

CITY OF MASCOTTE, FLORIDA

FINANCIAL REPORT

For The Year Ended September 30, 2010

Prepared by: Finance Department

INTRODUCTORY SECTION

CITY OF MASCOTTE, FLORIDA

FINANCIAL REPORT
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CITY OF MASCOTTE, FLORIDA

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CITY OF MASCOTTE, FLORIDA

LIST OF PRINCIPAL OFFICIALS

Year Ended September 30, 2010

MAYOR

Jeff Krull

CITY COUNCIL

Stephen Elmore, Mayor Pro-Tem

Barbara Krull

Brenda Brasher

Mary Marquard

INTERIM CITY MANAGER

Jim Gleason

DEPUTY CITY MANAGER
CITY FINANCE DIRECTOR

Amy McLean, CGFO

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Mascotte, Florida

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

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

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the *City of Mascotte, Florida*, as of September 30, 2010 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund, the infrastructure special revenue fund, and the community redevelopment district special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

MCDIRMIT DAVIS & COMPANY, LLC

605 E. ROBINSON STREET, SUITE 635 • ORLANDO, FLORIDA 32801
TELEPHONE 407-843-5406 • FAX 407-649-9339 • EMAIL: INFO@MCDIRMITDAVIS.COM

In accordance with *Government Auditing Standards*, we have also issued a report dated February 28, 2011 on our consideration of the *City of Mascotte, Florida's* internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 3 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *City of Mascotte, Florida* financial statements as a whole. The introductory section, combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular 133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the *City of Mascotte, Florida*. The combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. The introductory section has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion or provide any assurance on it.

McDiernit Davis & Company, LLC

February 28, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the *City of Mascotte, Florida* we offer readers of the *City of Mascotte's* financial statements this narrative overview and analysis of the financial activities of the *City of Mascotte* for the fiscal year ended September 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The assets of the *City of Mascotte* exceeded its liabilities at the close of the most recent fiscal year by \$9,113,291 (net assets). Of this amount, \$669,418 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$4,560.
- As of the close of the current fiscal year, the *City of Mascotte's* governmental funds reported combined ending fund balances of \$1,551,707, an increase of \$382,030 in comparison with the prior year. Approximately \$453,976 of this amount is in Special Revenue Fund where amounts are reserved for specific purposes.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$651,711, or 23% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the *City of Mascotte's* (the City) basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the *City of Mascotte's* financial position, in a manner similar to a private-sector business. They include a *Statement of Net Assets* and a *Statement of Activities*

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Both of the government-wide financial statements distinguish functions of the *City of Mascotte* that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the *City of Mascotte* include general government, public safety, transportation/public works and recreation services. The business-type activities of the *City of Mascotte* include water and sewer, refuse collection, and stormwater management.

The government-wide financial statements include only the *City of Mascotte* itself (known as the *primary government*). The *City of Mascotte* has no component units.

The government-wide financial statements can be found on pages 13 - 14 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The *City of Mascotte*, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the *City of Mascotte* can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The *City of Mascotte* maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the infrastructure fund, and the community redevelopment fund which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The *City of Mascotte* adopts an annual appropriated budget for all of its governmental funds. Budgetary comparison statements have been provided for the general fund, the infrastructure special revenue fund, and the community development fund to demonstrate compliance with this budget at pages 19 - 21. Budgetary comparison schedules have been provided for the nonmajor funds at pages 47 - 58.

The basic governmental fund financial statements can be found on pages 15 - 18 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Proprietary Funds - *City of Mascotte* maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The *City of Mascotte* uses enterprise funds to account for water, sanitation and stormwater.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for water and sanitation, which are considered to be major funds.

The basic proprietary fund financial statements can be found on pages 22 - 25 of this report.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 26 - 46 of this report.

Other Information - The combining statements referred to earlier in connection with non-major governmental and proprietary funds are presented immediately following the Notes to Financial Statements. Combining and individual fund statements and schedules can be found on pages 47 - 58 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the *City of Mascotte*, assets exceeded liabilities by \$9,113,291 at the close of the most recent fiscal year. The following table reflects the condensed statement of net assets for the current year. For more detail see the Statement of Net Assets on page 13.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

City of Mascotte Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Assets:						
Current and other assets	\$ 1,670,030	\$ 1,312,454	\$ (13,010)	\$ 69,593	\$ 1,657,020	\$ 1,382,047
Capital Assets	5,829,550	6,749,729	7,188,204	6,836,578	13,017,754	13,586,307
Total Assets	7,499,580	8,062,183	7,175,194	6,906,171	14,674,774	14,968,354
Liabilities:						
Long term liabilities	1,894,442	2,030,585	3,095,867	3,188,722	4,990,309	5,219,307
Other liabilities	118,323	142,777	452,851	463,322	571,174	606,099
Total Liabilities	2,012,765	2,173,362	3,548,718	3,652,044	5,561,483	5,825,406
Net Assets:						
Invested in capital assets, net of related debt	4,116,501	4,818,369	4,104,353	3,649,724	8,220,854	8,468,093
Restricted	223,019	293,421	-	-	223,019	293,421
Unrestricted	1,147,295	777,031	(477,877)	(395,597)	669,418	381,434
Total Net Assets	\$ 5,486,815	\$ 5,888,821	\$ 3,626,476	\$ 3,254,127	\$ 9,113,291	\$ 9,142,948

Ninety percent (90%) of the City's net assets reflects its investment in capital assets (e.g., land, buildings, improvements, infrastructure and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the *City of Mascotte's* investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the *City of Mascotte's* net assets (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$669,418 may be used to meet the government's ongoing obligations to citizens and creditors.

The City's net assets decreased by \$4,560 during the current fiscal year. The following table reflects the condensed Statement of Activities for the current year. For more detail see the Statement of Activities on page 14.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

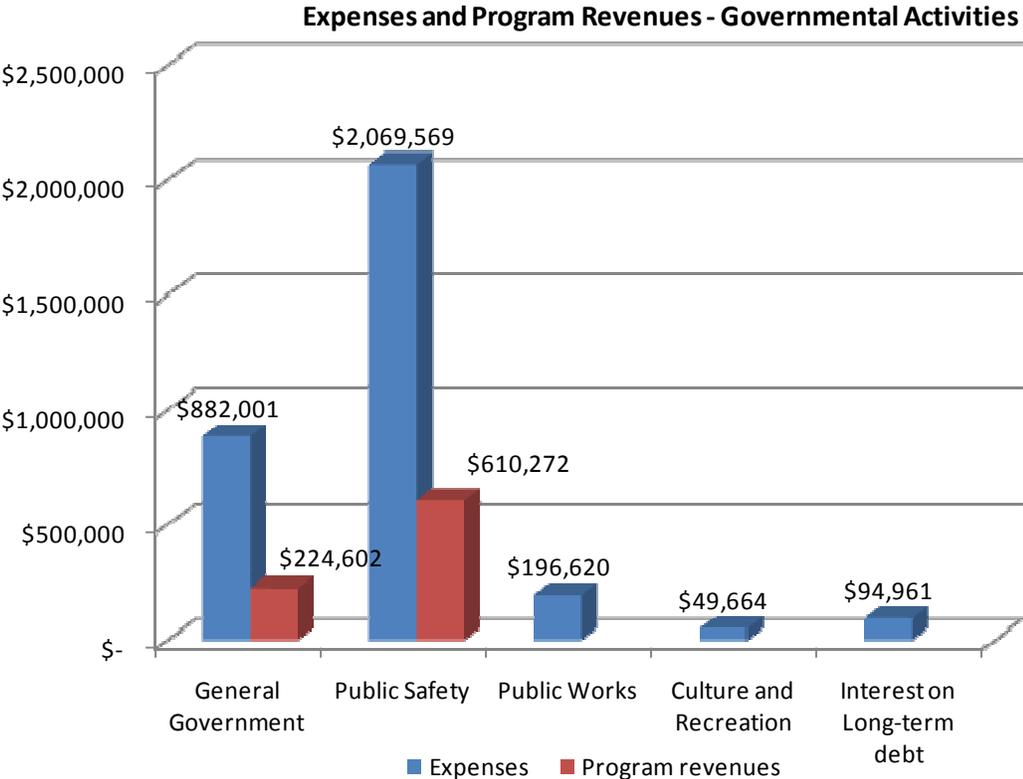
City of Mascotte
Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues:						
Program revenues -						
Charges for services	\$ 426,073	\$ 206,669	\$ 1,337,968	\$ 1,260,270	\$ 1,764,041	\$ 1,466,939
Operating grants and Contributions	221,301	274,855	-	-	221,301	274,855
Capital grants and Contributions	187,500	604,106	-	7,041	187,500	611,147
General revenues -						
Property taxes	1,236,149	1,188,306	-	-	1,236,149	1,188,306
Franchise and utility Taxes	467,640	459,036	-	-	467,640	459,036
Intergovernmental	699,224	852,906	-	-	699,224	852,906
Investment income and miscellaneous	86,599	46,236	105	491	86,704	46,727
Total revenues	<u>3,324,486</u>	<u>3,632,114</u>	<u>1,338,073</u>	<u>1,267,802</u>	<u>4,662,559</u>	<u>4,899,916</u>
Expenses:						
General government	882,001	1,662,673	-	-	882,001	1,662,673
Public safety	2,069,569	1,814,518	-	-	2,069,569	1,814,518
Transportation/public works	196,620	218,692	-	-	196,620	218,692
Culture and recreation	49,664	68,028	-	-	49,664	68,028
Interest on long-term debt	94,961	98,072	-	-	94,961	98,072
Water	-	-	938,540	1,083,261	938,540	1,083,261
Sanitation	-	-	326,001	337,914	326,001	337,914
Stormwater	-	-	109,763	108,955	109,763	108,955
Total expenses	<u>3,292,815</u>	<u>3,861,983</u>	<u>1,374,304</u>	<u>1,530,130</u>	<u>4,667,119</u>	<u>5,392,113</u>
Increase (Decrease) in Net Assets Before Transfers	31,671	(229,869)	(36,231)	(262,328)	(4,560)	(492,197)
Transfers	<u>(470,241)</u>	<u>331,382</u>	<u>470,241</u>	<u>(331,382)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Assets	(438,570)	101,513	434,010	(593,710)	(4,560)	(492,197)
Net Assets - Beginning	5,888,821	5,787,308	3,254,127	3,847,837	9,142,948	9,635,145
Prior period adjustment	<u>36,564</u>	<u>-</u>	<u>(61,661)</u>	<u>-</u>	<u>(25,097)</u>	<u>-</u>
Net Assets - End	<u>\$ 5,486,815</u>	<u>\$ 5,888,821</u>	<u>\$ 3,626,476</u>	<u>\$ 3,254,127</u>	<u>\$ 9,113,291</u>	<u>\$ 9,142,948</u>

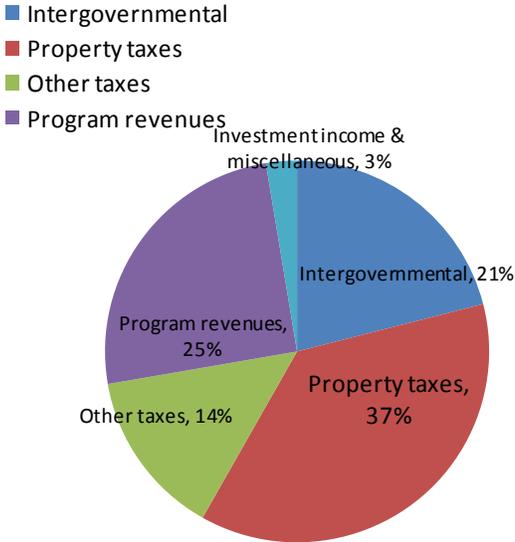
Governmental Activities - Governmental activities decreased the *City of Mascotte's* net assets by \$438,570. This was due primarily to transfer of governmental capital assets of \$703,650 to the Stormwater Fund.

Business-Type Activities - Business-type activities increased the *City of Mascotte's* net assets by \$434,010 primarily because of transfer from governmental capital assets of \$703,650.

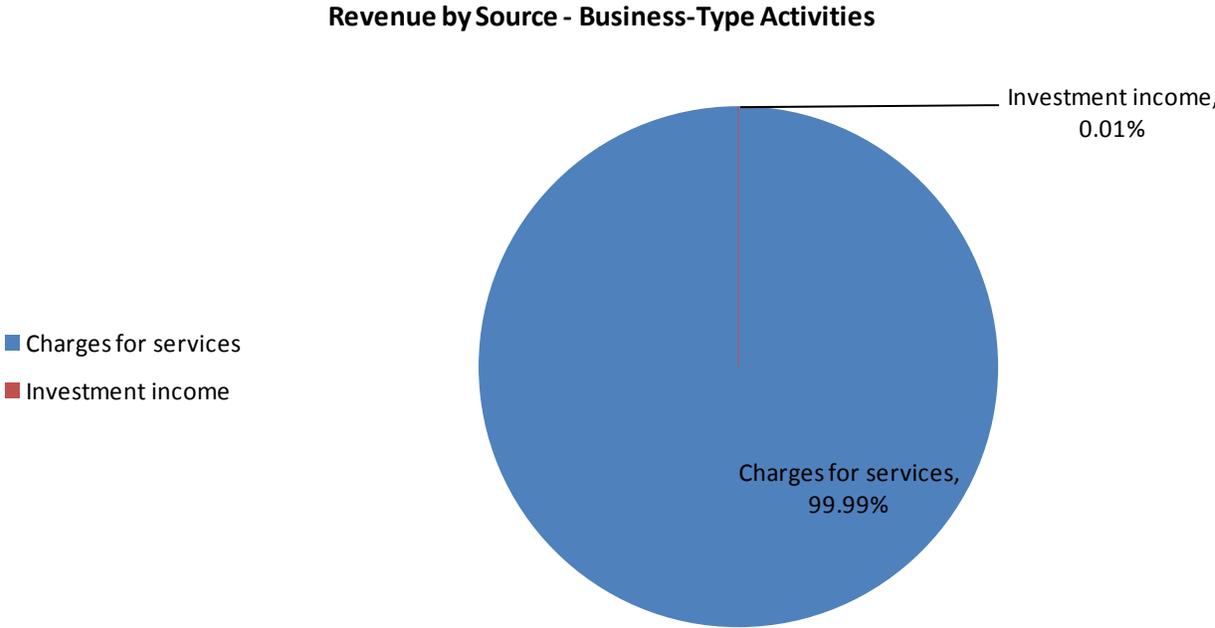
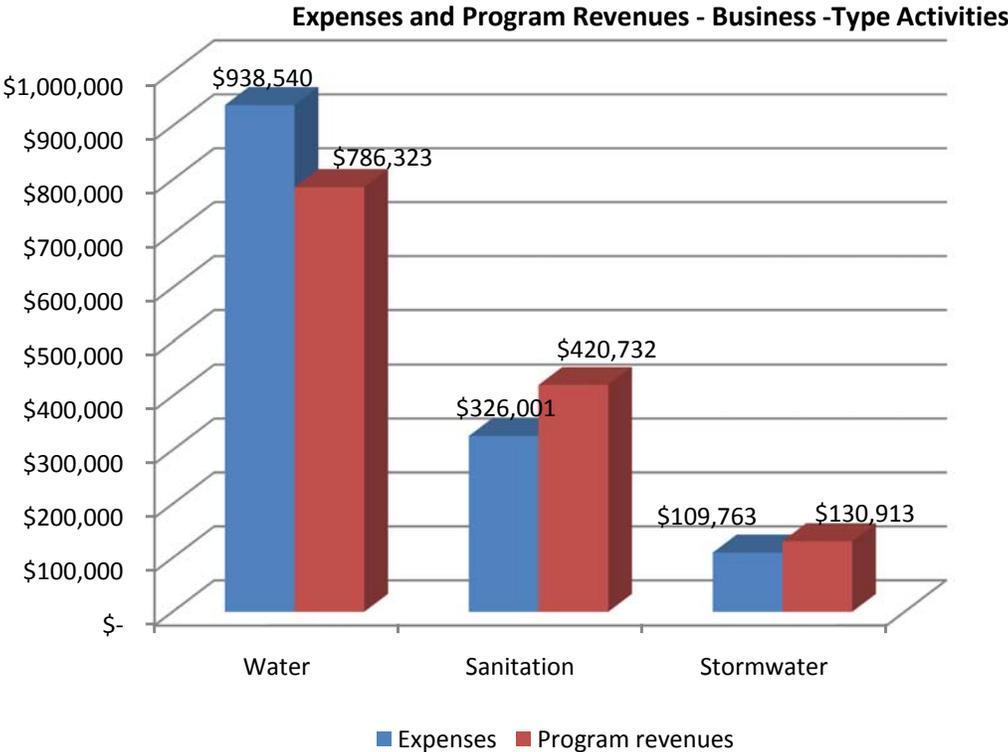
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED



Revenue by Source - Governmental Activities



MANAGEMENT’S DISCUSSION AND ANALYSIS – CONTINUED



MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Financial Analysis of the Government's Funds

As noted earlier, the *City of Mascotte* used fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the *City of Mascotte's* financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the *City of Mascotte's* governmental funds reported combined ending fund balances of \$1,551,707, an increase of \$382,030 in comparison with the prior year. Only \$1,105,687 of total represents unreserved fund balance, which is available for spending at the City's discretion.

The general fund is the chief operating fund of the *City of Mascotte*. At the end of the current fiscal year, unreserved and total fund balance of the general fund was \$651,711. As a measure of the general fund's liquidity, it may useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved and total fund balance represents 23% of total general fund expenditures.

The fund balance of the general fund increased by \$259,330 during the current fiscal year.

Proprietary Funds - The *City Mascotte's* proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the proprietary funds at the year end amounted to a deficit of \$(477,877). The total increase in net assets for these funds was \$434,010. Other factors concerning the finances of these three funds have already been addressed in the discussion of the *City of Mascotte's* business-type activities.

General Fund Budgetary Highlights

During the year, actual revenues were \$155,363 more than budgeted revenues and actual expenditures were \$213,667 less than budgeted expenditures. Differences between original and final budget were due to budgeted expenditures and anticipated revenue that occurred after the original budget was issued.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Capital Asset and Debt Administration

Capital Assets - The *City of Mascotte*'s investment in capital assets for its governmental and business-type activities as of September 30, 2010, amounts to \$13,017,754 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment and infrastructure. The total decrease in the City's investment in capital assets for the current fiscal year was 3%.

City of Mascotte
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Land	\$ 2,554,362	\$ 2,535,953	\$ 1,680,689	\$ 1,699,098	\$ 4,235,051	\$ 4,235,051
Construction in progress	-	-	750,354	750,354	750,354	750,354
Buildings	1,557,364	1,618,457	-	-	1,557,364	1,618,457
Improvements / infrastructure	982,491	1,738,886	4,586,869	4,250,104	5,569,360	5,988,990
Machinery and equipment	626,921	717,534	147,989	103,567	774,910	821,101
Intangibles	108,412	138,899	22,303	33,455	130,715	-
Total	<u>\$ 5,829,550</u>	<u>\$ 6,749,729</u>	<u>\$ 7,188,204</u>	<u>\$ 6,836,578</u>	<u>\$ 13,017,754</u>	<u>\$ 13,413,953</u>

Additional information on the *City of Mascotte*'s capital assets can be found in Note 7 of this report.

Long-Term Debt - At the end of the current fiscal year, the *City of Mascotte* had total debt outstanding of \$4,796,900. This debt includes bonds payable and notes payable. Additional information on long-term debt can be found in Note 7 of this report.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Bonds payable	\$ -	\$ -	\$ 197,000	\$ 208,000	\$ 197,000	\$ 208,000
Notes payable	1,713,049	1,931,360	2,886,851	2,978,854	4,599,900	4,910,214
	<u>\$ 1,713,049</u>	<u>\$ 1,931,360</u>	<u>\$ 3,083,851</u>	<u>\$ 3,186,854</u>	<u>\$ 4,796,900</u>	<u>\$ 5,118,214</u>

The *City of Mascotte*'s total debt decreased by \$321,314 (6%) during the current fiscal year. The City borrowed \$203,279 as a part of the SRF loan. This addition was to fund expenses already incurred in prior years.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Next Year's Budget and Rates

During the current fiscal year, the unreserved fund balance in the General Fund decreased to \$651,711. The City has not appropriated any of this amount for spending in the 2011 fiscal year budget since the plan is to increase the unreserved fund balance so that it at least 25% of general fund operating expenditures.

Requests for Information

This financial report is designed to provide a general overview of the *City of Mascotte's* finances for all those with an interest in the government's finances. Questions concerning any of the information should be addressed to the office of the Finance Director, *City of Mascotte*, 100 East Myers Boulevard, Mascotte, Florida 34753.

BASIC FINANCIAL STATEMENTS

CITY OF MASCOTTE, FLORIDA

STATEMENT OF NET ASSETS

September 30, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 1,088,784	\$ 196,669	\$ 1,285,453
Receivables, net	1,972	178,832	180,804
Internal balances	413,071	(413,071)	-
Due from other governments	133,242	-	133,242
Inventories	-	23,506	23,506
Prepaid costs	32,961	1,054	34,015
Capital Assets:			
Capital assets not being depreciated	2,554,362	2,431,043	4,985,405
Capital assets being depreciated, net of accumulated depreciation	3,275,188	4,757,161	8,032,349
Total Capital Assets	<u>5,829,550</u>	<u>7,188,204</u>	<u>13,017,754</u>
Total Assets	<u>7,499,580</u>	<u>7,175,194</u>	<u>14,674,774</u>
LIABILITIES:			
Accounts payable and accrued expenses	118,323	190,326	308,649
Unearned revenues	-	253,000	253,000
Accrued interest	-	9,525	9,525
Noncurrent liabilities:			
Due within one year:			
Bonds, capital leases and contracts	188,741	216,039	404,780
Compensated Absences	-	6,623	6,623
Due in more than one year:			
Bonds, capital leases and contracts	1,524,308	2,867,812	4,392,120
Compensated absences	181,393	5,393	186,786
Total liabilities	<u>2,012,765</u>	<u>3,548,718</u>	<u>5,561,483</u>
NET ASSETS:			
Invested in capital assets, net of related debt	4,116,501	4,104,353	8,220,854
Restricted for:			
Physical environment	223,019	-	223,019
Unrestricted	1,147,295	(477,877)	669,418
Total net assets	<u>\$ 5,486,815</u>	<u>\$ 3,626,476</u>	<u>\$ 9,113,291</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF MASCOTTE, FLORIDA

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2010

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government							
Governmental Activities							
General Government	\$ 882,001	\$ 128,370	\$ -	\$ 96,232	\$ (657,399)	\$ -	\$ (657,399)
Public Safety	2,069,569	297,703	221,301	91,268	(1,459,297)	-	(1,459,297)
Public Works	196,620	-	-	-	(196,620)	-	(196,620)
Culture and Recreation	49,664	-	-	-	(49,664)	-	(49,664)
Interest on Long-term debt	94,961	-	-	-	(94,961)	-	(94,961)
Total governmental activities	<u>3,292,815</u>	<u>426,073</u>	<u>221,301</u>	<u>187,500</u>	<u>(2,457,941)</u>	<u>-</u>	<u>(2,457,941)</u>
Business-type activities:							
Water	938,540	786,323	-	-	-	(152,217)	(152,217)
Sanitation	326,001	420,732	-	-	-	94,731	94,731
Stormwater	109,763	130,913	-	-	-	21,150	21,150
Total business-type activities	<u>1,374,304</u>	<u>1,337,968</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(36,336)</u>	<u>(36,336)</u>
Total primary government	<u>\$ 4,667,119</u>	<u>\$ 1,764,041</u>	<u>\$ 221,301</u>	<u>\$ 187,500</u>	<u>(2,457,941)</u>	<u>(36,336)</u>	<u>(2,494,277)</u>
General revenues:							
Property taxes					1,236,149	-	1,236,149
Franchise and utility taxes					467,640	-	467,640
Intergovernmental					699,224	-	699,224
Unrestricted investment earnings					17,210	105	17,315
Miscellaneous					69,389	-	69,389
Transfers					(470,241)	470,241	-
Total general revenues and transfers					<u>2,019,371</u>	<u>470,346</u>	<u>2,489,717</u>
Change in net assets					(438,570)	434,010	(4,560)
Net assets - beginning					5,888,821	3,254,127	9,142,948
Prior period adjustment					36,564	(61,661)	(25,097)
Net assets - ending					<u>\$ 5,486,815</u>	<u>\$ 3,626,476</u>	<u>\$ 9,113,291</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF MASCOTTE, FLORIDA

BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2010

	General Fund	Infrastructure Special Revenue	Community Redevelopment Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ 641,106	\$ 56,246	\$ 150,785	\$ 240,647	\$ 1,088,784
Due from other funds	316	-	-	-	316
Due from other governments	110,621	22,621	-	-	133,242
Other receivables	1,972	-	-	-	1,972
Prepaid costs	32,949	-	2	10	32,961
Advances to other funds	413,071	-	-	-	413,071
Total assets	<u>\$ 1,200,035</u>	<u>\$ 78,867</u>	<u>\$ 150,787</u>	<u>\$ 240,657</u>	<u>\$ 1,670,346</u>
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts payable	\$ 31,733	\$ 3,574	\$ 4	\$ 10,490	\$ 45,801
Due to other funds	-	-	-	316	316
Other accrued expenses	70,571	-	1,951	-	72,522
Total liabilities	<u>102,304</u>	<u>3,574</u>	<u>1,955</u>	<u>10,806</u>	<u>118,639</u>
Fund balances:					
Reserved for:					
Prepaid costs	32,949	-	-	-	32,949
Advances	413,071	-	-	-	413,071
Unreserved, reported in:					
General fund	651,711	-	-	-	651,711
Special revenue funds	-	75,293	148,832	229,851	453,976
Total fund balances	<u>1,097,731</u>	<u>75,293</u>	<u>148,832</u>	<u>229,851</u>	<u>1,551,707</u>
Total liabilities and fund balances	<u>\$ 1,200,035</u>	<u>\$ 78,867</u>	<u>\$ 150,787</u>	<u>\$ 240,657</u>	<u>\$ 1,670,346</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF MASCOTTE, FLORIDA

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

September 30, 2010

Total fund balance, governmental funds \$ 1,551,707

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. 5,829,550

Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets. (1,894,442)

Net Assets of Governmental Activities in the Statement of Net Assets \$ 5,486,815

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF MASCOTTE, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended September 30, 2010

	General Fund	Infrastructure Special Revenue	Community Redevelopment Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
Property	\$1,074,357	\$ -	\$ 161,792	\$ -	\$ 1,236,149
Franchise and utility	467,640	-	-	-	467,640
Fees and fines	51,457	-	-	22,692	74,149
Licenses and permits	22,303	-	-	-	22,303
Intergovernmental	848,668	333,693	-	-	1,182,361
Charges for services	255,285	-	-	-	255,285
Investment earnings	16,498	29	57	626	17,210
Miscellaneous	69,389	-	-	-	69,389
Total revenues	<u>2,805,597</u>	<u>333,722</u>	<u>161,849</u>	<u>23,318</u>	<u>3,324,486</u>
EXPENDITURES:					
Current:					
General government	735,358	3,465	85,052	-	823,875
Public safety	1,832,713	-	-	4,215	1,836,928
Public works	142,338	2,334	-	-	144,672
Culture and recreation	38,709	-	-	-	38,709
Debt service:					
Principal	18,345	199,966	-	-	218,311
Interest and other charges	604	94,357	-	-	94,961
Total expenditures	<u>2,768,067</u>	<u>300,122</u>	<u>85,052</u>	<u>4,215</u>	<u>3,157,456</u>
Excess (deficiency) of revenues over expenditures	<u>37,530</u>	<u>33,600</u>	<u>76,797</u>	<u>19,103</u>	<u>167,030</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	221,800	-	-	-	221,800
Transfers out	-	-	-	(6,800)	(6,800)
Total other financing sources (uses)	<u>221,800</u>	<u>-</u>	<u>-</u>	<u>(6,800)</u>	<u>215,000</u>
Net change in fund balances	259,330	33,600	76,797	12,303	382,030
Fund balances - beginning	838,401	41,693	72,035	217,548	1,169,677
Fund balances - ending	<u>\$1,097,731</u>	<u>\$ 75,293</u>	<u>\$ 148,832</u>	<u>\$ 229,851</u>	<u>\$ 1,551,707</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF MASCOTTE, FLORIDA

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

For the Year Ended September 30, 2010

Net change in fund balances - total governmental funds: \$ 382,030

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlays of \$95,625 were less than depreciation of \$367,127 in the current period. (271,502)

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded proceeds. 218,311

The net effect of transfers of capital assets from/(to) proprietary funds. (685,241)

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds. (82,168)

Change in net assets of governmental activities \$ (438,570)

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF MASCOTTE, FLORIDA

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

For the Year Ended September 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes:				
Property Taxes	\$ 1,026,544	\$ 1,026,544	\$ 1,074,357	\$ 47,813
Franchise and utility	436,750	436,750	467,640	30,890
Fees and fines	36,000	36,000	51,457	15,457
Licenses and permits	13,100	27,200	22,303	(4,897)
Intergovernmental	702,950	817,975	848,668	30,693
Charges for services	211,000	219,400	255,285	35,885
Investment earnings	12,000	12,000	16,498	4,498
Miscellaneous	46,600	74,365	69,389	(4,976)
Total revenues	<u>2,484,944</u>	<u>2,650,234</u>	<u>2,805,597</u>	<u>155,363</u>
EXPENDITURES:				
Current:				
General government	638,681	799,896	735,358	64,538
Public safety	1,876,500	1,961,400	1,832,713	128,687
Public works	138,713	148,113	142,338	5,775
Culture and recreation	34,100	53,575	38,709	14,866
Debt Service:				
Principal	18,100	18,100	18,345	(245)
Interest and other charges	650	650	604	46
Total expenditures	<u>2,706,744</u>	<u>2,981,734</u>	<u>2,768,067</u>	<u>213,667</u>
Excess (deficiency) of revenues over expenditures	<u>(221,800)</u>	<u>(331,500)</u>	<u>37,530</u>	<u>369,030</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	221,800	221,800	221,800	-
Total other financing sources (uses)	<u>221,800</u>	<u>221,800</u>	<u>221,800</u>	<u>-</u>
Net change in fund balances	-	(109,700)	259,330	369,030
Fund balance - beginning	838,401	838,401	838,401	-
Fund balance - ending	<u>\$ 838,401</u>	<u>\$ 728,701</u>	<u>\$ 1,097,731</u>	<u>\$ 369,030</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF MASCOTTE, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
Infrastructure Special Revenue

For the Year Ended September 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes:				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	313,750	313,750	333,693	19,943
Investment earnings	500	500	29	(471)
Total revenues	<u>314,250</u>	<u>314,250</u>	<u>333,722</u>	<u>19,472</u>
EXPENDITURES:				
Current:				
General government	9,000	9,000	3,465	5,535
Public safety	3,000	3,000	-	3,000
Public works	1,500	1,500	2,334	(834)
Debt Service:				
Principal	198,450	198,450	199,966	(1,516)
Interest and other charges	92,150	92,150	94,357	(2,207)
Total Expenditures	<u>304,100</u>	<u>304,100</u>	<u>300,122</u>	<u>3,978</u>
Excess (deficiency) of revenues over expenditures	<u>10,150</u>	<u>10,150</u>	<u>33,600</u>	<u>23,450</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(10,150)	(10,150)	-	10,150
Total other financing sources(uses)	<u>(10,150)</u>	<u>(10,150)</u>	<u>-</u>	<u>10,150</u>
Net change in fund balances	-	-	33,600	33,600
Fund balance - beginning	41,693	41,693	41,693	-
Fund balance - ending	<u>\$ 41,693</u>	<u>\$ 41,693</u>	<u>\$ 75,293</u>	<u>\$ 33,600</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF MASCOTTE, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
Community Redevelopment Fund

For the Year Ended September 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes:				
Property Taxes	\$ 163,700	\$ 163,700	\$ 161,792	\$ (1,908)
Investment earnings	400	400	57	(343)
Total revenues	<u>164,100</u>	<u>164,100</u>	<u>161,849</u>	<u>(2,251)</u>
EXPENDITURES:				
Current:				
General government	<u>107,900</u>	<u>107,900</u>	<u>85,052</u>	<u>22,848</u>
Total Expenditures	<u>107,900</u>	<u>107,900</u>	<u>85,052</u>	<u>22,848</u>
Excess (deficiency) of revenues over expenditures	<u>56,200</u>	<u>56,200</u>	<u>76,797</u>	<u>20,597</u>
Net change in fund balances	56,200	56,200	76,797	20,597
Fund balance - beginning	<u>72,035</u>	<u>72,035</u>	<u>72,035</u>	<u>-</u>
Fund balance - ending	<u>\$ 128,235</u>	<u>\$ 128,235</u>	<u>\$ 148,832</u>	<u>\$ 20,597</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF MASCOTTE, FLORIDA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

September 30, 2010

	Enterprise Funds			
	Water	Sanitation	Stormwater	Total
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 69,533	\$ 91,055	\$ 36,081	\$ 196,669
Accounts Receivable, net	112,669	42,039	24,124	178,832
Inventories	23,506	-	-	23,506
Prepaid Expenses	1,053	1	-	1,054
Total current assets	<u>206,761</u>	<u>133,095</u>	<u>60,205</u>	<u>400,061</u>
Non-current assets:				
Capital Assets:				
Land	1,680,689	-	-	1,680,689
Construction in Progress	750,354	-	-	750,354
Utility System	5,988,001	-	1,147,542	7,135,543
Intangible assets	31,153	1,536	766	33,455
Buildings	4,620	-	-	4,620
Machinery and equipment	254,812	185,636	97,470	537,918
Less Accumulated depreciation	(2,597,880)	(158,148)	(198,347)	(2,954,375)
Total non-current assets	<u>6,111,749</u>	<u>29,024</u>	<u>1,047,431</u>	<u>7,188,204</u>
Total assets	<u>6,318,510</u>	<u>162,119</u>	<u>1,107,636</u>	<u>7,588,265</u>
LIABILITIES:				
Current Liabilities:				
Accounts payable	4,524	25,504	510	30,538
Salaries payable	14,989	256	1,885	17,130
Other accrued expenses	1,606	-	-	1,606
Accrued interest payable	9,525	-	-	9,525
Advances from other funds	376,681	36,390	-	413,071
Customer deposits payable	141,052	-	-	141,052
Prepaid sewer conversion	253,000	-	-	253,000
Compensated absences	5,421	277	925	6,623
Notes and loans payable - current	202,791	-	2,248	205,039
Bonds payable - current	11,000	-	-	11,000
Total current liabilities	<u>1,020,589</u>	<u>62,427</u>	<u>5,568</u>	<u>1,088,584</u>
Non-current liabilities:				
Compensated absences	4,173	-	1,220	5,393
Bonds, notes and loans payable	2,867,812	-	-	2,867,812
Total non-current liabilities	<u>2,871,985</u>	<u>-</u>	<u>1,220</u>	<u>2,873,205</u>
Total liabilities	<u>3,892,574</u>	<u>62,427</u>	<u>6,788</u>	<u>3,961,789</u>
NET ASSETS:				
Invested in capital assets, net of related debt	3,030,146	29,024	1,045,183	4,104,353
Unrestricted	(604,210)	70,668	55,665	(477,877)
Total net assets	<u>\$ 2,425,936</u>	<u>\$ 99,692</u>	<u>\$ 1,100,848</u>	<u>\$ 3,626,476</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF MASCOTTE, FLORIDA

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS**

For the Year Ended September 30, 2010

	Enterprise Funds			
	Water	Sanitation	Stormwater	Total
REVENUES:				
Charges for services	\$ 786,323	\$ 420,732	\$ 130,913	\$ 1,337,968
Total operating revenues	<u>786,323</u>	<u>420,732</u>	<u>130,913</u>	<u>1,337,968</u>
OPERATING EXPENSES:				
Salaries and benefits	401,893	8,892	49,029	459,814
Contractual services	27,472	303,210	323	331,005
Repairs and maintenance	25,823	1,249	7,026	34,098
Other supplies and expenses	92,240	2,765	4,341	99,346
Depreciation	244,435	9,885	47,838	302,158
Total operating expenses	<u>791,863</u>	<u>326,001</u>	<u>108,557</u>	<u>1,226,421</u>
Operating income (loss)	<u>(5,540)</u>	<u>94,731</u>	<u>22,356</u>	<u>111,547</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest and investment income/(expense)	(217)	314	8	105
Interest expense	(116,677)	-	(1,206)	(117,883)
Total non-operating revenue (expenses)	<u>(116,894)</u>	<u>314</u>	<u>(1,198)</u>	<u>(117,778)</u>
Income (loss) before contributions and transfers	(122,434)	95,045	21,158	(6,231)
Capital contributions	-	-	703,650	703,650
Impact fees	(30,000)	-	-	(30,000)
Transfers out	(175,000)	(40,000)	(18,409)	(233,409)
Change in net assets	<u>(327,434)</u>	<u>55,045</u>	<u>706,399</u>	<u>434,010</u>
Total net assets - beginning	2,814,811	17,018	394,449	3,254,127
Prior period adjustment	(61,441)	27,629	(27,849)	(61,661)
Total net assets - ending	<u>\$ 2,425,936</u>	<u>\$ 99,692</u>	<u>\$ 1,100,848</u>	<u>\$ 3,626,476</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF MASCOTTE, FLORIDA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For The Year Ended September 30, 2010

	<u>Water</u>	<u>Sanitation</u>	<u>Stormwater</u>	<u>Total</u>
Cash Flows from Operating Activities:				
Receipts from customers	\$ 767,287	\$ 424,672	\$ 120,405	\$ 1,312,364
Payments to suppliers	(148,155)	(306,465)	(11,180)	(465,800)
Payments to employees	(399,747)	(8,706)	(48,048)	(456,501)
Net cash provided (used) by operating activities	<u>219,385</u>	<u>109,501</u>	<u>61,177</u>	<u>390,063</u>
Cash Flows from Non-Capital Financing Activities:				
Net operating transfers in (out)	(175,000)	(40,000)	-	(215,000)
Increase in advances from other funds	55,000	-	-	55,000
Net cash provided (used) by non-capital financing activities	<u>(120,000)</u>	<u>(40,000)</u>	<u>-</u>	<u>(160,000)</u>
Cash Flows from Capital and Related Financing Activities:				
(Acquisition) disposition of capital assets	(30,205)	-	-	(30,205)
Impact Fees	(30,000)	-	-	(30,000)
Principal paid on long-term debt	(74,800)	-	(28,203)	(103,003)
Interest paid on long-term debt	(129,733)	-	(1,293)	(131,026)
Net cash provided (used) by capital and related financing activities	<u>(264,738)</u>	<u>-</u>	<u>(29,496)</u>	<u>(294,234)</u>
Cash Flows from Investing Activities:				
Investment income	(217)	314	8	105
Net cash provided(used) by investing activities	<u>(217)</u>	<u>314</u>	<u>8</u>	<u>105</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(165,570)	69,815	31,689	(64,066)
Cash and Cash Equivalents - Beginning	235,103	21,240	4,392	260,735
Cash and Cash Equivalents - Ending	<u>\$ 69,533</u>	<u>\$ 91,055</u>	<u>\$ 36,081</u>	<u>\$ 196,669</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

	<u>Water</u>	<u>Sanitation</u>	<u>Stormwater</u>	<u>Total</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities				
Operating income (loss)	\$ (5,540)	\$ 94,731	\$ 22,356	\$ 111,547
Adjustments Not Affecting Cash:				
Depreciation and amortization	244,435	9,885	47,838	302,158
Change in Assets and Liabilities:				
(Increase) Decrease in accounts receivable	(29,830)	3,940	(10,508)	(36,398)
(Increase) Decrease in prepaids / inventory	(64)	(1)	-	(65)
Increase (Decrease) in accounts payable	8,238	760	510	9,508
Increase (Decrease) in accrued liabilities	2,146	186	981	3,313
Total adjustments	<u>224,925</u>	<u>14,770</u>	<u>38,821</u>	<u>278,516</u>
Net Cash Provided (Used) by Operating Activities				
	<u>\$ 219,385</u>	<u>\$ 109,501</u>	<u>\$ 61,177</u>	<u>\$ 390,063</u>
Noncash Capital and Financing Activities:				
Capital contribution	-	-	703,650	703,650
Transfer of capital assets to governmental activities	-	-	(18,409)	(18,409)
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 685,241</u>	<u>\$ 685,241</u>

NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

Note 1 - Summary of Significant Accounting Policies:

A. Reporting Entity

The *City of Mascotte*, Florida ("the City") is a political subdivision of the state of Florida located in Lake County. The *City of Mascotte* was originally incorporated under the laws of the State of Florida on November 23, 1925. The City recently changed to a City Manager form of government by a referendum vote of the citizens. The legislative branch of the City is composed of a Mayor and a four (4) member elected Council. The City Council is responsible for the establishment and adoption of policy. The execution of such policy is the responsibility of the Council appointed City Manager.

In evaluating how to define the government, for financial reporting purposes, the City has considered all potential component units. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body, and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organizations' resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization. In applying the above criteria, the City has one blended component unit as follows:

The *City of Mascotte* Community Redevelopment Fund

The *City of Mascotte* created the Community Redevelopment Agency in April of 2005. This is a dependent taxing district established in accordance with Chapter 163, Part III, Florida Statutes. Notification to affected taxing agency was done in compliance with Chapter 163.346, Part III, Florida Statutes. The incremental annual increase in tax over the base years will be used to fund projects designed to enhance and improve the described area. The City Council, being the duly elected governmental body for the designated area, passed Resolution 2005-03-350, which established the *City of Mascotte* as the Redevelopment Agency for the purpose of carrying out the community redevelopment programs and plans within the area. The Council adopted a community development redevelopment plan through Resolution 2005-06-352. Through Ordinance 2005-06-380 the City established the Community Redevelopment Trust Fund to account for all transactions generated by this special revenue fund.

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2010

Note 1 - Summary of Significant Accounting Policies (Continued):

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2010

Note 1 - Summary of Significant Accounting Policies (Continued):

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued):

Property taxes, franchise taxes, licenses, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The government reports the following funds:

Major Governmental Funds

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Infrastructure Fund* is a special revenue fund established to account for the accumulation of proceeds of the local government infrastructure surtax to be received by the City until December 2017. The proceeds and interest accrued thereto, by law, are only to be used to finance, plan and construct infrastructure.

The *Community Redevelopment Fund* was established as a dependent taxing district. The incremental annual increase in tax over the base years will be used to fund projects designed to enhance and improve the described area.

Non-Major Governmental Fund Types

Special Revenue Funds account for specific revenue sources that are restricted by law or administrative action to expenditures for specific purposes.

Major Proprietary Funds

Water Fund is used to account for the operations of the City's water system, which are financed in a manner similar to private business enterprises, where the costs, including depreciation, of providing services to the general public on an ongoing basis are financed primarily through user charges.

Sanitation Fund is used to account for the fiscal activities of the City's refuse collection and disposal operation.

Stormwater Fund is use to account for the operation and maintenance of the City's stormwater system.

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2010

Note 1 - Summary of Significant Accounting Policies (Continued):

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued):

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water and sanitation funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2010

Note 1 - Summary of Significant Accounting Policies (Continued):

D. Assets, Liabilities, and Net Assets or Equity (Continued):

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments of the City are reported at fair value. The City's investments consist of investments authorized per their investment policy adopted in accordance with Section 218.415, Florida Statutes.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectibles. The County bills and collects property taxes and remits them to the City. City property tax revenues are recognized when levied to the extent that they result in current receivables.

All property is reassessed according to its fair value on the lien date, or January 1 of each year. Taxes are levied on October 1 of each year. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January, and 1% in the month of February. The taxes paid in March are without discount. All unpaid taxes become delinquent on April 1 following the year in which they are assessed. On or around May 31 following the tax year, certificates are sold for all delinquent taxes on real property.

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2010

Note 1 - Summary of Significant Accounting Policies (Continued):

D. Assets, Liabilities, and Net Assets or Equity (Continued):

3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

The use of certain assets of the Water and Wastewater fund may be restricted by specific provisions of bond resolutions, city ordinances and/or agreements with various parties. Assets so designated are identified as restricted assets on the balance sheet.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City's capitalization policy as assets with an initial, individual cost of \$1,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

In accordance with GASB Statement 51, beginning balance of capital assets has been reclassified to include intangible assets which had been acquired prior to October 1, 2008. This reclassification had no effect on the beginning balance of total capital assets since intangible assets had been previously recorded and included with equipment and machinery.

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2010

Note 1 - Summary of Significant Accounting Policies (Continued):

D. Assets, Liabilities, and Net Assets or Equity - (Continued)

5. Capital Assets (Continued):

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. No interest was capitalized for the year ended September 30, 2010.

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10-50
Improvements	15-50
Infrastructure	30-50
Equipment	3-15

6. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Since the City's policy is to pay all vacation and a portion of sick pay when employees separate from service, these amounts are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. For governmental activities, compensated absences are generally liquidated by the general fund.

7. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2010

Note 1 - Summary of Significant Accounting Policies (Continued):

D. Assets, Liabilities, and Net Assets or Equity - (Continued)

7 Long-Term Obligations - (Continued):

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Prior Period Adjustment:

Beginning fund balances in the Water, Sanitation, and Stormwater Funds have been adjusted for the effects of depreciation calculated in error. As a result, net assets at beginning of year were decreased by \$61,441 in the Water Fund, and \$27,849 in the Stormwater Fund and then increased by \$27,629 in the Sanitation Fund. The effect on net operations of the prior year was to increase expenses of the Water Fund and Stormwater Fund by the amounts indicated above and to decrease expenses in the Sanitation Fund by amount indicated above. There was no effect on operations in the current year.

Beginning net assets in governmental assets have been adjusted for the effects of depreciation calculated in error. As a result, net assets at beginning of year were increased by \$36,564. The effect on net activities of the prior year was to decrease expenses in governmental activities by the amount of \$36,564. There was no effect on activities of the current year.

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2010

Note 3 - Reconciliation of Government-Wide and Fund Financial Statements:

A. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$(271,502) difference are as follows:

Capital outlay	\$ 95,625
Depreciation expense	<u>(367,127)</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$(271,502)</u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$218,311 difference are as follows:

Debt issued or incurred:	
Notes issued	\$ -
Principal repayment	<u>218,311</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 218,311</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this difference are as follows:

Compensated absences	<u>\$ (82,168)</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (82,168)</u>

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2010

Note 4 - Stewardship, Compliance, and Accountability

Budgetary Information:

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

- (1) Prior to the end of the fiscal year, the City Manager submits to the City Council 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) The general summary of the budget and notice of public hearing is published in the local newspaper. Public hearings are conducted to obtain taxpayer comments. Prior to October 1, budgets are legally enacted through passage of an ordinance.
- (3) The City Manager is authorized to transfer budgeted amounts within and between divisions and departments; however, any revisions that alter the total appropriations of any fund must be approved by the City Council. The level of classification detail at which expenditures may not legally exceed appropriations is the fund level.
- (4) Appropriations lapse at the close of the fiscal year to the extent they have not been expended.
- (5) Budgets are adopted for the general fund and special revenue funds on a basis consistent with accounting principles generally accepted in the United States of America. Budgets are also adopted for the enterprise funds; however, this data is not presented under generally accepted accounting principles.
- (6) The City Council, by ordinance or resolution, may make supplemental appropriations in excess of those originally estimated for the year up to the amount of available revenues. Budgeted amounts presented in the accompanying financial statements have been adjusted for legally authorized revisions.

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2010

Note 5 - Deposits and Investments:

Deposits

At year-end, the carrying amount of the City's deposits was \$1,284,353 and the bank balance was \$1,319,381. Petty cash funds of \$1,100 are not on deposit with a financial institution. All bank deposits were covered by Federal Depository Insurance or by collateral held in banks that are members of the State of Florida's Collateral Pool as specified under Florida law. Florida Statutes provide for collateral pooling by banks and savings and loans. This limits local government deposits to "authorized depositories".

Investments

Investments in all fund types are stated at fair value, which is the amount for which an investment could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. Fair value is based on quoted market prices. Changes in the fair value of investments are recognized as revenue and included in investment income. Investment income is recognized as earned and is allocated to the participating funds based on their equity participation. The City's investment policies are governed by Florida Statutes, which allow the following investments:

- (a) The Local Government Surplus Funds Trust (SBA)
- (b) SEC registered money market funds
- (c) Interest-bearing time deposits or savings accounts in qualified public depositories
- (d) Direct obligations of the U.S. Treasury

The City does not have an investment policy that addresses credit risk, concentration of credit risk, custodial credit risk, or interest rate risk. However, all deposits are potentially subject to custodial credit risk. The City policy requires that bank deposits be secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida, and creates the Public Deposit Trust Fund, a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred. At September 30, 2010, all of the City's bank deposits were in qualified public depositories.

CITY OF MASCOTTE, FLORIDA

NOTES TO FINANCIAL STATEMENTS – Continued

September 30, 2010

Note 6 - Receivables:

Receivables as of year end for the City's individual major funds and non-major funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Stormwater Fund</u>	<u>Total</u>
Receivables:					
Accounts	\$ 1,972	\$ 139,743	\$ 56,710	\$ 26,860	\$ 225,285
Less allowance for uncollectible accounts	-	(27,074)	(14,671)	(2,736)	(44,481)
	<u>\$ 1,972</u>	<u>\$ 112,669</u>	<u>\$ 42,039</u>	<u>\$ 24,124</u>	<u>\$ 180,804</u>

Note 7- Capital Assets:

Capital asset activity for the year ended September 30, 2010 was as follows:

	<u>Restated Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 2,535,953	\$ 18,409	\$ -	\$ 2,554,362
Total capital assets, not being depreciated	<u>2,535,953</u>	<u>18,409</u>	<u>-</u>	<u>2,554,362</u>
Capital assets, being depreciated:				
Buildings	2,087,834	-	-	2,087,834
Improvements/Infrastructure	3,000,546	-	(771,409)	2,229,137
Machinery and equipment	2,388,516	95,626	(19,209)	2,464,933
Intangible assets	147,927	-	-	147,927
Total capital assets, being depreciated	<u>7,624,823</u>	<u>95,626</u>	<u>(790,618)</u>	<u>6,929,831</u>
Less accumulated depreciation for:				
Buildings	(459,745)	(70,725)	-	(530,470)
Improvements/Infrastructure	(1,262,890)	(68,163)	84,407	(1,246,646)
Machinery and equipment	(1,641,918)	(198,654)	2,560	(1,838,012)
Intangible assets	(9,930)	(29,585)	-	(39,515)
Total accumulated depreciation	<u>(3,374,483)</u>	<u>(367,127)</u>	<u>86,967</u>	<u>(3,654,643)</u>
Total capital assets, being depreciated, net	<u>4,250,340</u>	<u>(271,501)</u>	<u>(703,651)</u>	<u>3,275,188</u>
Government activities capital assets, net	<u>\$ 6,786,293</u>	<u>\$ (253,092)</u>	<u>\$ (703,651)</u>	<u>\$ 5,829,550</u>

CITY OF MASCOTTE, FLORIDA

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2010

Note 7 - Capital Assets (Continued):

	Restated Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,699,098	\$ -	\$ (18,409)	1,680,689
Construction in progress	750,354	-	-	750,354
Total capital assets, not being depreciated	<u>2,449,452</u>	<u>-</u>	<u>(18,409)</u>	<u>2,431,043</u>
Capital assets, being depreciated:				
Buildings	4,620	-	-	4,620
Improvements/Infrastructure	6,344,925	790,618	-	7,135,543
Machinery and equipment	507,714	30,205	-	537,919
Intangible assets	33,455	-	-	33,455
Total capital assets, being depreciated	<u>6,890,714</u>	<u>820,823</u>	<u>-</u>	<u>7,711,537</u>
Less accumulated depreciation for:				
Buildings	(4,620)	-	-	(4,620)
Improvements/Infrastructure	(2,214,565)	(334,109)	-	(2,548,674)
Machinery and equipment	(346,064)	(43,866)	-	(389,930)
Intangible assets	-	(11,152)	-	(11,152)
Total accumulated depreciation	<u>(2,565,249)</u>	<u>(389,127)</u>	<u>-</u>	<u>(2,954,376)</u>
Total capital assets, being depreciated, net	<u>4,325,465</u>	<u>431,696</u>	<u>-</u>	<u>4,757,161</u>
Business-type activities capital assets, net	<u>\$ 6,774,917</u>	<u>\$ 431,696</u>	<u>\$ (18,409)</u>	<u>\$ 7,188,204</u>

Increases in accumulated depreciation for business-type activities includes accumulated depreciation on asset reclassifications amounting to \$86,969. This accumulated depreciation is on stormwater conveyance system totaling \$790,618 transferred from governmental activities.

CITY OF MASCOTTE, FLORIDA

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2010

Note 7 - Capital Assets (Continued):

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 127,676
Public safety	178,992
Transportation/public works	49,504
Culture and recreation	10,955
Total depreciation expense - governmental activities	<u>\$ 367,127</u>
Business-type activities:	
Water	\$ 244,435
Stormwater	47,838
Sanitation	9,885
Total depreciation expense - business-type activities	<u>\$ 302,158</u>

Note 8 - Other Postemployment Benefits:

Pursuant to Resolution 2011-03-445, the City has elected not to make continuation of group health insurance through the City's current provider available to retirees and eligible dependents.

Note 9 - Long-Term Debt:

Revenue Bonds

The City issues bonds where the City pledges revenue derived from the acquired or constructed assets to pay debt service. Revenue bonds have been issued for business-type activities as follows:

Water Revenue Bonds payable in annual installments of \$2,800 to \$21,000 through 2023 with annual interest payments at 5.0%.	\$ 197,000
Less: Current maturities	(11,000)
Total	<u>\$ 186,000</u>

These Water Revenue Bonds are secured by a first lien on and pledge of the net revenues of the water system and a first lien on and pledge of allowable impact fees imposed on new users of the system.

CITY OF MASCOTTE, FLORIDA

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2010

Note 9 - Long-Term Debt (Continued):

The Water Revenue Bonds resolution provides for:

- (1) Establishment and maintenance of various funds and accounts and
- (2) The City shall establish rates, which will provide for necessary operating expenses, including principal and interest payments.

2010 Pledged revenue was \$42,278. During 2010, principal and interest paid on this bond was \$21,400.

Annual requirements to amortize water revenue bonds outstanding as of September 30, 2010 are as follows:

<u>Year ending September 30,</u>	<u>Business -Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 11,000	\$ 9,850
2012	12,000	9,300
2013	12,000	8,700
2014	13,000	8,100
2015	13,000	7,450
2016-2020	78,000	26,550
2021-2023	<u>58,000</u>	<u>5,950</u>
Total	<u>\$197,000</u>	<u>\$75,900</u>

CITY OF MASCOTTE, FLORIDA

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2010

Note 9 - Long-Term Debt (Continued):

Notes Payable - Business-type Activities

At September 30, 2010 notes payable consisted of:

Note payable to a bank in monthly installments of \$2,236 including interest at a 5.05% through 2011; secured by a sanitation truck.	\$ 2,248
Capital improvement revenue note payable to bank in annual installments. Interest paid quarterly at 3.175% through January 2015; secured by infrastructure sales surtax; 2010 pledged revenue was \$333,693. Principal and interest paid in 2010 was \$180,931.	617,945
Note payable to bank in monthly installments of \$1,142 including interest at 5.05% through 2011, secured by equipment.	2,357
Line of credit payable to bank; interest due quarterly at 5.05%; principal due semiannually through September 2016 of \$122,168, secured by CRA revenues, 2010 pledged revenue was \$161,849. Principal and interest paid in 2010 was \$181,541.	1,767,000
Note payable to SRF in 40 semi-annual installments of \$4,275, including interest at 2.68%, beginning on January 15, 2011; secured by net revenues from operation of water and sewer system, together with impact fees.	336,563
Note payable to SRF in 20 semi-annual installments of \$9,723, including interest at 2.64%, beginning June 15, 2010; secured by net revenues from operation of water and sewer system.	<u>160,738</u>
	<u>\$2,886,851</u>

CITY OF MASCOTTE, FLORIDA

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2010

Note 9 - Long-Term Debt (Continued):

Annual debt service requirements to maturity on the notes payable are as follows:

<u>Year ending September 30,</u>	<u>Business - Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 205,039	\$ 104,672
2012	363,979	94,972
2013	395,906	83,057
2014	399,611	66,242
2015	403,428	49,316
2016 - 2020	1,023,057	54,908
2021 - 2023	<u>95,831</u>	<u>2,238</u>
Total	<u>\$2,886,851</u>	<u>\$ 455,405</u>

State Revolving Loan

During 2008, the City executed two loan agreements with the Department of Environmental Protection to finance the planning, design, and construction of public water systems and wastewater pollution control facilities. The State Revolving Fund Loans are approved for the following amounts:

Water system	\$ 240,000
Wastewater facilities	469,064

During 2010, the City received \$199,005 from the wastewater system SRF loan. The water system loan will be paid back in 10 years, starting on June 15, 2010 and the wastewater facilities loan will be paid back in 20 years starting on January 15, 2013. The total amount to be paid back will also include loan service fees and capitalized interest not included in above amounts.

Line of Credit

On September 7, 2007 the City borrowed \$2,100,000, the full amount available, on a line of credit with a bank. The funds were used for land purchases and secured by wastewater impact fees. Interest payments are due quarterly at 5.05% and principal payments are semiannual. The line matures in September of 2016.

CITY OF MASCOTTE, FLORIDA

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2010

Note 9 - Long-Term Debt (Continued):

Notes Payable - Governmental Activities

Summarized below are the City's notes outstanding at September 30, 2010:

Note payable to a bank in monthly installments of \$3,574 including interest at 4.75% through February 2020; secured by City Hall building.	\$ 373,993
Note payable to a bank in annual installments of \$20,258 including interest at 4.5% through December 2010; secured by fire truck.	19,294
Note payable to a bank in monthly installments of \$805 including interest at 5.05% through 2011; secured by equipment.	5,008
Note payable to a bank in semiannual installments of \$25,223 including interest at 4.5% through April 2013; secured by a fire rescue pumper truck.	140,087
Note payable to a bank in semi-annual installments of \$41,667 including interest at 4.87% due quarterly. Secured by infrastructure sales surtax; 2010 pledged revenue was \$333,693. Principal and interest paid in 2010 was \$137,861.	1,041,667
Line of credit payable to a bank; interest due quarterly at 5.05%; principal due semiannually through September 2016 of \$9,210, secured by CRA revenues. 2010 pledged revenue was \$161,849. Principal and interest paid in 2010 was \$16,934.	133,000
Total	<u>\$1,713,049</u>

CITY OF MASCOTTE, FLORIDA

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2010

Note 9 - Long-Term Debt (Continued):

Notes Payable - Governmental Activities (Continued):

Debt service requirements for the above notes are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 188,741	\$ 78,967
2012	175,982	72,114
2013	179,459	63,416
2014	132,043	55,290
2015	133,484	48,753
2016-2020	636,376	147,239
2021-2023	<u>266,964</u>	<u>17,595</u>
Total	<u>\$1,713,049</u>	<u>\$483,374</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Notes payable	\$1,931,360	\$ -	\$ (218,311)	\$ 1,713,049	\$ 188,741
Compensated absences	<u>99,225</u>	<u>82,168</u>	<u>-</u>	<u>181,393</u>	<u>-</u>
Governmental activity long-term liabilities	<u>\$2,030,585</u>	<u>\$ 82,168</u>	<u>\$ (218,311)</u>	<u>\$ 1,894,442</u>	<u>\$ 188,741</u>
Business-Type Activities:					
Bonds payable -					
Revenue Bonds	\$ 208,000	\$ -	\$ (11,000)	\$ 197,000	\$ 11,000
Notes payable -					
Capital improvement revenue note	771,054	-	(153,109)	617,945	-
SRF Loans	305,223	203,279	(11,201)	497,301	24,767
Line of credit	1,856,959	-	(89,959)	1,767,000	175,667
Equipment	<u>45,618</u>	<u>-</u>	<u>(41,013)</u>	<u>4,605</u>	<u>4,605</u>
Total notes payable	<u>2,978,854</u>	<u>203,279</u>	<u>(295,282)</u>	<u>2,886,851</u>	<u>205,039</u>
Compensated absences	<u>6,536</u>	<u>5,480</u>	<u>-</u>	<u>12,016</u>	<u>6,623</u>
Business-type activity long-term liabilities	<u>\$3,193,390</u>	<u>\$ 208,759</u>	<u>\$ (386,282)</u>	<u>\$3,095,867</u>	<u>\$ 222,662</u>

CITY OF MASCOTTE, FLORIDA

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2010

Note 10 - Interfund Receivables, Payables and Transfers:

The composition of interfund balances as of September 30, 2010 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water	<u>\$ 316</u>

The composition of interfund advances as of September 30, 2010 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water	\$376,681
	Sanitation	36,390
		<u>\$413,071</u>

These balances are for working capital loans made that the general fund expects to collect in future years.

Interfund transfers are as follows:

	<u>Transfer In</u>		
	<u>General Fund</u>	<u>Governmental Capital Assets Not a Fund</u>	<u>Total</u>
Transfer Out:			
Nonmajor governmental	\$ 6,800	\$ -	\$ 6,800
Water fund	175,000	-	175,000
Sanitation fund	40,000	-	40,000
Stormwater fund	-	18,409	18,409
	<u>\$ 221,800</u>	<u>\$ 18,409</u>	<u>\$ 240,209</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) move receipts restricted to debt service from the funds as debt service payments become due.

Transfers in the fund statements do not balance due to the transfer of capital assets out of the stormwater fund into the governmental capital assets.

Note 11 - Retirement Plan:

The City has adopted a Defined Contribution Retirement Plan to provide certain benefits for its employees upon their retirement from active service and for their beneficiaries in the event of death.

Eligibility - The plan covers all employees of the City who on the effective date of the plan has (a) completed one year of service prior to the effective date, and (b) attained age 18.

Funding Policy - The City contributes 10% of the compensation of each participant after one year of service. Forfeitures are used to reduce the City's contributions. Employer contributions on behalf of participants are made on each payroll period. Each participant may make voluntary contributions to the plan which are immediately vested. Voluntary contributions may not exceed 10% of the annual compensation paid by the employer to the participant in the plan year.

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2010

Note 11 - Retirement Plans (Continued):

During the year ended September 30, 2010, the City's total payroll was \$1,922,340. The City contributed \$75,144 to the plan for the year ended September 30, 2010. Of this total, \$38,798 was contributed from the forfeiture account. Plan members did not contribute any amount in 2010.

As defined by the plan, normal retirement age is 65.

Vesting Schedule - All voluntary contributions are fully vested to participant. The City's contributions are vested to the individual participants' accounts as follows:

<u>Years of Service</u>	<u>% Vested</u>
3	50%
6 or more	100%

The assets of the plan are held by an independent party acting as investment custodian and plan administrator, and are invested in mutual funds selected by the participant.

Note 12 - Deferred Compensation Plan:

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is administered by ICMA Retirement Corporation. The plan permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Because the Plan Assets are held in trust for the exclusive benefit of plan participants and their beneficiaries, the Plan is not accounted for in the City's fund financials.

Note 13 - Commitments and Contingencies:

Litigation - The City is engaged in various liability claims incidental to the conduct of its general government operations at September 30, 2010. While the ultimate outcome of the litigation cannot be determined at this time, management believes that any amounts not covered by insurance, if any, resulting from these lawsuits would not materially affect the financial position of the City.

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. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded insurance coverage during the past three years.

Note 14 - Subsequent Events:

The City has evaluated subsequent events through February 28, 2011, the date the financial statements were available to be issued.

CITY OF MASCOTTE, FLORIDA

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS

September 30, 2010

	<u>Police Education</u>	<u>Police Forfeitures</u>	<u>Police Automation</u>	<u>Police Impact</u>
ASSETS:				
Cash and cash equivalents	\$ 32,445	\$ 19,663	\$ 40,694	\$ 7,160
Prepaid expenses	-	-	-	-
Total assets	<u>\$ 32,445</u>	<u>\$ 19,663</u>	<u>\$ 40,694</u>	<u>\$ 7,160</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable	\$ -	\$ 10,490	\$ -	\$ -
Due to other funds	-	316	-	-
Total liabilities	<u>-</u>	<u>10,806</u>	<u>-</u>	<u>-</u>
Fund balances:				
Unreserved	32,445	8,857	40,694	7,160
Total fund balances	<u>32,445</u>	<u>8,857</u>	<u>40,694</u>	<u>7,160</u>
Total liabilities and fund balances	<u>\$ 32,445</u>	<u>\$ 19,663</u>	<u>\$ 40,694</u>	<u>\$ 7,160</u>

Fire Impact	Parks and Recreation Impact	Road Impact	Cinco de Mayo Fund	Total Other Governmental Funds
\$ 7,398	\$ 262	\$ 132,906	\$ 119	\$ 240,647
-	-	-	10	10
<u>\$ 7,398</u>	<u>\$ 262</u>	<u>\$ 132,906</u>	<u>\$ 129</u>	<u>\$ 240,657</u>
\$ -	\$ -	\$ -	\$ -	\$ 10,490
-	-	-	-	316
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,806</u>
7,398	262	132,906	129	229,851
7,398	262	132,906	129	229,851
<u>\$ 7,398</u>	<u>\$ 262</u>	<u>\$ 132,906</u>	<u>\$ 129</u>	<u>\$ 240,657</u>

CITY OF MASCOTTE, FLORIDA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES -
OTHER GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2010

	<u>Police Education</u>	<u>Police Forfeitures</u>	<u>Police Automation</u>	<u>Police Impact</u>
REVENUES				
Fees and fines	\$ 4,518	\$ 1,124	\$ 17,050	\$ -
Investment earnings	81	59	65	38
Total revenues	<u>4,599</u>	<u>1,183</u>	<u>17,115</u>	<u>38</u>
EXPENDITURES				
Current:				
Public safety	1,710	2,505	-	-
Total Expenditures	<u>1,710</u>	<u>2,505</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>2,889</u>	<u>(1,322)</u>	<u>17,115</u>	<u>38</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	-	(6,800)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,800)</u>
Net change in fund balances	2,889	(1,322)	17,115	(6,762)
Fund balances - beginning	29,556	10,179	23,579	13,922
Fund balances - ending	<u>\$ 32,445</u>	<u>\$ 8,857</u>	<u>\$ 40,694</u>	<u>\$ 7,160</u>

Fire Impact	Parks and Recreation Impact	Road Impact	Cinco de Mayo Fund	Total Other Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 22,692
20	-	363	-	626
<u>20</u>	<u>-</u>	<u>363</u>	<u>-</u>	<u>23,318</u>
-	-	-	-	4,215
-	-	-	-	4,215
20	-	363	-	19,103
-	-	-	-	(6,800)
-	-	-	-	(6,800)
20	-	363	-	12,303
7,378	262	132,543	129	217,548
<u>\$ 7,398</u>	<u>\$ 262</u>	<u>\$ 132,906</u>	<u>\$ 129</u>	<u>\$ 229,851</u>

CITY OF MASCOTTE, FLORIDA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Police Education

For the Year Ended September 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts,</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES:				
Taxes:				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Fees and fines	2,800	2,800	4,518	1,718
Investment earnings	200	200	81	(119)
Total revenues	<u>3,000</u>	<u>3,000</u>	<u>4,599</u>	<u>1,599</u>
EXPENDITURES:				
Current:				
Public safety	<u>3,000</u>	<u>3,000</u>	<u>1,710</u>	<u>1,290</u>
Total Expenditures	<u>3,000</u>	<u>3,000</u>	<u>1,710</u>	<u>1,290</u>
Excess (deficiency) of revenues over expenditures	-	-	2,889	2,889
Net change in fund balance	-	-	2,889	2,889
Fund balance - beginning	<u>29,566</u>	<u>29,566</u>	<u>29,566</u>	-
Fund balance - ending	<u>\$ 29,566</u>	<u>\$ 29,566</u>	<u>\$ 32,455</u>	<u>\$ 2,889</u>

CITY OF MASCOTTE, FLORIDA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Police Forfeitures

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Fees and fines	\$ 1,500	\$ 2,150	\$ 1,124	\$ (1,026)
Investment earnings	400	400	59	(341)
Total revenues	<u>1,900</u>	<u>2,550</u>	<u>1,183</u>	<u>(1,367)</u>
EXPENDITURES:				
Current:				
Public safety	1,900	2,550	2,505	45
Total Expenditures	<u>1,900</u>	<u>2,550</u>	<u>2,505</u>	<u>45</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(1,322)</u>	<u>(1,322)</u>
Net change in fund balance	-	-	(1,322)	(1,322)
Fund balance - beginning	<u>10,179</u>	<u>10,179</u>	<u>10,179</u>	<u>-</u>
Fund balance - ending	<u>\$ 10,179</u>	<u>\$ 10,179</u>	<u>\$ 8,857</u>	<u>\$ (1,322)</u>

CITY OF MASCOTTE, FLORIDA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Police Automation

For the Year Ended September 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts,</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES:				
Taxes:				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Fees and fines	11,400	11,400	17,050	5,650
Investment earnings	400	400	65	(335)
Total revenues	<u>11,800</u>	<u>11,800</u>	<u>17,115</u>	<u>5,315</u>
EXPENDITURES:				
Current:				
Public safety	<u>11,800</u>	<u>11,800</u>	<u>-</u>	<u>11,800</u>
Total Expenditures	<u>11,800</u>	<u>11,800</u>	<u>-</u>	<u>11,800</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>17,115</u>	<u>17,115</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>17,115</u>	<u>17,115</u>
Fund balance - beginning	<u>23,579</u>	<u>23,579</u>	<u>23,579</u>	<u>-</u>
Fund balance - ending	<u>\$ 23,579</u>	<u>\$ 23,579</u>	<u>\$ 40,694</u>	<u>\$ 17,115</u>

CITY OF MASCOTTE, FLORIDA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Police Impact

For the Year Ended September 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Investment earnings	\$ 500	\$ 500	\$ 38	(462)
Total revenues	<u>500</u>	<u>500</u>	<u>38</u>	<u>(462)</u>
EXPENDITURES:				
Current:				
Public safety	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>500</u>	<u>500</u>	<u>38</u>	<u>(462)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	<u>(6,800)</u>	<u>(6,800)</u>	<u>(6,800)</u>	<u>-</u>
Total other financing sources (uses)	<u>(6,800)</u>	<u>(6,800)</u>	<u>(6,800)</u>	<u>-</u>
Net change in fund balance	<u>(6,300)</u>	<u>(6,300)</u>	<u>(6,762)</u>	<u>(462)</u>
Fund balance - beginning	<u>13,922</u>	<u>13,922</u>	<u>13,922</u>	<u>-</u>
Fund balance - ending	<u>\$ 7,622</u>	<u>\$ 7,622</u>	<u>\$ 7,160</u>	<u>\$ (462)</u>

CITY OF MASCOTTE, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Fire Impact

For the Year Ended September 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts,</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES:				
Investment earnings	\$ 200	\$ 200	\$ 20	\$ (180)
Total revenues	200	200	20	(180)
EXPENDITURES:				
Current:				
Public safety	200	200	-	200
Total Expenditures	200	200	-	200
Excess (deficiency) of revenues over expenditures	-	-	20	20
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources and uses	-	-	-	-
Net change in fund balance	-	-	20	20
Fund balance - beginning	7,378	7,378	7,378	-
Fund balance - ending	\$ 7,378	\$ 7,378	\$ 7,398	\$ 20

CITY OF MASCOTTE, FLORIDA

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Parks and Recreation Impact**

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Investment earnings	\$ 400	\$ 400	\$ -	\$ (400)
Total revenues	400	400	-	(400)
EXPENDITURES:				
Current:				
Culture and recreation	400	400	-	400
Total Expenditures	400	400	-	400
Excess (deficiency) of revenues over expenditures	-	-	-	-
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources and uses	-	-	-	-
Net change in fund balance	-	-	-	-
Fund balance - beginning	262	262	262	-
Fund balance - ending	\$ 262	\$ 262	\$ 262	\$ -

CITY OF MASCOTTE, FLORIDA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Road Impact

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Investment earnings	\$ 2,800	\$ 2,800	\$ 363	\$ (2,437)
Total revenues	<u>2,800</u>	<u>2,800</u>	<u>363</u>	<u>(2,437)</u>
EXPENDITURES:				
Current:				
Public works	<u>2,800</u>	<u>2,800</u>	<u>-</u>	<u>2,800</u>
Total Expenditures	<u>2,800</u>	<u>2,800</u>	<u>-</u>	<u>2,800</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>363</u>	<u>363</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	363	363
Fund balance - beginning	<u>132,543</u>	<u>132,543</u>	<u>132,543</u>	<u>-</u>
Fund balance - ending	<u>\$ 132,543</u>	<u>\$ 132,543</u>	<u>\$ 132,906</u>	<u>\$ 363</u>

CITY OF MASCOTTE, FLORIDA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Cinco de Mayo Fund

For the Year Ended September 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes:				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Investment earnings	-	-	-	-
Total revenues	-	-	-	-
EXPENDITURES:				
Current:				
Total Expenditures	-	-	-	-
Excess (deficiency) of revenues over expenditures	-	-	-	-
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources and uses	-	-	-	-
Net change in fund balance	-	-	-	-
Fund balance - beginning	129	129	129	-
Fund balance - ending	<u>\$ 129</u>	<u>\$ 129</u>	<u>\$ 129</u>	<u>\$ -</u>

OTHER REPORTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and City Commissioners
City of Mascotte, Florida

We have audited the basic financial statements of the *City of Mascotte, Florida*, as of and for the year ended September 30, 2010, and have issued our report thereon dated February 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *City of Mascotte, 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 a 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 a deficiency in internal control over financial reporting, described below that we consider to be a significant deficiency in internal control over financial reporting. 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.

Significant Deficiency

The *City of Mascotte, Florida*, does not have controls over preparation of the financial statements which would prevent or detect a misstatement in the financial statements.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of Mascotte, Florida* financial statements are free of material misstatement, we performed tests on its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The result of our tests disclosed no instances of noncompliance, or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the *City of Mascotte, Florida*, in a separate letter dated February 28, 2011. The City's response to our findings identified in our audit is included in this report. We did not audit the City's response, and accordingly, we express no opinion on it.

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

McDermitt Davis & Company, LLC

McDIRMIT DAVIS & COMPANY, LLC

February 28, 2011

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and City Council
City of Mascotte, Florida

Compliance

We have audited the compliance of *City of Mascotte, Florida* (the City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2010.

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Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

McDiarmid Davis & Company, LLC

February 28, 2011

CITY OF MASCOTTE, FLORIDA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2010

Award Type

**Federal Grantor/Pass-through Grantor/
Program Title**

CFDA No.

Grant No.

Expenditures

Other Federal Awards -

Environmental Protection Agency

passed through:

Florida Department of Environmental Protection:
Capitalization Grants for Clean Water State
Revolving Funds *

66.458

WW408010

\$ 199,005

United States Department of Homeland Security

Federal Emergency Management Agency (FEMA):
Staffing for Adequate Fire & Emergency
Response (SAFER) *

97.044

EMW-2007-FF-00533

174,526

Department of Housing and Urban Development

passed through:

Florida Department of Community Affairs:
Community Development Block Grants -
Housing Rehabilitation

14.228

08DB-T3-06-45-02-H11

76,757

United States Department of Justice

passed through:

Florida Department of Law Enforcement -
Office of Criminal Justice Grants
Edward Byrne Memorial Justice Assistant Grant
Edward Byrne Memorial Justice Assistant Grant
DEA OCDEF Overtime

16.738

2010-JAGD-LAKE-6-4Y-105

1,422

16.738

2010-JAGC-LAKE-3-4X-011

25,534

16.000

333

ARRA -

United States Department of Justice

passed through:

Florida Department of Law Enforcement -
Office of Criminal Justice Grants
Edward Byrne Memorial Justice Assistant Grant
Edward Byrne Memorial Justice Assistant Grant

16.804

2010-ARRC-LAKE-6-W7-063

57,792

16.803

2010-ARRD-LAKE-2-W8-012

5,007

United States Department of Justice

Office of Community Oriented Policing Services(COPS):
COPS Hiring Recovery Program (CHRP)

16.710

2009RKWX0227

46,775

United States Department of Agriculture

passed through:

Florida Department of Agriculture -
Division of Forestry
Forest Health Protection Grant

10.680

Contract No. 015958

19,475

Total Federal Awards

\$ 606,626

* Denotes a major program

CITY OF MASCOTTE, FLORIDA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2010

Note 1 - Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the *City of Mascotte, Florida* (the City) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 and *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF MASCOTTE, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2010

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the *City of Mascotte, Florida*.
2. There were no significant deficiencies relating to the audit of the financial statements reported in the 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*.
3. No instances of noncompliance material to the financial statements of the *City of Mascotte, Florida* were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Federal Program and On Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The Auditor's Report on Compliance for the Major Federal Awards for the *City of Mascotte, Florida* expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for the *City of Mascotte, Florida* are reported in Part C of this schedule.
7. Major federal program identified on the Schedule of Expenditures of Federal Awards is as follows:

<u>Federal Program</u>	<u>CFDA No.</u>
U.S. Department of Environmental Protection Agency - Capitalization Grants for Clean Water State Revolving Funds	66.458
U.S. Department of Homeland Security - FEMA Staffing for Adequate Fire & Emergency Response	97.044

8. The threshold for distinguishing Type A and Type B programs/projects is \$300,000.
9. The *City of Mascotte, Florida* did not qualify as a low risk auditee.

B. Findings - Financial Statement Audit

None reported.

C. Findings and Questioned Costs - Major Federal Awards Programs and State Projects

None reported.

MANAGEMENT LETTER

Honorable Mayor and City Commissioners
City of Mascotte, Florida

We have audited the financial statements of the *City of Mascotte, Florida*, as of and for the fiscal year ended September 30, 2010, and have issued our report thereon dated February 28, 2011.

We conducted our audit in accordance with United States generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our report on Internal Control over Financial Reporting and on Compliance and Other Matters, Independent Auditor's Report on Compliance with Requirements applicable to Each Major Program, and Schedule of Findings and Questioned Costs - Federal Awards Programs. Disclosures in those reports and schedule, which are dated February 28, 2011, should be considered in conjunction with this management letter.

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

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. The status of management's response to recommendations is included in the preceding annual financial report is outlined in Appendix A to this report.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the *City of Mascotte, Florida* complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. Recommendations to improve the City's financial management, accounting procedures and internal controls are reported in Appendix B to this report.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

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- Section 10.554(1)(i)5., Rules of the Auditor General, requires based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including, but not limited to: (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information has been disclosed in the notes to the financial statements.
- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the *City of Mascotte, Florida* did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Sections 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the *City of Mascotte, Florida* for the fiscal ended September 30, 2010, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2010. We determined that these two reports are in agreement.
- Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. Deteriorating financial conditions were noted and are reported in Appendix C to this report.

This management letter is intended solely for the information of the *City of Mascotte, Florida* and management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

McDermitt Davis & Company, LLC

February 28, 2011

CITY OF MASCOTTE, FLORIDA

APPENDIX A - PRIOR YEAR RECOMMENDATIONS

For the Year Ended September 30, 2010

<u>No.</u>	<u>Prior Year's Observations</u>	<u>Observation is Still Relevant</u>	<u>Observation Addressed or No Longer Relevant</u>
ML09-01	Water Revenue Bonds Rate Covenant not met		X
ML09-02	Excess Expenditures over Appropriations		X
ML09-03	Utility Billing and Water Consumption Management Oversight		X
ML09-04	Financial Condition of Water Fund	X	

CITY OF MASCOTTE, FLORIDA

APPENDIX B - CURRENT YEAR RECOMMENDATIONS TO
IMPROVE THE CITY'S FINANCIAL MANAGEMENT, ACCOUNTING
PROCEDURES AND INTERNAL CONTROLS

For the Year Ended September 30, 2010

ML 10-1-Account Reconciliations and Financial Close Procedures

Criteria – Cities need to establish procedures to reconcile general ledger balances to supporting schedules on a continual basis as well as implement closing procedures for the end of the accounting period.

Condition – General Ledger balances do not agree to supporting documentation or prior year information.

Cause – Client does not continually agree general ledger activity to supporting documentation. Financial close procedures established by the City are not implemented.

Effect – The end of the year general ledger balances did not tie to supporting documentation and beginning balances for the year under audit did not tie to prior year ending balances. Information can be entered into the general ledger system for a period that has been closed.

Recommendation – We recommend that the client tie out general ledger balances to supporting schedules on a continual basis and implement the closing procedures established by the City.

ML 10-2-Tracking Fixed Assets

Criteria – Cities are required to maintain fixed asset listing to appropriately track additions, deletions, and depreciation.

Condition – Client does not have fixed asset system properly in place to track additions, deletions, and depreciation.

Cause - City is not using a formal fixed asset system and current use of excel spreadsheets contain several errors. Beginning groupings of fixed assets did not agree to the general ledger, and current year depreciation expense was being calculated by taking the net book value and dividing by the life of the asset.

Effect – Since the City was not properly tracking fixed assets, a prior period correction was needed to tie ending depreciation balances to the general ledger. Asset reclassifications were also needed to correct where assets were originally grouped.

Recommendation - We recommend that the City implement a formal asset system to track and depreciate fixed assets correctly.

CITY OF MASCOTTE, FLORIDA

APPENDIX B - CURRENT YEAR RECOMMENDATIONS TO
IMPROVE THE CITY'S FINANCIAL MANAGEMENT, ACCOUNTING
PROCEDURES AND INTERNAL CONTROLS

For the Year Ended September 30, 2010

ML 10-3-Tracking Debt

Criteria – Cities are required to track debt service payments made to properly record ending principal balance, as well as principal and interest paid during the year.

Condition – The City has several debt issues where payment is made from several funds and the allocation to the funds is not consistent.

Cause – The City does not have a systematic way to allocate principal and interest among the various funds.

Effect – During the audit, it was very difficult to determine total principal and interest paid on various debt issues.

Recommendation – We recommend that the City implement formal procedures to allocate principal and interest. This could be achieved by having separate principal and interest accounts for each debt issue and also having separate amortization schedules by fund.

CITY OF MASCOTTE, FLORIDA

APPENDIX C - CURRENT YEAR DETERIORATING
FINANCIAL CONDITIONS

For the Year Ended September 30, 2010

ML 10-4-Financial Condition of Water Fund

Criteria – Section 10.554(1)(i)7.c., Rules of the Auditor General, requires that the auditor's management letter include a statement that financial condition assessment procedures were applied and, if deteriorating financial conditions are noted, a statement to that fact including a description of the conditions that caused the auditor to reach that conclusion.

Condition – The unrestricted net asset balance of the Water Fund was a deficit of \$416,208 at September 30, 2009 and increased to a deficit of \$604,210 at September 30, 2010. Because of this deficit, the *City of Mascotte, Florida* is close to meeting one of the conditions of Section 218.503(1)(e), Florida Statutes, of being in a condition of financial emergency.

Cause – During 2010, operating revenues were almost enough to cover operating expenses; however, interest expense and transfers out to the General Fund caused a \$327,434 loss.

Effect – Continual decline in the financial stability of the Water Fund could mean the City will meet one of the conditions of a financial emergency. If this occurs, the City must notify the Governor and Legislative Auditing Committee, who will determine what actions must be taken.

Recommendation – We recommend rates be evaluated annually and increased, if needed, to reverse the decline in the financial stability of the Water Fund. In addition, transfers out to the General Fund should be analyzed to determine if they can be reduced.



City of Mascotte

Office of the City Manager

100 East Myers Boulevard
Mascotte, Florida 34753 Fax (352) 429-3345

Phone (352) 429-3341

February 28, 2011

Response to Fiscal year 2009/2010 Audit Management Comments:

The City's annual, independent audit has been completed. The annual audit includes comments by the auditor on aspects of our financial procedures that can be strengthened in order to better protect the City's assets. The following audit comments have been made and addressed:

ML 10-1 – Account Reconciliations and Financial Close Procedures: General Ledger balances do not agree to support documentation or prior year information. Information can be entered in to the general ledger system for a period that has been closed.

Response: While transactions made in 2009/2010 were recorded properly, and cash reconciliations completed on a monthly basis, certain year-end processes for 2008/2009 that should have been completed were not posted prior to rolling the trial balance forward. In turn, certain reversing entries in the current year were not posted at the beginning of the year. This has been corrected and now all closing entries for the current and prior year have been posted. All required entries have been made and the first quarterly financial statement for the current fiscal year reflected the reversals as required. **Corrective Action:** Additional staff support is required for the Finance Director. Cross-training is underway to allow additional time from the Utility Accountant to be utilized in performing ongoing maintenance of supporting general ledger schedules throughout the year. The Finance Director has also been instructed to report to me monthly on the completion of all scheduled financial tasks to ensure that they are properly prioritized and completed

As for entries made to a prior year, this can be done under system control, but only if authorized by the administrator. Months are closed when statements are issued, but they can be re-opened by an administrator if a correction is needed. Currently all months and years are closed for entry except the current quarter.

ML 10-2 – Tracking Fixed Assets: A fixed asset system is not in place to properly track additions, deletions and depreciation.

Response: It appears that the prior Finance Director was in the process of converting the fixed asset system from the old method to the new software system. However, since there was no overlap from prior staff to current, it was difficult to find a fixed asset schedule that had all of the identifiers needed to properly track fixed assets.

Corrective Action: Staff modified a schedule from a prior year and added descriptions and locations where indicated. The auditors reviewed the resulting schedule and it was tied out to the audit schedule. The new audited schedule will be the basis for recording future additions, deletions and depreciation. This schedule will be maintained in a data-format that is usable across applications from now on.

ML 10-3 Tracking Debt: The City does not have a systematic way to allocate principal and interest among the various funds.

Response: The various loan obligations of the City are allocated out over several funds. The method and percentages for these allocations were not clearly conveyed from the former staff to current staff. In the new fiscal year, as adopted in the budget, the allocation of debt service payments will change, and the new entries will be made with project codes in order to make this process easier at the end of this year. Again, additional support staff is needed for the Finance Director to allow appropriate time to complete and maintain supporting schedules throughout the year. Cross-training is underway to allow additional time from the Utility Accountant to be utilized in performing ongoing maintenance of supporting general ledger schedules throughout the year.

ML 10-4 Financial Condition of the Water Fund: The city is close to meeting one of the conditions of Section 218.503(1)(e), Florida Statutes, of being in a condition of financial emergency.

Response: In last year's audit the continued negative performance of the water fund was noted. Changes were made in the 2010/2011 budget to find alternative funding sources for debt, to increase rates and, to reduce the transfer to the general fund and to re-schedule part of the principal payments due to a future year. The City will continue to meet all debt service obligations, however, a review of the debt structure and rates must be done. Enterprise funds should always generate enough in revenues from rates to cover all expenses of the fund, including debt service requirements. A review of the purpose and future use of land purchases, and a rate study to ensure that all obligations are properly covered, are both recommended.

Conclusion

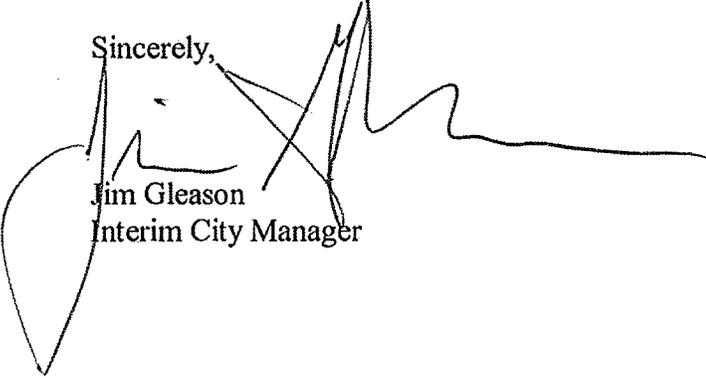
While certain issues were addressed in the audit period, the need for adequate staffing for financial activities is apparent. When the Senior Accountant position was eliminated, approximately half of the position was moved to the Clerk's office in the form of payroll processing. However, expecting that the other half of that position would become available in the Utility Accountant position was overly optimistic. With the use of two part-time customer service cashiers at a lower pay rate, additional hours of coverage are now available. This allows a customer service staff member to be cross-trained in billing, which will free time from the Utility Accountant to assist the Finance Director. I will be providing additional oversight to ensure financial tasks receive their due priority.

Conclusion (continued)

Of greatest concern, however, is the need to address the financial condition of the water fund. Changes were made in the adopted budget to improve the funding picture for outstanding debt, however, these do not address the underlying issue, outstanding debt on assets that are not producing income related to services provided. Solving the underlying problem will require the City to put all options on the table for consideration, including raising rates significantly, divesting (perhaps at a loss) assets that are not providing services, and reviewing the future of City enterprise services in light of greatly lowered economic expectations.

I have already begun discussions with key staff to address these issues and will bring viable recommendations to Council for consideration.

Sincerely,



Jim Gleason
Interim City Manager

Honorable Mayor and City Council
City of Mascotte, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of *the City of Mascotte, Florida*, for the year ended September 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 16, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the *City of Mascotte, Florida* are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the *City of Mascotte, Florida*'s basic financial statements were:

Management's estimate for the allowance for doubtful accounts is based on historical loss levels, and an analysis of the individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for depreciation is based on the estimated useful lives of the capital assets. We evaluated the reasonableness of the useful lives as well as the depreciation methods in determining that it is reasonable in relation to the basic financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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Correct and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 28, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of management, the City Commission and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

McDiernit Davis & Company, LLC

February 28, 2011