

CITY OF BAY LAKE, FLORIDA

**ANNUAL FINANCIAL REPORT
AND COMPLIANCE REPORTS**

Year Ended September 30, 2012

CITY OF BAY LAKE, FLORIDA

ANNUAL FINANCIAL REPORT AND COMPLIANCE REPORTS

Year Ended September 30, 2012

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Report of Independent Certified Public Accountants

The Honorable Mayor and City Council
City of Bay Lake, Florida

We have audited the accompanying financial statements of the governmental activities and general fund of the City of Bay Lake, Florida (the City) as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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 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. We were not engaged to perform an audit of the City's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and 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 and general fund of the City as of September 30, 2012, and the respective changes in financial position and the budgetary comparison for the general fund for the year then ended in conformity with US generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States require that management's discussion and analysis on page 3 through 5 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, 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.

Ernst + Young LLP

January 17, 2013

CITY OF BAY LAKE, FLORIDA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis of City of Bay Lake, Florida's (the "City") financial performance provides an overview of the City's activities for the fiscal year ended September 30, 2012. Please read it in conjunction with the financial statements, which begin on page 6.

Overview of the Financial Statements

Government-wide Financial Statements. The government-wide and fund financial statements are combined for this annual report, as all activities of the City are governmental activities. The report consists of the government-wide and fund statements and notes to the financial statements. The statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. The City uses the economic resources measurement focus and the accrual basis of accounting. All changes in net position are reported as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Governmental fund financial statements utilize the modified accrual basis of accounting and 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. Reconciliation of the government-wide and fund financial statements is provided on the face of the financial statements and is explained in Note 2 on page 11.

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 the financial statements can be found on pages 9 – 13 of this report.

Financial Analysis

City's Net Position

	2012	2011
Total Assets	\$ 5,903,903	\$ 5,385,778
Total Liabilities	35,144	36,145
Net Position - unrestricted	\$ 5,868,759	\$ 5,349,633

CITY OF BAY LAKE, FLORIDA

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED

Net position may serve over time as a useful indicator of the City's financial position. At the close of the fiscal year, assets exceeded liabilities by \$5,868,759. Governmental Accounting Standards do not allow net position to be represented as "restricted" unless there are external legal restrictions on how they may be used. Thus, while there may be long-term management plans for unrestricted net position, they must be shown as unrestricted until such external restrictions occur.

City's Change in Net Position

	2012	2011
Revenues:		
General Revenues:		
Ad valorem taxes - net	\$ 5,268,488	\$ 5,231,003
Licenses and fees	17,194	17,795
Interest income	7,088	28,314
Total revenues	5,292,770	5,277,112
Expenses:		
General government	14,094	13,977
Public Safety	4,744,734	4,727,053
Physical environment	14,816	39,861
Transportation	-	-
Total Expenses	4,773,644	4,780,891
Increases in net position	519,126	496,221
Net position - beginning	5,349,633	4,853,412
Net position - ending	\$ 5,868,759	\$ 5,349,633

Governmental funds provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. The City's net position increased \$519,126 as a result of this year's operations.

The City's primary revenue source is ad valorem taxes. Ad valorem tax revenue for the current period was over 99% of total revenues. Ad valorem tax revenue increased .7% from the prior year. The City's largest expenditure is for contracted law enforcement services with Orange County, Florida. Expenditures under this contract totaled \$3,513,607 for the current year, which represents approximately 74% of total expenditures. This was a slight increase from the prior year contract amount.

Budgetary Highlights

There were no amendments to the budget or transfers between activity budgets during the year.

CITY OF BAY LAKE, FLORIDA

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate of the Central Florida area is currently averaging 8.1%. This is consistent with the state's average unemployment rate of 8.1% and is greater than the national average rate of 7.7%.
- Fiscal year 2013 assessed values increased by 3.6%.
- Inflationary trends in the region compare to national indices.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Auditor, City of Bay Lake, P.O. Box 22066, Lake Buena Vista, FL 32830.

CITY OF BAY LAKE, FLORIDA
GENERAL FUND BALANCE SHEET / STATEMENT OF NET POSITION

September 30, 2012

ASSETS	General Fund	Adjustments (Note 2)	Statement of Net Position
Cash and cash equivalents	\$ 3,397,585	\$ -	\$ 3,397,585
Investments	2,506,318	-	2,506,318
Total Assets	\$ 5,903,903	-	5,903,903
LIABILITIES			
Accounts payable	\$ 35,144	-	35,144
Total Liabilities	35,144	-	35,144
FUND BALANCE / NET POSITION			
Fund Balance:			
Assigned:			
2013 Budget Shortfall	13,480	(13,480)	-
Unassigned	5,855,279	(5,855,279)	-
Total Liabilities and Fund Balance	\$ 5,903,903		
Net position:			
Unrestricted		5,868,759	5,868,759
Total Net Position		\$ -	\$ 5,868,759

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

CITY OF BAY LAKE, FLORIDA
STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE / STATEMENT OF ACTIVITIES

Year Ended September 30, 2012

	General Fund	Adjustments (Note 2)	Statement of Activities
REVENUES			
Ad valorem taxes	\$ 5,268,488	\$ -	\$ 5,268,488
Licenses and fees	17,194	-	17,194
Interest income	7,088	-	7,088
Total revenues	5,292,770	-	5,292,770
EXPENDITURES			
General Government:			
Outside services and fees	86	-	86
Professional services	7,500	-	7,500
Insurance	5,000	-	5,000
Advertising	464	-	464
Dues and subscriptions	977	-	977
Operating supplies	67	-	67
	14,094	-	14,094
Public Safety:			
Outside services and fees	4,744,734	-	4,744,734
Pollution Control:			
Operating supplies	14,816	-	14,816
Total expenditures	4,773,644	-	4,773,644
Excess of revenues over (under) expenditures	519,126	(519,126)	-
Change in net position	-	519,126	519,126
Fund balance / net position:			
Beginning of year	5,349,633	-	5,349,633
End of year	\$ 5,868,759	\$ -	\$ 5,868,759

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

CITY OF BAY LAKE, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND

Year Ended September 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Ad valorem taxes	\$ 5,268,106	\$ 5,268,106	\$ 5,268,488	\$ 382
Licenses and fees	17,500	17,500	17,194	(306)
Interest income	18,000	18,000	7,088	(10,912)
Total revenues	<u>5,303,606</u>	<u>5,303,606</u>	<u>5,292,770</u>	<u>(10,836)</u>
EXPENDITURES				
General Government:				
Outside services and fees	1,000	1,000	86	914
Professional services	7,500	7,500	7,500	-
Insurance	5,000	5,000	5,000	-
Advertising	3,000	3,000	464	2,536
Dues and subscriptions	1,500	1,500	977	523
Operating supplies	500	500	67	433
	<u>18,500</u>	<u>18,500</u>	<u>14,094</u>	<u>4,406</u>
Public Safety:				
Outside services and fees	5,000,000	5,000,000	4,744,734	255,266
Pollution Control:				
Operating supplies	50,000	50,000	14,816	35,184
Total expenditures	<u>5,068,500</u>	<u>5,068,500</u>	<u>4,773,644</u>	<u>294,856</u>
Excess of Revenues Over Expenditures	<u>\$ 235,106</u>	<u>\$ 235,106</u>	519,126	<u>\$ 284,020</u>
Fund Balance, beginning of year			<u>5,349,633</u>	
Fund Balance, end of year			<u>\$ 5,868,759</u>	

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

CITY OF BAY LAKE, FLORIDA

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Bay Lake is a municipal corporation of the State of Florida created in Chapter 67-1104 on May 12, 1967 by a special act of the legislature. The City of Bay Lake, Florida (the City) is governed by a five-member City Council elected by the residents of the City. The accompanying financial statements present the financial position and changes in financial position of the applicable fund controlled by or dependent upon the City. In evaluating the City as a reporting entity, management has addressed all potential component units for which the City may or may not be financially accountable and, as such, be includable within the City's financial statements. No component units exist that would require inclusion in the City's financial statements.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the City. The City only has governmental activities and does not engage in any business-type activities. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include licenses and fees. General revenues include ad valorem taxes and interest income. Fund financial statements are presented for the City's general fund. The City has no other funds.

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. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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 City considers revenues to be available if they are collected within sixty days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

D. Property Taxes

Property taxes are billed, collected and recorded within the same fiscal period. Ad valorem taxes on property values have a lien and assessment date of January 1, with millage established during the preceding September. The fiscal year for which taxes are levied begins October 1. Taxes, which are billed in November, carry a maximum discount available through November 30, and become delinquent April 1. State Statutes permit the City to levy property taxes at a rate up to 10 mills. The millage rate assessed by the City for the fiscal year ended September 30, 2012, was 1.1394 mills.

CITY OF BAY LAKE, FLORIDA

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Year Ended September 30, 2012

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

E. Cash and Cash Equivalents

Cash and cash equivalents consist of non-interest bearing demand accounts, money market funds and investments with a maturity of three months or less when purchased. Cash and cash equivalents are carried at cost, which approximates fair value.

F. Investments

Investments are stated at fair value based upon quoted market prices.

G. Annual Budget

An annual budget is adopted for the General Fund on a basis consistent with accounting principles generally accepted in the United States of America. Budgetary procedures are as follows:

- (1) The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing on October 1.
- (2) Public hearings are conducted to obtain taxpayer comments.
- (3) Prior to October 1, the budget is legally enacted through passage of an ordinance.
- (4) Budgetary control is legally maintained at the department level.
- (5) Budget appropriations lapse at the end of each fiscal year.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

I. Fund Balance

On the Balance Sheet, fund balances may be classified as follows:

Nonspendable – The portion of fund balance that includes amounts that cannot be spent because they are either not in a spendable form or legally or contractually required to be maintained intact.

Restricted – Amounts that can only be used for specific purposes due to constraints that have been placed on them by external parties, constitutional provisions or enabling legislation.

Committed – Amounts that are constrained for specific purposes that are internally imposed through formal action of the City Council and does not lapse at year end.

Assigned – Amounts constrained by the City Council to be used for a specific purpose.

Unassigned – All amounts not included in other spendable classifications.

CITY OF BAY LAKE, FLORIDA

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Year Ended September 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

I. Fund Balance – Continued

When expenditures are incurred for payment from spendable fund balance, assigned is used first, followed by unassigned fund balance. The City does not have a formal minimum fund balance policy.

J. New Accounting Pronouncements

Effective October 1, 2011, the City adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 66, *Technical Corrections – 2012 an amendment of GASB Statements No. 10 and No. 62*. Statement No. 62 is intended to improve financial reporting by contributing to the GASB’s efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. Statement No. 63 is intended to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government’s net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. Statement No. 66 resolves conflicting guidance resulting from the issuance of two pronouncements, Statements No. 54 and No. 62.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

During the current fiscal year, there are no reconciling items between “excess of revenues over (under) expenditures” and “change in net position” on the statement of activities. For purposes of the statement of net position and the statement of activities, general fund balance has been reclassified as net position-unrestricted.

3. DEPOSITS AND INVESTMENTS

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

Investment Type	Fair Value	Investment Maturities (in years)	
		Less Than 1	1 - 5
Demand deposits	\$ 137,980	\$ 137,980	\$ -
U.S. Treasury Securities	2,506,318	-	2,506,318
Money market mutual funds	3,259,605	3,259,605	-
Totals	<u>\$ 5,903,903</u>	<u>\$ 3,397,585</u>	<u>\$ 2,506,318</u>

CITY OF BAY LAKE, FLORIDA

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Year Ended September 30, 2012

3. DEPOSITS AND INVESTMENTS – Continued

Credit Risk. The City conducts its investment activity within the guidelines established by Florida Statute Section 218.415(17), Local Government Investment Policies. Under subsection 17, Authorized Investments; No Written Investment Policy, authorized investments include the Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency, interest bearing time deposits or savings accounts in qualified public depositories as defined in Chapter 280, *Florida Statutes*, and direct obligations of the U.S. Treasury.

Interest Rate Risk. The Statutory guidelines state that the City's investments provide sufficient liquidity to pay obligations as they come due. 55% of the City's funds are invested in money market funds with a weighted average maturity of the portfolio of not more than 90 days.

Custodial Credit Risk. The City's investments are insured or registered and held by its agent in the City's name.

In addition to demand accounts, the City classifies money market funds as cash and cash equivalents. As of September 30, 2012, deposits and investments of the City totaled \$5,903,903. The following is a summary of these amounts as reflected on the Balance Sheet / Statement of Net Position:

	<u>Totals</u>
Statement of Net Position Classifications:	
Cash and cash equivalents	\$ 3,397,585
Investments	2,506,318
	<u>\$ 5,903,903</u>

4. NET ASSETS AND FUND BALANCE REPORTING

In the Balance Sheet, fund balance has been classified in two spendable categories: *assigned* and *unassigned*. The assigned amount represents that portion of fund balance designated by City Council to cover the projected excess of expenditures over revenues in the fiscal year 2013 budget. Unassigned fund balance is available for spending at the Council's discretion. Note 1(G) discusses the City's budget approval process.

5. COMMITMENTS

The City contracts with Orange County, Florida, to provide law enforcement services within the City. The current contract provides for the City to make quarterly payments of the annual amount which has been determined based on the services to be provided. For fiscal year 2012, the City paid the County \$3,513,607.

Report of Independent Certified Public Accountants on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*

Mr. Bill Warren, City Manager, and
The Honorable Mayor and City Council
City of Bay Lake, Florida

We have audited the financial statements of the governmental activities and general fund of the City of Bay Lake, Florida (the City) as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 17, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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 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 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.

Compliance and other matters

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

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

Ernst + Young LLP

January 17, 2013

Bill Warren, City Manager, and
The Honorable Mayor and City Council
City of Bay Lake, Florida

In planning and performing our audit of the financial statements of the City of Bay Lake, Florida (the City) as of and for the year ended September 30, 2012 in accordance with auditing standards generally accepted in the United States, we considered its internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

We conducted our audit in accordance with United States generally accepted auditing standards, and *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*. Disclosures in that report, dated January 17, 2013, should be considered in conjunction with this report.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Additionally, our audit was conducted in accordance with 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. The letter includes the following information, which is not included in the aforementioned auditor's report.

Section 10.554(1)(i)1., *The Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no recommendations in the preceding annual financial 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, nothing came to our attention that would cause us to believe that the City was not in compliance with Section 218.415, *Florida Statutes*.

Section 10.554(1)(i)3., *Rules of the Auditor General*, require that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)4., *Rules of the Auditor General*, require that we address violations of provisions of contracts, fraud, illegal acts, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we were not made aware of such matters.

Section 10.554(1)(i)5., *Rules of the Auditor General*, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not report 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 the management letter, unless disclosed in the notes to the financial statements. This information is 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 government entity has met one or more of the conditions described in Section 218.503(1), *Florida Statutes*, and identification of specific condition(s) met. In connection with our audit, nothing came to our attention that would cause us to believe that the City met any of the conditions described in Section 218.503(1), *Florida Statutes*.

Section 10.554(1)(i)7.b., *Rules of the Auditor General*, requires that we determined whether the annual financial report for the City for the fiscal year ended September 30, 2012, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), *Florida Statutes*, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2012. In connection with our audit, we were not made aware of any material differences between the annual financial report and the audited financial statements.

Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), *Rules of the Auditor General*, we applied financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst + Young LLP

January 17, 2013