

CITY OF DUNNELLON, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2013

CITY OF DUNNELLON, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2013

TABLE OF CONTENTS

	PAGE NO.
Independent Auditor's Report	4 - 6
Management's Discussion and Analysis	7 - 12
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	14
Statement of Activities	15
Balance Sheet - All Governmental Funds	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Funds	18 17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Net Position - Proprietary Funds	20 - 21
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	22
Statement of Cash Flows - Proprietary Funds	23 - 24
Statement of Net Position - Pension Trust Funds	25
Statement of Changes in Net Position - Pension Trust Funds	26
Notes to Financial Statements	27 - 49
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Governmental Fund - General Fund	51 - 54
Schedule of Revenues, Expenditures, and Changes to Fund Balance - Budget and Actual - Governmental Fund - Tax Increment Financing District Fund	55
Schedule of Contributions from Employer and Others	56

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September 30, 2013

TABLE OF CONTENTS

	PAGE NO.
SUPPLEMENTARY INFORMATION	
Debt Service Coverage Schedule (Unaudited)	58
SINGLE AUDIT AND COMPLIANCE SECTION	
Schedule of Expenditures of Federal Awards and State Financial Assistance	60
Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance	61
Independent Auditor's Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	62 - 63
Report on Compliance with Requirements that Could have a Direct and Material Effect on Each Major State Financial Assistance Project and on Internal Control Over Compliance in Accordance with Chapter 10.550, <i>Rules of the Auditor General</i>	64 - 65
Schedule of Findings	66
Management Letter	67 - 69
Management's Response	70

INDEPENDENT AUDITOR'S REPORT

To the City Commission;
City of Dunnellon, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Dunnellon, Florida, (the City) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, each major

fund, and the aggregate remaining fund information of the City of Dunnellon, Florida, as of September 30, 2013, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted 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 is presented for purposes of additional analysis as required by the *Department of Financial Services' State Projects Compliance Supplement*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards and state financial assistance is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and state financial assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2014, on our consideration of the City of Dunnellon, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*

in considering the City of Dunnellon, Florida's internal control over financial reporting and compliance.

POWELL & JONES
Certified Public Accountants
Lake City, Florida
April 18, 2014

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, 2013. Please read it in conjunction with the City's basic financial statements, which begin on page 14.

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 14-15) 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 16. 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 14. 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 16. 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 17 and 19.
- **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 25. 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	
	2012	2013	2012	2013	2012	2013
Revenues	\$3,136,223	\$3,108,363	\$6,558,727	\$ 8,423,812	\$9,694,950	\$ 11,532,175
Expenses	\$3,292,013	\$3,762,419	\$5,556,984	\$ 13,655,623	\$8,848,997	\$ 17,418,042

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 less than 1 percent.

Business-type Activities

The Water, Sewer and Communications Utilities show a combined operating loss of \$2,779,446, combined non-operating revenues of \$5,268,790, combined interest expense of \$1,330,838, and an impairment loss of \$6,390,317, for a net decrease of \$5,231,811 for fiscal year 2013. The net decrease is primarily due to recording the writedown of assets in the communications fund.

Net Position

For the years ended September 30, 2013 and 2012, Net Position changed as follows:

	Governmental		Business-Type		Total	
	Activities		Activities			
	2012	2013	2012	2013	2012	2013
Beginning net position	\$ 7,542,595	\$ 7,386,805	\$ 12,406,880	\$ 13,408,623	\$ 19,949,475	\$ 20,795,428
Increase (decrease) in net position	(155,790)	(654,056)	1,001,743	(5,231,811)	845,953	(5,885,867)
	<u>\$ 7,386,805</u>	<u>\$ 6,732,749</u>	<u>\$ 13,408,623</u>	<u>\$ 8,176,812</u>	<u>\$ 20,795,428</u>	<u>\$ 14,909,561</u>

This reflects a decrease of 9 percent for governmental activities and a 39 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, 2013 and 2012.

Assets

	Governmental Activities		Business-Type Activities	
	2012	2013	2012	2013
Current Assets	\$ 3,064,914	\$ 2,489,791	\$ 3,103,702	\$ 4,307,124
Capital Assets, Net of Accumulated Depreciation	4,640,359	4,555,393	33,992,080	26,565,640
Unamortized Bond Issue Costs	-	-	224,282	182,530
Total Assets	<u>\$ 7,705,273</u>	<u>\$ 7,045,184</u>	<u>\$ 37,320,064</u>	<u>\$ 31,055,294</u>

Capital assets for governmental activities have decreased 2 percent over the prior year. Business-type activities reflect a decrease of 22 percent primarily due to an impairment loss recorded in writing down the assets of the communications fund.

Liabilities

	Governmental Activities		Business-Type Activities	
	2012	2013	2012	2013
Current Liabilities Payable from Restricted Assets	\$ 230,761	\$ 219,946	\$ 4,130,463	\$ 3,623,882
Deferred Revenue	25,654	24,779	336,131	373,948
Long-term Liabilities	62,053	67,710	20,923,276	18,880,652
Total Liabilities	<u>\$ 318,468</u>	<u>\$ 312,435</u>	<u>\$ 25,389,870</u>	<u>\$ 22,878,482</u>

Current liabilities for governmental activities decreased 5% over the prior year primarily due to less accounts payable in the current year. Long-term liabilities increased 9% primarily due to compensated absences. Current liabilities for business-type activities have increased 12% from prior year, primarily due to debt payments.

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, 2013 and 2012.

	Governmental		Business-Type					
	2012	2013	Water Utility		Sewer Utility		Communications Utility	
	2012	2013	2012	2013	2012	2013	2012	2013
Program Revenues								
Charges for Services	\$ 728,072	\$ 844,795	\$ 923,336	\$ 1,069,834	\$ 1,386,470	\$ 1,516,021	\$52,609	\$ 544,298
Operating Grants and Contributions	43,694	22,174	-	-	-	-	-	-
Capital Grants and Contributions	32,500	15,956	780,820	-	3,097,322	4,471,905	-	-
General Revenues								
Taxes	2,066,079	2,003,520	-	-	-	-	-	-
State-shared	185,950	189,170	-	-	-	-	-	-
Investment income	9,912	3,839	5,065	1,992	6,364	2,261	29	-
Miscellaneous	70,016	28,909	3,076	5,861	138	434	3,498	1,574
Transfers in	-	-	-	-	-	-	-	792,629
	<u>\$3,136,223</u>	<u>\$3,108,363</u>	<u>\$1,712,297</u>	<u>\$ 1,077,687</u>	<u>\$ 4,490,294</u>	<u>\$ 5,990,621</u>	<u>\$56,136</u>	<u>\$1,338,501</u>

Governmental revenue decreased 1 percent over prior year. Charges for Services increased 16 percent. Taxes decreased 3 percent. State-shared Revenue increased 2 percent. Business-type revenues increased 32 percent primarily due to the Rainbow Springs and Juliette Falls utility systems contributing a full year's revenue and an increase in Communications Fund revenue.

Expenses

Governmental		Water Utility		Sewer Utility		Communication Utility	
2012	2013	2012	2013	2012	2013	2012	2013
\$ 2,992,013	\$ 3,762,419	\$1,320,369	\$ 1,544,736	\$ 2,260,122	\$ 2,613,386	\$ 1,976,493	\$ 9,499,501

Expenses increased in the governmental fund and combined utility funds by 96 percent for the year ended September 30, 2013 primarily due to depreciation expense, and the impairment loss recorded in the communications fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total revenue for the year shows 5 percent under budget.

On the expense-side, total General Government is under budget 20 percent or \$139,785. This is primarily associated with the Comprehensive Planning Department delaying capital projects and lowering operating expenses. Total Public Safety is under budget 8 percent primarily due to position vacancies.

CAPITAL ASSETS

As of September 30, 2013, the City had \$31 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 decrease of \$7,511,407 or 19 percent, over the prior year.

	Governmental		Business-Type		Total	
	2012	2013	2012	2013	2012	2013
Capital Assets	\$7,274,693	\$7,361,361	\$ 33,472,566	\$ 33,535,055	\$ 40,747,259	\$ 40,896,416
Construction in Progress	-	-	5,866,615	110,329	5,866,615	110,329
Less Accumulated						
Depreciation	(2,634,334)	(2,805,968)	(5,347,101)	(7,079,344)	(7,981,435)	(9,885,312)
Total	\$4,640,359	\$4,555,393	\$ 33,992,080	\$ 26,566,040	\$ 38,632,439	\$ 31,121,433

This year's major addition was the completion of Phases III and IV of the waste water expansion project. The decrease was due to writing down the value of the Communications Fund assets to the net realizable values.

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.

Eddie Esch

Eddie Esch
City Manager

Jan Smith

Jan Smith
Finance Officer

BASIC FINANCIAL STATEMENTS

CITY OF DUNNELLON, FLORIDA
STATEMENT OF NET POSITION
September 30, 2013

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash and investments	\$ 2,337,629	\$ 197,304	\$ 2,534,933
Receivables, net	63,162	227,461	290,623
Due from other governments	88,900	5,543	94,443
Inventory	-	119,688	119,688
Other assets	100	-	100
Restricted cash	-	3,757,128	3,757,128
Capital assets, not being depreciated	3,210,071	385,164	3,595,235
Capital assets, being depreciated	4,151,290	33,260,220	37,411,510
Less accumulated depreciation	(2,805,968)	(7,079,744)	(9,885,712)
Unamortized bond issuance costs	-	182,530	182,530
Total assets	<u>7,045,184</u>	<u>31,055,294</u>	<u>38,100,478</u>
Liabilities			
Accounts payable and accrued liabilities	135,243	725,172	860,415
Payable from restricted assets:			
Utility deposits	-	134,336	134,336
Accrued interest	-	239,612	239,612
Deferred revenue	24,779	-	24,779
Long-term liabilities:			
Due within one year	84,703	2,898,710	2,983,413
Due in more than one year	67,710	18,880,652	18,948,362
Total liabilities	<u>312,435</u>	<u>22,878,482</u>	<u>23,190,917</u>
Net position			
Invested in capital assets, Net of related debt	4,555,393	4,988,333	9,543,726
Restricted for:			
Debt service	-	1,238,245	1,238,245
Capital projects	624,343	4,979,381	5,603,724
Infrastructure	56,247	-	56,247
Roads and streets	1,569,224	-	1,569,224
Public safety	49,767	-	49,767
Cemetery perpetual care	43,452	-	43,452
Tree fund	73	-	73
Emergency reserve	157	-	157
Unrestricted (deficit)	(165,907)	(3,029,147)	(3,195,054)
Total net position	<u>\$ 6,732,749</u>	<u>\$ 8,176,812</u>	<u>\$ 14,909,561</u>

CITY OF DUNNELLON, FLORIDA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services		Capital	Primary Government		
		Operating Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Governmental activities							
General government	\$ 774,084	\$ 193,922	\$ -	\$ (580,162)	\$ -	\$ (580,162)	
Public safety	1,382,221	8,032	22,174	(1,336,059)	-	(1,336,059)	
Physical environment	175,866	172,137	-	(3,729)	-	(3,729)	
Transportation	518,625	19,366	-	(499,259)	-	(499,259)	
Culture and recreation	33,655	1,150	-	(32,505)	-	(32,505)	
Human services	84,991	-	-	(84,991)	-	(84,991)	
Interest on long-term debt	348	-	-	(348)	-	(348)	
Total governmental activities	2,969,790	394,607	22,174	(2,537,053)	-	(2,537,053)	
Business-type activities							
Water utility	1,544,736	1,075,695	-	-	(469,041)	(469,041)	
Sewer utility	2,613,386	1,516,455	-	-	3,374,974	3,374,974	
Communications utility							
Operating activities	3,107,184	562,872	-	-	(2,544,312)	(2,544,312)	
Impairment loss on assets	6,390,317	-	-	-	(6,390,317)	(6,390,317)	
Total business-type activities	13,655,623	3,155,022	-	-	(6,028,696)	(6,028,696)	
Total primary government	\$ 16,625,413	\$ 3,549,629	\$ 22,174	\$ 4,487,861	(2,537,053)	(8,565,749)	
General revenues							
Taxes:							
Property taxes					911,589	911,589	
Franchise taxes					184,393	184,393	
Public service taxes					402,327	402,327	
Fuel taxes					505,211	505,211	
State-shared revenues					189,170	189,170	
Fines and forfeitures					450,188	450,188	
Investment income					3,839	3,839	
Miscellaneous					28,909	28,909	
Transfers in (out)					(792,629)	792,629	
Total general revenues					1,882,997	1,882,997	
Change in net position					(654,056)	(5,885,867)	
Net position, beginning of year					7,386,805	13,408,623	
Net position, end of year					\$ 6,732,749	\$ 8,176,812	

CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2013

	General Fund	Tax Increment Financing District Fund	Total Governmental Funds
Assets			
Cash and investments	\$ 2,297,598	\$ 40,031	\$ 2,337,629
Accounts receivable	63,162	-	63,162
Due from other governments	88,900	-	88,900
Due from other funds	-	47,360	47,360
Other assets	100	-	100
Total assets	<u>\$ 2,449,760</u>	<u>\$ 87,391</u>	<u>\$ 2,537,151</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 82,930	\$ 34	\$ 82,964
Accrued liabilities	49,864	2,415	52,279
Due to other funds	47,360	-	47,360
Deferred revenue	24,779	-	24,779
Total liabilities	<u>204,933</u>	<u>2,449</u>	<u>207,382</u>
Fund balances			
Restricted	-	84,942	84,942
Committed for:			
Roads and streets	1,569,224	-	1,569,224
Public safety	49,767	-	49,767
Infrastructure	56,247	-	56,247
Cemetery perpetual care	43,452	-	43,452
Tree fund	73	-	73
Emergency reserve	157	-	157
Assigned for:			
Capital improvements	624,343	-	624,343
Unassigned (deficit)	(98,436)	-	(98,436)
Total fund balances	<u>2,244,827</u>	<u>84,942</u>	<u>2,329,769</u>
Total liabilities and fund balances	<u>\$ 2,449,760</u>	<u>\$ 87,391</u>	<u>\$ 2,537,151</u>

CITY OF DUNNELLON, FLORIDA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
September 30, 2013

Fund balances - total governmental funds	\$ 2,329,769
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Amounts reported for governmental activities in the Statement of Net Position are different because:

<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$7,361,361 and the accumulated depreciation is \$2,805,968.</p>	4,555,393
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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:

OPEB payable	(22,100)
Compensated absences	<u>(130,313)</u>

Total net position of governmental activities	<u><u>\$ 6,732,749</u></u>
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CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended September 30, 2013

	General Fund	Tax Increment Financing District Fund	Total Governmental Funds
Revenues			
Taxes	\$ 1,885,543	\$ 117,977	\$ 2,003,520
Licenses and permits	164,831	-	164,831
Intergovernmental revenues	211,344	-	211,344
Charges for service	202,378	-	202,378
Fines and forfeitures	450,188	-	450,188
Miscellaneous revenue	59,791	355	60,146
Total revenues	<u>2,974,075</u>	<u>118,332</u>	<u>3,092,407</u>
Expenditures			
Current:			
General government	547,857	182,346	730,203
Public safety	1,267,497	-	1,267,497
Physical environment	175,646	-	175,646
Transportation	510,001	-	510,001
Human services	33,655	-	33,655
Culture and recreation	67,801	-	67,801
Capital outlay			
General government	-	35,356	35,356
Public safety	15,956	-	15,956
Transportation	35,356	-	35,356
Debt service:			
Principal payments	8,808	-	8,808
Interest	348	-	348
Total expenditures	<u>2,662,925</u>	<u>217,702</u>	<u>2,880,627</u>
Excess (deficiency) of revenues over expenditures	<u>311,150</u>	<u>(99,370)</u>	<u>211,780</u>
Other financing sources (uses)			
Capital contributions	15,956	-	15,956
Interfund transfers out	(792,629)	-	(792,629)
	<u>(776,673)</u>	<u>-</u>	<u>(776,673)</u>
Net change in fund balances	(465,523)	(99,370)	(564,893)
Fund balances, beginning of year	<u>2,710,350</u>	<u>184,312</u>	<u>2,894,662</u>
Fund balances, end of year	<u>\$ 2,244,827</u>	<u>\$ 84,942</u>	<u>\$ 2,329,769</u>

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 Fiscal Year Ended September 30, 2013

Net change in fund balances - total governmental funds \$ (564,893)

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	\$ 86,668	
(Current year depreciation)	<u>(171,634)</u>	(84,966)

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	8,808

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:

Increase in OPEB payable	(1,700)
Net increase in compensated absences	<u>(11,305)</u>

Change in net position of governmental activities \$ (654,056)

CITY OF DUNNELLON, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
September 30, 2013

	Business-Type Activities			Total
	Water Fund	Sewer Fund	Communications Fund	
Assets				
Current assets				
Cash and investments	\$ -	\$ 197,304	\$ -	\$ 197,304
Accounts receivable (net of allowance for uncollectible accounts)	62,053	123,576	41,832	227,461
Due from other governments	-	5,543	-	5,543
Inventory	-	-	119,688	119,688
Total current assets	62,053	326,423	161,520	549,996
Restricted assets				
Cash:				
Utility deposit cash	134,336	-	-	134,336
Sewer capital improvement funds	-	1,832	-	1,832
Revenue bond proceeds	1,513,743	868,972	-	2,382,715
Debt service - state revolving loan	-	47,964	-	47,964
Debt service - revenue bonds	320,886	361,426	507,969	1,190,281
Total restricted assets	1,968,965	1,280,194	507,969	3,757,128
Utility plant in service				
Cost of capital assets	6,042,141	25,556,906	1,936,008	33,535,055
(accumulated depreciation)	(1,588,761)	(4,735,286)	(755,697)	(7,079,744)
Construction in progress	62,005	48,324	-	110,329
Total utility plant in service - cost less depreciation	4,515,385	20,869,944	1,180,311	26,565,640
Long-term assets				
Bond issuance costs (net of amortization)	49,847	49,487	83,196	182,530
	49,847	49,487	83,196	182,530
Total assets	\$ 6,596,250	\$ 22,526,048	\$ 1,932,996	\$ 31,055,294

CITY OF DUNNELLON, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 September 30, 2013

	Business-Type Activities			Total
	Water Fund	Sewer Fund	Communications Fund	
Liabilities and Net Position				
Current liabilities, unrestricted				
Payable from current assets:				
Accounts, wages and retainage payable	\$ 165,366	\$ 446,858	\$ 112,948	\$ 725,172
Compensated absences - due within one year	32,083	43,316	26,127	101,526
Total current liabilities, unrestricted	<u>197,449</u>	<u>490,174</u>	<u>139,075</u>	<u>826,698</u>
Current liabilities, restricted				
Payable from restricted assets:				
Accrued revenue bond and SRF loan interest	74,249	88,989	76,374	239,612
Customer deposits	134,336	-	-	134,336
SRF loan payable within one year	-	6,682	-	6,682
Revenue bonds payable - due within one year	228,721	245,431	2,007,287	2,481,439
Capital lease payable - due within one year	-	-	309,063	309,063
Total current liabilities, restricted	<u>437,306</u>	<u>341,102</u>	<u>2,392,724</u>	<u>3,171,132</u>
Total current liabilities	<u>634,755</u>	<u>831,276</u>	<u>2,531,799</u>	<u>3,997,830</u>
Long-term liabilities				
SRF loan payable - noncurrent portion	-	34,254	-	34,254
Revenue bonds - noncurrent portion	6,350,545	7,087,405	4,743,838	18,181,788
Capital leases - noncurrent portion	-	-	564,081	564,081
OPEB payable	3,740	3,740	4,420	11,900
Compensated absences - noncurrent portion	37,662	36,899	14,068	88,629
Total long-term liabilities	<u>6,391,947</u>	<u>7,162,298</u>	<u>5,326,407</u>	<u>18,880,652</u>
Total liabilities	<u>7,026,702</u>	<u>7,993,574</u>	<u>7,858,206</u>	<u>22,878,482</u>
Net Position				
Invested in capital assets, net of related debt	(2,063,881)	13,496,172	(6,443,958)	4,988,333
Restricted for debt service	320,886	409,390	507,969	1,238,245
Restricted for bond financed capital projects	3,070,866	1,908,515	-	4,979,381
Unrestricted (deficit)	(1,758,323)	(1,281,603)	10,779	(3,029,147)
Total net position (deficit)	<u>(430,452)</u>	<u>14,532,474</u>	<u>(5,925,210)</u>	<u>8,176,812</u>
Total liabilities and net position	<u>\$ 6,596,250</u>	<u>\$ 22,526,048</u>	<u>\$ 1,932,996</u>	<u>\$ 31,055,294</u>

CITY OF DUNNELLON, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended September 30, 2013

	Business-Type Activities			Total
	Water Fund	Sewer Fund	Communications Fund	
Operating revenues				
Charges for services	\$ 1,069,834	\$ 1,516,021	\$ 544,298	\$ 3,130,153
Miscellaneous revenue	5,861	434	18,574	24,869
Total operating revenues	<u>1,075,695</u>	<u>1,516,455</u>	<u>562,872</u>	<u>3,155,022</u>
Operating expenses				
Personnel services	434,302	506,313	740,447	1,681,062
Operating expenses	299,745	509,801	1,086,783	1,896,329
Professional services	133,853	180,660	190,911	505,424
Depreciation and amortization	266,280	871,279	714,094	1,851,653
Total operating expenses	<u>1,134,180</u>	<u>2,068,053</u>	<u>2,732,235</u>	<u>5,934,468</u>
Operating loss	<u>(58,485)</u>	<u>(551,598)</u>	<u>(2,169,363)</u>	<u>(2,779,446)</u>
Nonoperating revenues (expenses)				
Interest income	1,992	2,261	3	4,256
Interest expense	(410,556)	(545,333)	(374,949)	(1,330,838)
Interfund transfers in	-	-	5,596,548	5,596,548
Interfund transfers out	(2,289,385)	(2,514,534)	-	(4,803,919)
Grant revenue	-	4,471,905	-	4,471,905
Impairment loss on assets	-	-	(6,390,317)	(6,390,317)
Total nonoperating revenues (expenses)	<u>(2,697,949)</u>	<u>1,414,299</u>	<u>(1,168,715)</u>	<u>(2,452,365)</u>
Net income (loss)	<u>(2,756,434)</u>	<u>862,701</u>	<u>(3,338,078)</u>	<u>(5,231,811)</u>
Net position, beginning of year	<u>2,325,982</u>	<u>13,669,773</u>	<u>(2,587,132)</u>	<u>13,408,623</u>
Net position, end of year	<u>\$ (430,452)</u>	<u>\$ 14,532,474</u>	<u>\$ (5,925,210)</u>	<u>\$ 8,176,812</u>

CITY OF DUNNELLON, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended September 30, 2013

	Water Fund	Sewer Fund	Communications Fund	Total
Cash flows from operating activities				
Cash received from customers,				
Including cash deposits	\$ 1,026,923	\$ 1,513,382	\$ 530,154	\$ 3,070,459
Cash paid to suppliers	(382,186)	(461,500)	(1,671,007)	(2,514,693)
Cash paid to employees	(424,913)	(497,993)	(741,701)	(1,664,607)
Net cash provided by (used in) operating activities	219,824	553,889	(1,882,554)	(1,108,841)
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	(134,002)	(155,805)	5,983,604	5,693,797
Transfers in/(out) to other funds	(1,282,201)	(2,043,289)	4,118,119	792,629
Capital grant contributions	-	4,466,362	-	4,466,362
Impairment loss on assets	-	-	(6,390,317)	(6,390,317)
Loan proceeds and principal payments	2,939,266	(1,696,196)	(977,633)	265,437
Loan issuance costs	(21,108)	85,991	(23,131)	41,752
Interest paid	(368,339)	(489,164)	(379,914)	(1,237,417)
Net cash provided by capital and related financing activities	1,133,616	167,899	2,330,728	3,632,243
Cash flows from investing activities				
Interest Income	1,992	2,261	3	4,256
Net increase in cash and cash equivalents	1,355,432	724,049	448,177	2,527,658
Cash and cash equivalents, October 1, 2012	613,533	753,449	59,792	1,426,774
Cash and cash equivalents, September 30, 2013	\$ 1,968,965	\$ 1,477,498	\$ 507,969	\$ 3,954,432
Shown in the financial statements as:				
Current assets				
Cash and cash equivalents	\$ -	\$ 197,304	\$ -	\$ 197,304
Restricted cash	1,968,965	1,280,194	507,969	3,757,128
Totals	\$ 1,968,965	\$ 1,477,498	\$ 507,969	\$ 3,954,432

CITY OF DUNNELLON, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended September 30, 2013

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Communications Fund</u>	<u>Total</u>
<u>Reconciliation of operating loss to net cash provided by (used) in operating activities</u>				
Operating loss	\$ (58,485)	\$ (551,598)	\$ (2,169,363)	\$ (2,779,446)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities				
Depreciation and amortization	257,073	798,973	676,597	1,732,643
Changes in assets decrease (increase) and liabilities increase (decrease):				
Accounts receivable, net	6,832	(3,073)	(32,718)	(28,959)
Inventory	-	-	(119,688)	(119,688)
Accounts payable	60,619	301,267	(236,128)	125,758
Accrued wages and OPEB payable	3,787	4,289	(5,183)	2,893
Compensated absences	5,602	4,031	3,929	13,562
Utility deposits	(55,604)	-	-	(55,604)
Total adjustments	<u>278,309</u>	<u>1,105,487</u>	<u>286,809</u>	<u>1,670,605</u>
Net cash provided by (used in) operating activities	<u>\$ 219,824</u>	<u>\$ 553,889</u>	<u>\$ (1,882,554)</u>	<u>\$ (1,108,841)</u>

**CITY OF DUNNELLON, FLORIDA
PENSION TRUST FUNDS
STATEMENT OF NET POSITION
September 30, 2013**

	Pension Trust Funds
Assets	
Cash and investments	\$ 2,978,548
Due from other governments	6,819
Total assets	\$ 2,985,367
Net position	
Reserved for:	
Employees' pension benefits	\$ 2,985,367
Total net position	\$ 2,985,367

CITY OF DUNNELLON, FLORIDA
PENSION TRUST FUNDS
STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Year Ended September 30 , 2013

	Pension Trust Funds
Additions	
Contributions	
Employer	\$ 131,459
Forfeitures applied	-
Net employer contributions	131,459
State	51,059
Employee	95,185
Total contributions	277,703
Investment income increase	312,629
Less: investment management fees	-
Net investment income	312,629
Total additions	590,332
 Deductions	
Pension benefit payments and refunds	(86,541)
General and administrative	(15,306)
Total deductions	(101,847)
 Increase in net position	488,485
 Net position reserved for employees'	
Pension benefits:	
 Net position, beginning of year	2,496,882
 Net position, end of year	\$ 2,985,367

CITY OF DUNNELLON, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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 by Ordinances #00-3 and #2011-07 as provided in 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 - Governmental 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 2013 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 \$7,964 for 2013. 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, 2013 was 6.8013 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, 2013, 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, 2013, fund balances are composed of the following:

Restricted for Downtown Redevelopment	\$ 84,942
Committed for:	
Roads and streets	1,569,224
Public safety	49,767
Infrastructure	56,247
Cemetery perpetual care	43,452
Tree fund	73
Emergency reserve	157
Assigned for:	
Capital improvements	624,343
Unassigned (deficit)	(98,436)
	<u>\$ 2,329,769</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, 2013, net position balances are composed of the following:

	<u>Amount</u>
Invested in capital assets, net	\$ 4,988,333
Restricted, debt service	1,238,245
Restricted, capital projects	4,979,381
Unrestricted (deficit)	(3,029,147)
	<u>\$ 8,176,812</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, 2013, 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, 2013, were held by qualified public depositories within the state of Florida and are considered to be fully insured. Total deposits as of September 30, 2013, are \$6,292,061.

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, 2013, the City had the following investments and maturities:

Investment	Fair Value
State Board of Administration (SBA)	
Local Government Surplus Funds Trust Fund	\$ 113,295
Fund B Surplus Funds Trust Fund	26,189
Pension Funds	
Florida Municipal Pension Trust Fund - Firefighters and Police Officers (FMIvT)	1,847,317
Florida Municipal Pension Trust Fund - General Employees (CitiStreet)	1,131,231
Total	<u>3,118,032</u>
Cash deposits	6,152,577
Total cash and investments	<u>\$ 9,270,609</u>

As shown on the accompanying financial statements as:

Cash and investments - entity-wide	\$ 6,292,061
Cash and investments - fiduciary funds	2,978,548
Total cash and investments	<u>\$ 9,270,609</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, 2013, 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 1.13262284 at September 30, 2013. 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>
FMIvT Broad Market High Quality Bond Fund	AA/V4
<i>Equity Funds:</i>	
FMIvT High Quality Growth Portfolio	Not Rated
FMIvT Large Cap Diversified Value Portfolio	Not Rated
FMIvT Russell 1000 Index Portfolio	Not Rated
FMIvT Diversified Small Cap Equity Portfolio	Not Rated
FMIvT 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	5.54 years

Florida Municipal Pension Trust Fund – General Employees’ Pension Fund

<i>Fixed Income Funds:</i>	<u>Average Maturity</u>
Vanguard Intermediate Bond Index	7.2 years average
Vanguard Total Bond Market Index	7.5 years average
Vanguard Long-term Treasury	24.3 years average
Vanguard Inflation-Protected Securities	8.2 years average
Balanced Vanguard Wellington Fund	8.5 years average

State Board of Administration Investments	
Surplus Funds Trust Fund Investment Pool	44 day average
Fund B Surplus Funds Trust Fund	4.04 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, 2013, was as follows:

	Beginning Balance	Increases	Reclassification	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land and improvements	\$ 3,187,443	\$ 22,628	\$ -	\$ 3,210,071
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>3,187,443</u>	<u>22,628</u>	<u>-</u>	<u>3,210,071</u>
Capital assets being depreciated:				
Buildings	961,902	48,084	-	1,009,986
Improvements other than buildings	833,347	-	-	833,347
Furniture, equipment and machinery	2,292,001	15,956	-	2,307,957
Total capital assets being depreciated	<u>4,087,250</u>	<u>64,040</u>	<u>-</u>	<u>4,151,290</u>
Less accumulated depreciation:				
Buildings	(396,953)	(23,681)	-	(420,634)
Improvements other than buildings	(292,328)	(28,157)	-	(320,485)
Furniture, equipment and machinery	(1,945,053)	(119,796)	-	(2,064,849)
Total accumulated depreciation	<u>(2,634,334)</u>	<u>(171,634)</u>	<u>-</u>	<u>(2,805,968)</u>
Total capital assets being depreciated, net	<u>1,452,916</u>	<u>(107,594)</u>	<u>-</u>	<u>1,345,322</u>
Governmental activities capital assets, net	<u>\$ 4,640,359</u>	<u>\$ (84,966)</u>	<u>\$ -</u>	<u>\$ 4,555,393</u>
Business-type activities:				
Capital assets not being depreciated:				
Land and improvements	\$ 274,835	\$ -	\$ -	\$ 274,835
Construction in progress	5,866,615	110,329	(5,866,615)	110,329
Total capital assets not being depreciated	<u>6,141,450</u>	<u>110,329</u>	<u>(5,866,615)</u>	<u>385,164</u>
Capital assets being depreciated:				
Buildings and improvements	865,110	-	(58,527)	806,583
Improvements other than building	28,682,770	6,020,888	(3,809,062)	30,894,596
Machinery and equipment	3,649,851	65,565	(2,156,375)	1,559,041
Total capital assets being depreciated	<u>33,197,731</u>	<u>6,086,453</u>	<u>(6,023,964)</u>	<u>33,260,220</u>
Less accumulated depreciation:				
Buildings and improvements	(1,027,913)	(33,555)	-	(1,061,468)
Improvements other than building	(3,760,890)	(1,106,292)	-	(4,867,182)
Equipment	(558,298)	(592,796)	-	(1,151,094)
Total accumulated depreciation	<u>(5,347,101)</u>	<u>(1,732,643)</u>	<u>-</u>	<u>(7,079,744)</u>
Total capital assets being depreciated, net	<u>27,850,630</u>	<u>4,353,810</u>	<u>(6,023,964)</u>	<u>26,180,476</u>
Business-type activities capital assets, net	<u>\$ 33,992,080</u>	<u>\$ 4,464,139</u>	<u>\$(11,890,579)</u>	<u>\$ 26,565,640</u>
Depreciation expense:				
Governmental activities				
General government and administration				\$ 40,511
Public safety				107,124
Physical environment				107
Transportation				7,719
Culture and recreation				16,173
Total depreciation expense - governmental activities				<u>\$ 171,634</u>
Business-type activities				
Water				\$ 257,074
Sewer				795,972
Communications				676,597
Total depreciation expense - business-type activities				<u>\$ 1,729,643</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%. This was paid in full during the current year.

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%. This was paid in full during the current year.

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%. This equipment was written down to the net realizable value based upon sale of the assets in December, 2013. Monthly payments were suspended on this lease by the City subsequent to year end in anticipation of sale of the financed assets.

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	\$ 350,126
(Accumulated depreciation)	(14,058)	(12,968)	(50,126)
Total	<u>\$ 12,300</u>	<u>\$ 298,778</u>	<u>\$ 300,000</u>

Annual Requirements to Capital Leases

Maturities of capital leases for the years ending September 30, 2013 are as follows:

Year	Business-type	Total	Debt
	Activities		
	Headend Equipment	Interest	Service
2014	\$ 309,073	\$ 84,275	\$ 393,348
2015	344,807	48,721	393,528
2016	219,264	10,485	229,749
	<u>\$ 873,144</u>	<u>\$143,481</u>	<u>\$1,016,625</u>

NOTE 5. LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
Capital lease - FD vehicle	\$ 8,808	\$ -	\$ (8,808)	\$ -	\$ -
Compensated absences	119,008	100,082	(88,777)	130,313	84,703
OPEB payable	20,400	1,700	-	22,100	-
Total Governmental Activities	\$ 148,216	\$ 101,782	\$ (97,585)	\$ 152,413	\$ 84,703
Business-type Activities					
State revolving loan	\$ 3,237,313	\$ -	\$(3,196,377)	\$ 40,936	\$ 6,682
Revenue bonds payable	16,822,652	7,141,413	(3,300,838)	20,663,227	2,481,439
Compensated absences	176,592	102,497	(88,934)	190,155	101,526
Capital lease - Cisco Router	101,717	-	(101,717)	-	-
Capital lease - Headend equipment	1,150,185	-	(277,041)	873,144	309,063
OPEB payable	9,600	2,680	(380)	11,900	-
Total business-type activities	\$ 21,498,059	\$ 7,246,590	\$(6,965,287)	\$ 21,779,362	\$ 2,898,710

Water/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. In February 2013, the City entered into an extension agreement with Regions Bank in order to facilitate the remaining draw down of the revenue bonds. This balance is to be used in ongoing sewer and water improvement projects. Maturity of this bond agreement for the years ending September 30, are as follows:

Revenue Bond 2010A

September 30	Principal	Interest	Total
2014	\$ 20,848	\$ 16,789	\$ 37,637
2015	21,555	16,071	37,626
2016	22,286	15,328	37,614
2017	23,041	14,559	37,600
2018	23,822	13,765	37,587
2019-2023	131,786	55,936	187,722
2024-2025	262,531	19,242	281,593
	<u>\$ 505,869</u>	<u>\$ 151,690</u>	<u>\$ 657,559</u>

Revenue Bond 2013

September 30	Principal	Interest	Total
2014	\$ 193,304	\$ 238,817	\$ 432,121
2015	269,155	230,978	500,133
2016	278,279	221,700	499,979
2017	287,713	212,106	499,819
2018	297,466	202,188	499,654
2019-2023	1,645,606	849,980	2,495,586
2024-2025	4,169,890	316,030	4,485,920
	<u>\$ 7,141,413</u>	<u>\$ 2,271,799</u>	<u>\$ 9,413,212</u>

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.

Branch Bank & Trust Bond

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 260,000	\$ 161,964	\$ 421,964
2015	265,000	155,034	420,034
2016	270,000	147,972	417,972
2017	5,470,000	72,204	5,542,204
	<u>\$ 6,265,000</u>	<u>\$ 537,174</u>	<u>\$ 6,802,174</u>

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 anticipated 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 were being utilized to cover operating expenses of the City's telecommunications utility. At September 30, 2013 the balance on this loan was \$1,650,000. In 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. Maturity on these bond agreements for the years ending September 30, are as follows:

Revenue Bond 2010A

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 128,345	\$ 114,497	\$ 242,842
2015	132,980	109,696	242,676
2016	137,781	104,722	242,503
2017	142,755	99,569	242,324
2018	147,908	94,229	242,137
2019-2023	823,593	384,059	1,207,652
2024-2025	1,662,763	159,988	1,822,751
	<u>\$ 3,176,125</u>	<u>\$ 1,066,760</u>	<u>\$ 4,242,885</u>

Revenue Bond 2013B

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 228,940	\$ 57,937	\$ 286,877
2015	220,010	50,754	270,764
2016	227,050	43,601	270,651
2017	234,316	36,219	270,535
2018	241,814	28,601	270,415
2019-2022	772,870	37,617	810,487
	<u>\$ 1,925,000</u>	<u>\$ 254,729</u>	<u>\$ 2,179,729</u>

Line of Credit 2013C

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,650,000	\$ 16,195	\$ 1,666,195
	<u>\$ 1,650,000</u>	<u>\$ 16,195</u>	<u>\$ 1,666,195</u>

These bonds were renegotiated subsequent to year end as described in Note 13.

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. An amendment in July of 2011 reduced the amount of the loan by \$1,546,868. The City continued making semiannual loan repayments. The balance of this loan is \$40,936 as of September 30, 2013. The City expects to pay this remaining amount due subsequently to the fiscal year end.

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	Total Debt Service
	Principal				
	Bonds	SRL	LOC		
2014	\$ 831,437	\$ 13,408	\$ 1,650,000	\$ 634,674	\$ 3,129,519
2015	908,700	13,646	-	562,959	1,485,305
2016	935,396	13,882	-	533,507	1,482,785
2017	6,157,825	-	-	434,657	6,592,482
2018	711,010	-	-	338,783	1,049,793
2019-2023	3,373,855	-	-	1,327,592	4,701,447
2024-2027	6,095,004	-	-	495,260	6,590,264
Total	<u>\$ 19,013,227</u>	<u>\$ 40,936</u>	<u>\$ 1,650,000</u>	<u>\$ 4,327,433</u>	<u>\$ 25,031,596</u>

NOTE 6. LEGAL COMPLIANCE AND ACCOUNTABILITY

At year end, the Communications Fund had a deficit net position of \$5,925,210. 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. Due to the lack of capital to support the system until it becomes profitable, the City has subsequently decided to sell the system. As a result, the assets were written down to the net realizable value which is reflected as an impairment loss. The sale occurred subsequent to year end. The Water Fund also had a deficit net position of \$430,452. This deficit was the result of transfers to the Communications Fund in order for it to meet its cash needs. This is not to be an expected trend.

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: 6.95% for regular members, 12.84% for DROP members, 19.86% for special risk members, and 18.31% for senior management effective July 1, 2013. 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, 2013, 2012, and 2011, were as follows, equal to the required contributions for each year:

<u>Year</u>	<u>Total</u>
2013	\$ 21,234
2012	21,234
2011	30,462

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, 2013, there were 39 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, 2013. 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:

Annual Pension Costs and Net Pension Obligation

Active	13
Retired, disabled, vested terminations and beneficiaries	<u>7</u>
Total number of participants	<u><u>20</u></u>

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, 2011) was as follows:

Annual required contribution (ARC)	\$ 12,000
Interest on net pension obligation	1,000
Adjustment to ARC	(4,000)
Annual pension costs	9,000
Contributions made	<u>(5,000)</u>
Increase in net pension obligation (NPO)	4,000
Net pension obligation (asset), beginning of year	<u>30,000</u>
Net pension obligation (asset), end of year	<u><u>\$ 34,000</u></u>

Other Pension Plan Information

The annual required contribution for the current year was determined as part of the October 1, 2011, 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, 2013	\$ 92,153	97%	\$ 34,000
September 30, 2012	86,716	73%	38,913
September 30, 2011	102,646	98%	15,619

Schedule of Changes in Pension Plan Net Position as of September 30, 2013

	Pension Trust Funds		Total
	General Employees	Special Risk	
Assets			
Cash and investments	\$ 1,131,231	\$ 1,847,317	\$ 2,978,548
Due from other governments	-	6,819	6,819
Total assets	<u>1,131,231</u>	<u>1,854,136</u>	<u>2,985,367</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net assets			
Reserved for:			
Employees' pension benefits	<u>1,131,231</u>	<u>1,854,136</u>	<u>2,985,367</u>
Total liabilities and net assets	<u>1,131,231</u>	<u>1,854,136</u>	<u>2,985,367</u>
Additions			
Contributions:			
Employer	<u>131,459</u>	<u>-</u>	<u>131,459</u>
Net employer contributions	<u>131,459</u>	<u>-</u>	<u>131,459</u>
State	<u>-</u>	<u>51,059</u>	<u>51,059</u>
Employee	<u>89,616</u>	<u>5,569</u>	<u>95,185</u>
Total contributions	<u>221,075</u>	<u>56,628</u>	<u>277,703</u>
Investment income	<u>102,433</u>	<u>210,196</u>	<u>312,629</u>
Net investment income	<u>102,433</u>	<u>210,196</u>	<u>312,629</u>
Total additions	<u>323,508</u>	<u>266,824</u>	<u>590,332</u>
Deductions			
Pension benefit payment and refunds	<u>(65,175)</u>	<u>(21,366)</u>	<u>(86,541)</u>
General and administrative	<u>(6,605)</u>	<u>(8,701)</u>	<u>(15,306)</u>
Total deductions	<u>(71,780)</u>	<u>(30,067)</u>	<u>(101,847)</u>
Increase (decrease) in fiduciary net assets	<u>251,728</u>	<u>236,757</u>	<u>488,485</u>
Net assets reserved for employees pension benefit			
Beginning of year	<u>879,503</u>	<u>1,617,379</u>	<u>2,496,882</u>
End of year	<u>\$ 1,131,231</u>	<u>\$ 1,854,136</u>	<u>\$ 2,985,367</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 forth 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, 2011 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, 2013.

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.....	October 1, 2011
Actuarial cost method.....	Aggregate
Amortization method.....	Level Percentage, open
Amortization period.....	30 years
Assumes rate of return on investments.....	4.00% per annum

Assumed healthcare cost trend rates:

Fiscal Year Ending	Percent Increase
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, 2013 is as follows:

Annual required contribution (ARC).....	\$ 12,000
Interest on the net OPEB obligation.....	1,000
Adjustment to the ARC.....	<u>(4,000)</u>
	9,000
Employer contributions.....	(5,000)
Interest on employer contributions.....	<u>-</u>
	<u>4,000</u>
Net OPEB obligation - beginning of year.....	<u>30,000</u>
Net OPEB obligation - end of year.....	<u><u>\$ 34,000</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, 2013 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>
9/30/2013	\$ 93,057	96%	\$ 34,000

The 2013 contribution represented 96% of the annual required contribution. The actuarial valuation for the Plan was done as of October 1, 2011. Thereafter, actuarial valuations will be done bi-annually.

As of October 1, 2011, the most recent actuarial valuation date, the Plan was unfunded. The actuarial accrued liability for benefits was \$758,063, and the actuarial value of assets was \$802,214, resulting in an unfunded actuarial accrued liability (UAAL) of \$-0-.

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.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Accrued Liability (AAL) EAN (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a% of Covered Payroll ((b-1)/c)</u>
10/01/2011	802,214	758,063	-	105.8%	565,373	0.0%

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 \$10,254,972. The remainder of these grant funds was used to pay on the State Revolving Loan balance.

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
- Dishonesty bond

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 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.

NOTE 12. LEASED FACILITIES

The City has the following lease agreement for facilities at September 30, 2013:

1. The City has a lease for a warehouse facility with non-cancelable provisions. Rent is \$1,700 per month through December 31, 2016. Rent of \$20,400 was paid on this lease in the current year. Monthly payments were suspended on this lease by the City subsequent to year end in anticipation of terminating the lease. The future minimum lease payments at September 30, 2013 are as follows:

<u>September 30</u>	<u>Minimum Lease Payments</u>
2014	\$ 20,400
2015	20,400
2016	20,400
2017	5,100
	<u>\$ 66,300</u>

NOTE 13. SUBSEQUENT EVENTS

Sale of Telecommunications Assets

On December 23, 2013, subsequent to year end the City entered into an agreement with Florida Cable, Inc. for the sale of the City's telecommunications-related assets except for those financed under a capital lease. Under this agreement, Florida Cable agreed to purchase these assets for \$1,000,000 and immediately assumed operations of the telecommunications services.

Settlement of Telecommunications Revenue Bonds

On March 31, 2014, the City entered into a settlement agreement with Regions Bank (the Bank), regarding the outstanding Telecommunication Revenue Bonds in the amount of \$6,751,125. Under the terms of the agreement the principal portion of the bonds was reduced to \$3,468,750. The bonds are repayable over a period of approximately 20 years with annual payments of \$175,000 with 0% interest rate. Under the terms of this agreement the City's rights to the Telecommunication Assets Sale described above was also assigned to the Bank.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUND - GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2013

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Taxes				
Ad valorem	\$ 781,489	\$ 781,489	\$ 793,612	\$ 12,123
Ninth-cent gas tax	50,741	50,741	53,949	3,208
Local option gas tax	471,223	471,223	451,262	(19,961)
Franchise tax:				
Electricity	164,302	164,302	184,393	20,091
Communication service tax	131,795	131,795	151,056	19,261
Fire insurance premium tax	-	-	6,819	6,819
Utility tax :				
Electricity	182,567	182,567	225,961	43,394
Propane	16,000	16,000	18,491	2,491
Total taxes	1,798,117	1,798,117	1,885,543	87,426
Licenses and permits				
Professional and occupational	24,417	24,417	25,258	841
Building permits	43,000	43,000	111,272	68,272
Other licenses and permits	28,540	28,540	28,301	(239)
Total licenses and permits	95,957	95,957	164,831	68,874
Intergovernmental revenue				
State, federal and local grants	62,652	62,652	22,174	(40,478)
State shared revenues:				
State revenue sharing	78,048	78,048	78,503	455
Mobile home licenses	7,000	7,000	7,416	416
Alcoholic beverage licenses	1,000	1,000	1,664	664
Local government one-half cent sales tax	94,297	94,297	98,081	3,784
Motor fuel tax rebate	1,200	1,200	3,506	2,306
Total intergovernmental revenue	244,197	244,197	211,344	(32,853)
Charges for services				
Copying and records search	800	800	1,693	893
Garbage and solid waste	174,413	174,413	170,749	(3,664)
Cemetery fees	300	300	1,388	1,088
City beach user fees	4,000	4,000	1,150	(2,850)
Other miscellaneous charges	3,500	3,500	27,398	23,898
Total charges for services	183,013	183,013	202,378	19,365
Fines and forfeitures				
Court fines	44,500	44,500	99,799	55,299
Other fines	332,700	332,700	350,389	17,689
Total fines and forfeitures	377,200	377,200	450,188	72,988

CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUND - GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2013
(Continued)

	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget Positive (Negative)
Miscellaneous revenue				
Investment earnings	\$ 1,300	\$ 1,300	\$ 3,484	\$ 2,184
Cemetery lots	8,000	8,000	29,643	21,643
Other miscellaneous	416,434	416,434	26,664	(389,770)
Total miscellaneous revenue	<u>425,734</u>	<u>425,734</u>	<u>59,791</u>	<u>(365,943)</u>
Total revenues	<u><u>\$ 3,124,218</u></u>	<u><u>\$ 3,124,218</u></u>	<u><u>\$ 2,974,075</u></u>	<u><u>\$ (150,143)</u></u>
Expenditures				
General government				
Legislative:				
Personnel services	\$ 22,212	\$ 22,212	\$ 9,825	\$ 12,387
Operating expenses	19,562	19,562	12,700	6,862
Total legislative	<u>41,774</u>	<u>41,774</u>	<u>22,525</u>	<u>19,249</u>
City clerk and general administrative:				
Personnel services	36,850	36,850	39,048	(2,198)
Operating expenses	52,534	52,534	61,008	(8,474)
Total city clerk and general Administrative	<u>89,384</u>	<u>89,384</u>	<u>100,056</u>	<u>(10,672)</u>
City manager:				
Personnel services	20,227	20,227	23,738	(3,511)
Operating expenses	25,522	25,522	4,856	20,666
Total city manager	<u>45,749</u>	<u>45,749</u>	<u>28,594</u>	<u>17,155</u>
Legal counsel:				
Operating expenses	<u>172,500</u>	<u>172,500</u>	<u>181,089</u>	<u>(8,589)</u>
Comprehensive planning:				
Personnel services	69,344	69,344	11,273	58,071
Operating expenses	26,319	26,319	7,817	18,502
Total comprehensive planning	<u>95,663</u>	<u>95,663</u>	<u>19,090</u>	<u>76,574</u>
Finance:				
Personnel services	28,721	28,721	26,962	1,759
Operating expenses	23,479	23,479	18,295	5,184
Total finance	<u>52,200</u>	<u>52,200</u>	<u>45,257</u>	<u>6,943</u>

CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUND - GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2013
(Continued)

	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget Positive (Negative)
Expenditures (continued)				
Building maintenance:				
Personnel services	\$ 37,496	\$ 37,496	\$ 31,220	\$ 6,276
Operating expenses	46,872	46,872	23,768	23,104
Capital outlay	46,833	46,833	-	46,833
Total building maintenance	131,201	131,201	54,988	76,213
Garage department:				
Personnel services	54,083	54,083	44,969	9,114
Operating expenses	5,088	5,088	51,289	(46,201)
Total garage department	59,171	59,171	96,258	(37,087)
Total general government	687,642	687,642	547,857	139,785
Public safety				
Law enforcement:				
Personnel services	737,089	722,364	633,508	88,856
Operating expenses	187,564	211,089	191,342	19,747
Capital outlay	8,800	-	15,956	(15,956)
Total law enforcement	933,453	933,453	840,806	92,647
Fire control:				
Personnel services	313,270	313,270	321,529	(8,259)
Operating expenses	115,153	115,153	47,714	67,439
Debt service:				
Principal	8,807	8,807	8,808	(1)
Interest	349	349	348	1
Total fire control	437,579	437,579	378,399	59,181
Protective inspections:				
Personnel services	8,480	8,480	8,164	316
Operating expenses	30,451	30,451	65,240	(34,789)
Total protective inspections	38,931	38,931	73,404	(34,473)
Total public safety	1,409,963	1,409,963	1,292,609	117,355
Physical environment				
Cemetery:				
Personnel services	22,913	22,913	17,506	5,407
Operating expenses	3,447	3,447	671	2,776
Total Cemetery	26,360	26,360	18,177	8,183

CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUND - GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2013
(Concluded)

	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget Positive (Negative)
Expenditures (concluded)				
Physical environment				
Garbage and solid waste:				
Personnel services	\$ 11,405	\$ 11,405	\$ 9,304	\$ 2,101
Operating expenses	156,800	156,800	148,165	8,635
Total garbage and solid waste	<u>168,205</u>	<u>168,205</u>	<u>157,469</u>	<u>10,736</u>
Total physical environment	<u>194,565</u>	<u>194,565</u>	<u>175,646</u>	<u>18,919</u>
Transportation				
Roads and streets:				
Personnel services	257,184	257,184	170,980	86,204
Operating expenses	395,968	395,968	339,021	56,947
Capital Outlay	59,500	59,500	35,356	24,144
Total transportation	<u>712,652</u>	<u>712,652</u>	<u>545,357</u>	<u>167,294</u>
Human services				
Animal control:				
Personnel services	11,895	11,895	11,959	(64)
Operating expenses	2,003	2,003	620	1,383
Total animal control	<u>13,898</u>	<u>13,898</u>	<u>12,579</u>	<u>1,319</u>
Mosquito control:				
Operating expenses	23,000	23,000	21,076	1,924
Total human services	<u>36,898</u>	<u>36,898</u>	<u>33,655</u>	<u>3,243</u>
Culture and recreation				
Parks and recreation:				
Personnel services	58,722	58,722	47,135	11,587
Operating expenses	23,776	23,776	20,666	3,110
Total culture and recreation	<u>82,498</u>	<u>82,498</u>	<u>67,801</u>	<u>14,697</u>
Total expenditures	<u>3,124,218</u>	<u>3,124,218</u>	<u>2,662,925</u>	<u>461,293</u>
Excess of revenues over expenditures	-	-	311,150	311,150
Other financing sources (uses)				
Capital contributions	-	-	15,956	15,956
Interfund transfers out	-	-	(792,629)	(792,629)
	<u>-</u>	<u>-</u>	<u>(776,673)</u>	<u>(776,673)</u>
Net change in fund balance	-	-	(465,523)	(465,523)
Fund balance, beginning of year	2,710,350	2,710,350	2,710,350	-
Fund balance, end of year	<u>\$ 2,710,350</u>	<u>\$ 2,710,350</u>	<u>\$ 1,002,631</u>	<u>\$ (1,707,719)</u>

CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUND - TAX INCREMENT FINANCING DISTRICT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2013

	Original and Final Budget	Actual Amounts	Variance With Budget Positive (Negative)
Revenues			
Taxes:			
Ad valorem	\$ 118,606	\$ 117,977	\$ (629)
Miscellaneous revenue:			
Investment earnings	350	355	5
Total revenues	<u>118,956</u>	<u>118,332</u>	<u>(624)</u>
Expenditures			
General government:			
Industry development:			
Personnel services	154,680	122,731	(31,949)
Operating expenses	171,394	59,615	(111,779)
Capital outlay	212,500	35,356	(177,144)
Total expenditures	<u>538,574</u>	<u>217,702</u>	<u>(320,872)</u>
Deficiency of revenues over expenditures	<u>(419,618)</u>	<u>(99,370)</u>	<u>320,248</u>
Other financing sources			
Interfund transfers in sources (uses)	<u>419,618</u>	<u>-</u>	<u>(419,618)</u>
	<u>419,618</u>	<u>-</u>	<u>(419,618)</u>
Net change in fund balance	-	(99,370)	(99,370)
Fund balances, beginning of year	<u>184,312</u>	<u>184,312</u>	<u>-</u>
Fund balances, end of year	<u>\$ 184,312</u>	<u>\$ 84,942</u>	<u>\$ (99,370)</u>

**REQUIRED SUPPLEMENTARY INFORMATION
SPECIAL RISK PENSION TRUST FUND
SEPTEMBER 30, 2013
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

<u>Year Ended September 30,</u>	<u>Annual Required Contribution (ARC) (1)</u>	<u>Percentage Contributed</u>
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	89%
2013	92,153	97%

(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, 2013
UNAUDITED

	September 30, 2013
Gross revenue (B)	
Operating revenue	2,585,855
Interest income	4,253
Total gross revenue	2,590,108
Costs of operation and maintenance	
Personnel services	940,615
Operating expenses (C)	809,546
Total costs of operation and maintenance	1,750,161
Gross revenues less costs of operation and maintenance	839,947
Senior Lien Debt Service and Coverage	
Senior lien debt service	
Regions principal	20,165
Regions interest	202,715
BB&T principal	235,000
BB&T interest	168,498
Total senior lien debt service	626,378
Senior lien debt service coverage for rate covenant (D)	1.34
Non-operating revenue (wastewater project grant funds) (E)	4,471,905
Total pledged funds	5,311,852
Senior lien debt service coverage for all pledged funds	8.48
Subordinate Lien Debt Service and Coverage	
Gross revenues less costs of operation and maintenance	839,947
Senior lien debt service plus coverage (F)	751,654
Net income available for SRF coverage	88,293
SRF debt service	64,541
SRF debt service coverage (G)	1.37

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, 2013

GRANTOR/PROGRAM TITLE	CFDA #/ CSFA #	Grant Number	Amount	Reported in Prior Years	Revenue Received or Receivable	Expenditures
Federal Awards						
Non-major programs						
Federal Emergency Management						
Passed through the Florida						
Division of Emergency Management						
Tropical Storm Fay	97.036	08-PA-B9-05-52-13-733	\$ 13,138	\$ 12,998	\$ 140	\$ 140
			13,138	12,998	140	140
U.S. Department of Justice						
Bullet Proof Vest Program 2011	16.607	11055237	1,021	845	176	176
Bullet Proof vest Program 2012	16.607	12063080	1,385	-	724	724
			2,406	845	900	900
Justice Assistance Grant - Don't Drink Just Drive	16.738	N/A	13,699	-	7,000	7,000
Justice Assistance Grant - Speaking Out Against Drunk Driving	16.738	N/A	1,000	-	1,000	1,000
			14,699	-	8,000	8,000
COPS-Hiring Recovery Program (ARRA)	16.710	2009RDWX0232	144,043	120,967	13,134	13,134
Total federal awards			174,286	134,810	22,174	22,174
State Financial Assistance						
Major programs						
<i>Florida Department of Environmental Protection</i>						
Small Community Wastewater Construction Grant	37.039	SG511070	10,254,972	5,859,105	4,395,867	4,395,867
Nonmajor programs						
<i>Florida Department of Environmental Protection</i>						
Small Community Wastewater Construction Grant	37.075	SG420800	632,437	-	76,038	76,038
Total State Financial Assistance			10,887,409	5,859,105	4,471,905	4,471,905
Total assistance			\$ 11,061,695	\$ 5,993,915	\$ 4,494,079	\$ 4,494,079

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, 2013

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

To the City Commission;
City of Dunnellon, Florida

We have audited, in accordance with the 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, the financial statements of the governmental activities of the City of Dunnellon, Florida, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Dunnellon, Florida's basic financial statements, and have issued our report thereon dated April 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Dunnellon, Florida's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City of Dunnellon, Florida's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dunnellon, Florida's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

POWELL & JONES

Certified Public Accountants

April 18, 2014

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH CHAPTER 10.550, RULES OF THE AUDITOR GENERAL, OFFICE OF THE AUDITOR GENERAL

Honorable Mayor and
City Council
City of Dunnellon, Florida

Report on Compliance for Each Major State Project

We have audited the compliance of City of Dunnellon, Florida with the types of compliance requirements described in the State of Florida, Department of Financial Services State Projects Compliance and Supplement, that could have a direct and material effect on its major State project for the year ended September 30, 2013. City of Dunnellon, Florida's major State project is identified in the summary of auditors' results section of the accompanying Schedule of Findings.

Management's Responsibility

City of Dunnellon, Florida's management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its major State projects.

Auditor's Responsibility

Our responsibility is to express an opinion on City of Dunnellon, Florida's compliance for each major State Project based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 10.550, Rules of the State of Florida, Office of the Auditor General. Those standards and Chapter 10.550, Rules of the State of Florida, Office of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State project occurred. An audit includes examining, on a test basis, evidence about 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 on compliance for each major State Project. However, our audit does not provide a legal determination of City of Dunnellon, Florida's compliance.

Opinion on Each Major State Project

In our opinion, City of Dunnellon, Florida complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major State project for the fiscal year ended September 30, 2013.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with Chapter 10.550, Rules of the State of Florida, Office of the Auditor General.

Internal Control Over Compliance

Management of City of Dunnellon, Florida is responsible for establishing and maintaining effective internal control over the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Dunnellon, Florida's internal control over compliance with the types of requirements that could have a direct and material effect on a major State project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major State Project and to test and report on internal control over compliance in accordance with Chapter 10.550, Rules of the State of Florida, Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 and correct, noncompliance with a type of compliance requirement of a State 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 project will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State Project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Pursuant to Chapter 119, *Florida Statutes*, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of City of Dunnellon, Florida's management, State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

POWELL & JONES
Certified Public Accountants
April 18, 2014

CITY OF DUNNELLON, FLORIDA

SCHEDULE OF FINDINGS

For the Fiscal Year Ended September 30, 2013

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
Any audit findings disclosed that are required to be reported in accordance with Chapter 10.550, Rules of the Auditor General?	No

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
Auditee qualified as low-risk auditee?	No

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, 2013, and have issued our report thereon dated April 18, 2014. 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

Finding 2013-1

Cash Management. For many years, the City has utilized a pooled cash system whereby cash is centralized in multiple City bank accounts with individual equity balances reported in the City's five funds. While this system maintained accurate separate fund cash balances, there was no control to prevent expending beyond a fund's cash resources or utilizing restricted cash funds for other purposes.

To correct this weakness we recommend the following:

1. All restricted cash balances should be maintained in separate bank accounts not a part of the pooled cash system.
2. Individual fund cash balances should be reviewed prior to every check run to assure that current cash is available in each fund to meet its cash obligations.
3. If current funds are not available for the cash obligations, there should be an approval process for transfers or temporary loans from other funds prior to paying the fund's obligations.

Finding 2013-02

Fixed Assets. From our review of the City's fixed assets we found that the detail fixed assets did not agree with the corresponding general ledger balances. We recommend that the City perform a comprehensive review and reconciliation of all of its fixed assets during the current year and that the general ledger balances be adjusted accordingly.

Finding 2013-03

Compensated Absences. From our review of employee compensated absences balances, we found that during the current year, the former City Manager occasionally gave employees additional annual leave or allowed employees paid time off without utilizing their accumulated leave. We could not find where these actions were provided for in City policy. This has been discontinued by the current City Manager.

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, 2013.

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.

The City's financial condition at September 30, 2013, was deteriorating primarily due to the transactions relating to the Communications Fund. Specifically, sufficient revenues were not received in the fund to pay for the required expenditures of the fund during the current fiscal year. At year end this fund showed a net loss of \$(3,338,078) and an ending net position of \$(5,925,210), even after receiving transfers from other City funds of \$5,596,548.

Based upon knowledge of this situation, the City took the following actions subsequent to year end:

1. The ensuing year budget was reduced for all departments to the greatest extent possible.
2. The telecommunication system was sold and all related operations were assumed by the buyer.
3. The debt related to the Communications Fund was renegotiated to lower the total debt by approximately \$3.2 million, reduce the interest rate to 0%, and provide a repayment structure that is achievable by the City.

Financial Emergency Status - On November 1, 2013, subsequent to year end, the City failed to pay debt service on three bank bond issues related to its Communications Fund held by Regions Bank; due to lack of funds to make the payments. We have determined that this condition caused the City to meet a statutory condition of financial emergency as provided in Section 218.503, *Florida Statutes*. The City promptly notified the Governor and Legislative Auditing Committee of this condition on November 21, 2013, as required by Section 218.503(2), *Florida Statutes*.

Subsequently, on March 31, 2014 the City and Regions Bank entered into a Settlement Agreement whereby the principal amounts and interest rates of the bonds were reduced and a new, lower repayment schedule was set.

The terms of this agreement are described in Note 13 on page 47 of the Annual Financial Report.

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.

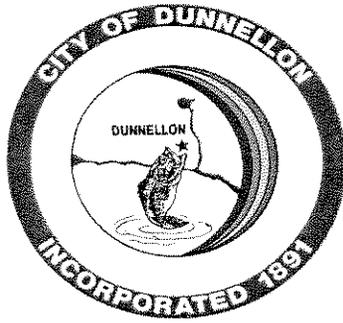
CONCLUSION

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.

POWELL & JONES

Certified Public Accountants

April 18, 2014



**City of Dunnellon Management Response To
Auditors' Management Letter Comment
Annual Audit FYE 9/30/13**

Honorable Mayor and City Council
City of Dunnellon
Dunnellon, Florida

We have reviewed the audit report for fiscal year ending September 30, 2013 including the management letter. The following is in response to Powell & Jones CPA's current year findings.

Cash Management

We have completed our analysis of the City's cash balances and are in the process of establishing separate bank accounts for all restricted funds.

Fixed Assets

We are in the process of identifying discrepancies between reports generated by our Fixed Asset System and amounts entered in the General Ledger. Once all items are identified they will be reconciled and adjusting journal entries will be processed accordingly.

Compensated Absences

As stated in the management letter, current City administration follows established policies with respect to paid time off.

Eddie Esch

Eddie Esch
Interim City Manager