

CITY OF DUNNELLON, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2012

CITY OF DUNNELLON, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2012

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The Honorable Mayor  
and Members of the City Council  
City of Dunnellon, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major funds, and the aggregate remaining fund information of the City of Dunnellon, Florida, (City) as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Dunnellon's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

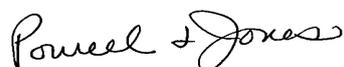
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major funds, and the aggregate remaining fund information of the City of Dunnellon, Florida as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 9, 2013, on our consideration of the City of Dunnellon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the City of Dunnellon, Florida's basic financial statements. The schedule of expenditures of Federal Awards and State Financial Assistance listed in the table of contents, is presented for purposes of additional analysis as required by Chapter 10.550, *Rules of the Auditor General*, and is not a required part of the financial statements of the City of Dunnellon, Florida. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the City of Dunnellon, Florida's basic financial statements. The debt service coverage schedule listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



Powell & Jones  
Certified Public Accountants  
May 9, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Dunnellon's financial performance provides an overview of the City's financial activities for the year ended September 30, 2012. Please read it in conjunction with the City's basic financial statements, which begin on page 13.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 13-14) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 15. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

### Reporting the City as a Whole

#### The Statement of Net Position and the Statement of Activities

Our analysis of the City as a whole begins on page 13. One of the most important questions asked about the City's finances is, "Is the City as a whole financially better or worse as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's Net Position and changes in them. You can think of the City's Net Position -the difference between assets and liabilities -as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's Net Position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two types of activities:

- Governmental activities -Most of the City's basic services are reported here, including the police, fire, general administration, streets and parks, property taxes, franchise fees, gas taxes, fines, and state and county-shared revenues.
- Business-type activities -The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer, and communications systems are reported here.

## Reporting the City's Most Significant Funds

### Fund Financial Statements

Our analysis of the City's major funds begins on page 15. The fund financial statements provide detailed information about the General Fund and Enterprise Funds-not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes other funds to help it control and manage money for particular purposes. The City's two types of funds-governmental and proprietary (business-type)-use different accounting approaches.

- Governmental funds-Most of the City's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations on pages 16 and 18.
- Proprietary funds-The City's proprietary funds are comprised of enterprise funds. An enterprise fund is used to account for activities when the City charges customers for the services it provides. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise fund is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

### The City as Trustee

### Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for the Special Risk Pension Trust Fund. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position Pension Trust Fund on page 24. The Fiduciary Fund Financial Statement is not presented as part of the Government-wide Financial Statements because the resources of these funds are not available to support the City's programs. Fiduciary (Trust and Agency) Funds represent trust responsibilities of the government. However, these assets are restricted in purpose and do not represent discretionary assets of the government.

### THE CITY AS A WHOLE

	Governmental		Business-Type		Total	
	2011	2012	2011	2012	2011	2012
Revenues	\$3,347,501	\$3,136,223	\$5,025,503	\$6,558,727	\$8,373,004	\$9,694,950
Expenses	\$3,935,069	\$3,292,013	\$2,526,539	\$5,556,984	\$6,461,608	\$8,848,997

To aid in the understanding of the Statement of Activities some additional explanation is given. Expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each

function draws from the general revenues or if it is self-financing through fees and grants. Some of the individual line item revenues reported for each function are:

General Government	Building permits, occupational licenses, and plumbing/electric inspections
Public Safety	Fire inspections, accident responses, police fines for traffic and parking violations, Department of Justice grants
Physical Environment	Grave opening and closing, burial lot purchases, sanitation activities - trash removal
Transportation	Gasoline Tax
Culture and Recreation	City beach user fees

All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted for a specific purpose.

#### Governmental Activities

Total Governmental revenues decreased 6.3 percent.

#### Business-type Activities

The Water, Sewer and Communications Utilities show a combined operating loss of \$2,577,323 and combined non-operating revenues of \$3,579,066 for a net increase of \$1,001,743 for fiscal year 2012. The net increase is primarily due to proceeds received from a Disadvantaged Small Community Grant through Florida Department of Environmental Services for only Phase III of the City's sewer project, and contributed capital, as the City received combined proceeds of \$3,128,142 in contributed utilities in the current year.

#### Net Position

For the years ended September 30, 2012 and 2011, Net Position changed as follows:

	Governmental		Business-Type		Total	
	Activities		Activities			
	2011	2012	2011	2012	2011	2012
Beginning net position	\$ 8,130,163	\$ 7,542,595	\$ 9,907,917	\$ 12,406,880	\$ 18,038,080	\$ 19,949,475
Increase (decrease) in net position	(587,568)	(155,790)	2,498,963	1,001,743	1,911,395	845,953
	<u>\$ 7,542,595</u>	<u>\$ 7,386,805</u>	<u>\$ 12,406,880</u>	<u>\$ 13,408,623</u>	<u>\$ 19,949,475</u>	<u>\$ 20,795,428</u>

This reflects a decrease of 2 percent for governmental activities and an 8 percent increase for business-type activities over prior year.

## THE CITY'S FUNDS

The following schedule of Assets and Liabilities presents a summary of the City's Assets and Liabilities for the fiscal year ended September 30, 2012 and 2011.

### Assets

	Governmental Activities		Business-Type Activities	
	2011	2012	2011	2012
Current Assets	\$ 3,116,842	\$ 3,064,914	\$ 2,409,790	\$ 3,103,702
Capital Assets, Net of Accumulated				
Depreciation	4,785,017	4,640,359	22,105,465	33,992,080
Unamortized Bond Issue Costs	-	-	182,883	224,282
Total Assets	<u>\$ 7,901,859</u>	<u>\$ 7,705,273</u>	<u>\$ 24,698,138</u>	<u>\$ 37,320,064</u>

Capital assets for governmental activities have decreased 2 percent over the prior year. Business-type activities reflect an increase of 51 percent primarily due to completion of a portion of the Greenlight communication system, and a capital contribution of water and sewer utilities.

### Liabilities

	Governmental Activities		Business-Type Activities	
	2011	2012	2011	2012
Current Liabilities	\$ 139,315	\$ 230,761	\$ 1,311,954	\$ 4,130,463
Payable from Restricted Assets	-	-	175,409	336,131
Deferred Revenue	26,466	25,654	-	-
Long-term Liabilities	193,483	62,053	10,803,895	20,923,276
Total Liabilities	<u>\$ 359,264</u>	<u>\$ 318,468</u>	<u>\$ 12,291,258</u>	<u>\$ 25,389,870</u>

Current liabilities for governmental activities increased 67% over the prior year primarily due to accrued wages in the current year. Long-term liabilities decreased 68% primarily due to paying down a capital lease agreement for a Public Safety vehicle. Current liabilities for business-type activities have increased 215% from prior year, primarily due to more construction activities.

The following schedule presents a summary of general, special revenue, capital project, debt service, and enterprise fund revenues and expenses for the fiscal year ended September 30, 2012 and 2011

	Governmental		Business-Type					
			Water Utility		Sewer Utility		Communications Utility	
	2011	2012	2011	2012	2011	2012	2011	2012
Program Revenues								
Charges for Services	\$ 745,506	\$ 728,072	\$ 385,328	\$ 923,336	\$ 643,785	\$ 1,386,470	\$ -	\$ 52,609
Operating Grants and Contributions	45,249	43,694	-	-	-	-	-	-
Capital Grants and Contributions	166,958	32,500	46,700	780,820	3,934,681	3,097,322	-	-
General Revenues								
Taxes	2,129,705	2,066,079	-	-	-	-	-	-
State-shared	201,780	185,950	-	-	-	-	-	-
Investment income	9,200	9,912	4,621	5,065	2,030	6,364	(167)	29
Miscellaneous	49,103	70,016	703	3,076	340	138	7,482	3,498
	<u>\$ 3,347,501</u>	<u>\$ 3,136,223</u>	<u>\$ 437,352</u>	<u>\$ 1,712,297</u>	<u>\$ 4,580,836</u>	<u>\$ 4,490,294</u>	<u>\$ 7,315</u>	<u>\$ 56,136</u>

Governmental revenue decreased 6 percent over prior year. Charges for Services decreased 2 percent. Taxes decreased 3 percent. State-shared Revenue decreased 8 percent. Business-type revenues increased 26 percent primarily due to the contribution of the Rainbow Springs and Juliette Falls utility systems, and the restructuring of water and sewer rates to encourage continued conservation.

#### Expenses

Governmental		Water Utility		Sewer Utility		Communication Utility	
2011	2012	2011	2012	2011	2012	2011	2012
\$ 3,935,069	\$ 2,992,013	\$ 483,143	\$ 1,320,369	\$ 1,093,367	\$ 2,260,122	\$ 950,029	\$ 1,976,493

Expenses increased in the governmental fund and combined utility funds by 3 percent for the year ended September 30, 2012 primarily due to depreciation expense, and the continued start-up of the communications utility.

#### GENERAL FUND BUDGETARY HIGHLIGHTS

Total revenue for the year shows 8 percent under budget.

On the expense-side, total General Government is under budget 18 percent or \$578,832. This is primarily a result of the delay of two grant funded projects. Total Public Safety is under budget 19 percent primarily due to position vacancies and delayed capital purchases. General Government is under budget 35 percent primarily associated with the Comprehensive Planning Department delaying capital projects and lowering operating expenses, coming under budget by \$205,848.

## CAPITAL ASSETS

As of September 30, 2012, the City had \$38.6 million invested in capital assets including police and fire equipment, buildings, park facilities, roads, and water and sewer lines. (See table below) This represents a net increase of \$11,741,956 or 44 percent, over the prior year.

	Governmental		Business-Type		Total	
	Activities		Activities			
	2011	2012	2011	2012	2011	2012
Capital Assets	\$7,229,050	\$7,274,693	\$ 18,745,311	\$ 33,472,566	\$ 25,974,361	\$ 40,747,259
Construction in Progress	-	-	7,686,451	5,866,615	7,686,451	5,866,615
Less Accumulated						
Depreciation	(2,444,033)	(2,634,334)	(4,326,296)	(5,347,101)	(6,770,329)	(7,981,435)
<b>Total</b>	<b>\$4,785,017</b>	<b>\$4,640,359</b>	<b>\$ 22,105,466</b>	<b>\$ 33,992,080</b>	<b>\$ 26,890,483</b>	<b>\$ 38,632,439</b>

This year's major addition was the addition of Juliette Falls and Rainbow Springs utility systems, as well as continued expansion of the Greenlight communication system.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Finance Office at 20750 River Drive, Dunnellon, Florida.

*Lisa Algieri*

Lisa Algieri  
City Manager

Jan Smith

Jan Smith  
Finance Officer

## BASIC FINANCIAL STATEMENTS

CITY OF DUNNELLON, FLORIDA  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2012

	Governmental Activities	Business- Type Activities	Total
<b>Assets</b>			
Cash and investments	\$ 2,899,076	\$ 602,358	\$ 3,501,434
Receivables, net	64,548	198,502	263,050
Due from other governments	101,190	-	101,190
Other assets	100	-	100
Restricted cash	-	824,413	824,413
Capital assets, not being depreciated	3,187,443	6,141,450	9,328,893
Capital assets, being depreciated	4,087,250	33,197,731	37,284,981
Less accumulated depreciation	(2,634,334)	(5,347,101)	(7,981,435)
Advances to other funds	-	1,478,429	1,478,429
Unamortized bond issuance costs	-	224,282	224,282
<b>Total assets</b>	<u>7,705,273</u>	<u>37,320,064</u>	<u>45,025,337</u>
<b>Liabilities</b>			
Accounts payable	144,598	598,821	743,419
Payable from restricted assets:			
Utility deposits	-	189,940	189,940
Accrued interest	-	146,191	146,191
Deferred revenue	25,654	-	25,654
Long-term liabilities:			
Advances from other funds	-	1,478,429	1,478,429
Due within one year	86,163	3,876,285	3,962,448
Due in more than one year	62,053	17,621,775	17,683,828
<b>Total liabilities</b>	<u>318,468</u>	<u>23,911,441</u>	<u>24,229,909</u>
<b>Net position</b>			
Invested in capital assets, Net of related debt	4,631,551	12,680,213	17,311,764
Restricted for:			
Utility deposits	-	189,940	189,940
Debt service	-	1,247,651	1,247,651
Capital projects	-	1,702	1,702
Infrastructure	56,247	-	56,247
Roads and streets	1,541,611	-	1,541,611
Public safety	56,852	-	56,852
Cemetery perpetual care	43,452	-	43,452
Unrestricted	1,057,092	(710,883)	346,209
<b>Total net position</b>	<u>\$ 7,386,805</u>	<u>\$ 13,408,623</u>	<u>\$ 20,795,428</u>

See accompanying notes.

CITY OF DUNNELLON, FLORIDA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 825,766	\$ 101,698	\$ -	\$ -	\$ (724,068)	\$ -	\$ (724,068)
Public safety	1,366,595	-	43,694	32,500	(1,290,401)	-	(1,290,401)
Physical environment	158,590	169,744	-	-	11,154	-	11,154
Transportation	521,880	-	-	-	(521,880)	-	(521,880)
Culture and recreation	31,363	6,202	-	-	(25,161)	-	(25,161)
Human services	87,136	-	-	-	(87,136)	-	(87,136)
Interest on long-term debt	683	-	-	-	(683)	-	(683)
Total governmental activities	<u>2,992,013</u>	<u>277,644</u>	<u>43,694</u>	<u>32,500</u>	<u>(2,638,175)</u>	<u>-</u>	<u>(2,638,175)</u>
Business-type activities							
Water utility	1,320,369	923,336	-	780,820	-	383,787	383,787
Sewer utility	2,260,122	1,386,470	-	3,097,322	-	2,223,670	2,223,670
Communications utility	1,976,493	52,609	-	-	-	(1,923,884)	(1,923,884)
Total business-type activities	<u>5,556,984</u>	<u>2,362,415</u>	<u>-</u>	<u>3,878,142</u>	<u>-</u>	<u>683,573</u>	<u>683,573</u>
Total primary government	<u>\$ 8,548,997</u>	<u>\$ 2,640,059</u>	<u>\$ 43,694</u>	<u>\$ 3,910,642</u>	<u>(2,638,175)</u>	<u>683,573</u>	<u>(1,954,602)</u>
General revenues							
Taxes:							
Property taxes					993,666	-	993,666
Franchise taxes					191,867	-	191,867
Public service taxes					360,603	-	360,603
Other taxes					519,943	-	519,943
Intergovernmental revenues					185,950	-	185,950
Fines and forfeitures					450,428	-	450,428
Investment income					9,912	11,458	21,370
Miscellaneous					70,016	6,712	76,728
Transfers in (out)					(300,000)	300,000	-
Total general revenues					<u>2,482,385</u>	<u>318,170</u>	<u>2,800,555</u>
Change in net position					(155,790)	1,001,743	845,953
Net position, beginning of year					7,542,595	12,406,880	19,949,475
Net position, end of year					<u>\$ 7,386,805</u>	<u>\$ 13,408,623</u>	<u>\$ 20,795,428</u>

See accompanying notes.

CITY OF DUNNELLON, FLORIDA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
SEPTEMBER 30, 2012

	General Fund	Tax Increment Financing District Fund	Total Governmental Funds
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Assets</b>			
Cash and investments	\$ 2,709,904	\$ 189,172	\$ 2,899,076
Accounts receivable	64,548	-	64,548
Due from other governments	101,190	-	101,190
Other assets	100	-	100
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 2,875,742</u>	<u>\$ 189,172</u>	<u>\$ 3,064,914</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 139,738	\$ 4,860	\$ 144,598
Deferred revenue	25,654	-	25,654
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	<u>165,392</u>	<u>4,860</u>	<u>170,252</u>
<b>Fund balances</b>			
Restricted	-	184,312	184,312
Committed for:			
Roads and streets	1,541,611	-	1,541,611
Public safety	56,852	-	56,852
Infrastructure	56,247	-	56,247
Cemetery perpetual care	43,452	-	43,452
Assigned for:			
Capital improvements	1,257,209	-	1,257,209
Unassigned (deficit)	(245,021)	-	(245,021)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balances	<u>2,710,350</u>	<u>184,312</u>	<u>2,894,662</u>
Total liabilities and fund balances	<u>\$ 2,875,742</u>	<u>\$ 189,172</u>	<u>\$ 3,064,914</u>

See accompanying notes.

CITY OF DUNNELLON, FLORIDA  
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET POSITION  
 SEPTEMBER 30, 2012

Fund balances - total governmental funds	\$ 2,894,662
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$7,274,693 and the accumulated depreciation is \$2,634,334	4,640,359
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Long-term liabilities are not due and payable in the current period, and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position. Long-term liabilities at year end consist of:

Note payable	(8,808)
OPEB payable	(20,400)
Compensated absences	(119,008)
	(148,216)

Total net position of governmental activities	\$ 7,386,805
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See accompanying notes.

CITY OF DUNNELLON, FLORIDA  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Fund	Tax Increment Financing District Fund	Total Governmental Funds
Revenues			
Taxes	\$ 1,925,708	\$ 140,371	\$ 2,066,079
Licenses and permits	100,194	-	100,194
Intergovernmental revenues	262,144	-	262,144
Charges for service	177,450	-	177,450
Fines and forfeitures	450,428	-	450,428
Miscellaneous revenue	78,331	1,597	79,928
Total revenues	<u>2,994,255</u>	<u>141,968</u>	<u>3,136,223</u>
Expenditures			
Current:			
General government	602,924	209,096	812,020
Public safety	1,250,992	-	1,250,992
Physical environment	158,482	-	158,482
Transportation	514,590	-	514,590
Human services	31,363	-	31,363
Culture and recreation	70,376	-	70,376
Capital outlay			
General government	9,000	5,000	14,000
Public safety	31,643	-	31,643
Transportation	-	-	-
Culture and recreation	-	-	-
Debt service:			
Principal payments	8,473	-	8,473
Interest	683	-	683
Total expenditures	<u>2,678,526</u>	<u>214,096</u>	<u>2,892,622</u>
Excess (deficiency) of revenues over expenditures	315,729	(72,128)	243,601
Other financing sources			
Interfund transfers out	-	(300,000)	(300,000)
Total other financing sources (uses)	<u>-</u>	<u>(300,000)</u>	<u>(300,000)</u>
Net change in fund balances	315,729	(372,128)	(56,399)
Fund balances, beginning of year	<u>2,394,621</u>	<u>556,440</u>	<u>2,951,061</u>
Fund balances, end of year	<u>\$ 2,710,350</u>	<u>\$ 184,312</u>	<u>\$ 2,894,662</u>

See accompanying notes.

CITY OF DUNNELLON, 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, 2012

Net change in fund balances - total governmental funds \$ (56,399)

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

Governmental funds report capital purchases as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense:

Net expenditures for capital assets	\$ 45,643	
(Current year depreciation)	(190,301)	(144,658)

The issuance of long-term debt provides current financial resource to governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net assets. The amounts of the items that make up these differences in treatment of long-term debt items are:

Principal repayments:	
Capital leases	8,473

Some expenses reported in the statement of activities such as compensated absences do not require the use of current financial resources and are not reported as expenditures in governmental funds:

Decrease in OPEB payable	1,960
Net decrease in compensated absences	34,834

Change in net position of governmental activities \$ (155,790)

See accompanying notes.

CITY OF DUNNELLON, FLORIDA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2012

	Business-Type Activities			Total
	Water Fund	Sewer Fund	Communications Fund	
Assets				
Current assets				
Cash and investments	\$ 273,886	\$ 328,443	\$ 29	\$ 602,358
Accounts receivable (net of allowance for uncollectible accounts)	68,885	120,364	9,114	198,363
Notes receivable	-	139	-	139
Total current assets	<u>342,771</u>	<u>448,946</u>	<u>9,143</u>	<u>800,860</u>
Restricted assets				
Cash:				
Utility deposit cash	189,940	-	-	189,940
User fee cash	-	1,702	-	1,702
Debt service - state revolving loan	-	10,125	-	10,125
Debt service - revenue bonds	149,707	413,176	59,763	622,646
Total restricted assets	<u>339,647</u>	<u>425,003</u>	<u>59,763</u>	<u>824,413</u>
Utility plant in service				
Cost of capital assets	5,970,144	22,034,022	5,468,399	33,472,565
(accumulated depreciation)	(1,331,688)	(3,936,313)	(79,100)	(5,347,101)
Construction in progress	-	3,415,403	2,451,213	5,866,616
Total utility plant in service - cost less depreciation	<u>4,638,456</u>	<u>21,513,112</u>	<u>7,840,512</u>	<u>33,992,080</u>
Long-term assets				
Advances to other funds	1,007,184	471,245	-	1,478,429
Bond issue costs (net of amortization)	28,739	135,478	60,065	224,282
	<u>1,035,923</u>	<u>606,723</u>	<u>60,065</u>	<u>1,702,711</u>
Total assets	<u>\$ 6,356,797</u>	<u>\$ 22,993,784</u>	<u>\$ 7,969,483</u>	<u>\$ 37,320,064</u>

See accompanying notes.

CITY OF DUNNELLON, FLORIDA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2012

	Business-Type Activities			Total
	Water Fund	Sewer Fund	Communications Fund	
<b>Liabilities and Net Position</b>				
<b>Current liabilities, unrestricted</b>				
Payable from current assets:				
Accounts, wages and retainage payable	\$ 102,300	\$ 142,642	\$ 353,879	\$ 598,821
Compensated absences - due within one year	41,693	49,520	23,573	114,786
<b>Total current liabilities, unrestricted</b>	<b>143,993</b>	<b>192,162</b>	<b>377,452</b>	<b>713,607</b>
<b>Current liabilities, restricted</b>				
Payable from restricted assets:				
Accrued revenue bond and SRF loan interest	32,032	32,820	81,339	146,191
Customer deposits	189,940	-	-	189,940
SRF loan payable	-	344,642	-	344,642
Revenue bonds payable - due within one year	131,600	408,331	2,498,168	3,038,099
Capital lease payable- due within one year	-	-	378,758	378,758
<b>Total current liabilities, restricted</b>	<b>353,572</b>	<b>785,793</b>	<b>2,958,265</b>	<b>4,097,630</b>
<b>Total current liabilities</b>	<b>497,565</b>	<b>977,955</b>	<b>3,335,717</b>	<b>4,811,237</b>
<b>Long-term liabilities</b>				
Advances from other funds	-	-	1,478,429	1,478,429
Revenue bonds - noncurrent portion	3,508,400	5,424,321	4,851,832	13,784,553
Capital leases - noncurrent portion	-	-	873,144	873,144
State revolving loan	-	2,892,671	-	2,892,671
OPEB payable	2,400	2,400	4,800	9,600
Compensated absences - noncurrent portion	22,450	26,664	12,693	61,807
<b>Total long-term liabilities</b>	<b>3,533,250</b>	<b>8,346,056</b>	<b>7,220,898</b>	<b>19,100,204</b>
<b>Total liabilities</b>	<b>4,030,815</b>	<b>9,324,011</b>	<b>10,556,615</b>	<b>23,911,441</b>
<b>Net Position</b>				
Invested in capital assets, net of related debt	998,456	12,443,147	(761,390)	12,680,213
Restricted for utility deposits	189,940	-	-	189,940
Restricted for debt service	149,707	423,301	674,643	1,247,651
Restricted for capital projects	-	1,702	-	1,702
Unrestricted	987,879	801,623	(2,500,385)	(710,883)
<b>Total net position (deficit)</b>	<b>2,325,982</b>	<b>13,669,773</b>	<b>(2,587,132)</b>	<b>13,408,623</b>
<b>Total liabilities and net position</b>	<b>\$ 6,356,797</b>	<b>\$ 22,993,784</b>	<b>\$ 7,969,483</b>	<b>\$ 37,320,064</b>

See accompanying notes.

CITY OF DUNNELLON, FLORIDA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business-Type Activities			Total
	Water Fund	Sewer Fund	Communications Fund	
Operating revenues				
Charges for services	\$ 923,336	\$ 1,386,470	\$ 52,609	\$ 2,362,415
Total operating revenues	<u>923,336</u>	<u>1,386,470</u>	<u>52,609</u>	<u>2,362,415</u>
Operating expenses				
Personnel services	349,338	423,880	492,171	1,265,389
Operating expenses	530,347	596,270	771,671	1,898,288
Professional services	150,571	278,523	303,412	732,506
Depreciation and amortization	217,774	747,354	78,427	1,043,555
Total operating expenses	<u>1,248,030</u>	<u>2,046,027</u>	<u>1,645,681</u>	<u>4,939,738</u>
Operating loss	<u>(324,694)</u>	<u>(659,557)</u>	<u>(1,593,072)</u>	<u>(2,577,323)</u>
Nonoperating revenues (expenses)				
Interest income	5,065	6,364	29	11,458
Interest expense	(72,339)	(214,095)	(330,812)	(617,246)
Interfund transfers in	-	-	300,000	300,000
Capital contributions	780,820	2,347,322	-	3,128,142
Miscellaneous	3,076	138	3,498	6,712
Department of environmental protection grant	-	750,000	-	750,000
Total nonoperating revenues	<u>716,622</u>	<u>2,889,729</u>	<u>(27,285)</u>	<u>3,579,066</u>
Net income (loss)	391,928	2,230,172	(1,620,357)	1,001,743
Net position, beginning of year	<u>1,934,054</u>	<u>11,439,601</u>	<u>(966,775)</u>	<u>12,406,880</u>
Net position, end of year	<u>\$ 2,325,982</u>	<u>\$ 13,669,773</u>	<u>\$ (2,587,132)</u>	<u>\$ 13,408,623</u>

See accompanying notes.

CITY OF DUNNELLON, FLORIDA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Water Fund	Sewer Fund	Communications Fund	Total
Cash flows from operating activities				
Cash received from customers, Including cash deposits	\$ 938,564	\$ 1,322,573	\$ 46,993	\$ 2,308,130
Cash paid to suppliers	(627,658)	(1,171,264)	(1,012,442)	(2,811,364)
Cash paid to employees	(313,705)	(386,060)	(438,602)	(1,138,367)
Net cash used in operating activities	<u>(2,799)</u>	<u>(234,751)</u>	<u>(1,404,051)</u>	<u>(1,641,601)</u>
Cash flows from noncapital financing activities				
Transfers from other funds	-	-	300,000	300,000
Advances to/from other funds	(405,221)	(471,245)	876,466	-
Net cash flows provided by (used in) noncapital financing activities	<u>(405,221)</u>	<u>(471,245)</u>	<u>1,176,466</u>	<u>300,000</u>
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	(4,323,353)	(5,798,367)	(2,785,701)	(12,907,421)
Capital contributions	780,820	2,347,322	-	3,128,142
Capital grant contributions	-	750,000	-	750,000
Loan proceeds	3,611,261	3,629,046	3,679,021	10,919,328
Principal payments on debt	-	-	(346,827)	(346,827)
Interest paid	(40,307)	(203,543)	(259,145)	(502,995)
Net cash provided by capital and related financing activities	<u>28,421</u>	<u>724,458</u>	<u>287,348</u>	<u>1,040,227</u>
Cash flows from investing activities				
Interest Income	5,065	6,364	29	11,458
Net increase (decrease) in cash and cash equivalents	(374,534)	24,826	59,792	(289,916)
Cash and cash equivalents, beginning of year	988,067	728,620	-	1,716,687
Cash and cash equivalents, end of year	<u>\$ 613,533</u>	<u>\$ 753,446</u>	<u>\$ 59,792</u>	<u>\$ 1,426,771</u>
<u>Shown in the financial statements as:</u>				
Current assets				
Cash and cash equivalents	\$ 273,886	\$ 328,443	\$ 29	\$ 602,358
Restricted cash	339,647	425,003	59,763	824,413
Totals	<u>\$ 613,533</u>	<u>\$ 753,446</u>	<u>\$ 59,792</u>	<u>\$ 1,426,771</u>

See accompanying notes.

CITY OF DUNNELLON, FLORIDA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Water Fund	Sewer Fund	Communications Fund	Total
<u>Reconciliation of operating loss to net cash used in operating activities</u>				
Operating loss	\$ (324,694)	\$ (659,557)	\$ (1,593,072)	\$ (2,577,323)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation and amortization	213,666	736,547	77,305	1,027,518
Changes in assets decrease (increase) and liabilities increase (decrease):				
Accounts receivable, net	(34,318)	(64,945)	(9,114)	(108,377)
Notes receivable	-	910	-	910
Due from employees	45	60	-	105
Accounts payable	60,444	(285,526)	67,261	(157,821)
Accrued wages	11,968	13,897	20,790	46,655
Compensated absences	23,040	23,283	27,979	74,302
OPEB payable	580	580	4,800	5,960
Utility deposits	46,470	-	-	46,470
Total adjustments	<u>321,895</u>	<u>424,806</u>	<u>189,021</u>	<u>935,722</u>
Net cash used in operating activities	<u>\$ (2,799)</u>	<u>\$ (234,751)</u>	<u>\$ (1,404,051)</u>	<u>\$ (1,641,601)</u>

See accompanying notes.

CITY OF DUNNELLON, FLORIDA  
STATEMENT OF NET POSITION  
PENSION TRUST FUNDS  
SEPTEMBER 30, 2012

	Pension Trust Funds
Assets	
Cash and investments	\$ 2,490,051
Due from other governments	6,831
Total assets	\$ 2,496,882
 Net position	
Reserved for:	
Employees' pension benefits	\$ 2,496,882
Total net position	\$ 2,496,882

See accompanying notes.

CITY OF DUNNELLON, FLORIDA  
STATEMENT OF CHANGES IN NET POSITION  
PENSION TRUST FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Pension Trust Funds
Additions	
Contributions	
Employer	\$ 103,092
Forfeitures applied	-
Net employer contributions	103,092
State	58,341
Employee	81,265
Total contributions	242,698
Investment income increase	324,865
Less: investment management fees	-
Net investment income	324,865
Total additions	567,563
 Deductions	
Pension benefit payments and refunds	(20,525)
General and administrative	(16,364)
Total deductions	(36,889)
 Increase in net position	530,674
 Net position reserved for employees' Pension benefits:	
 Net position, beginning of year	1,966,208
 Net position, end of year	\$ 2,496,882

See accompanying notes.

CITY OF DUNNELLON, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1. DESCRIPTION OF FUNDS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity - The City of Dunnellon (the City) is a Florida municipality governed by an elected five-member City Council. The City provides services to its citizens including water, sanitation and sewer, police and fire protection, parks and recreation, streets, and other general governmental activities. The City was established by Laws of Florida 71-616.

The accompanying financial statements present the financial position, results of operations and cash flows of the applicable funds administered by the City Council of the City and its component unit in accordance with governmental accounting standards. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Financial accountability is present if the City Council appoints a voting majority of a component unit's governing body and has the ability to impose its will on that organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City.

Blended component unit. The financial activity of the City of Dunnellon, Florida Community Redevelopment Agency (the Agency), is included in the financial reporting entity as a blended component unit. The Agency was established under Chapter 163, *Florida Statutes*, for the fostering of economic development in the downtown area of the City. The City Council serves as the Agency's governing board. The Agency is fiscally dependent on the City, and the City Council approves the Agency's annual budget as a component of the City's budget. The Agency is presented as a governmental fund type.

1. 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 nonfiduciary activities of the primary government. 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 are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are allocated automatically and certain indirect costs are included in program expenses reported for individual functions and activities. 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. The fiduciary funds are not included in the government-wide financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary 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 revenue 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.

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. Internally dedicated resources are reported as general revenues rather than program revenues.

## 2. Fund Financial Statements

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 sixty 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.

Property taxes, franchise fees, 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

**Governmental Funds** - Government funds are used to account for all or most of a government's general activities. The City operates the following major governmental funds:

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

### Special Revenue Fund

The Special Revenue Fund is used to account for revenue sources that are legally restricted to expenditures for specific purposes.

### Proprietary Funds

Enterprise funds – to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Enterprise funds of the City are as follows:

- Sewer Fund
- Water Fund
- Communications Fund

### Fiduciary Funds

Pension trust funds are used to account for assets held by the City in a trustee capacity. The types of fiduciary funds used by the City are the general employees' pension trust fund and the special risk employees' pension trust fund.

## Summary of Significant Accounting Policies

The City conforms all significant accounting policies to generally accepted accounting principles applicable to government units. The following is a summary of the more significant principles and practices used in the preparation of these financial statements.

### Proprietary Funds

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 guidelines of GASB. Based on the accounting and reporting standards set forth in GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City has opted to apply only the accounting and reporting pronouncements issued by the Financial Accounting Standards Board (FASB) on or before November 30, 1989, for business-type activities and enterprise funds.

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 enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds are charges to customers for sales and services. 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 City's policy to generally use restricted resources first, and then unrestricted resources, as they are needed for their intended purposes, however, this decision is frequently made on a case-by-case basis based upon facts and circumstances. Revenues of the enterprise funds are recognized on the basis of services rendered. Billing cycles of the enterprise funds that overlap September 30, are prorated based upon meter reading dates.

### Budgeting

The annual operating budget serves as legal authorization for expenditures and the proposed means of financing them. The 2012 annual operating budget was prepared for all funds, except the pension trust funds, which are not budgeted annually by the City Council.

The City's procedures in preparing and adopting the annual budget are as follows:

- The City Manager is responsible for preparing a proposed operating budget for the upcoming year prior to September 30 that includes estimated revenues, proposed expenditures, and other financing sources and uses.
- Public hearings are held to obtain taxpayer comments and suggestions. The budget is enacted through passage of a resolution.

- The City Manager is authorized to transfer budgeted amounts within any fund, but may not revise total fund expenditures without the approval of the City Council. The budgetary data presented is in agreement with the originally adopted budget.
- Budgets are adopted on a basis consistent with generally accepted accounting principles. Total budgeted fund expenditures within the governmental fund type may not be exceeded legally. Appropriations lapse at the end of the year. Encumbrance accounting is not used by the City.

#### Investments

The City accounts for investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. Under this provision, investments are recorded at fair value on the balance sheets. Investment income, including changes in the fair value of investments, is reported as revenue in the statements of revenues, expenses, and changes in fund balances.

In accordance with GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, the investments within the pension trust funds are stated at market value.

#### Receivables

Governmental and Business-type activities receivables are comprised generally of amounts due from customers. Customer accounts receivable are recorded at their net realizable value reduced by an allowance for uncollectible accounts of \$9,840 for 2012. Other receivables in the General Fund consist primarily of franchise fees and receivables from miscellaneous services.

#### Payables

Accounts Payable in the Governmental Funds and Business-type Funds consists primarily of amounts due to vendors.

#### Due from Other Governments

Due from other governments represents amounts due from the State of Florida or Marion County for shared revenues or costs. Due from Other Governments is considered fully collectible.

#### Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (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 recorded at historical cost, except for \$249,192 of assets in the proprietary fund and \$89,858 of assets in the general fund, acquired prior to 1975, which are valued at estimated historical cost. Donated capital assets are valued at their estimated fair value at the time of acquisition. Capital asset purchases are recorded as capital outlay expenditures in the fund level governmental funds in the year of acquisition. Property, plant, and equipment and infrastructure are depreciated using the straight-line method over the following estimated useful lives:

Plant, buildings, and improvements	10 - 40 years
Machinery, vehicles, and equipment	5 - 7 years
Infrastructure	30 years

The City has opted out of retroactively recording and depreciating major infrastructure assets.

Expenditures for ordinary repairs and maintenance are charged to expense as incurred.

#### Transfers

Transfers are recognized in the accounting period in which the interfund receivable or payable arise.

#### Compensated Absences

In governmental fund financial statements, the amount of compensated absences associated with employee vacations that are recorded as expenditures represent the amounts paid during the year, plus the amount accrued at year-end that would normally be liquidated with available spendable resources. Only the amount of compensated absence liability that would normally be liquidated with current expendable available resources in the next fiscal year is recorded in the fund financial statements of governmental funds. In the government-wide financial statements, all governmental fund compensated absences are recorded and split between the current and noncurrent portions.

In proprietary funds, the amount of compensated absences associated with employee vacations that are recorded as expenses represent the amounts paid during the year and accrued at year-end. The entire liability for compensated absences of these funds is reflected in the respective financial statements split between the current and noncurrent portions.

Prior to August 1999, no accrual was made for unpaid vacation since City policy did not allow for carryover of vacation time unless by special permission from City Council. For all employees, (who are not within a union bargaining unit) they may accumulate and carry over a maximum of twenty work days. An accrual has been made for unpaid sick pay under the City's policy to pay an employee in good standing 50% of all unused sick pay, upon retirement or voluntary resignation. There is a \$5,000 maximum of unused sick pay. Employees with 25 years or more of service in good standing will receive 100% of accrued sick pay upon retirement.

#### Property Taxes

Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of the state regulating tax assessment are also designed to assure a consistent property valuation method statewide. Florida Statutes permit municipalities to levy property taxes at a rate of up to 10 mills. The millage rate assessed by the City for the fiscal year ended September 30, 2012 was 7.1408 mills.

The tax levy of the City is established by the City Council prior to October 1 of each year, and the Marion County Property Appraiser incorporates the City's millage into the total tax levy, which includes the County and the County School Board tax requirements.

All property is assessed according to its fair market value January 1 of each year. Each assessment roll is submitted to the Executive Director of the Florida Department of Revenue for review to determine if the rolls meet all of the appropriate requirements of Florida Statutes.

All taxes are assessed on November 1 of each year, or as soon thereafter, as the assessment roll is certified and delivered to the County Tax Collector. All unpaid taxes become delinquent on April 1 following the year in which they are assessed. 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. Taxes paid in March are without discount.

On or prior to June 1 following the tax year, certificates are sold for all delinquent taxes on real property. After sale, tax certificates bear interest of 0-18% per year or at any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years. Unsold certificates are held by the County.

Delinquent taxes on personal property bear interest of 0-18% per year until the tax is satisfied either by seizure and sale of the property or by the five-year statute of limitations.

The City does not accrue its portion of the County held tax sale certificates or personal property tax warrants because such amounts are not measurable and available as of the balance sheet date.

#### Franchise Fees

Continuing franchise fees are reported as revenues as the fees are earned and become receivable from the franchise.

#### Capital Grants and Contributions

Accounts receivable from other governments include amounts due from grantors. Program and capital grants for capital assets are recorded as receivables and revenues at the time reimbursable costs are incurred. Revenues received in advance of costs being incurred are deferred.

#### Fund Balances

##### A. Governmental Funds

As of September 30, 2012, fund balances of the governmental funds are classified as follows:

Non-spendable – amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

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

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the City's general procedure, only the City Council may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

As of September 30, 2012, fund balances are composed of the following:

Restricted for Downtown Redevelopment	\$ 184,312
Committed for:	
Roads and streets	1,541,611
Public safety	56,852
Infrastructure	56,247
Cemetery perpetual care	43,452
Assigned for:	
Capital improvements	1,257,209
Unassigned (deficit)	<u>(245,021)</u>
	<u>\$ 2,894,662</u>

When an expenditure is incurred for purposes to which both restricted and unrestricted fund balance is available, the City considered restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Commission has provided otherwise in its commitment or assignment actions.

#### B. Proprietary Funds

Restrictions of equity show amounts that are not appropriated for expenditure or are legally restricted for specific uses.

As of September 30, 2012, net position balances are composed of the following:

	<u>Amount</u>
Invested in capital assets, net	\$ 12,680,213
Restricted, debt service	1,247,651
Restricted, capital projects	1,702
Restricted, utility deposits	189,940
Unrestricted (deficit)	<u>(710,883)</u>
	<u>\$ 13,408,623</u>

#### Cash and Cash Equivalents

For purposes of the statement of cash flows, the enterprise funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

#### NOTE 2. CASH DEPOSITS AND INVESTMENTS

For the fiscal year ending September 30, 2012, the City is required to utilize a new financial statement disclosure standard issued by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which required additional disclosures concerning investment and deposit risk as stated below.

#### Pooled Cash and Investments

The City maintains a cash and investment pool, which carries substantially all cash and investments of the City, and is used by all funds except the pension trust funds. Each fund's portion of the pool is displayed in the accompanying financial statements as "Cash and Investments". The cash and investments of the pension trust funds are held separately from those other funds of the City.

## Cash Deposits

Chapter 280 of the *Florida Statutes* requires, in general, that all public deposits (including those of the City) be made in qualified public depositories within the state of Florida. Per statute, no qualified public depository may hold public deposits exceeding 10% of that qualified public depository's total deposits received in this state, or 10% of the total public deposits held by all qualified public depositories of the same type. Additionally, no qualified public depository may accept or retain any public deposit in excess of deposit insurance limits unless it pledges eligible collateral having a market value equal to 50% of the public deposits held by the depository.

In the event of a default or insolvency of a qualified public depository, the loss to public depositors shall be satisfied, first through any applicable deposit insurance and then through the sale of securities pledged by the defaulting depository. If the loss to public depositors is not covered by such insurance or the proceeds of such sale, the State Treasurer shall provide coverage of the remaining loss by assessment against the other qualified public depositories of the same type as the depository in default.

All of the City's cash deposits (excluding investments) at September 30, 2012, were held by qualified public depositories within the state of Florida and are considered to be fully insured. Total deposits as of September 30, 2012, are \$4,196,323.

## Restricted Cash

Customer deposits, renewal and replacement, and unspent use benefit fees are shown as restricted cash due to legal limitations imposed on them.

## Investments

Investments are recorded in all funds of the City at fair value. The deposits and investments of the pension trust funds are held separately from those of other City funds and are recorded at fair value.

The City's investment policy allows the City to invest surplus money in instruments provided by *Florida Statutes*. Among them are U.S. Treasury bills, bonds, notes and their derivatives, federal agency securities, local government surplus trust fund, domestic time deposits, bankers acceptance notes, repurchase agreements, federal securities trusts, collateralized mortgage obligations, assets-backed securities, taxable and tax-exempt securities, and mortgage securities mutual funds.

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

<u>Investment</u>	<u>Fair Value</u>
State Board of Administration (SBA)	
Local Government Surplus Funds Trust Fund	\$ 82,068
Fund B Surplus Funds Trust Fund	54,287
Pension Funds	
Florida Municipal Pension Trust Fund - Firefighters and Police Officers (FMLvT)	1,610,547
Florida Municipal Pension Trust Fund - General Employees (CitiStreet)	<u>879,504</u>
Total	2,626,406
Cash deposits	<u>4,196,323</u>
Total Cash and Investments	<u><u>\$ 6,822,729</u></u>

As shown on the accompanying financial statements as:

Cash and investments - entity-wide	\$ 4,325,847
Cash and investments - fiduciary funds	<u>2,496,882</u>
Total cash and investments	<u><u>\$ 6,822,729</u></u>

#### State Board of Administration

Investments placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund and the Fund B Surplus Fund Trust Fund investment pools created by Sections 218.405 and 218.417, *Florida Statutes*, are not registered with the Securities and Exchange Commission. On December 4, 2007, the State Board of Administration restructured the Local Government Surplus Funds Trust Fund (Pool) to also establish the Fund B Surplus Funds Trust Fund. The local investments operate under the guidelines established by Section 218.415, *Florida Statutes*. The Council's investments in the Pool, which the State Board of Administration indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of September 30, 2012, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

The City's investments in the Fund B Surplus Trust Fund are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.94896811 at September 30, 2012. The Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the State Board of Administration, are effected by transferring eligible cash or securities to the Local Government Surplus Funds Trust Fund, consistent with the pro rata allocation of Pool shareholders of record at the creation of Fund B. One hundred percent of such distributions from Fund B are available as a liquid balance within the Local Government Surplus Funds Trust Fund.

#### Credit Risk

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. GASB Statement No. 40 requires disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed-income securities.

#### Florida Municipal Pension Trust Fund – Police and Firefighters Pension Fund

<i>Fixed Income Funds:</i>	<u>Fitch Rating</u>
FMLvT Broad Market High Quality Bond Fund	AA/V4
<i>Equity Funds:</i>	
FMLvT High Quality Growth Portfolio	Not Rated
FMLvT Large Cap Diversified Value Portfolio	Not Rated
FMLvT Russell 1000 Index Portfolio	Not Rated
FMLvT Diversified Small Cap Equity Portfolio	Not Rated
FMLvT International Blend Portfolio	Not Rated

Florida Municipal Pension Trust Fund – General Employees’ Pension Fund

<i>Fixed Income Funds:</i>	<u>Fitch Rating</u>
Vanguard Intermediate Bond Index	Not Rated
Vanguard Total Bond Market Index	Not Rated
Vanguard Long-term Treasury	Not Rated
Vanguard Inflation-Protected Securities	Not Rated
Balanced Vanguard Wellington Fund	Not Rated

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s pension funds are held in the name of an outside party.

Interest Rate Risk

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment’s fair value. GASB Statement No. 40 requires that interest rate risk be stated using a prescribed method.

Florida Municipal Pension Trust Fund – Police and Firefighters Pension Fund

<i>Fixed Income Funds:</i>	<u>Average Maturity</u>
FMIvT Broad Market High Quality Bond Portfolio	8.5 years

Florida Municipal Pension Trust Fund – General Employees’ Pension Fund

<i>Fixed Income Funds:</i>	<u>Average Maturity</u>
Vanguard Intermediate Bond Index	7.3 years average
Vanguard Total Bond Market Index	7.2 years average
Vanguard Long-term Treasury	24.3 years average
Vanguard Inflation-Protected Securities	9.3 years average
Balanced Vanguard Wellington Fund	9.3 years average

State Board of Administration Investments	
Surplus Funds Trust Fund Investment Pool	39 day average
Fund B Surplus Funds Trust Fund	4.08 year average

Concentration Risk

If 5% or more of the total assets of the portfolio are invested with issuer, that information per issuer and the percentage of total assets are to be disclosed excluding investments issued or guaranteed by the U.S. government and investments in mutual funds or pools. Since the City’s pension funds are invested in pooled funds, the City is excluded from this disclosure.

### NOTE 3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land and improvements	\$ 3,178,443	\$ 9,000	\$ -	\$ 3,187,443
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>3,178,443</u>	<u>9,000</u>	<u>-</u>	<u>3,187,443</u>
Capital assets being depreciated:				
Buildings	961,902	-	-	961,902
Improvements other than buildings	833,347	-	-	833,347
Furniture, equipment and machinery	2,255,358	36,643	-	2,292,001
Total capital assets being depreciated	<u>4,050,607</u>	<u>36,643</u>	<u>-</u>	<u>4,087,250</u>
Less accumulated depreciation:				
Buildings	(373,289)	(23,664)	-	(396,953)
Improvements other than buildings	(257,878)	(34,450)	-	(292,328)
Furniture, equipment and machinery	(1,812,866)	(132,187)	-	(1,945,053)
Total accumulated depreciation	<u>(2,444,033)</u>	<u>(190,301)</u>	<u>-</u>	<u>(2,634,334)</u>
Total capital assets being depreciated, net	<u>1,606,574</u>	<u>(153,658)</u>	<u>-</u>	<u>1,452,916</u>
Governmental activities capital assets, net	<u>\$ 4,785,017</u>	<u>\$ (144,658)</u>	<u>-</u>	<u>\$ 4,640,359</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land and improvements	\$ 257,973	\$ 16,862	\$ -	\$ 274,835
Construction in progress	7,686,451	3,165,870	(4,985,706)	5,866,615
Total capital assets not being depreciated	<u>7,944,424</u>	<u>3,182,732</u>	<u>(4,985,706)</u>	<u>6,141,450</u>
Capital assets being depreciated:				
Buildings and improvements	865,110	-	-	865,110
Improvements other than building	16,905,422	11,777,348	-	28,682,770
Machinery and equipment	716,806	2,933,045	-	3,649,851
Total capital assets being depreciated	<u>18,487,338</u>	<u>14,710,393</u>	<u>-</u>	<u>33,197,731</u>
Less accumulated depreciation:				
Buildings and improvements	(996,808)	(31,105)	-	(1,027,913)
Improvements other than building	(2,851,345)	(909,545)	-	(3,760,890)
Equipment	(478,143)	(80,155)	-	(558,298)
Total accumulated depreciation	<u>(4,326,296)</u>	<u>(1,020,805)</u>	<u>-</u>	<u>(5,347,101)</u>
Total capital assets being depreciated, net	<u>14,161,042</u>	<u>13,689,588</u>	<u>-</u>	<u>27,850,630</u>
Business-type activities capital assets, net	<u>\$ 22,105,466</u>	<u>\$ 16,872,320</u>	<u>\$ (4,985,706)</u>	<u>\$ 33,992,080</u>
<b>Depreciation expense:</b>				
<b>Governmental activities</b>				
General government and administration			\$ 49,717	
Public safety			116,426	
Physical environment			108	
Transportation			7,290	
Culture and recreation			16,760	
Total depreciation expense - governmental activities			<u>\$ 190,301</u>	
<b>Business-type activities</b>				
Water			\$ 210,589	
Sewer			736,410	
Communications			73,806	
Total depreciation expense - business-type activities			<u>\$ 1,020,805</u>	

NOTE 4. CAPITAL LEASES

In 2011, the City obtained a capital lease to purchase a vehicle for the fire department valued at \$26,358. The City began making annual principal and interest payments in March 2011. The interest rate is 2.1%.

In 2011, the City obtained a capital lease to purchase router equipment valued at \$311,746. The City began making annual principal and interest payments in June 2011. The interest rate is 3.27%.

In 2011, the City obtained a capital lease to purchase headend equipment valued at \$1,521,729. The City began making monthly principal and interest payments in March 2011. The interest rate is 10.6%.

These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Asset	Governmental	Business-type Activities	
	Activities		
	Fire Department Vehicle	Cisco Core Router	Headend Equipment
Machinery and equipment	\$ 26,358	\$ 311,746	\$ 1,521,729
(Accumulated depreciation)	(8,786)	(6,484)	(31,659)
Total	<u>\$ 17,572</u>	<u>\$ 305,262</u>	<u>\$ 1,490,070</u>

Annual Requirements to Capital Leases

Maturities of capital leases for the years ending September 30, 2012 are as follows:

Year	Governmental	Business-type Activities		Total Interest	Total Debt Service
	Activities	Principal			
	Fire Department Vehicle	Cisco Core Router	Headend Equipment		
2013	\$ 8,808	\$101,717	\$ 286,091	\$110,931	\$ 507,547
2014	-	-	317,914	75,434	393,348
2015	-	-	353,280	40,068	393,348
2016	-	-	192,900	5,560	198,460
	<u>\$ 8,808</u>	<u>\$101,717</u>	<u>\$1,150,185</u>	<u>\$231,993</u>	<u>\$1,492,703</u>

NOTE 5. LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Capital lease - FD vehicle	\$ 17,281	\$ -	\$ (8,473)	\$ 8,808	\$ 8,808
Compensated absences	153,842	52,469	(87,303)	119,008	77,355
OPEB payable	22,360	-	(1,960)	20,400	-
<b>Total Governmental Activities</b>	<b>\$ 193,483</b>	<b>\$ 52,469</b>	<b>\$ (97,736)</b>	<b>\$ 148,216</b>	<b>\$ 86,163</b>
<b>Business-type Activities</b>					
State revolving loan	\$ 3,237,313	\$ -	\$ -	\$ 3,237,313	\$ -
Revenue bonds payable	5,861,922	10,960,730	-	16,822,652	3,038,099
Compensated absences	102,291	114,850	(40,549)	176,592	114,785
Capital lease - Cisco Router	200,214	-	(98,497)	101,717	101,717
Capital lease - Headend equipment	1,398,515	-	(248,330)	1,150,185	277,041
OPEB payable	3,640	5,960	-	9,600	-
<b>Total business-type activities</b>	<b>\$ 10,803,895</b>	<b>\$ 11,081,540</b>	<b>\$ (387,376)</b>	<b>\$ 21,498,059</b>	<b>\$ 3,531,642</b>

### Sewer Improvement Revenue Bonds

On December 27, 2010, the City closed on a bond issue from Regions Bank in the total amount of \$7,952,033. The proceeds of the bond issue were used to retire the USDA financing totaling \$559,000 with the balance used in the ongoing sewer improvement project. The City anticipates substantial repayment to be made from future grant funds.

On December 30, 2011, the City closed on a bond issue from Branch Bank & Trust Company in the amount of \$6,500,000. The proceeds of the bond were used in the ongoing sewer improvement project, as well as improvements to the water system. The bond is payable in 10 payments to include 2.64% interest beginning June 1, 2012 and semiannually thereafter on each June 1 and December 1 of each year up to and including maturity on December 1, 2016.

The City was in compliance with all material provisions of the Sewer Bond Ordinances for the year ended September 30, 2012.

### Telecommunications Revenue Bonds

On November 18, 2010, the City closed on bond issues from Regions Bank in the amounts of \$3,300,000 and \$2,200,000 with terms ranging to 15 years. These proceeds are being utilized to construct the City's telecommunications utility. Although certain general revenues are pledged on this debt, the City anticipates full repayment to be made from future telecommunications revenues. Subsequent to year end, November 2012, the City refinanced the bond in the amount of \$2,200,000, extending repayment from five years to 10 years, with an interest rate of 3.20%, requiring a down payment of \$275,000. This change is reflected in the Schedule of Annual Requirements to Retire Long-Term Debt that follows. The City also was issued a line of credit from Regions Bank in the amount of \$1,850,000 with the terms due in one year. These proceeds are being utilized to cover operating expenses of the City's telecommunications utility. At September 30, 2012 the balance on this loan was \$1,850,000. Subsequent to year end, November 2012, the City signed an extension which required a down payment of \$200,000 with the remaining balance plus interest due on November 1, 2013.

### State Revolving Loan (SRL)

In 2005, the City obtained a construction loan from the Florida Department of Environmental Protection for \$3,056,000. The proceeds were used for Phase 1 of a large sewer project to upgrade the system. In 2007, the loan was amended to include the construction cost of Phase 2 in the amount of \$2,292,642. The loan is collateralized by net revenues of the sewer utility fund. A reserve in the amount of \$33,333 has been established as required by the loan agreement. In

February 2007, the City began making semiannual loan repayments with interest of 1.91% for Phase 1 and 1.77% for Phase 2 over the next twenty years.

#### Annual Requirements to Retire Long-term Debt

Maturities of long-term debt for the years ending September 30, are as follows:

Year	Business-type Activities			Total Interest
	Principal			
	Bonds	SRL	LOC	
2013	\$ 892,746	\$ 344,642	\$ 200,000	\$ 506,606
2014	761,134	699,011	1,650,000	498,954
2015	783,015	712,183	-	440,629
2016	805,486	725,604	-	402,500
2017	6,023,538	739,277	-	294,814
2018-2022	2,503,204	16,596	-	747,120
2023-2027	2,928,522	-	-	308,239
Total	<u>\$ 14,697,645</u>	<u>\$ 3,237,313</u>	<u>\$ 1,850,000</u>	<u>\$ 3,198,862</u>

#### NOTE 6. LEGAL COMPLIANCE AND ACCOUNTABILITY

At year end, the Communications Fund had a deficit net position of \$2,587,132. This deficit was the result of the City's startup costs of its Greenlight communications services which offers internet, telephone and video services to area businesses and residences. This deficit has been financed by long-term interfund advances from other enterprise funds and bank operating loans. The City intends to repay these funds from excess future operating revenues of the fund.

There were no other fund equity deficits of individual funds as of September 30, 2012.

#### NOTE 7. DEFINED BENEFIT/DEFINED CONTRIBUTION PENSION PLANS

##### Florida State Retirement System

All full-time employees of the City hired prior to January 1, 1996, participate in the Florida State Retirement System (the System). This System was created by the Florida Legislature and is a cost-sharing, multiple-employer defined benefit public retirement plan available to governmental units within the state of Florida. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Florida Retirement System, Division of Retirement, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or by calling (877) 377-1737 or (850) 488-5706.

All full-time employees of the City hired prior to January 1, 1996, are eligible to participate in the System. Special risk employees who retire at or after age 55, with ten years of creditable service; and all other employees who retire at or after age 62, with ten years of creditable service; are entitled to a retirement benefit, payable monthly for life, equal to the product of (1) average monthly compensation in the highest five years of creditable service; (2) creditable service during the appropriate period; and (3) the appropriate benefit percentage. Benefits fully vest on reaching six years of service. Vested employees may retire after six years of creditable service and receive reduced retirement benefits. The System also provides death benefits, disability benefits and annual cost-of-living adjustments. Benefits are established by Florida Statute.

The funding methods and the determination of benefits payable are provided in various acts of the Florida Legislature. These acts require that employers, such as the City, contribute the following percentages of eligible compensation to the plan: 5.18% for regular members, 5.14% for DROP members, 14.90% for special risk members, and 6.30% for senior management effective July 1,

2012. Beginning July 1, 2011, employees are required to also contribute 3% into the System. The City's contributions to the System for the years ended September 30, 2012, 2011, and 2010, were as follows, equal to the required contributions for each year:

<u>Year</u>	<u>Total</u>
2012	\$ 25,347
2011	30,462
2010	32,096

#### Florida State Retirement System Opt-Out

In December 1995, the City Council approved opting out of the Florida State Retirement System effective with all new employees hired after January 1, 1996. City employees covered under the System at December 31, 1995, will continue to participate in the System and the City will continue to make contributions on their behalf.

#### Florida Municipal Pension Trust Fund (Defined Contribution Plan)

In January 1996, the City adopted the Florida Municipal Pension Trust Fund Pension Plan administered by the Florida League of Cities. The plan is available to all general employees hired beginning January 1, 1996, and who have remained employed for at least six months. The City will contribute 6% of the eligible employee's salary. Additionally, the City will contribute 1% for each 1% the employee contributes for a maximum of 12% of employer contribution.

Employee contributions are voluntary and have certain contribution limits. Vesting in the plan is determined by the number of years of service. Employees vest at 25% at two years of service increasing incrementally by 25% each year thereafter. Vesting of 100% occurs at five years.

At September 30, 2012, there were 34 active members in the plan.

#### Florida Municipal Pension Trust Fund (Defined Benefit Plan)

##### Plan Description

In January 1996, the City adopted the Florida Municipal Pension Trust Fund Pension Plan administered by the Florida League of Cities. The plan is available to all full-time police officers and full-time firefighters hired by the City beginning January 1, 1996. Eligibility becomes immediate after hire date.

The firefighters' and police officers' pension plan covers all full-time officers and firefighters. Members of the firefighters' and police officers' pension plan do not vest in their pension benefits until they have completed ten years of service. Firefighters and police officers that retire at the earlier age of fifty-five and have completed ten years of service, or age fifty-two and twenty-five years of credited service are entitled to a monthly retirement benefit, payable for life or a minimum of ten years, in an amount equal to 2% of their final monthly compensation. The plan also provides for death and disability benefits. Administrative costs are financed through investment earnings.

##### Contributions

Firefighters and police officers were required to contribute 1% of their annual salary to the plan for the year ended September 30, 2012. The City is required to contribute the remaining amounts necessary to fund the plan, using the actuarial determined amounts. Insurance excise taxes remitted by the state to the pension plan are available to offset City contributions up to the 1997 base amount. The increment above the base amount is to provide extra benefits to the firefighters and police officers.

As of the most recent actuarial reports dated October 1, 2011, the plan had the following number of participants:

Active	12
Retired, disabled, vested terminations and beneficiaries	<u>7</u>
Total number of participants	<u><u>19</u></u>

#### Annual Pension Costs and Net Pension Obligation

The City's annual pension costs and net pension obligation to the Firefighters' and Police Officers' Defined Benefit Plan based on the most recent actuarial information (valuation date October 1, 2012) was as follows:

Annual required contribution (ARC)	\$ 86,716
Interest on net pension obligation	1,171
Adjustment to ARC	(1,230)
Annual pension costs	86,657
Contributions made	<u>(63,363)</u>
Increase in net pension obligation (NPO)	23,294
Net pension obligation (asset), beginning of year	<u>15,619</u>
Net pension obligation (asset), end of year	<u><u>\$ 38,913</u></u>

#### Other Pension Plan Information

The annual required contribution for the current year was determined as part of the October 1, 2012, actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions include the following:

- The present value of future pension payments was computed by using a discount rate of 7.5%. The discount rate is equal to the estimated long-term rate of return on current and future investments of the pension plans.
- Future pension payments reflect an assumption of annual salary increase rates of 6.27%.

The actuarial value of assets was determined using market value.

#### Three-year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2012	\$ 86,716	73%	\$ 38,913
September 30, 2011	102,646	98%	15,619
September 30, 2010	96,380	100%	-

Schedule of Changes in Pension Plan Net Position as of September 30, 2012

	Pension Trust Funds		Total
	General Employees	Special Risk	
Assets			
Cash and investments	\$ 879,504	\$1,610,547	\$2,490,051
Due from other governments	-	6,831	6,831
Total assets	<u>879,504</u>	<u>1,617,378</u>	<u>2,496,882</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net assets			
Reserved for:			
Employees' pension benefits	<u>879,504</u>	<u>1,617,378</u>	<u>2,496,882</u>
Total liabilities and net assets	<u>879,504</u>	<u>1,617,378</u>	<u>2,496,882</u>
Additions			
Contributions:			
Employer	<u>103,092</u>	-	<u>103,092</u>
Net employer contributions	<u>103,092</u>	-	<u>103,092</u>
State	-	58,341	58,341
Employee	<u>76,243</u>	<u>5,022</u>	<u>81,265</u>
Total contributions	<u>179,335</u>	<u>63,363</u>	<u>242,698</u>
Investment income	<u>91,410</u>	<u>233,455</u>	<u>324,865</u>
Net investment income	<u>91,410</u>	<u>233,455</u>	<u>324,865</u>
Total additions	<u>270,745</u>	<u>296,818</u>	<u>567,563</u>
Deductions			
Pension benefit payment and refunds	(4,063)	(16,462)	(20,525)
General and administrative	<u>(4,129)</u>	<u>(12,235)</u>	<u>(16,364)</u>
(Total deductions)	<u>(8,192)</u>	<u>(28,697)</u>	<u>(36,889)</u>
Increase (decrease) in fiduciary net assets	<u>262,553</u>	<u>268,121</u>	<u>530,674</u>
Net assets reserved for employees pension benefit			
Beginning of year	<u>616,950</u>	<u>1,349,258</u>	<u>1,966,208</u>
End of year	<u>\$ 879,503</u>	<u>\$1,617,379</u>	<u>\$2,496,882</u>

Other Post-Employment Benefits (OPEB)

Pursuant to Section 112.0801, *Florida Statutes*, The City is required to permit participation in the single-employer health insurance program (the "Plan") by retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active employees.

Based on Governmental Accounting Standards Board (GASB) approval of Statement Nos. 43 and 45 which set for the guidelines and a future implementation timetable for reporting and disclosure of Other Post-Employment Benefits (OPEB), the City had an actuary calculate future funding requirements using an appropriate actuarial cost method. The valuation was

performed as of October 1, 2010 and covers the subsidies for medical and life insurance benefits. The City has elected to implement the provisions of GASB Statement No. 45 prospectively. The City's annual OPEB cost for the Plan is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The projected unit credit cost method was used to determine all liabilities, with the liability for each active employee assumed to accrue over the working lifetime based on elapsed time from the date of hire until retirement.

**Plan Description.** The City provides optional post-employment benefits to all eligible individuals including lifetime medical, prescription, dental, and certain life insurance coverage. Eligible individuals include all regular employees of the City of Dunnellon who retire from active service under one of the pension plans sponsored by the City. Under certain conditions, eligible individuals also include spouses and dependent children. The Plan does not issue a publicly available financial report.

**Funding Policy.** The City Council is authorized to establish benefit levels and approve the actuarial assumptions used in the determination of contributions levels. The City Council establishes the contributions requirements of plan members and the City. These contributions are neither mandated nor guaranteed. The retiree contributes the premium cost each month. Spouses and other dependents are also eligible for coverage, although the retiree pays the premium cost.

Retirees must pay a monthly premium as determined by the insurance carrier. The premium varies depending on whether the retiree elects single, single plus spouse, single plus dependents, or family coverage.

Currently, the City's subsidy to OPEB benefits is unfunded. There are no separate Trust Funds or equivalent arrangements into which the City makes contributions to advance-fund the OPEB obligations, as it does for its retiree pension plans. The City's cost of the OPEB benefits, funded on a pay-as-you-go basis, was \$4,000 for the year ended September 30, 2012.

The ultimate implicit and explicit subsidies which are provided over time are financed directly by general assets of the City, which are invested in short-term fixed income instruments according to its current investment policy. The City selected an interest discount rate of 4.00% per annum, which is the long-range expected return on such short-term fixed income instruments, to calculate the present values and costs of the OPEB. This is consistent with GASB Statement No. 45 guidelines.

Significant Actuarial Assumptions and methods used to estimate the OPEB liability are as follows:

- Valuation date..... November 1, 2012
- Actuarial cost method..... Projected Unit Credit Cost Method
- Amortization method..... Level Dollar Payment
- Amortization period..... 10-Year Open Period
- Assumes rate of return on investments..... 4.00% per annum

Assumed healthcare cost trend rates:

<u>Fiscal Year Ending</u>	<u>Percent Increase</u>
2013	8.00%
2014	8.50%
2015	7.00%
2016	6.50%
2017	6.00%

Actuarial Methods. The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. Actuarial calculations reflect a long-term perspective and the methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Annual OPEB cost and Net OPEB Obligation. The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize the actuarial liabilities (or funding excess) over a period not to exceed 30 years. The City's annual OPEB cost for the fiscal year was \$4,000.

The City's annual OPEB cost and the net OPEB obligation for the fiscal year ended September 30, 2012 is as follows:

Annual required contribution (ARC).....	\$ 11,000
Interest on the net OPEB obligation.....	1,000
Adjustment to the ARC.....	<u>(3,000)</u>
	9,000
Employer contributions.....	(5,000)
Interest on employer contributions.....	<u>-</u>
	4,000
Net OPEB obligation - beginning of year.....	<u>26,000</u>
Net OPEB obligation - end of year.....	<u><u>\$ 30,000</u></u>

The City's percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ended September 30, 2012 is as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
9/30/2012	\$ 11,000	273%	\$ 30,000

The 2012 contribution represented 273% of the annual required contribution. The actuarial valuation for the Plan was done as of November 1, 2012. Thereafter, actuarial valuations will be done bi-annually.

As of November 1, 2012, the most recent actuarial valuation date, the Plan was unfunded. The actuarial accrued liability for benefits was \$38,000, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$38,000.

The following Schedule of Funding Progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) EAN (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a% of Covered Payroll ((b-1)/c)
10/01/2011	\$ -	\$ 98,000	\$ 98,000	0.0%	\$ 1,445,000	63.8%
10/01/2012	-	38,000	38,000	0.0%	2,107,000	1.8%

#### NOTE 8. COMMITMENTS AND CONTINGENCIES

##### Grants and Loans

Under the terms of federal and state grants and loans, periodic audits are required and certain costs may be questioned as not allowable as expenditures under the terms of the grants which could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, will not be material.

##### Small Community Wastewater Construction Grant Program

During September 2001, the City entered into a grant agreement with the Department of Environmental Protection entitling them to \$723,829 for preconstruction costs associated with the City's wastewater/sewage system. During the 2004, 2009 and 2010 fiscal years addendums were made to the original grant agreement to amend the total grant funding. The new grant agreement is for \$10,290,653. Also, a State Revolving Loan agreement was added to the addendum with total funding of \$3,801,774

#### NOTE 9. RISK MANAGEMENT

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

- Workers' Compensation and employer's liability
- General and automobile liability
- Real and personal property damage
- Public officials' liability
- Accidental death and dismemberment

The City's coverage for workers' compensation is under a retrospectively rated policy. Premiums are accrued based on the ultimate cost to-date of the City's experience for this type of risk.

The City is covered for health insurance under a group policy with the City of Ocala, Florida and the City of Belleview, Florida. The policy is purchased through a commercial carrier with premiums reassessed annually.

**NOTE 10. SEGMENT INFORMATION FOR WATER AND SEWER ENTERPRISE FUNDS**

Segment information for the Water and Sewer Enterprise Funds are available in the basic financial statements and notes to the financial statements.

**NOTE 11. LITIGATION**

The City is defendant in various pending or threatened litigation. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DUNNELLON, FLORIDA  
MAJOR FUND - GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Taxes				
Ad valorem	\$ 845,625	\$ 845,625	\$ 853,295	\$ 7,670
Ninth-cent gas tax	54,717	54,717	47,021	(7,696)
Local option gas tax	355,935	355,935	472,922	116,987
Franchise tax:				
Electricity	180,960	180,960	191,867	10,907
Communication service tax	111,795	111,795	126,882	15,087
Utility tax :				
Electricity	204,750	204,750	211,389	6,639
Propane	13,400	13,400	22,332	8,932
Total taxes	<u>1,767,182</u>	<u>1,767,182</u>	<u>1,925,708</u>	<u>158,526</u>
Licenses and permits				
Professional and occupational	27,698	27,698	25,914	(1,784)
Building permits	26,000	26,000	62,613	36,613
Other licenses and permits	26,030	26,030	11,667	(14,363)
Total licenses and permits	<u>79,728</u>	<u>79,728</u>	<u>100,194</u>	<u>20,466</u>
Intergovernmental revenue				
State, federal and local grants	295,551	295,551	76,194	(219,357)
State shared revenues:				
State revenue sharing	79,329	79,329	79,046	(283)
Mobile home licenses	7,000	7,000	7,513	513
Alcoholic beverage licenses	6,200	6,200	4,777	(1,423)
Local government one-half cent sales tax	90,947	90,947	92,086	1,139
Motor fuel tax rebate	1,200	1,200	2,528	1,328
Total intergovernmental revenue	<u>480,227</u>	<u>480,227</u>	<u>262,144</u>	<u>(218,083)</u>
Charges for services				
Copying and records search	500	500	1,048	548
Garbage and solid waste	178,522	178,522	168,097	(10,425)
Cemetery fees	300	300	1,647	1,347
City beach user fees	4,000	4,000	6,202	2,202
Other miscellaneous charges	2,500	2,500	456	(2,044)
Total charges for services	<u>185,822</u>	<u>185,822</u>	<u>177,450</u>	<u>(8,372)</u>
Fines and forfeitures				
Court fines	45,500	45,500	69,614	24,114
Other fines	639,700	639,700	380,814	(258,886)
Total fines and forfeitures	<u>685,200</u>	<u>685,200</u>	<u>450,428</u>	<u>(234,772)</u>

CITY OF DUNNELLON, FLORIDA  
MAJOR FUND - GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
(Continued)

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Miscellaneous revenue				
Investment earnings	\$ 5,000	\$ 5,000	\$ 8,315	\$ 3,315
Cemetery lots	8,000	8,000	16,790	8,790
Other miscellaneous	36,919	36,919	53,226	16,307
Total miscellaneous revenue	<u>49,919</u>	<u>49,919</u>	<u>78,331</u>	<u>28,412</u>
Total revenues	<u>\$ 3,248,078</u>	<u>\$ 3,248,078</u>	<u>\$ 2,994,255</u>	<u>\$ (253,823)</u>
Expenditures				
General government				
Legislative:				
Personnel services	\$ 15,216	\$ 15,216	\$ 17,719	\$ (2,503)
Operating expenses	<u>20,616</u>	<u>20,616</u>	<u>13,834</u>	<u>6,782</u>
Total legislative	<u>35,832</u>	<u>35,832</u>	<u>31,553</u>	<u>4,279</u>
City clerk and general administrative:				
Personnel services	36,812	36,812	36,904	(92)
Operating expenses	<u>48,091</u>	<u>61,110</u>	<u>56,247</u>	<u>4,863</u>
Total city clerk and general Administrative	<u>84,903</u>	<u>97,922</u>	<u>93,151</u>	<u>4,771</u>
City manager:				
Personnel services	19,751	19,751	20,075	(324)
Operating expenses	<u>45,502</u>	<u>45,502</u>	<u>5,045</u>	<u>40,457</u>
Total city manager	<u>65,253</u>	<u>65,253</u>	<u>25,120</u>	<u>40,133</u>
Legal counsel:				
Operating expenses	<u>202,000</u>	<u>202,000</u>	<u>211,790</u>	<u>(9,790)</u>
Comprehensive planning:				
Personnel services	21,942	21,942	19,386	2,556
Operating expenses	100,708	100,708	67,710	32,998
Capital outlay	<u>179,294</u>	<u>179,294</u>	<u>9,000</u>	<u>170,294</u>
Total comprehensive planning	<u>301,944</u>	<u>301,944</u>	<u>96,096</u>	<u>205,848</u>
Finance:				
Personnel services	32,914	32,914	27,223	5,691
Operating expenses	<u>32,583</u>	<u>19,564</u>	<u>11,480</u>	<u>8,084</u>
Total finance	<u>65,497</u>	<u>52,478</u>	<u>38,703</u>	<u>13,775</u>

CITY OF DUNNELLON, FLORIDA  
MAJOR FUND - GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
(Continued)

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures (continued)				
Building maintenance:				
Personnel services	\$ 34,792	\$ 34,792	\$ 33,513	\$ 1,279
Operating expenses	50,175	51,775	34,789	16,986
Capital outlay	46,833	46,833	-	46,833
Total building maintenance	<u>131,800</u>	<u>133,400</u>	<u>68,302</u>	<u>65,098</u>
Garage department:				
Personnel services	43,510	43,510	43,235	275
Operating expenses	6,443	6,443	3,974	2,469
Total garage department	<u>49,953</u>	<u>49,953</u>	<u>47,209</u>	<u>2,744</u>
Total general government	<u>937,182</u>	<u>938,782</u>	<u>611,924</u>	<u>326,858</u>
Public safety				
Law enforcement:				
Personnel services	657,374	657,374	615,711	41,663
Operating expenses	437,558	435,958	225,374	210,584
Capital outlay	40,419	40,419	31,643	8,776
Total law enforcement	<u>1,135,351</u>	<u>1,133,751</u>	<u>872,728</u>	<u>261,023</u>
Fire control:				
Personnel services	315,444	315,444	301,008	14,436
Operating expenses	89,368	89,368	55,436	33,932
Capital Outlay	10,000	10,000	-	10,000
Debt service:				
Principal	8,473	8,473	8,473	-
Interest	683	683	683	-
Total fire control	<u>423,968</u>	<u>423,968</u>	<u>365,600</u>	<u>58,368</u>
Protective inspections:				
Personnel services	16,132	16,132	14,315	1,817
Operating expenses	16,333	16,333	39,148	(22,815)
Total protective inspections	<u>32,465</u>	<u>32,465</u>	<u>53,463</u>	<u>(20,998)</u>
Total public safety	<u>1,591,784</u>	<u>1,590,184</u>	<u>1,291,791</u>	<u>298,393</u>

CITY OF DUNNELLON, FLORIDA  
MAJOR FUND - GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
*(Concluded)*

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures <i>(concluded)</i>				
Physical environment				
Cemetery:				
Personnel services	\$ 21,613	\$ 21,613	\$ 20,332	\$ 1,281
Operating expenses	3,480	3,480	627	2,853
Total Cemetery	<u>25,093</u>	<u>25,093</u>	<u>20,959</u>	<u>4,134</u>
Garbage and solid waste:				
Personnel services	8,600	8,600	9,255	(655)
Operating expenses	155,802	155,802	128,268	27,534
Total garbage and solid waste	<u>164,402</u>	<u>164,402</u>	<u>137,523</u>	<u>26,879</u>
Total physical environment	<u>189,495</u>	<u>189,495</u>	<u>158,482</u>	<u>31,013</u>
Transportation				
Roads and streets:				
Personnel services	242,172	242,172	179,968	62,204
Operating expenses	179,160	179,160	334,622	(155,462)
Total transportation	<u>421,332</u>	<u>421,332</u>	<u>514,590</u>	<u>(93,258)</u>
Human services				
Animal control:				
Personnel services	11,530	11,530	11,602	(72)
Operating expenses	1,997	1,997	601	1,396
Total animal control	<u>13,527</u>	<u>13,527</u>	<u>12,203</u>	<u>1,324</u>
Mosquito control:				
Operating expenses	23,000	23,000	19,160	3,840
Total human services	<u>36,527</u>	<u>36,527</u>	<u>31,363</u>	<u>5,164</u>
Culture and recreation				
Parks and recreation:				
Personnel services	57,366	57,366	50,798	6,568
Operating expenses	23,672	23,672	19,578	4,094
Total culture and recreation	<u>81,038</u>	<u>81,038</u>	<u>70,376</u>	<u>10,662</u>
Total expenditures	<u>3,257,358</u>	<u>3,257,358</u>	<u>2,678,526</u>	<u>578,832</u>
Excess of revenues over expenditures	(9,280)	(9,280)	315,729	325,009
Fund balance, beginning of year	9,280	9,280	2,394,621	2,385,341
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,710,350</u>	<u>\$ 2,710,350</u>

CITY OF DUNNELLON, FLORIDA  
MAJOR FUND - TAX INCREMENT FINANCING DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Taxes:				
Ad valorem	\$ 49,226	\$ 49,226	\$ 49,088	\$ (138)
Intergovernmental revenue	174,943	174,943	91,283	(83,660)
Miscellaneous revenue:				
Investment earnings	<u>1,000</u>	<u>1,000</u>	<u>1,597</u>	<u>597</u>
Total revenues	<u>225,169</u>	<u>225,169</u>	<u>141,968</u>	<u>(83,201)</u>
Expenditures				
General government:				
Industry development:				
Personnel services	136,073	136,073	131,424	4,649
Operating expenses	252,684	253,654	77,672	175,982
Capital outlay	<u>240,000</u>	<u>239,030</u>	<u>5,000</u>	<u>234,030</u>
Total expenditures	<u>628,757</u>	<u>628,757</u>	<u>214,096</u>	<u>414,661</u>
Deficiency of revenues over expenditures	<u>(403,588)</u>	<u>(403,588)</u>	<u>(72,128)</u>	<u>(497,862)</u>
Other financing sources				
Interfund transfers out sources (uses)	<u>(300,000)</u>	<u>(300,000)</u>	<u>(300,000)</u>	<u>-</u>
Excess of revenues over expenditures	(703,588)	(703,588)	(372,128)	(497,862)
Fund balances, beginning of year	<u>403,588</u>	<u>403,588</u>	<u>556,440</u>	<u>(152,852)</u>
Fund balances, end of year	<u>\$ (300,000)</u>	<u>\$ (300,000)</u>	<u>\$ 184,312</u>	<u>\$ (650,714)</u>

REQUIRED SUPPLEMENTARY INFORMATION  
SPECIAL RISK PENSION TRUST FUND  
SEPTEMBER 30, 2012  
CITY OF DUNNELLON, FLORIDA

Plans that use the aggregate actuarial cost method are not required to present a schedule of funding progress.

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER AND OTHERS

Year Ended September 30,	Annual Required Contribution (ARC) (1)	Percentage Contributed
1998	15,647	100%*
1999	20,797	100%*
2000	25,619	100%*
2001	29,299	100%*
2002	32,362	100%*
2003	36,398	100%*
2004	52,506	100%*
2005	58,816	100%*
2006	45,568	100%*
2007	52,384	100%*
2008	74,849	100%*
2009	77,117	100%*
2010	96,380	100%*
2011	102,182	98%
2012	86,716	73%

(1) Includes contributions by excise tax on certain insurance policies collected by the State of Florida. The City is required to contribute to the balance of the ARC.

\* In each year, the City contribution was greater than required. The excess contribution was placed in the surplus contribution account.

The City obtains an actuarial report every two years. The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the actuarial valuation follows:

Valuation date	October 1, 2011
Actuarial cost method	Aggregate actuarial cost method
Amortization method	Level percentage, open
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.5%*
Projected salary increases	6.27*
Cost-of-living adjustments	None

\*Includes inflation at 3.75%

SUPPLEMENTARY INFORMATION

CITY OF DUNNELLON, FLORIDA  
DEBT SERVICE COVERAGE SCHEDULE  
WATER AND SEWER REVENUE BONDS  
For the Fiscal Year Ended September 30, 2012  
UNAUDITED

	2012
Gross revenue (B)	
Operating revenue	2,309,806
Interest income	11,429
Total gross revenue	2,321,235
Costs of operation and maintenance	
Personnel services	773,218
Operating expenses ( C )	1,126,617
Total costs of operation and maintenance	1,899,835
Gross revenues less costs of operation and maintenance	421,400
Senior Lien Debt Service and Coverage	
Senior lien debt service	
Regions principal	-
Regions interest	92,716
BB&T principal	-
BB&T interest	129,177
Total senior lien debt service	221,893
Senior lien debt service coverage for rate covenant (D)	1.90
Non-operating revenue (wastewater project grant funds) (E)	750,000
Total pledged funds	1,171,400
Senior lien debt service coverage for all pledged funds	5.28
Subordinate Lien Debt Service and Coverage	
Gross revenues less costs of operation and maintenance	421,400
Senior lien debt service plus coverage (F)	266,272
Net income available for SRF coverage	155,128
SRF debt service	64,541
SRF debt service coverage (G)	2.40

Notes to the Debt Service Coverage Schedule

- (A) Calculations based on figures from the Statement of Revenues, Expenses, and Changes in Net Position (page 21)
- (B) Gross revenue includes interest earnings and operating revenues of the Water and Sewer Fund and excludes impact fees and contributions in aid of construction
- (C) Operating expenses exclude depreciation, amortization and expenses related to professional services (professional services are capital-related for the Utility Master Plan, and system mapping)
- (D) Required rate for coverage is 1.10, and for additional bonds 1.20
- (E) Grant Revenue is Financially Disadvantaged Small Community Grant Agreement, SC511070, Pledged for Debt Service per Bond Resolution
- (F) Calculation is total senior lien debt service multiplied by the greater required rate for coverage of 1.20
- (G) State Revolving Funds Loan required rate for coverage is 1.15

SINGLE AUDIT AND  
COMPLIANCE SECTION

CITY OF DUNNELLON, FLORIDA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
For the Fiscal Year Ended September 30, 2012

<u>GRANTOR/PROGRAM TITLE</u>	<u>CFDA #/ CSFA #</u>	<u>Grant Number</u>	<u>Amount</u>	<u>Reported in Prior Years</u>	<u>Revenue Received or Receivable</u>	<u>Expenditures</u>
Federal Awards						
<i>Non-major programs</i>						
<i>U.S. Department of Law Enforcement</i>						
Passed through the Florida						
Department of Law Enforcement						
Community Policing Events	16.738	2012-JAGC-MARI-4-C4-049	\$ 32,500	\$ -	\$ 32,500	\$ 32,500
Project Road Side	16.738	2012-JAGD-MARI-1-C5-085	1,000	-	1,000	1,000
			<u>33,500</u>	<u>-</u>	<u>33,500</u>	<u>33,500</u>
 <i>U.S. Department of Justice</i>						
COPS-Hiring Recovery Program (ARRA)	16.710	2009RDWX0232	144,043	14,141	41,849	41,849
Bullet Proof Vest Program 2011	16.607	11055237	1,021	-	845	564
			<u>145,064</u>	<u>14,141</u>	<u>42,694</u>	<u>42,413</u>
Total federal awards			<u>178,564</u>	<u>14,141</u>	<u>76,194</u>	<u>75,913</u>
 State Financial Assistance						
<i>Major programs</i>						
<i>Florida Department of Environmental Protection</i>						
Small Community Wastewater Construction Grant	37.039	SG511070	10,290,653	-	750,000	750,000
Total State Financial Assistance			<u>10,290,653</u>	<u>-</u>	<u>750,000</u>	<u>750,000</u>
Total assistance			<u>\$ 10,469,217</u>	<u>\$ 14,141</u>	<u>\$ 826,194</u>	<u>\$ 825,913</u>

See notes to schedule of expenditures of federal awards and state financial assistance.

CITY OF DUNNELLON, FLORIDA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE

For the Year Ended September 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and presentation of the Schedule of Expenditures of Federal Awards and State Financial Assistance of the City of Dunnellon, Florida, (the "City") have been designed to conform to generally accepted accounting principles as applicable to governmental units, including the reporting and compliance requirements of the Audits of States, Local Governments, and Non-Profit Organizations and Office of Management and Budget Circular A-133.

A. Reporting Entity

The reporting entity consists of the City of Dunnellon, Florida. The City includes a Schedule of Expenditures of Federal Awards and State Financial Assistance in the Compliance Section for the purpose of additional analysis.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting related to the timing of the measurements made, regardless of the measurement focus.

The modified accrual basis of accounting is followed in the Schedule of Expenditures of Federal Awards and State Financial Assistance. Under the modified accrual basis, revenues are recognized when they become 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 60 days after the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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

To the Mayor and Members  
Of the City Council  
City of Dunnellon , Florida

We have audited the financial statements of the governmental activities, the business-type activities, and the major funds of the City of Dunnellon , Florida, of and for the year ended September 30, 2012, which collectively comprise the City of Dunnellon , Florida's basic financial statements and have issued our report thereon dated May 9, 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 City of Dunnellon , Florida is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Dunnellon , Florida'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 City of Dunnellon , Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Dunnellon , Florida's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or 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 City of Dunnellon , Florida'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 Commission, the Auditor General of the State of Florida, and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Powell & Jones".

POWELL & JONES, CPAs  
Certified Public Accountants  
May 9, 2013

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT MATERIAL EFFECT ON EACH MAJOR STATE FINANCIAL ASSISTANCE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH CHAPTER 10.550 *RULES OF THE AUDITOR GENERAL*

Honorable Mayor and  
City Council  
City of Dunnellon, Florida

Compliance

We have audited the compliance of the City of Dunnellon, Florida with the types of compliance requirements described in the *Executive Office of the Governor's State Projects Compliance Supplement*, that are applicable to each of its major state financial assistance projects for the year ended September 30, 2012. The City of Dunnellon, Florida's major state financial assistance projects are identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state financial assistance projects is the responsibility of The City of Dunnellon, Florida's management. Our responsibility is to express an opinion on the City of Dunnellon, Florida'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: Chapter 10.550, *Rules of the Auditor General*. Those standards, and Chapter 10.550, *Rules of the Auditor General*, 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 state financial assistance project occurred. An audit includes examining, on a test basis, evidence about The City of Dunnellon, Florida'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 of Dunnellon, Florida's compliance with those requirements.

In our opinion, The City of Dunnellon, Florida complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major state financial assistance projects for the year ended September 30, 2012.

Internal Control Over Compliance

The management of The City of Dunnellon, Florida is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state financial assistance projects. In planning and performing our audit, we considered The City of Dunnellon, Florida's internal control over compliance with requirements that could have a direct and material effect on a major state financial assistance project 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 Chapter 10.550, *Rules of the Auditor General*, but not for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Dunnellon, Florida'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, noncompliance with a type of compliance requirement of a state financial assistance project 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 state financial assistance project will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily 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, the City Council, state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Powell & Jones".

POWELL & JONES  
Certified Public Accountants  
May 9, 2013

CITY OF DUNNELLON, FLORIDA

SCHEDULE OF FINDINGS

For the Fiscal Year Ended September 30, 2012

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting	
? Material weakness identified?	No
? Reportable condition identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements	No

**State Financial Assistance**

Internal control over major programs:

? Material weakness identified?	No
? Significant deficiencies identified that are not considered to be material weaknesses?	None reported

Type of auditor's report issued on compliance for major programs:	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with Chapter 10.550, Rules of the Auditor General?	No
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Identification of major programs:

<u>CSFA Number</u>	<u>Name of State Programs</u>
37.039	Department of Environmental Protection Small Community Wastewater Construction Grant

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	No
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**Financial Statement Findings**

None

## MANAGEMENT LETTER

To The City Council  
City of Dunnellon , Florida

We have audited the financial statements of the City of Dunnellon , Florida, as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated May 9, 2013. We have also issued our report on compliance and on internal control over financial reporting. That report should be considered in conjunction with this management letter.

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. 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 require that certain items be addressed in this letter.

### PRIOR YEAR FINDINGS

There were no reportable findings in the prior year.

### CURRENT YEAR FINDINGS

There were no reportable findings in the current year.

### AUDITOR GENERAL COMPLIANCE MATTERS

Annual Local Government Financial Report - The Financial Report filed with the Department of Financial Services pursuant to Section 218.32(1)(a), *Florida Statutes*, is in agreement with the accompanying financial statements of the City of Dunnellon , Florida, for the fiscal year ended September 30, 2012.

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

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

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

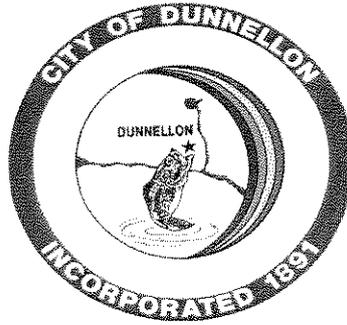
Our audit did not disclose any further items that would be required to be reported under the *Rules of the Auditor General*, Chapter 10.550.

#### CONCLUSION

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

A handwritten signature in cursive script that reads "Powell & Jones".

POWELL & JONES  
Certified Public Accountants  
May 9, 2013



**City of Dunnellon Management Response To  
Auditors' Management Letter Comment  
Annual Audit FYE 9/30/12**

Honorable Mayor and City Council  
City of Dunnellon  
Dunnellon, Florida

We have reviewed the audit report for fiscal year ending September 30, 2012 including the management letter and are pleased there were no reportable findings. We believe the audit, as prepared and presented by Powell & Jones, CPA's, to be an accurate representation of the City's current financial status.

**Lisa Algieri**

Lisa Algieri  
City Manager