

**TOWN OF CLOUD LAKE
CLOUD LAKE, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2012**

**TOWN OF CLOUD LAKE
CLOUD LAKE, FLORIDA**

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Cloud Lake, Florida

We have audited the accompanying financial statements of the governmental activities and the major fund of Town of Cloud Lake, Florida (the "Town") as of and for the fiscal year ended September 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town'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 the 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 and the major fund of the Town as of September 30, 2012, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2013, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 of America require that the management's discussion and analysis and budgetary comparison information 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.

Grau & Associates
February 5, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Town of Cloud Lake, Florida (the "Town") provides a narrative overview of the Town's financial activities for the fiscal year ended September 30, 2012. Please read it in conjunction with the Town's Independent Auditor's Report, basic financial statements, accompanying notes and supplementary information to the basic financial statements.

This information is being presented to provide additional information regarding the activities of the Town and to meet the disclosure requirements of Government Accounting Standards Board Statement ("GASB") No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Comparative information between the current year and the prior year is required to be presented in the Management's Discussion and Analysis ("MD&A"). However, there was no audit for the prior fiscal year, therefore, the balances as of and for the fiscal year ended September 30, 2011 are unaudited.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year resulting in a net asset balance of \$605,739.
- The change in the Town's total net assets in comparison with the prior year was \$4,598, an increase. The key components of the Town's net assets and change in net assets are reflected in the table in the government-wide financial analysis section.
- At September 30, 2012, the Town's governmental funds reported combined ending fund balances of \$573,525, an increase of \$2,239 in comparison with the prior fiscal year. A portion of the fund balance is assigned to capital projects and the remainder is unassigned fund balance which is available for spending at the Town's discretion.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as the introduction to the Town's basic financial statements. The Town's basic financial statements are comprised of 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 Town's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all the Town'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 Town 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.

The government-wide financial statements include all governmental activities that are principally supported by rental and general revenues. The Town does not have any business-type activities. The functions/programs are: general government and physical environment.

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

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 Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Town has one fund category: governmental 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 Town'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 Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains one governmental fund, the general fund.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with the budget.

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the Town, assets exceeded liabilities at the close of the most recent fiscal year.

Key components of the Town's net assets are reflected in the following table:

	NET ASSETS SEPTEMBER 30,	
	2012	2011 (unaudited)
Assets, excluding capital assets	\$ 584,161	\$ 571,286
Capital assets, net of depreciation	32,214	29,855
Total assets	616,375	601,141
Liabilities, excluding long-term liabilities	10,636	-
Total liabilities	10,636	-
Net assets		
Invested in capital assets	32,214	29,855
Unrestricted	573,525	571,286
Total net assets	\$ 605,739	\$ 601,141

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

A portion of the Town's net assets reflects its investment in capital assets (e.g. equipment and infrastructure). These assets are used to provide services to residents; consequently, these assets are not available for future spending.

The Town's net assets increased during the most recent fiscal year. The majority of the increase represents the extent to which ongoing program revenues exceeded the cost of operations and depreciation expense.

Key elements of the change in net assets are reflected in the following table:

CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30,

	2012	2011 (unaudited)
Revenues:		
Program revenues	\$ 120,699	\$ 127,915
General revenues	32,646	31,805
Total revenues	<u>153,345</u>	<u>159,720</u>
Expenses:		
General government	113,103	69,637
Physical environment	35,644	35,219
Total expenses	<u>148,747</u>	<u>104,856</u>
Change in net assets	<u>4,598</u>	<u>54,864</u>
Net assets, beginning	<u>601,141</u>	<u>546,277</u>
Net assets, ending	<u>\$ 605,739</u>	<u>\$ 601,141</u>

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2012 was \$148,747. The majority of the costs of the Town's activities were paid by program revenues. Program revenues, comprised primarily of rental and lease income, decreased during the fiscal year as a result of shrinkage in base revenue for the rental and lease contracts.

GENERAL FUND BUDGETARY HIGHLIGHTS

An operating budget was adopted and maintained by the governing board for the Town pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Town Council. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2012.

Actual general fund expenditures for the fiscal year ended September 30, 2012 were less than appropriations due primarily to anticipated costs which were not incurred in the current fiscal year. The variance between budgeted and actual general fund revenues for the current fiscal year is the result of less than expected rental revenue.

CAPITAL ASSETS

Pursuant to Government Accounting Standards Board Statement ("GASB") No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999, prospective reporting of general infrastructure assets in the statement of net assets is required beginning at the effective dates of Statement 34. Retroactive reporting of major general infrastructure assets may be required if the entity meets certain criteria. The Town, however, is a Phase 3 government which is encouraged but not required to report major general infrastructure assets retroactively. The Town has not elected to report its major general infrastructure assets retroactively.

CAPITAL ASSETS (Continued)

At September 30, 2012, the Town had \$63,879 invested in equipment, wiring, building improvements and drainage for its governmental activities. In the government-wide financial statements depreciation of \$31,665 has been taken, which resulted in a net book value of \$32,214. More detailed information about the Town's capital assets is presented in the notes of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Town's local economy is primarily based upon residential activity. Management expects its population to remain consistent for the upcoming year. The Town does not levy ad valorem taxes and continues to rely upon its existing revenue sources which are primarily from rental and lease agreements, intergovernmental tax and revenue sharing.

TOWN WIDE GOALS AND OBJECTIVES

The Town's main objective is to maintain a low density residential oriented community with compatible business and professional uses on Southern Boulevard and to preserve the conservation and open space areas.

Services for the Town such as water and wastewater and police protection have historically been provided through interlocal agreements with no cost to the Town. Fire protection is provided by Palm Beach County through its Municipal Service Taxing Unit (MSTU) where each property owner is assessed directly by the County on their tax bill for this service.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Cloud Lake's finances for all of those with an interest in the Town's finances.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Town Clerk at the Town of Cloud Lake, 100 Lang Road, Cloud Lake, FL 33406.

**TOWN OF CLOUD LAKE
CLOUD LAKE, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 582,306
Accounts receivable	1,855
Capital assets:	
Depreciable, net	32,214
Total assets	616,375
 LIABILITIES	
Accounts payable	10,636
Total liabilities	10,636
 NET ASSETS	
Invested in capital assets	32,214
Unrestricted	573,525
Total net assets	\$ 605,739

See notes to the financial statements

**TOWN OF CLOUD LAKE
CLOUD LAKE, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</u>
Primary government:			
Governmental activities:			
General government	\$ 113,103	\$ 113,103	\$ -
Physical environment	35,644	7,596	(28,048)
Total governmental activities	<u>148,747</u>	<u>120,699</u>	<u>(28,048)</u>
General revenues:			
Utility taxes			4,215
Franchise fees			4,426
Communication services tax			1,706
Intergovernmental revenues, not restricted for specific programs			19,638
Unrestricted investment earnings			858
Other revenues			1,803
Total general revenues			<u>32,646</u>
Change in net assets			4,598
Net assets - beginning			601,141
Net assets - ending			<u>\$ 605,739</u>

See notes to the financial statements

**TOWN OF CLOUD LAKE
CLOUD LAKE, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUND
SEPTEMBER 30, 2012**

	Major Fund	Total
	General Fund	Governmental Fund
ASSETS		
Cash and cash equivalents	582,306	\$ 582,306
Intergovernmental receivable	1,855	1,855
Total assets	\$ 584,161	\$ 584,161
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	10,636	\$ 10,636
Total liabilities	10,636	10,636
Fund balance:		
Assigned to:		
Capital projects	75,587	75,587
Unassigned:		
General fund	497,938	497,938
Total fund balance	573,525	573,525
Total liabilities and fund balance	\$ 584,161	\$ 584,161
Fund balance - governmental funds		\$ 573,525

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The statement of net assets includes those capital assets in the net assets for the government as a whole.

Cost of capital assets	63,879	
Accumulated depreciation	(31,665)	32,214
Net assets of governmental activities		\$ 605,739

**TOWN OF CLOUD LAKE
CLOUD LAKE, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

	Major Fund	Total Governmental
	General Fund	Fund
REVENUES		
Franchise fees	\$ 4,426	\$ 4,426
Utility taxes	4,215	4,215
Communication service tax	1,706	1,706
Licenses and permits	5,699	5,699
Intergovernmental revenue	19,638	19,638
Investments income	858	858
Lease and rental revenues	115,000	115,000
Other revenues	1,803	1,803
Total revenues	153,345	153,345
EXPENDITURES		
Current:		
General government	113,103	113,103
Physical environment	18,861	18,861
Capital outlay	19,142	19,142
Total expenditures	151,106	151,106
Excess (deficiency) of revenues over (under) expenditures	2,239	2,239
Fund balance - beginning	571,286	571,286
Fund balance - ending	\$ 573,525	\$ 573,525
Net change in fund balance - total governmental funds		\$ 2,239

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

Governmental funds report capital outlays as expenditures.

However, the cost of those assets is eliminated in the statement of activities and capitalized in the statement of net assets.

12,931

Depreciation on capital assets is not recognized in the governmental fund statements but is reported as an expense in the statement of activities.

(10,572)

Change in net assets of governmental activities

\$ 4,598

See notes to the financial statements

**TOWN OF CLOUD LAKE
CLOUD LAKE, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 – NATURE OF ORGANIZATION AND REPORTING ENTITY

Reporting Entity

The Town of Cloud Lake, Florida (the "Town"), was incorporated in 1951. The Town is governed by an Elected Mayor. There is an appointed Town Clerk that handles the day-to-day operations. The Town Council ("Council") is responsible for legislative and fiscal control of the Town.

The Town provides services to its residents which include general government and physical environment. Public safety such as police services, water and wastewater, and refuse services are provided to residents by other entities through interlocal agreements with the Town. Fire services are provided by Palm Beach County.

The basic financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial statements were prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement 14, and Statement 39, an amendment of GASB Statement 14. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the Town Council is considered to be financially accountable and other organizations for which the nature and significance of their relationship with the Town are such that, if excluded, the financial statements of the Town would be considered incomplete or misleading. There are no entities considered to be component units of the Town; therefore, the financial statements include only the operations of the Town.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING

Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government.

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 who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment (Operating-type special assessments for maintenance and debt service are treated as charges for services.) and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not included among program revenues are reported instead as *general revenues*.

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. Property taxes, if applicable, are recognized as revenues in the year for which they are levied. Grants and similar items are to be recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING (Continued)

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

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 Town considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, expenditures for certain items, including claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

Franchise fees and communications taxes, licenses and permits, and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized in revenues for the current period. The portion of receivables due within the current fiscal period is considered to be susceptible to accrual as revenue for the current period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The Town reports the following major governmental fund:

General Fund

The general fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand and demand deposits.

The Town has elected to proceed under the Alternative Investment Guidelines as set forth in Section 218.415 (17) Florida Statutes. The Guidelines allow the Town to invest in relatively low risk securities, including the State Board of Administration Local Governmental Surplus Trust Fund.

The Town records all interest revenue related to investment activities in the respective funds and reports investments at fair value.

Receivables

The Town's policy is to report accounts and intergovernmental receivables net of an allowance for uncollectibles. All of the Town's receivables are considered collectible at September 30, 2012; therefore, no allowance has been estimated.

Inventories and Prepaid Items

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Capital Assets

Capital assets, which include property, plant and equipment, building improvements, and infrastructure assets (e.g., roads, sidewalks and similar items) are reported in the government activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) 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 assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the Town are depreciated using the sum of the years' method over the following estimated useful lives:

Assets	Years
Equipment	7
Drainage	7
Wiring	7
Building improvements	39

In the governmental fund financial statements, amounts incurred for the acquisition of capital assets are reported as fund expenditures. Depreciation expense is not reported in the governmental fund financial statements.

However, pursuant to Government Accounting Standards Board Statement ("GASB") No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999, prospective reporting of general infrastructure assets in the statement of net assets is required beginning at the effective dates of Statement 34. Retroactive reporting of major general infrastructure assets may be required if the entity meets certain criteria. The Town, however, is a Phase 3 government which is encouraged but not required to report major general infrastructure assets retroactively. The Town has not elected to report its major general infrastructure assets retroactively. Further, the Town does not own or maintain any significant capital assets, including general infrastructure, which are required to be reported.

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Fund Equity/Net Assets

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING (Continued)

Fund Equity/Net Assets (Continued)

The Town can establish limitations on the use of fund balance as follows:

Committed fund balance – Amounts that can be used only for the specific purposes determined by a formal action (resolution) of the Town Council. Commitments may be changed or lifted only by the Town Council taking the same formal action (resolution) that imposed the constraint originally. Resources accumulated pursuant to stabilization arrangements sometimes are reported in this category.

Assigned fund balance – Includes spendable fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. The Town Council may also assign fund balance as it does when appropriating fund balance to cover differences in estimated revenue and appropriations in the subsequent year's appropriated budget. Assignments are generally temporary and normally the same formal action need not be taken to remove the assignment.

The Town first uses committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Net assets in the government-wide financial statements are categorized as invested in capital assets, restricted or unrestricted. Invested in capital assets represents net assets related to infrastructure and property, plant and equipment.

Other Disclosures

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3 – BUDGETARY INFORMATION

The Town is required to establish a budgetary system and an approved Annual Budget. Annual Budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and all annual appropriations lapse at fiscal year end.

The Town follows these procedures in establishing the budgetary data reflected in the financial statements.

- a) Each year the Town Clerk submits to the Town Council a proposed operating budget for the fiscal year commencing the following October 1.
- b) Public hearings are conducted to obtain public comments.
- c) Prior to October 1, the budget is legally adopted by the Town Council.
- d) All budget changes must be approved by the Town Council.
- e) The budgets are adopted on a basis consistent with generally accepted accounting principles.
- f) Unused appropriation for annually budgeted funds lapse at the end of the year.

NOTE 7 – LEASE AGREEMENT

In March 2006, the Town entered into a lease agreement for the purpose of constructing and installing an advertising billboard. The lease is for 10 years with a monthly payment of guaranteed rent in the amount of approximately \$11,667 per month or payment of 55% of the additional rent on net income each month generated by the revenues received by the third party if greater than the guaranteed rent. The lease agreement was amended for the year ended September 30, 2012 reducing the monthly guaranteed rent to approximately \$9,583 per month. Effective October 1, 2012, the guaranteed monthly rental is contractually set to increase to the original amount of \$11,667 per month. Rent commenced in August 2006. For the most recent fiscal year the Town received approximately \$115,000 in association with the lease agreement. During the most recent fiscal year the Town remitted \$52,466 of sales tax to the Department of Revenue which covered sales taxes collected from 2006 through the end of the 2012 fiscal year end.

NOTE 8 – OTHER INFORMATION

Services for police, water and wastewater, and refuse are provided to Town residents by other entities through interlocal agreements with the Town. Historically, the Town has paid for refuse services and the costs of the water and wastewater are billed to the residents with no cost to the Town. The Town has a rolling four year commitment with Waste Management, Inc. of Florida relating to a solid waste and recycling residential collection agreement. The agreement renews automatically unless notified by either party at least 120 days prior to the end of the applicable term. The agreement was renewed in April 2011.

**TOWN OF CLOUD LAKE
CLOUD LAKE, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

	Budgeted Amounts Original & Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Franchise fees	\$ 5,000	\$ 4,426	\$ (574)
Utility Tax	4,000	4,215	215
Communication service tax	1,815	1,706	(109)
Licenses and permits	5,894	5,699	(195)
Intergovernmental revenue	19,674	19,638	(36)
Investments income	1,000	858	(142)
Rental revenue	115,000	115,000	-
Miscellaneous	120	1,803	1,683
Total revenues	<u>152,503</u>	<u>153,345</u>	<u>842</u>
EXPENDITURES			
Current:			
General government	78,902	113,103	(34,201)
Physical environment	73,601	18,861	54,740
Capital outlay	-	19,142	(19,142)
Total expenditures	<u>152,503</u>	<u>151,106</u>	<u>1,397</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	2,239	<u>\$ 2,239</u>
Fund balance - beginning		<u>571,286</u>	
Fund balance - ending		<u>\$ 573,525</u>	

See notes to required supplementary information

**TOWN OF CLOUD LAKE
CLOUD LAKE, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

The Town is required to establish a budgetary system and an approved Annual Budget for the general fund. The Town's budgeting process is based on estimates of cash receipts and cash expenditures which are approved by the Town Council. The budget approximates a basis consistent with accounting principles generally accepted in the United States of America (generally accepted accounting principles).

The legal level of budgetary control, the level at which expenditures may not exceed the budget is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Council. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2009.

Actual general fund expenditures for the fiscal year ended September 30, 2012 were less than appropriations due primarily to anticipated costs which were not incurred in the current fiscal year. The variance between budgeted and actual general fund revenues for the current fiscal year is the result of less than expected rental revenue.



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

To the Town Council
Town of Cloud Lake, Florida

We have audited the financial statements of the governmental activities and each major fund of the Town of Cloud Lake, Florida (the "Town") as of and for the fiscal year ended September 30, 2012, which collectively comprise the Town's basic financial statements and have issued our report thereon dated February 5, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Town is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 for the information of the management, Council of the Town 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.

Grau & Associates

February 5, 2013



**MANAGEMENT LETTER PURSUANT TO THE RULES OF
THE AUDITOR GENERAL FOR THE STATE OF FLORIDA**

To the Town Council
Town of Cloud Lake, Florida

We have audited the accompanying basic financial statements of the Town of Cloud Lake, Florida (the "Town") as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated February 5, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Florida Auditor General. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In addition, we have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards* dated February 5, 2013. Disclosures in that report should be considered in conjunction with this management letter.

The purpose of this letter is to comment on those matters required by Chapter 10.550 of the Rules of the Auditor General for the State of Florida. Accordingly, in connection with our audit of the financial statements of the Town, as described in the first paragraph, we report the following:

- I. Current year findings and recommendations.**
- II. Status of prior year findings and recommendations.**
- III. Compliance with the Provisions of the Auditor General of the State of Florida.**

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. This letter is intended for the information of the management, Council of the Town 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.

We wish to thank the Town and the personnel associated with it, for the opportunity to be of service to them in this endeavor as well as future engagements and the courtesies extended to us.

Grau & Associates
February 5, 2013

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Not applicable – there was no audit required for the fiscal year ended September 30, 2011.

III. COMPLIANCE WITH THE PROVISIONS OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA

Unless otherwise required to be reported in the auditor's report on compliance and internal controls, the management letter shall include, but not be limited to the following:

1. A statement as to whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.

Not applicable, there was no audit required for the fiscal year ended September 30, 2011.

2. A statement as to whether or not the local governmental entity complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

The Town complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

3. Any recommendations to improve the local governmental entity's financial management.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported for the fiscal year ended September 30, 2012.

4. Violations of provisions of contracts or grant agreements, or abuse that have an effect on the financial statements that is less than material but more than inconsequential.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported, for the fiscal year ended September 30, 2012.

5. For matters that have an inconsequential effect on the financial statements, considering both quantitative and qualitative factors, the following may be reported based on professional judgment:

- a. Violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse.

- b. Control deficiencies that are not significant deficiencies.

There were no such matters discovered by, or that came to the attention of, the auditor, that, in our judgment, are required to be reported, for the fiscal year ended September 30, 2012.

6. The name or official title and legal authority of the Town are disclosed in the notes to the financial statements.

REPORT TO MANAGEMENT (Continued)

7. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes agrees with the September 30, 2012 financial audit report.
8. The Town has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.
9. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and no deteriorating financial conditions were noted. It is management's responsibility to monitor 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.

