

CITY OF LAKE BUTLER, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2012

CITY OF LAKE BUTLER, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2012

TABLE OF CONTENTS

	PAGE NO.
INTRODUCTORY SECTION	
List of Principal Officials	5
FINANCIAL STATEMENTS	
Independent Auditor's Report	7 - 8
Management's Discussion and Analysis	9 - 13
Basic Financial Statements	
Statement of Net Position	15
Statement of Activities	16
Governmental Funds	
Balance Sheet	17
Statement of Revenues, Expenditures and Changes in Fund Balances	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Proprietary Fund	
Statement of Net Position	20
Statement of Revenues, Expenses and Changes in Net Position	21
Statement of Cash Flows	22
Notes to Financial Statements	23 - 40
Required Supplementary Information	
General Fund	
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	42
Downtown Redevelopment Fund	
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	43

CITY OF LAKE BUTLER, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2012

TABLE OF CONTENTS

	PAGE NO.
Street Improvement Fund Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	44
Community Development Block Grant Fund Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	45
Combining Statements Nonmajor Governmental Funds Combining Balance Sheet	47
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	48
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 <i>Government Auditing Standards</i>	50 - 51
Management Letter	52

INTRODUCTORY SECTION

CITY OF LAKE BUTLER, FLORIDA

LIST OF PRINCIPAL OFFICIALS

September 30, 2012

MAYOR	Fred Sirmones
VICE MAYOR	Lonnie Norman
CITY COMMISSION	Jimmy Beasley
	LeRoy Stalvey
	Randy Jenkins
CITY MANAGER	David Mecusker
CITY ATTORNEY	John E. Maines, IV

FINANCIAL STATEMENTS



Powell & Jones
Certified Public Accountants

Richard C. Powell, Jr., CPA
Marian Jones Powell, CPA

1359 S.W. Main Blvd.
Lake City, Florida 32025
386 / 755-4200
Fax: 386 / 719-5504
powellandjones@bellsouth.net

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, 2012, 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.

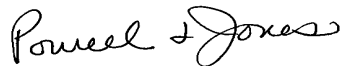
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major funds, and the aggregate remaining fund information of the City of Lake Butler, Florida as of September 30, 2012, 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, 2013, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information presented for the major governmental funds and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although

not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the City of Lake Butler, Florida's basic financial statements. 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".

POWELL & JONES
Certified Public Accountants
March 4, 2013

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 Position 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 on 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 position, revenue, expenses and changes in net position, 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 Position at September 30, 2012 and 2011

	Governmental Activities	Business-type Activities	Total Government	
			2012	2011
Assets				
Cash and investments	\$ 1,017,788	\$ 453,314	\$ 1,471,102	\$ 1,375,387
Other assets	29,600	161,589	191,189	131,430
Capital assets	1,770,970	2,248,225	4,019,195	4,009,148
Total assets	<u>2,818,358</u>	<u>2,863,128</u>	<u>5,681,486</u>	<u>5,515,965</u>
Liabilities				
Current liabilities	28,057	199,556	227,613	203,070
Long term liabilities	21,016	1,301,574	1,322,590	1,399,733
Total liabilities	<u>49,073</u>	<u>1,501,130</u>	<u>1,550,203</u>	<u>1,602,803</u>
Net assets				
Invested in capital assets, net				
of related debt	1,770,970	899,651	2,670,621	2,549,514
Restricted	377,240	-	377,240	447,792
Restricted - redevelopment	97,152	-	97,152	82,478
Unrestricted	523,923	462,347	986,270	833,378
Total net assets	<u>\$ 2,769,285</u>	<u>\$ 1,361,998</u>	<u>\$ 4,131,283</u>	<u>\$ 3,913,162</u>

The majority all of the City's net position 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 \$474,392 in the governmental funds.

The City's net position increased \$218,121 over the year. This increase is primarily due to the City's investment in capital assets in the Governmental Funds.

The following schedule provides a summary of the changes in net position. The increase in Governmental Activities net position is due primarily to the receipt of CDBG grant funds and the related expenditure for capital improvements. The decrease during the year in Business-type Activities net position is due to depreciation of capital assets.

A condensed version of the Statement of Activities follows:

	Change in Net Position			
	For the Fiscal Years Ended September 30, 2012 and 2011			
	Governmental Activities	Business-type Activities	Total Government	
		2012	2011	
Revenues				
Program revenues				
Charges for services	\$ 108,629	\$ 1,298,921	\$ 1,407,550	\$ 1,300,700
Grants and contributions	414,005	-	414,005	1,000
General revenues				
Taxes	350,281	-	350,281	370,566
Franchise fees	123,170	-	123,170	136,064
State shared revenues	118,911	-	118,911	121,534
Interest and other	13,244	11,087	24,331	17,803
Total revenues	<u>1,128,240</u>	<u>1,310,008</u>	<u>2,438,248</u>	<u>1,947,667</u>
Expenses				
General government	370,190	-	370,190	417,396
Public safety	132,577	-	132,577	129,313
Physical environment				
Water	-	254,486	254,486	313,038
Sewer	-	821,420	821,420	776,977
Garbage	-	116,461	116,461	132,080
Other	1,146	-	1,146	3,666
Transportation	217,919	-	217,919	184,394
Economic environment	38,377	-	38,377	10,035
Human services	17,704	-	17,704	8,950
Culture/recreation	182,813	-	182,813	162,302
Interest on long-term debt	-	67,034	67,034	69,328
Total expenses	<u>960,726</u>	<u>1,259,401</u>	<u>2,220,127</u>	<u>2,207,479</u>
Transfers in (out)	<u>159,810</u>	<u>(159,810)</u>	<u>-</u>	<u>-</u>
Change in net assets	327,324	(109,203)	218,121	(259,812)
Beginning net assets	2,441,961	1,471,201	3,913,162	4,172,974
Ending net assets	<u>\$ 2,769,285</u>	<u>\$ 1,361,998</u>	<u>\$ 4,131,283</u>	<u>\$ 3,913,162</u>

Governmental activities:

Taxes provide 31% of the revenues for Governmental Activities, while franchise fees provide 11%. Most of the Governmental Activities resources are spent for General Government (39%), Culture/recreation (19%), and Transportation (23%).

Business-type activities:

Business-type activities decreased the City's net position by \$109,203. 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, 2012, the City had \$4.019 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 increase (additions, deductions, and depreciation) of \$10,046 or .3% over the prior year. This increase was primarily attributable an investment in fixed assets decreased by the depreciation expense charges for the year.

Capital Assets at September 30, 2012 and 2011

	Governmental		Business-type		Totals	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Land	\$ 84,551	\$ 84,551	\$ 541,813	\$ 541,813	\$ 626,364	\$ 626,364
Buildings	2,548,056	2,141,681	135,000	135,000	2,683,056	2,276,681
Improvements	15,272,708	15,272,708	5,566,916	5,566,916	20,839,624	20,839,624
Equipment	650,928	642,558	280,353	260,568	931,281	903,126
Subtotal	18,556,243	18,141,498	6,524,082	6,504,297	25,080,325	24,645,795
Accumulated depreciation	(16,785,273)	(16,673,858)	(4,275,857)	(3,962,788)	(21,061,130)	(20,636,646)
Capital assets, net	<u>\$ 1,770,970</u>	<u>\$ 1,467,640</u>	<u>\$ 2,248,225</u>	<u>\$ 2,541,509</u>	<u>\$ 4,019,195</u>	<u>\$ 4,009,149</u>

Debt Outstanding

At year-end, the City had \$1,382,336 in debt outstanding versus \$1,459,634 last year, a decrease of \$77,298.

Debt Outstanding at September 30, 2012 and 2011

	Governmental		Business-type		Totals	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Revenue bonds	\$ -	\$ -	\$ 1,199,000	\$ 1,245,000	\$ 1,199,000	\$ 1,245,000
Loan payable	-	-	183,336	214,634	183,336	214,634
	-	-	1,382,336	1,459,634	1,382,336	1,459,634
Compensated absences	24,726	18,378	22,313	-	47,039	18,378
Total	<u>\$ 24,726</u>	<u>\$ 18,378</u>	<u>\$ 1,404,649</u>	<u>\$ 1,459,634</u>	<u>\$ 1,429,375</u>	<u>\$ 1,478,012</u>

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 6.7%. This rate represents a decrease over the prior year rate of 7.8%.
- The estimated population for the City in 2012 was 2,123 and is estimated to be approximately the same in 2013.
- The ad valorem tax rate for the City was 2.2599 mills in 2012.

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 POSITION
September 30, 2012

	Governmental Activities	Business - type Activities	Total
ASSETS			
Current Assets			
Cash	\$ 1,017,788	\$ 346,687	\$ 1,364,475
Accounts receivable	13,500	103,624	117,124
Due from other funds	8,256	4,264	12,520
Due from other governmental units	7,844	51,701	59,545
Prepaid expenses	-	2,000	2,000
Total current assets	1,047,388	508,276	1,555,664
Noncurrent Assets			
Restricted assets			
Cash	-	369	369
Investments	-	106,258	106,258
Total restricted assets	-	106,627	106,627
Capital assets, net	1,770,970	2,248,225	4,019,195
Total noncurrent assets	1,770,970	2,354,852	4,125,822
Total assets	\$ 2,818,358	\$ 2,863,128	\$ 5,681,486
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 12,217	\$ 16,099	\$ 28,316
Accrued payroll liabilities	7,505	6,320	13,825
Due to other funds	4,264	8,256	12,520
Current portion notes payable	-	33,762	33,762
Accrued compensated absences	3,710	22,313	26,023
Other current liabilities	361	-	361
Total current liabilities	28,057	86,750	114,807
Current Liabilities Payable from Restricted Assets			
Accrued interest payable	-	5,322	5,322
Deposits	-	60,484	60,484
Current portion serial bonds	-	47,000	47,000
	-	112,806	112,806
Noncurrent Liabilities			
Due in more than one year:			
Notes and loans payable	-	149,574	149,574
Bonds payable	-	1,152,000	1,152,000
Accrued compensated absences	21,016	-	21,016
Total noncurrent liabilities	21,016	1,301,574	1,322,590
Total liabilities	49,073	1,501,130	1,550,203
NET POSITION			
Invested in capital assets, net of related debt	1,770,970	865,889	2,636,859
Restricted for:			
Road projects	377,240	-	377,240
Other purposes	97,152	-	97,152
Unrestricted	523,923	496,109	1,020,032
Total net assets	\$ 2,769,285	\$ 1,361,998	\$ 4,131,283

See notes to financial statements.

CITY OF LAKE BUTLER, FLORIDA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2012

Functions/Programs	Program Services				Net (Expenses) Revenues and Changes in Net Assets			
	Expenses	Operating		Capital Grants	Governmental Activities	Business Type Activities		Total
		Charges for Services	Grants and Contributions					
Governmental Activities								
General Government	\$ 370,190	10,743	\$ 957	\$ -	\$ (358,490)	\$ -		\$ (358,490)
Public Safety	132,577	4,000	-	412,548	283,971	-		283,971
Physical Environment	1,146	7,500	-	-	6,354	-		6,354
Transportation	217,919	63,641	-	-	(154,278)	-		(154,278)
Economic Environment	38,377	-	-	-	(38,377)	-		(38,377)
Human Services	17,704	60	-	-	(17,644)	-		(17,644)
Culture/recreation	182,813	22,685	500	-	(159,628)	-		(159,628)
Total governmental activities	960,726	108,629	1,457	412,548	(438,092)	-		(438,092)
Business - type activities								
Physical Environment								
Landfill	1,259,401	1,298,921	-	-	-	39,520		39,520
Total government	2,220,127	1,407,550	1,457	412,548	(438,092)	39,520		(398,572)
General revenues								
Ad valorem taxes					122,824	-		122,824
Franchise taxes					123,170	-		123,170
Utility taxes					32,476	-		32,476
Sales and use taxes					194,981	-		194,981
Federal and state shared revenue					118,911	-		118,911
Interest					1,099	395		1,494
Miscellaneous					12,145	7,978		20,123
Gain on sale of equipment					-	2,714		2,714
Transfers in (out)					159,810	(159,810)		-
Total general revenue					765,416	(148,723)		616,693
Change in net assets					327,324	(109,203)		218,121
Net position, beginning of year					2,441,961	1,471,201		3,913,162
Net position, end of year					\$ 2,769,285	\$ 1,361,998		\$ 4,131,283

See notes to financial statements.

CITY OF LAKE BUTLER, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2012
Special Revenue Funds

	General Fund	Downtown Development	Street Improvement	Community Development Block Grant	Other Governmental Funds	Total Governmental Funds
ASSETS						
Current assets						
Cash	\$ 543,396	\$ 82,304	\$ 377,240	\$ 2,250	\$ 12,598	\$ 1,017,788
Accounts receivable	13,500	-	-	-	-	13,500
Due from other funds	8,256	-	-	-	-	8,256
Due from other governmental units	7,844	-	-	-	-	7,844
Total assets	\$ 572,996	\$ 82,304	\$ 377,240	\$ 2,250	\$ 12,598	\$ 1,047,388
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 12,217	\$ -	\$ -	\$ -	\$ -	\$ 12,217
Due to other funds	4,264	-	-	-	-	4,264
Accrued payroll liabilities	7,505	-	-	-	-	7,505
Other current liabilities	361	-	-	-	-	361
Total liabilities	24,347	-	-	-	-	24,347
Fund balances						
Restricted	-	82,304	-	2,250	-	84,554
Committed	-	-	377,240	-	12,598	389,838
Unassigned	548,649	-	-	-	-	548,649
Total fund balances	548,649	82,304	377,240	2,250	12,598	1,023,041
Total liabilities and fund balances	\$ 572,996	\$ 82,304	\$ 377,240	\$ 2,250	\$ 12,598	

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

Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.

1,770,970

Long-term liabilities are not due in the current period and, therefore are not reported in the funds.

(24,726)

See notes to financial statements.

\$ 2,769,285

CITY OF LAKE BUTLER, FLORIDA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended September 30, 2012

	Special Revenue Funds			Capital Projects		
	General Fund	Downtown Redevelopment	Street Improvement	Community Development Block Grant	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 416,553	\$ 56,898	\$ -	\$ -	\$ -	\$ 473,451
Licenses and permits	10,371	-	-	-	-	10,371
Intergovernmental	119,868	-	-	412,548	-	532,416
Charges for services	98,386	-	-	-	-	98,386
Interest	634	103	350	-	12	1,099
Miscellaneous	6,677	-	-	-	5,840	12,517
Total revenues	652,489	57,001	350	412,548	5,852	1,128,240
EXPENDITURES						
Current expenditures						
General government	346,427	-	-	-	-	346,427
Public safety	112,836	-	-	3,922	-	116,758
Physical environment	1,146	-	-	-	-	1,146
Transportation	192,380	-	-	-	-	192,380
Economic environment	-	38,377	-	-	-	38,377
Human services	17,704	-	-	-	-	17,704
Culture/recreation	111,670	-	-	-	-	111,670
Capital outlay						
General government	20,572	-	-	-	-	20,572
Public safety	-	-	-	406,376	-	406,376
Economic environment	-	6,298	-	-	-	6,298
Total expenditures	802,735	44,675	-	410,298	-	1,257,708
Excess of revenues over (under) expenditures	(150,246)	12,326	350	2,250	5,852	(129,468)
Other financing sources						
Interfund transfers in	135,465	-	37,500	-	-	172,965
Interfund transfers out sources (uses)	-	(12,500)	(541)	-	(114)	(13,155)
	135,465	(12,500)	36,959	-	(114)	159,810
Net change in fund balances	(14,781)	(174)	37,309	2,250	5,738	30,342
Fund balances beginning of year	563,430	82,478	339,931	-	6,860	992,699
Fund balances end of year	\$ 548,649	\$ 82,304	\$ 377,240	\$ 2,250	\$ 12,598	\$ 1,023,041

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, 2012

Net change in fund balances - total governmental funds		\$	30,342
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	433,246		
Less current year depreciation	<u>(129,916)</u>		303,330
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>(6,348)</u>
Change in net position of governmental activities		\$	<u><u>327,324</u></u>

See notes to financial statements.

CITY OF LAKE BUTLER, FLORIDA
 PROPRIETARY FUND

STATEMENT OF NET POSITION
 September 30, 2012

	Enterprise Fund
ASSETS	
Current Assets	
Cash	\$ 346,687
Accounts receivable	152,044
Allowance for doubtful accounts	(48,420)
Due from other funds	4,264
Due from other governmental units	51,701
Prepaid expenses	2,000
Total current assets	508,276
Noncurrent Assets	
Restricted assets	
Cash	369
Investments	106,258
Total restricted assets	106,627
Fixed assets	
Land	541,813
Buildings	135,000
Improvements other than buildings	5,566,916
Equipment	280,353
Allowance for depreciation	(4,275,857)
Total fixed assets	2,248,225
Total noncurrent assets	2,354,852
Total assets	\$ 2,863,128
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 16,099
Accrued liabilities	6,320
Due to other funds	8,256
Current portion note payable	33,762
Accrued compensated absences	22,313
Total current liabilities	86,750
Current Liabilities Payable from Restricted Assets	
Accrued interest payable	5,322
Deposits	60,484
Current portion serial bonds	47,000
Total current liabilities payable from restricted assets	112,806
Noncurrent Liabilities	
Long-term portion note payable	149,574
Long-term portion serial bonds payable	1,152,000
Total noncurrent liabilities	1,301,574
Total liabilities	1,501,130
NET POSITION	
Invested in capital assets, net of related debt	865,889
Restricted	106,627
Unrestricted	389,482
Total net position	\$ 1,361,998

See notes to financial statements.

CITY OF LAKE BUTLER, FLORIDA

PROPRIETARY FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
 For the Fiscal Year Ended September 30, 2012

	<u>Enterprise Fund</u>
OPERATING REVENUES	
Physical environment	
Charges for services	
Water utility services	\$ 384,604
Garbage solid waste services	192,751
Sewer utility services	716,310
Tap in and connection fees	651
Cut on/off fees	3,523
Other	1,082
Miscellaneous	7,978
Total operating revenues	<u>1,306,899</u>
OPERATING EXPENSES	
Water services	
Personnel services	162,573
Operating expenses	91,913
Total water services	<u>254,486</u>
Garbage and solid waste services	
Operating expenses	116,461
Total garbage and solid waster services	<u>116,461</u>
Sewer services	
Personnel services	206,536
Operating expenses	614,884
Total sewer services	<u>821,420</u>
Total operating expenses	<u>1,192,367</u>
Operating income	<u>114,532</u>
NONOPERATING REVENUES (EXPENSES)	
Gain on sale of equipment	2,714
Interest earnings	395
Debt service costs	
Interest	(67,034)
Total nonoperating revenues (expenses)	<u>(63,925)</u>
Change in net position before operating transfers	<u>50,607</u>
Operating transfer out	<u>(159,810)</u>
Total operating transfers	<u>(159,810)</u>
Change in net position after operating transfers	<u>(109,203)</u>
Net position at beginning of year	1,471,201
Net position at end of year	<u>\$ 1,361,998</u>

See notes to financial statements.

CITY OF LAKE BUTLER, FLORIDA

PROPRIETARY FUND
STATEMENT OF CASH FLOWS

For the Fiscal Year Ended September 30, 2012

	<u>Enterprise Fund</u>
CASH FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 1,235,320
Miscellaneous receipts	7,978
Cash payments for goods and services	(482,667)
Cash payments to employees	<u>(382,308)</u>
Net cash provided by operating activities	<u>378,323</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of property and equipment	(31,921)
Principal paid on revenue bonds	(46,000)
Principal paid on loan payable	(31,298)
Net transfers from/to governmental funds	(159,810)
Interest paid	<u>(67,232)</u>
Net cash used in capital and related financing activities	<u>(336,261)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned	395
Net increase in cash and cash equivalents	<u>42,457</u>
Cash and cash equivalents, beginning of year	<u>410,857</u>
Cash and cash equivalents, end of year	<u>\$ 453,314</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	<u>\$ 114,532</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	327,918
Change in operating assets - decrease (increase) and operating liabilities - increase (decrease)	
Accounts receivable	(64,000)
Other receivables	(856)
Prepaid expenses	(2,000)
Accounts payable	11,015
Accrued liabilities	3,658
Customer deposits	1,255
Accrued leave payable	<u>(13,199)</u>
Total adjustments	<u>263,791</u>
Net cash provided by operating activities	<u>\$ 378,323</u>

See notes to financial statements.

CITY OF LAKE BUTLER, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

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) issued Statement 34-Basic Financial Statements 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 position. 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.

Community Development Block Grant Fund - Established by the City to administer a Community Development Block Grant Program, which was awarded the City by the Department of Community Affairs to make capital improvements and construction.

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:

Fire Station Fund - Used to account for expenditures associated with the City's Fire Station.

4. Capital Projects Nonmajor Fund:

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.

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, to be reported in the governmental activities column in the government-wide statement of net position.

D. Assets, Liabilities and Net Position 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, 2012, 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, 2012, this allowance account totaled \$48,420; 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, 2012.
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 balances related to the City Community Redevelopment Agency and the Street Improvement Fund are 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:

<u>Assets</u>	<u>Years</u>
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 appropriate for expenditure or legally segregated for a specific future use.
13. Fund Balances – Governmental Funds – As of September 30, 2012, 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, 2012, fund balances are comprised of the following:

Restricted	\$ 84,554
Committed	389,838
Unassigned	548,649
Total fund balances	<u>\$ 1,023,041</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 Position.

"Total fund balances" of the City's governmental funds \$1,023,041 differs from "net position" of governmental activities \$2,769,285 reported in the statement of net position. This difference primarily results from the long-term economic focus of the statement of net position 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 position included those capital assets among the assets of the City as a whole.

Cost of capital assets	\$ 18,556,243
Accumulated depreciation	(16,785,273)
Total	<u>\$ 1,770,970</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 position. Balances at September 30, 2012, were:

Compensated absences	<u>\$ (24,726)</u>
----------------------	--------------------

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 Position

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

	Total Governmental Funds	Capital Related Items	Long-Term Debt Transactions	Eliminations	Statement of Net Assets
ASSETS					
Cash and cash equivalents	\$ 1,017,788	\$ -	\$ -	\$ -	\$ 1,017,788
Accounts receivable - net	13,500	-	-	-	13,500
Due from other funds	8,256	-	-	-	8,256
Due from other governmental units	7,844	-	-	-	7,844
Capital assets - net	-	1,770,970	-	-	1,770,970
Total assets	\$ 1,047,388	\$ 1,770,970	\$ -	\$ -	\$ 2,818,358
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 12,217	\$ -	\$ -	-	\$ 12,217
Accrued payroll liabilities	7,505	-	-	-	7,505
Due to other funds	4,264	-	-	-	4,264
Accrued compensated absences	-	-	24,726	-	24,726
Other current liabilities	361	-	-	-	361
Total liabilities	24,347	-	24,726	-	49,073
Fund balances/net position	1,023,041	1,770,970	(24,726)	-	2,769,285
Total liabilities and fund balance/net position	\$ 1,047,388	\$ 1,770,970	\$ -	\$ -	\$ 2,818,358

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

The "net change in fund balances" for governmental funds \$30,342 differs from the "change in net position" for governmental activities \$327,324 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 position decrease by the amount of depreciation expense charges for the year.

Capital outlay	\$ 433,246
Depreciation expense	<u>(129,916)</u>
Difference	<u>\$ 303,330</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>\$ (6,348)</u>
--------------------------------------	-------------------

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

	Total Governmental Funds	Capital Related Items	Compensated Absences	Statement of Activities
REVENUES				
Taxes	\$ 473,451	\$ -	\$ -	\$ 473,451
Licenses and permits	10,371	-	-	10,371
Intergovernmental	532,416	-	-	532,416
Charges for services	98,386	-	-	98,386
Interest	1,099	-	-	1,099
Miscellaneous	12,517	-	-	12,517
Total revenues	<u>1,128,240</u>	<u>-</u>	<u>-</u>	<u>1,128,240</u>
EXPENDITURES				
Current Expenditures				
General government	346,427	17,415	6,348	370,190
Public safety	116,758	15,819	-	132,577
Physical environment	1,146	-	-	1,146
Transportation	192,380	25,539	-	217,919
Economic environment	38,377	-	-	38,377
Human services	17,704	-	-	17,704
Culture/recreation	111,670	71,143	-	182,813
Capital outlay				
General government	20,572	(20,572)	-	-
Public safety	406,376	(406,376)	-	-
Economic environment	6,298	(6,298)	-	-
Total expenditures	<u>1,257,708</u>	<u>(303,330)</u>	<u>6,348</u>	<u>960,726</u>
Excess of revenues over (under) expenditures	<u>(129,468)</u>	<u>303,330</u>	<u>(6,348)</u>	<u>167,514</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	172,965	-	-	172,965
Transfers out	(13,155)	-	-	(13,155)
Total other financing sources (uses)	<u>159,810</u>	<u>-</u>	<u>-</u>	<u>159,810</u>
Net change in fund balance	30,342	303,330	(6,348)	327,324
Fund balances at beginning of year	992,699	1,467,640	(18,378)	2,441,961
Fund balances at end of year	<u>\$ 1,023,041</u>	<u>\$ 1,770,970</u>	<u>\$ (24,726)</u>	<u>\$ 2,769,285</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 \$1,471,102 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, 2012, was as follows:

	Beginning Balance	Additions	Reclassifications Deletions	Ending Balance
<u>Governmental activities:</u>				
Capital assets:				
Land	\$ 84,551	\$ -	\$ -	\$ 84,551
Buildings	2,141,681	406,376	-	2,548,057
Other improvements	15,272,708	-	-	15,272,708
Machinery and equipment	642,558	26,870	(18,500)	650,928
Total capital assets	18,141,498	433,246	(18,500)	18,556,244
Less accumulated depreciation	(16,673,858)	(129,916)	18,500	(16,785,274)
Governmental activities capital assets, net	<u>\$ 1,467,640</u>	<u>\$ 303,330</u>	<u>\$ -</u>	<u>\$ 1,770,970</u>
<u>Business-type activities:</u>				
Land	\$ 541,813	\$ -	\$ -	\$ 541,813
Buildings	135,000	-	-	135,000
Improvements other than buildings	5,566,916	-	-	5,566,916
Machinery and equipment	260,568	34,635	(14,850)	280,353
Total capital assets	6,504,297	34,635	(14,850)	6,524,082
Less accumulated depreciation	(3,962,789)	(327,918)	14,850	(4,275,857)
Business-type activities capital assets, net	<u>\$ 2,541,508</u>	<u>\$ (293,283)</u>	<u>\$ -</u>	<u>\$ 2,248,225</u>

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

<u>Governmental activities:</u>	
General Government	\$ 17,415
Public Safety	15,819
Transportation	25,539
Parks and recreation	71,143
Total depreciation expense - governmental entities	<u>\$ 129,916</u>
 <u>Business-type activities:</u>	
Water and sewer utility	<u>\$ 327,918</u>

NOTE 7. INTERFUND RECEIVABLES/PAYABLES

The following is a schedule of interfund receivables and payables at September 30, 2012.

Fund	Receivable	Payable
General	\$ 8,256	\$ 4,264
Proprietary	4,264	8,256
	<u>\$ 12,520</u>	<u>\$ 12,520</u>

NOTE 8. INTERFUND TRANSFERS

Interfund transfers for the year ended September 30, 2012, consisted of the following:

Fund	Transfers in	Transfers out
General	\$ 134,810	\$ -
Street Improvement	37,500	-
Proprietary	-	159,810
Downtown Redevelopment	-	12,500
	<u>\$ 172,310</u>	<u>\$ 172,310</u>

Transfers were used for capital projects.

NOTE 9. RECEIVABLE AND PAYABLE BALANCES

Receivables

Receivables at September 30, 2012, were as follows:

	Account	Due from Others/ Governmental Units	Total Receivables
Governmental activities:	\$ 13,500	\$ 7,844	\$ 21,344
Business-type activities:	103,624	51,701	155,325
	<u>\$ 117,124</u>	<u>\$ 59,545</u>	<u>\$ 176,669</u>

Based upon collection history, the City has included a reserve for doubtful accounts for its Enterprise Fund accounts receivable of \$48,420.

Payables

Payables at September 30, 2012, were as follows:

	Vendors	Due to Other Governmental Units	Total Payables
Governmental activities:	\$ 12,217	\$ -	\$ 12,217
Business-type activities:	\$ 16,099	\$ -	\$ 16,099

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, 2012:

	Balance October 1, 2011	Increases	Decreases	Balance September 30, 2012
Compensated Absences	\$ 18,378	\$ 6,348	\$ -	\$ 24,726

Business-type Activities

A summary of proprietary fund debt as of September 30, 2012, 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, 2012, is \$214,000. The remaining bonds mature annually from September 1, 2013 through September 1, 2019, at averaged payments of \$38,692, 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, 2012, is \$985,000. The remaining bonds mature annually from September 1, 2012 through September 1, 2037, at averaged payments of \$63,850, 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, 2012.

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, 2012.

Revenue bond debt service requirements to maturity, including \$731,957 of interest, are as follows:

Fiscal Year Ending September 30	1980 Bonds	1998 Bonds	Total
2013	\$ 36,950	\$ 66,325	\$ 103,275
2014	36,700	66,335	103,035
2015	37,400	66,184	103,584
2016	37,000	66,333	103,333
2017	36,550	66,095	102,645
2018-2022	86,250	333,527	419,777
2023-2027	-	332,196	332,196
2028-2032	-	332,933	332,933
2033-2037	-	330,179	330,179
	\$ 270,850	\$ 1,660,107	\$ 1,930,957

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
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	38,694	-	38,694
	<u>\$ 183,336</u>	<u>\$ 20,598</u>	<u>\$ 203,934</u>

A schedule of changes in proprietary fund debt follows:

	Balance October 1, 2011	Increases	Decreases	Balance September 30, 2012	Due Within One Year
Bonds payable	\$ 1,245,000	\$ -	\$ (46,000)	\$ 1,199,000	\$ 47,000
Loans payable	214,634	-	(31,298)	183,336	33,762
	<u>\$ 1,459,634</u>	<u>\$ -</u>	<u>\$ (77,298)</u>	<u>\$ 1,382,336</u>	<u>\$ 80,762</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 provides vesting of benefits after six years of creditable service for those enrolled prior to July 1, 2011; for those enrolled on or after July 1, 2011, eight years of creditable service are required for vesting. Regular 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 for those enrolled on or after July 1, 2011; and age 65 or 33 years of service for those enrolled on or after July 1, 2011. The Plan also includes an early retirement provisions, but imposes a penalty of 5% 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 period ends, the employee must terminate employment. At that time, the employee will receive the accumulated DROP benefits and begin receiving monthly retirement

benefits. Eligible members may participate in DROP when they are vested and have reached the normal retirement age or years of service. If an employee completes 30 years of service before the age of 57, the employee may elect to defer the DROP election until age 57.

The State of Florida establishes contribution rates for participating employers. Contribution rates at the end of 2011-12 fiscal year were as follows:

Class or Plan	Percent of Gross Salary (A)
Florida Retirement System, Regular	5.18%
Florida Retirement System, Special Risk	14.90%
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	5.44%
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, 2010, September 30, 2011, and September 30, 2012 totaled \$48,898, \$44,622, and \$27,644, respectively, which were equal to the required contributions for each fiscal year. As of July 1, 2011, employees are required to make a 3% contribution toward the retirement account.

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, 2012, the RMC facility accounted for approximately 63% of the City's sewer revenues and 33% 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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 444,262	\$ 432,526	\$ 416,553	\$ (15,973)
Licenses, permits and assessments	9,400	8,000	10,371	2,371
Intergovernmental	124,500	124,500	119,868	(4,632)
Charges for services	94,793	98,743	98,386	(357)
Miscellaneous	1,250	11,336	7,311	(4,025)
Total revenues	674,205	675,105	652,489	(22,616)
EXPENDITURES				
Current operating:				
General government	351,714	348,825	346,427	2,398
Public safety	116,544	116,715	112,836	3,879
Physical environment	50	1,191	1,146	45
Transportation	164,215	192,974	192,380	594
Human services	10,871	17,069	17,704	(635)
Culture/recreation	107,259	111,259	111,670	(411)
Capital outlay:				
General government	1,200	1,200	20,572	(19,372)
Transportation	10,500	-	-	-
Culture/recreation	3,000	1,000	-	1,000
Total expenditures	765,353	790,233	802,735	(12,502)
Excess of revenues over expenditures	(91,148)	(115,128)	(150,246)	(35,118)
Other Financing Sources (Uses)				
Transfers in	134,810	134,810	135,465	655
Total other financing sources (uses)	134,810	134,810	135,465	655
Net change in fund balance	43,662	19,682	(14,781)	(34,463)
Fund balance, beginning of year	563,430	563,430	563,430	-
Fund balance, end of year	\$ 607,092	\$ 583,112	\$ 548,649	\$ (34,463)

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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 55,000	\$ 56,898	\$ 56,898	\$ -
Interest	100	100	103	3
Total revenues	55,100	56,998	57,001	3
EXPENDITURES				
Current operating:				
Economic environment	30,100	44,498	38,377	6,121
Capital outlay:				
Economic environment	-	-	6,298	(6,298)
Total expenditures	30,100	44,498	44,675	(177)
Excess of revenues over expenditures	25,000	12,500	12,326	(174)
Other Financing Sources (Uses)				
Transfers out	(25,000)	(12,500)	(12,500)	-
Total other financing sources (uses)	(25,000)	(12,500)	(12,500)	-
Net change in fund balance	-	-	(174)	(174)
Fund balance, beginning of year	82,478	82,478	82,478	-
Fund balance, end of year	\$ 82,478	\$ 82,478	\$ 82,304	\$ (174)

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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$ 250	\$ 250	\$ 350	\$ 100
Total revenues	<u>250</u>	<u>250</u>	<u>350</u>	<u>100</u>
Excess of revenues over expenditures	<u>250</u>	<u>250</u>	<u>350</u>	<u>100</u>
Other Financing Sources (Uses)				
Transfers in	50,000	50,000	37,500	(12,500)
Transfers out	<u>(50,250)</u>	<u>(50,250)</u>	<u>(541)</u>	<u>49,709</u>
Total other financing sources (uses)	<u>(250)</u>	<u>(250)</u>	<u>36,959</u>	<u>37,209</u>
Net change in fund balance	-	-	37,309	37,309
Fund balance, beginning of year	339,931	339,931	339,931	-
Fund balance, end of year	<u>\$ 339,931</u>	<u>\$ 339,931</u>	<u>\$ 377,240</u>	<u>\$ 37,309</u>

See notes to financial statements.

CITY OF LAKE BUTLER, FLORIDA

COMMUNITY DEVELOPMENT BLOCK GRANT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

For the Fiscal Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 650,000	\$ 650,000	\$ 412,548	\$ (237,452)
Miscellaneous	-	25	-	(25)
Total revenues	650,000	650,025	412,548	(237,477)
EXPENDITURES				
Current operating:				
Public safety	2,025	15,025	3,922	11,103
Capital outlay:				
Public safety	647,975	635,000	406,376	228,624
Total expenditures	650,000	650,025	410,298	239,727
Excess of revenues over expenditures	-	-	2,250	2,250
Net change in fund balance	-	-	2,250	2,250
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ 2,250	\$ 2,250

See notes to financial statements.

COMBINING STATEMENTS

CITY OF LAKE BUTLER, FLORIDA
NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET
September 30, 2012

	Capital Projects Funds		Total Nonmajor Governmental Funds
	Fire Station	Trailhead Park	
ASSETS			
Cash	\$ 12,598	\$ -	\$ 12,598
Total assets	\$ 12,598	\$ -	\$ 12,598
LIABILITIES AND FUND BALANCES			
FUND BALANCES			
Committed	\$ 12,598	\$ -	\$ 12,598
Total fund balances	12,598	-	12,598
Total liabilities and fund balances	\$ 12,598	\$ -	\$ 12,598

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, 2012

	Capital Projects Funds		Total Nonmajor Governmental Funds
	Fire Station	Trailhead Park	
REVENUES			
Interest	\$ 12	\$ -	\$ 12
Miscellaneous	5,840	-	5,840
Total revenues	<u>5,852</u>	<u>-</u>	<u>5,852</u>
Excess of revenues over (under) expenditures	<u>5,852</u>	<u>-</u>	<u>5,852</u>
OTHER FINANCING SOURCES (USES)			
Interfund transfers out	-	(114)	(114)
Total other financing sources (uses)	<u>-</u>	<u>(114)</u>	<u>(114)</u>
Net change in fund balances	5,852	(114)	5,738
Fund balances beginning of year	6,746	114	6,860
Fund balances end of year	<u>\$ 12,598</u>	<u>\$ -</u>	<u>\$ 12,598</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, 2012, 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

Management of the City of Lake Butler, Florida is responsible for establishing and maintaining effective 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.

2009-1

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.

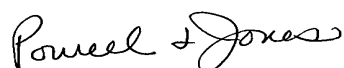
A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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, 2013 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, 2012, 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

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

CURRENT YEAR FINDINGS

2012-1

Incompatible Accounting Duties – From our review of the City accounting procedures, we found that an employee who receives cash payments also prepares the associated bank deposits and delivers the deposits to the bank. To increase internal control over this activity, we recommend that a different employee prepare the bank deposits based upon the daily collection reports and verify that the actual deposits made at the bank agree with the ones initially prepared.

2012-2

Purchase Orders – From our review of selected disbursements, we found instances where purchase orders were apparently issued and signed after the related purchase was actually made. To properly utilize the City's purchase order system, all purchase orders should be prepared and approved prior to the actual purchases being made.

2012-3

Employee Bonding – From our review of the City's insurance coverages, we could not find where all employees with access to cash or associated with financial records and duties were covered by bonding insurance. We thus recommend that the City obtain a blanket bonding policy of at least \$100,000 covering all City employees.

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, 2012.

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.

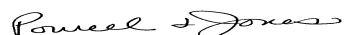
Our audit did not disclose any further items that would be required to be reported under the *Rules of the Auditor General*, Chapter 10.550.

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, 2012, 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

CITY OF LAKE BUTLER

200 S. W. 1ST STREET

LAKE BUTLER, FLORIDA 32054-2016

(386) 496-3401 FAX: (386) 496-1588

E-mail: cityoflakebutler@windstream.net

Powell and Jones
Certified Public Accountants
1359 S.W. Main Blvd.
Lake City, FL 32025

Mr. Powell and Associates:

In review of the Management Letter submitted March 4, 2013 pertaining to the 2011-2012 Audit of the City of Lake Butler, I offer the following:

Current Year Findings and Responses:

2012-1

Incompatible Accounting Duties – From our review of the City accounting procedures, we found that an employee who receives cash payments also prepares the associated bank deposits and delivers the deposits to the bank. To increase internal control over this activity, we recommend that a different employee prepare the bank deposits based upon daily collection reports and verify that the actual deposits made to the bank agree with the ones initially prepared.

Corrective Action Taken – We are in agreement with the Auditors finding and adjusted our procedures as follows: 1: The Cashier will receive all funds from customers and prepare a daily receipt log of payments during the day. 2: The Cashier will then submit a copy of the daily log to the Accounting Supervisor who will reconcile the cash to the daily log and prepared a bank deposit ticket. The Bank Deposit Ticket along with the cash, will be placed in a locked bag (of which the Accountant and Bank will be the only ones with the keys). 3: The locked bag, with deposit, will then be taken by the Accounts Payable to the bank. The bank will be given the locked bag to process the receipts of the day. The bank will then put the validated deposits receipt back into the bag and lock the bag to be returned to City Hall. The locked bag will be given to the Accounting Supervisor to remove and reconcile the validated bank receipt with the bank deposit slips. 3: A copy of the daily receipt log will be given to the Office Manager and they will post the completed transactions to quick books.

2012-2

Purchase Orders - From our review of selected disbursements, we found instances where purchase orders were apparently issued and signed after the related purchase was actually made. To properly utilize the City's purchase order system, all purchase orders should be prepared and approved prior to the actual purchases being made.

Corrective Action Taken - We concur with the Auditors finding on this issue. The purchasing procedures of separation and accountability of acquiring goods and services for the City, had changed dramatically during the Audit period. We have undergone growing pains of staff adjusting to the new procedures. This issue has been resolved through training and self auditing.

2012-3

Employee Bonding – The City does not concur with this finding. From our review of the City's insurance coverage, the City has coverage through Travelers' Insurance Company for up to \$100,000 for Employee theft per loss. This coverage has always been in the annual general liability policy.

Lonnie Norman
MAYOR

Jimmy Beasley
VICE-MAYOR

Fred Sirmones
COMMISSIONER

LeRoy Stalvey
COMMISSIONER

Randy Jenkins
COMMISSIONER

John E. Maines, IV.
CITY ATTORNEY

Dave C Mccusker
CITY MANAGER/CLERK

CITY OF LAKE BUTLER

200 S. W. 1ST STREET

LAKE BUTLER, FLORIDA 32054-2016

(386) 496-3401 FAX: (386) 496-1588

E-mail: cityoflakebutler@windstream.net

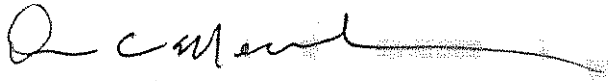
Corrective Action Taken – None:

2009-1

We agree with this finding. We are a very small government and have used our available resources to employ a competent bookkeeper who maintains excellent accounting records and provides accurate monthly financial reports prepared generally on the cash basis. We likewise have confidence in our audit firm to utilize these records and prepare annual financial statements in the required formats and with all associated note disclosures. Both staff and the City Commission review the annual financial reports and have the opportunity to ask the auditor any questions regarding the report prior to its formal presentation. The report is formally presented by the auditor at a scheduled meeting of the Commission.

At this time, we do not believe it would be a justifiable expense to employ another accountant on either a part-time or full-time basis to prepare the annual financial statements, we thus accept this required disclosure finding and will continue to monitor this situation in the future

We appreciate the professionalism displayed by the Auditors of Powell & Jones CPA, during this reporting period. It is noted that none of the recommendations for the 2011-2012 report, were repeat concerns.



Dave Mecusker
City Manager
City of Lake Butler

Lonnie Norman
MAYOR

Jimmy Beasley
VICE-MAYOR

Fred Sirmones
COMMISSIONER

LeRoy Stalvey
COMMISSIONER

Randy Jenkins
COMMISSIONER

John E. Maines, IV
CITY ATTORNEY

Dave C Mecusker
CITY MANAGER/CLERK