031	-	332,947	332,947
2032-2036	-	331,775	331,775
2037	-	64,790	64,790
	\$ 295,850	\$ 1,726,501	\$ 2,022,351

Loan Payable - On May 19, 2006, the City closed on a loan agreement with Mercantile Bank (now, TD Bank) in the amount of \$450,000. The proceeds of this loan were used to construct a sewer system lift station. The City paid interest only payments at a rate of 4.5% on the principal amount on a monthly basis commencing June 19, 2008 until the completion of construction. Thereafter, the City is paying 180 equal monthly principal and interest payments on the principal amount, as reduced by each monthly payment at a continued 4.5% interest rate. This loan is secured by pledged Half-Cent Sales Tax revenues. Future debt service requirements are as follows:

Fiscal Year Ending September 30	Principal	Interest	Total
2012	\$ 32,279	\$ 9,031	\$ 41,310
2013	33,762	7,548	41,310
2014	35,313	5,997	41,310
2015	36,935	4,375	41,310
2016	38,632	2,678	41,310
2017	37,713	-	37,713
	<u>\$ 214,634</u>	<u>\$ 29,629</u>	<u>\$ 244,263</u>

A schedule of changes in proprietary fund debt follows:

	Balance October 1, 2010	Increases	Decreases	Balance September 30, 2011	Due Within One Year
Bonds payable	\$ 1,289,000	\$ -	\$ (44,000)	\$ 1,245,000	\$ 46,000
Loans payable	246,219	-	(31,585)	214,634	32,279
	<u>\$ 1,535,219</u>	<u>\$ -</u>	<u>\$ (75,585)</u>	<u>\$ 1,459,634</u>	<u>\$ 78,279</u>

NOTE 11. RETIREMENT PROGRAMS

Florida Retirement System

Most employees working in regularly established positions of the City are covered by the Florida Retirement System (FRS). The FRS is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). FRS provisions are established by Chapter 121 and 122, *Florida Statutes*, Chapter 112, Part IV, *Florida Statutes*, Chapter 238, *Florida Statutes*, and Florida Retirement System Rules, Chapter 605, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially, all regular employees of participating employers are eligible to enroll as members of the FRS.

Benefits in the plan vest at 6 years of service. All members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provisions, but imposes a penalty for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments.

A Deferred Retirement Option Program (DROP) subject to provisions of Section 121.091, *Florida Statutes*, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with a FRS employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest

The State of Florida establishes contribution rates for participating employers. Contribution rates at the end of 2010-11 fiscal year were as follows:

Class or Plan	Percent of Gross Salary (A)
Florida Retirement System, Regular	4.91%
Florida Retirement System, Special Risk	14.10%
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	4.42%
Florida Retirement System, Reemployed Retiree	(B)

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance subsidy. Also, employer rates, other than for DROP participants, include .03 percent for administrative costs of the Public Employee Optional Retirement Program.

(B) Contribution rates are dependent upon retirement class or plan in which reemployed.

The City's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the City. The City's contributions for the fiscal years ended September 30, 2009, September 30, 2010, and September 30, 2011 totaled \$43,057, \$48,898, and \$44,622 respectively, which were equal to the required contributions for each fiscal year.

Financial statements and other supplementary information of the FRS are included in the State of Florida Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

NOTE 12. ECONOMIC DEPENDENCY

The State of Florida, Department of Corrections, Lake Butler Reception and Medical Center (RMC) is a major utility customer of the City. For the year ended September 30, 2011, the RMC facility accounted for approximately 58% of the City's sewer revenues and 46% of its water revenues. The City and the Florida Department of Corrections have a long-term agreement whereby the City would provide water supply for a minimum of twenty years, and waste water treatment services for a minimum of forty years, to the RMC facility.

NOTE 13. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. Insurance against losses are provided for the following types of risk:

- Workers' Compensation and Employer's Liability
- General and Automobile Liability
- Real and Personal Property Damage
- Public Officials' Liability
- Accidental Death and Dismemberment

NOTE 14. CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the State and Federal governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. 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 has been advised that it may become a party to several lawsuits alleging property damage and personal injury. Although the City may incur expenses relating to these potential lawsuits, the City Attorney believes that any adverse outcomes would not have a material financial effect on the City.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAKE BUTLER, FLORIDA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 478,109	\$ 437,200	\$ 449,475	\$ 12,275
Licenses, permits and assessments	13,845	12,245	13,423	1,178
Intergovernmental	13,845	12,245	13,423	1,178
Charges for services	65,158	70,148	75,390	5,242
Miscellaneous	12,137	3,100	4,700	1,600
Total revenues	583,094	534,938	556,411	21,473
EXPENDITURES				
Current operating:				
General government	415,282	362,576	379,466	(16,890)
Public safety	111,148	117,497	113,494	4,003
Physical environment	250	50	3,666	(3,616)
Transportation	181,038	173,864	167,576	6,288
Human services	11,509	10,148	8,950	1,198
Culture/recreation	116,386	108,643	102,503	6,140
Capital outlay:				
General government	3,500	1,200	1,717	(517)
Public safety	1,000	-	-	-
Transportation	9,500	3,800	7,680	(3,880)
Culture/recreation	3,500	1,500	-	1,500
Total expenditures	853,113	779,278	785,052	(5,774)
Excess of revenues over expenditures	(270,019)	(244,340)	(228,641)	15,699
Other Financing Sources (Uses)				
Transfers in	103,382	138,044	138,135	91
Total other financing sources (uses)	103,382	138,044	138,135	91
Net change in fund balance	(166,637)	(106,296)	(90,506)	15,790
Fund balance, beginning of year	544,505	544,505	544,505	-
Fund balance, end of year	\$ 377,868	\$ 438,209	\$ 453,999	\$ 15,790

See notes to financial statements.

CITY OF LAKE BUTLER, FLORIDA

**DOWNTOWN REDEVELOPMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 46,596	\$ 57,261	\$ 57,261	\$ -
Interest	-	80	116	36
Total revenues	<u>46,596</u>	<u>57,341</u>	<u>57,377</u>	<u>36</u>
EXPENDITURES				
Current operating:				
Economic environment	34,096	34,096	10,035	24,061
Capital outlay:				
Economic environment	10,000	20,745	47,334	(26,589)
Total expenditures	<u>44,096</u>	<u>54,841</u>	<u>57,369</u>	<u>(2,528)</u>
Excess of revenues over expenditures	<u>2,500</u>	<u>2,500</u>	<u>8</u>	<u>(2,492)</u>
Other Financing Sources (Uses)				
Transfers out	(2,500)	(2,500)	-	2,500
Total other financing sources (uses)	<u>(2,500)</u>	<u>(2,500)</u>	<u>-</u>	<u>2,500</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>8</u>	<u>8</u>
Fund balance, beginning of year	82,470	82,470	82,470	-
Fund balance, end of year	<u>\$ 82,470</u>	<u>\$ 82,470</u>	<u>\$ 82,478</u>	<u>\$ 8</u>

See notes to financial statements.

CITY OF LAKE BUTLER, FLORIDA

STREET IMPROVEMENT FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL

For the Fiscal Year Ended September 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$ -	\$ 250	\$ 268	\$ 18
Total revenues	-	250	268	18
Excess of revenues over expenditures	-	250	268	18
Other Financing Sources (Uses)				
Transfers in	50,000	50,000	50,000	-
Total other financing sources (uses)	50,000	50,000	50,000	-
Net change in fund balance	50,000	50,250	50,268	18
Fund balance, beginning of year	289,663	289,663	289,663	-
Fund balance, end of year	\$ 339,663	\$ 339,913	\$ 339,931	\$ 18

See notes to financial statements.

COMBINING STATEMENTS

CITY OF LAKE BUTLER, FLORIDA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2011

	Special Revenue Fund	Capital Projects Funds		Total Nonmajor Governmental Funds
	Tillis Building	Trailhead Park	CDBG	
ASSETS				
Cash	\$ 6,303	\$ 114	\$ -	\$ 6,417
Due from other funds	443	-	-	443
Total assets	<u>\$ 6,746</u>	<u>\$ 114</u>	<u>\$ -</u>	<u>\$ 6,860</u>
LIABILITIES AND FUND BALANCES				
FUND BALANCES				
Committed	\$ 6,746	\$ 114	\$ -	\$ 6,860
Total fund balances	<u>6,746</u>	<u>114</u>	<u>-</u>	<u>6,860</u>
Total liabilities and fund balances	<u>\$ 6,746</u>	<u>\$ 114</u>	<u>\$ -</u>	<u>\$ 6,860</u>

See notes to financial statements.

CITY OF LAKE BUTLER, FLORIDA

NONMAJOR GOVERNMENTAL FUNDS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended September 30, 2011**

	Special Revenue Funds	Capital Projects Funds		Total Nonmajor Governmental Funds
	Tillis Building	Trailhead Park	CDBG	
REVENUES				
Interest	\$ 14	\$ -	\$ -	\$ 14
Total revenues	<u>14</u>	<u>-</u>	<u>-</u>	<u>14</u>
EXPENDITURES				
Current Expenditures				
General government	28,683	-	-	28,683
Total expenditures	<u>28,683</u>	<u>-</u>	<u>-</u>	<u>28,683</u>
Excess of revenues over (under) expenditures	<u>(28,669)</u>	<u>-</u>	<u>-</u>	<u>(28,669)</u>
OTHER FINANCING SOURCES (USES)				
Interfund transfers out	-	-	(91)	(91)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(91)</u>	<u>(91)</u>
Net change in fund balances	<u>(28,669)</u>	<u>-</u>	<u>(91)</u>	<u>(28,760)</u>
Fund balances beginning of year	35,415	114	91	35,620
Fund balances end of year	<u>\$ 6,746</u>	<u>\$ 114</u>	<u>\$ -</u>	<u>\$ 6,860</u>

See notes to financial statements.

COMPLIANCE SECTION

**INDEPENDENT AUDITOR'S 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**

To the Mayor and Members
of the City Commission
City of Lake Butler, Florida

We have audited the basic financial statements of the City of Lake Butler, Florida, as of and for the year ended September 30, 2011, and have issued our report thereon dated March 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Lake Butler, Florida's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lake Butler, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lake Butler, Florida's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified the following deficiency in internal control over financial reporting that we consider to be a significant deficiency in internal control over financial reporting.

Financial Statement Preparation

A system of internal control over financial reporting includes controls over financial statement preparation, including footnote disclosures. While your auditor can assist with the preparation of your financial statements and related footnotes, the financial statements are the responsibility of management. A deficiency in internal control exists when the City does not have the expertise necessary to prevent, detect, and correct misstatements. A deficiency in internal control exists in instances where the City is not capable of drafting the financial statements and all required footnote disclosures in accordance with generally accepted accounting principles. Possessing

suitable skill, knowledge, or experience to oversee services an auditor provides in assisting with financial statement presentation requires a lower level of technical knowledge than the competence required to prepare the financial statements and disclosures.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lake Butler, Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the City of Lake Butler, Florida in a separate letter dated March 4, 2012 on page 52.

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



POWELL & JONES
March 4, 2012

MANAGEMENT LETTER

To the Mayor and
Members of the City Commission
City of Lake Butler, Florida

In planning and performing our audit of the financial statements of the City of Lake Butler, Florida, for the year ended September 30, 2011, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiencies. In addition to furnishing information required by Chapter 10.550, *Rules of the Auditor General*, and other compliance matters, the remaining sections of this report letter discuss these findings.

PRIOR YEAR FINDINGS

Credit Cards - During our review of credit card charges, we found that there were late fees and finance charges during the year. We recommend that payments of credit card billings be made in a timely manner to avoid late fees.

Travel - In our review of travel, we found an instance where times of departure and return were not documented. To ensure proper reimbursement for meal expenses, we recommend that all travel vouchers be reviewed for times of departure and return.

All other prior year findings were substantially corrected during the current year.

CURRENT YEAR FINDINGS

There were no additional reportable findings in the current year.

AUDITOR GENERAL AND OTHER COMPLIANCE MATTERS

Annual Local Government Financial Report - The Financial Report filed with the Department of Financial Services pursuant to Section 218.32(1)(a), *Florida Statutes*, is in agreement with the accompanying financial statements of the City of Lake Butler, for the fiscal year ended September 30, 2011.

Investment of Public Funds - The City complied with Section 218.415, *Florida Statutes*, regarding the investment of public funds during the fiscal year.

Financial Emergency Status - Nothing came to our attention that caused us to believe that the City had met any of the conditions described in Section 218.503(1), *Florida Statutes*, that might result in a financial emergency.

Financial Condition Assessment - As required by the *Rules of the Auditor General* (Sections 10.554(7)(c) and 10.556(7)), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information they provided.

Our audit did not disclose any further items that would be required to be reported under the *Rules of the Auditor General*, Chapter 10.550.

Rural Economic and Community Development Requirements - We are providing the following additional information relative to our examination of the financial statements of the City of Lake Butler, Florida, for the year ended September 30, 2011, as provided in the audit requirements for USDA-Rural Development borrowers.

1. Generally accepted auditing procedures were performed in this audit.
2. Internal control was evaluated and is discussed in the prior sections of this audit report.
3. Accounting records and physical control over assets were adequate.
4. The accounting records of the City have been adjusted to agree with the audited financial statements.
5. The City's funds are in institutions insured by the Federal government and are authorized depositories of Florida public funds.
6. A summary of the City's insurance coverage is shown in the annual report to USDA-Rural Development.
7. The City is exempt from Federal Income Tax.
8. We found nothing to indicate that financial compliance with the loan agreements had not occurred.

CONCLUSION

We have reviewed each of our specific findings with appropriate officials or employees and have provided them with documentation as requested. We very much enjoyed the challenges and experiences associated with this year's audit of the City. We appreciate the helpful assistance and courtesy afforded us by all City employees and look forward to working with you in the future.



POWELL & JONES
Certified Public Accountants
March 4, 2012