CITY OF DUNNELLON, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2014

Powell & Jones
Certified Public Accountants

CITY OF DUNNELLON, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the City Council;
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, 2014, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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

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fund, and the aggregate remaining fund information of the City of Dunnellon, Florida, as of September 30, 2014, 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, 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 1, 2015, 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 & Jone

POWELL & JONES
Certified Public Accountants
April 1, 2015

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, 2014. 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	
	2013	2014	2013	2014	2013	2014
Revenues	$3,108,363	$2,534,092	$ 8,423,812	$ 7,230,126	$ 11,532,175	$ 9,764,218
Expenses	$3,762,419	$2,411,226	$ 13,655,623	$ 5,646,220	$ 17,418,042	$ 8,057,446

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 by 18% in the current year.

Business-type Activities

The Water, Sewer and Communications Utilities show a combined operating loss of $514,200, combined non-operating revenues of $60,756, combined interest expense of $426,790, net interfund transfers of $3,332,179, a loss on a legal settlement of $500,000, a gain related to debt refinance and settlement of $4,207,409, and a loss on disposal of assets of $1,243,269 for a net increase of $4,916,085 for fiscal year 2014. The net increase is primarily due to recording the writeoff of assets and debt in the communications fund, and transferring the remaining assets to close the fund.

Net Position

For the years ended September 30, 2014 and 2013, Net Position changed as follows:

	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
Beginning net position	$ 7,386,805	$ 6,732,749	$ 13,408,623	$ 8,693,995	$ 20,795,428	$ 15,426,744
Increase (decrease) in net position	(654,056)	(3,209,314)	(5,231,811)	4,916,085	(5,885,867)	1,706,771
	$ 6,732,749	$ 3,523,435	$ 8,176,812	$ 13,610,080	$ 14,909,561	$ 17,133,515

This reflects a decrease of 48 percent for governmental activities and a 66 percent increase for business-type activities over the prior year. The increase related to business-type activities includes a prior period adjustment which increased net position by $57,183.

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, 2014 and 2013.

Assets

	Governmental Activities		Business-Type Activities	
	2013	2014	2013	2014
Current Assets	$ 2,489,791	$ 2,550,289	$ 4,307,124	$ 3,715,974
Capital Assets, Net of Accumulated Depreciation	4,555,393	4,457,831	26,565,640	24,345,255
Unamortized Bond Issue Costs	-	-	182,530	82,108
Total Assets	$ 7,045,184	$ 7,008,120	$ 31,055,294	$ 28,143,337

Capital assets for governmental activities have decreased 2 percent over the prior year. Business-type activities reflect a decrease of 9 percent primarily due to a loss on disposal recorded in closing the communications fund.

Liabilities

	Governmental Activities		Business-Type Activities	
	2013	2014	2013	2014
Current Liabilities	$ 219,946	$ 360,703	$ 3,623,882	$ 1,017,594
Payable from Restricted Assets	-	-	373,948	277,322
Deferred Revenue	24,779	23,199	-	-
Long-term Liabilities	67,710	3,100,783	18,880,652	13,238,341
Total Liabilities	$ 312,435	$ 3,484,685	$ 22,878,482	$ 14,533,257

Liabilities for governmental activities substantially increased primarily due to the transfer of debt resulting from the closure of the communications fund. Current liabilities for business-type activities have decreased substantially due to the aforementioned transfer.

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, 2014 and 2013.

			Business-Type					
	Governmental		Water Utility		Sewer Utility		Communications Utility	
	2013	2014	2013	2014	2013	2014	2013	2014
Program Revenues								
Charges for Services	$ 844,795	$ 286,828	$ 1,069,834	$ 1,151,072	$ 1,516,021	$ 1,622,673	$ 544,298	$ 188,216
Operating Grants and Contributions	22,174	9,630	-	-	-	-	-	-
Capital Grants and Contributions	15,956	-	-	-	4,471,905	57,560	-	-
General Revenues								
Taxes	2,003,520	1,912,272	-	-	-	-	-	-
Fines and forfeitures	-	64,575	-	-		-		-
State-shared	189,170	209,536	-	-	-	-	-	-
Investment Income	3,839	2,548	1,992	1,831	2,261	1,235		130
Miscellaneous	28,909	48,703	5,861	-	434	-	1,574	-
Gain on debt refinance	-	-	-	-	-	-	-	4,207,409
Transfers In	-	-	-	11	-	(30)	792,629	205,000
	$ 3,108,363	$ 2,534,092	$ 1,077,687	$ 1,152,914	$ 5,990,621	$ 1,681,438	$ 1,338,501	$ 4,600,755

Governmental revenue decreased 18 percent over prior year. Charges for Services decreased 66 percent. Taxes decreased 5 percent. State-shared Revenue increased 11 percent. Business-type revenues decreased 45 percent primarily due to the Small Community Wastewater Construction Grant coming to a close.

Expenses

Governmental		Water Utility		Sewer Utility		Communication Utility	
2013	2014	2013	2014	2013	2014	2013	2014
$ 3,762,419	$ 2,447,032	$ 1,544,736	$ 1,377,556	$ 2,613,386	$ 2,465,921	$ 9,499,501	$ 1,802,743

Expenses increased in the governmental fund and combined utility funds by 96 percent for the year ended September 30, 2014 primarily due to depreciation expense, and the loss on disposal of assets recorded in the communications fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total revenue for the year shows 2 percent over budget.

On the expense-side, total General Government is under budget 8 percent or $197,043. This is primarily associated with conservative operations lowering operating expenses.

CAPITAL ASSETS

As of September 30, 2014, the City had $28.8 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 $2,318,347 or 7 percent, over the prior year.

	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
Capital Assets	$7,361,361	$7,387,082	$ 33,535,055	$ 31,656,000	$ 40,896,416	$ 39,043,082
Construction in Progress	-	-	110,329	188,747	110,329	188,747
Less Accumulated Depreciation	(2,805,968)	(2,929,251)	(7,079,344)	(7,499,492)	(9,885,312)	(10,428,743)
Total	$4,555,393	$4,457,831	$ 26,566,040	$ 24,345,255	$ 31,121,433	$ 28,803,086

This year's major deletion was due to writing off the value of the Communications Fund assets as a result of assigning the operations to a third party and closing the fund.

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, 2014

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and investments	$ 2,404,389	$ 356,873	$ 2,761,262
Receivables, net	68,134	204,204	272,338
Due from other governments	77,666	63,103	140,769
Other assets	100	-	100
Restricted cash	-	3,091,794	3,091,794
Capital assets, not being depreciated	3,210,071	463,582	3,673,653
Capital assets, being depreciated	4,177,011	31,381,165	35,558,176
Less accumulated depreciation	(2,929,251)	(7,499,492)	(10,428,743)
Unamortized bond issuance costs	-	82,108	82,108
Total assets	7,008,120	28,143,337	35,151,457
Liabilities			
Accounts payable and accrued liabilities	91,135	113,161	204,296
Payable from restricted assets:			
Utility deposits	-	117,245	117,245
Accrued interest	-	160,077	160,077
Deferred revenue	23,199	-	23,199
Long-term liabilities:			
Due within one year	269,568	904,433	1,174,001
Due in more than one year	3,100,783	13,238,341	16,339,124
Total liabilities	3,484,685	14,533,257	18,017,942
Net position			
Invested in capital assets, Net of related debt	4,457,831	10,879,774	15,337,605
Restricted for:			
Debt service	-	784,762	784,762
Capital projects	395,705	2,140,301	2,536,006
Infrastructure	56,247	-	56,247
Roads and streets	1,634,572	-	1,634,572
Public safety	52,425	-	52,425
Cemetery perpetual care	47,930	-	47,930
Tree fund	373	-	373
Emergency reserve	2,597	-	2,597
Unrestricted (deficit)	(3,124,245)	(194,757)	(3,319,002)
Total net position	$ 3,523,435	$ 13,610,080	$ 17,133,515

See notes to financial statements.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Position, Primary Government: Governmental Activities	Net (Expense) Revenue and Change in Net Position, Primary Government: Business-type Activities	Net (Expense) Revenue and Change in Net Position, Primary Government: Total
Governmental activities							
General government	$ 565,953	$ 82,812	$ -	$ -	$ (483,141)	$ -	$ (483,141)
Public safety	1,244,333	4,712	9,630	-	(1,229,991)	-	(1,229,991)
Physical environment	170,159	172,853	-	-	2,694	-	2,694
Transportation	355,552	25,607	-	-	(329,945)	-	(329,945)
Culture and recreation	12,651	844	-	-	(11,807)	-	(11,807)
Human services	61,098	-	-	-	(61,098)	-	(61,098)
Total governmental activities	2,409,746	286,828	9,630	-	(2,113,288)	-	(2,113,288)
Business-type activities							
Water utility	999,212	1,151,072	-	-	-	151,860	151,860
Sewer utility	1,925,770	1,622,673	-	57,560	-	(245,537)	(245,537)
Communications utility	551,179	188,216	-	-	-	(362,963)	(362,963)
Interest expense	426,790	-	-	-	-	(426,790)	(426,790)
Loss on settlement	500,000	-	-	-	-	(500,000)	(500,000)
Total business-type activities	4,402,951	2,961,961	-	57,560	-	(1,383,430)	(1,383,430)
Total primary government	$ 6,812,697	$ 3,248,789	$ 9,630	$ 57,560	(2,113,288)	(1,383,430)	(3,496,718)
General revenues							
Taxes:							
Property taxes					973,366	-	973,366
Franchise taxes					191,182	-	191,182
Public service taxes					367,820	-	367,820
Fuel taxes					379,904	-	379,904
State-shared revenues					209,536	-	209,536
Fines and forfeitures					64,575	-	64,575
Investment income					2,548	3,196	5,744
Miscellaneous					48,703	-	48,703
Loss on disposal of assets					(1,481)	(1,243,269)	(1,244,750)
Gain on debt refinance and debt retirement					-	4,207,409	4,207,409
Interfund transfers					(3,332,179)	3,332,179	-
Total general revenues					(1,096,026)	6,299,515	5,203,489
Change in net position					(3,209,314)	4,916,085	1,706,771
Net position, beginning of year					6,732,749	8,176,812	14,909,561
Prior period adjustment					-	517,183	517,183
Net position, end of year					$ 3,523,435	$ 13,610,080	$ 17,133,515

See notes to financial statements.

CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2014

	General Fund	Tax Increment Financing District Fund	Total Governmental Funds
Assets			
Cash and investments	$ 2,278,963	$ 125,426	$ 2,404,389
Accounts receivable	68,134	-	68,134
Due from other governments	77,666	-	77,666
Other assets	100	-	100
Total assets	$ 2,424,863	$ 125,426	$ 2,550,289
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 64,371	$ 826	$ 65,197
Accrued liabilities	25,171	767	25,938
Deferred revenue	23,199	-	23,199
Total liabilities	112,741	1,593	114,334
Fund balances			
Restricted	-	123,833	123,833
Committed for:			
Roads and streets	1,634,572	-	1,634,572
Public safety	52,425	-	52,425
Infrastructure	56,247	-	56,247
Cemetery perpetual care	47,930	-	47,930
Tree fund	373	-	373
Emergency reserve	2,597	-	2,597
Assigned for:			
Capital improvements	395,705	-	395,705
Unassigned	122,273	-	122,273
Total fund balances	2,312,122	123,833	2,435,955
Total liabilities and fund balances	$ 2,424,863	$ 125,426	$ 2,550,289

See notes to financial statements.

CITY OF DUNNELLON, FLORIDA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
September 30, 2014

Fund balances - total governmental funds		$ 2,435,955
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is $7,387,082 and the accumulated depreciation is $2,929,251.		4,457,831
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:		
Revenue bonds payable	(3,193,750)	
OPEB payable	(31,111)	
Compensated absences	(145,490)	(3,370,351)
Total net position of governmental activities		$ 3,523,435

See notes to financial statements.

CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended September 30, 2014

	General Fund	Tax Increment Financing District Fund	Total Governmental Funds
Revenues			
Taxes	$ 1,784,785	$ 127,487	$ 1,912,272
Licenses and permits	82,456	-	82,456
Intergovernmental revenues	219,166	-	219,166
Charges for service	204,372	-	204,372
Fines and forfeitures	64,575	-	64,575
Miscellaneous revenue	51,148	103	51,251
Total revenues	2,406,502	127,590	2,534,092
Expenditures			
Current:			
General government	427,433	88,699	516,132
Public safety	1,155,711	-	1,155,711
Physical environment	169,165	-	169,165
Transportation	344,440	-	344,440
Human services	12,651	-	12,651
Culture and recreation	36,918	-	36,918
Capital outlay			
Transportation	7,015	-	7,015
Total expenditures	2,153,333	88,699	2,242,032
Excess of revenues over expenditures	253,169	38,891	292,060
Other financing sources (uses)			
Interfund transfers in	19,126	-	19,126
Interfund transfers out	(205,000)	-	(205,000)
	(185,874)	-	(185,874)
Net change in fund balances	67,295	38,891	106,186
Fund balances, beginning of year	2,244,827	84,942	2,329,769
Fund balances, end of year	$ 2,312,122	$ 123,833	$ 2,435,955

See notes to financial statements.

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, 2014

Net change in fund balances - total governmental funds		$ 106,186
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:		
Interfund transfer of assets:		
Cost of assets	$ 87,055	
Accumulated depreciation	(33,144)	53,911
Loss on disposal of assets		(1,481)
Net expenditures for capital assets	7,015	
(Current year depreciation)	(157,007)	(149,992)
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 position, 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 position. The amounts of the items that make up these differences in treatment of long-term debt items are:		
Interfund transfer of debt liabilities:		
Revenue bonds payable	(3,193,750)	
Compensated absences	(1,355)	
OPEB payable	(5,111)	(3,200,216)
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	(3,900)	
Net increase in compensated absences	(13,822)	(17,722)
Change in net position of governmental activities		$ (3,209,314)

See notes to the financial statements.

CITY OF DUNNELLON, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
September 30, 2014

	Business-Type Activities			
	Water Fund	Sewer Fund	Communications Fund	Total
Assets				
Current assets				
Cash and investments	$ 172,963	$ 164,698	$ 19,212	$ 356,873
Accounts receivable (net of allowance for uncollectible accounts)	77,912	126,292	-	204,204
Due from other governments	-	63,103	-	63,103
Total current assets	250,875	354,093	19,212	624,180
Restricted assets				
Cash:				
Utility deposit cash	117,245	-	-	117,245
Water capital improvement funds	3,792	-	-	3,792
Sewer capital improvement funds	-	42,628	-	42,628
Emergency reserve	1,831	1,235	-	3,066
Revenue bond proceeds	1,382,121	758,180	-	2,140,301
Debt service, state revolving loan	-	40,929	-	40,929
Debt service, revenue bonds	347,284	396,549	-	743,833
Total restricted assets	1,852,273	1,239,521	-	3,091,794
Utility plant in service				
Cost of capital assets	6,063,795	25,592,205	-	31,656,000
(accumulated depreciation)	(1,853,891)	(5,645,601)	-	(7,499,492)
Construction in progress	86,000	102,747	-	188,747
Total utility plant in service - cost less depreciation	4,295,904	20,049,351	-	24,345,255
Deferred outflows of resources				
Bond issuance costs (net of amortization)	40,642	41,466	-	82,108
	40,642	41,466	-	82,108
Total assets	$ 6,439,694	$ 21,684,431	$ 19,212	$ 28,143,337

See notes to financial statements.

CITY OF DUNNELLON, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
September 30, 2014

	Business-Type Activities			
	Water Fund	Sewer Fund	Communications Fund	Total
Liabilities and Net Position				
Current liabilities, unrestricted				
Payable from current assets:				
Accounts payable	$ 38,770	$ 42,951	$ 18,581	$ 100,302
Accrued liabilities	5,917	6,311	631	12,859
Settlement payable, due within one year	92,500	157,500	-	250,000
Compensated absences, due within one year	36,150	48,502	-	84,652
Total current liabilities, unrestricted	173,337	255,264	19,212	447,813
Current liabilities, restricted				
Payable from restricted assets:				
Accrued revenue bond and SRF loan interest	72,732	87,345	-	160,077
Customer deposits	117,245	-	-	117,245
SRF loan payable within one year	-	14,071	-	14,071
Revenue bonds payable within one year	264,137	291,573	-	555,710
Total current liabilities, restricted	454,114	392,989	-	847,103
Total current liabilities	627,451	648,253	19,212	1,294,916
Long-term liabilities				
SRF loan payable, noncurrent portion	-	13,460	-	13,460
Revenue bonds, noncurrent portion	6,086,350	6,795,890	-	12,882,240
Settlement payable, noncurrent portion	92,500	157,500	-	250,000
OPEB payable	4,444	4,444	-	8,888
Compensated absences, noncurrent portion	42,437	41,316	-	83,753
Total long-term liabilities	6,225,731	7,012,610	-	13,238,341
Total liabilities	6,853,182	7,660,863	19,212	14,533,257
Net Position				
Invested in capital assets, net of related debt	(2,054,583)	12,934,357	-	10,879,774
Restricted for debt service	347,284	437,478	-	784,762
Restricted for bond financed capital projects	1,382,121	758,180	-	2,140,301
Unrestricted (deficit)	(88,310)	(106,447)	-	(194,757)
Total net position (deficit)	(413,488)	14,023,568	-	13,610,080
Total liabilities and net position	$ 6,439,694	$ 21,684,431	$ 19,212	$ 28,143,337

See notes to financial statements.

CITY OF DUNNELLON, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended September 30, 2014

	Business-Type Activities			
	Water Fund	Sewer Fund	Communications Fund	Total
Operating revenues				
Charges for services	$ 1,149,059	$ 1,621,890	$ 175,143	$ 2,946,092
Miscellaneous revenue	2,013	783	13,073	15,869
Total operating revenues	1,151,072	1,622,673	188,216	2,961,961
Operating expenses				
Personnel services	408,016	480,487	120,362	1,008,865
Operating expenses	237,591	454,753	212,613	904,957
Professional services	80,276	73,201	135,008	288,485
Depreciation and amortization	273,329	917,329	83,196	1,273,854
Total operating expenses	999,212	1,925,770	551,179	3,476,161
Operating income (loss)	151,860	(303,097)	(362,963)	(514,200)
Nonoperating revenues (expenses)				
Interest income	1,831	1,235	130	3,196
Interest expense	(193,344)	(225,151)	(8,295)	(426,790)
Interfund transfers in	11	(30)	205,000	204,981
Interfund transfers out	-	-	3,127,198	3,127,198
Grant revenue	-	57,560	-	57,560
Loss on settlement	(185,000)	(315,000)	-	(500,000)
Gain on debt refinance and debt retirement	-	-	4,207,409	4,207,409
Loss on disposal of assets	-	-	(1,243,269)	(1,243,269)
Total nonoperating revenues (expenses)	(376,502)	(481,386)	6,288,173	5,430,285
Net income (loss)	(224,642)	(784,483)	5,925,210	4,916,085
Net position, beginning of year	(430,452)	14,532,474	(5,925,210)	8,176,812
Prior period adjustment	241,606	275,577	-	517,183
Net position, end of year	$ (413,488)	$ 14,023,568	$ -	$ 13,610,080

See notes to financial statements.

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	$ 1,118,122	$ 1,619,957	$ 230,048	$ 2,968,127
Cash paid to suppliers	(188,801)	(640,142)	(306,313)	(1,135,256)
Cash paid to employees	(406,968)	(480,011)	(180,333)	(1,067,312)
Net cash provided by (used in) operating activities	522,353	499,804	(256,598)	765,559
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	(44,642)	(88,715)	-	(133,357)
Transfers in/(out) to other funds	11	(30)	3,332,198	3,332,179
Loss on disposal of assets	-	-	(62,958)	(62,958)
Gain on refinance	-	-	(3,141,860)	(3,141,860)
Principal payments	(228,779)	(258,778)	(275,000)	(762,557)
Interest paid	(194,502)	(226,795)	(84,669)	(505,966)
Net cash used in capital and related financing activities	(467,912)	(574,318)	(232,289)	(1,274,519)
Cash flows from investing activities				
Interest income	1,831	1,235	130	3,196
Net change in cash and cash equivalents	56,272	(73,279)	(488,757)	(505,764)
Cash and cash equivalents, October 1, 2013	1,968,964	1,477,498	507,969	3,954,431
Cash and cash equivalents, September 30, 2014	$ 2,025,236	$ 1,404,219	$ 19,212	$ 3,448,667
Shown in the financial statements as:				
Current assets				
Cash and cash equivalents	$ 172,963	$ 164,698	$ 19,212	$ 356,873
Restricted cash	1,852,273	1,239,521	-	3,091,794
Totals	$ 2,025,236	$ 1,404,219	$ 19,212	$ 3,448,667

See notes to financial statements.

CITY OF DUNNELLON, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended September 30, 2014

	Water Fund	Sewer Fund	Communications Fund	Total
Reconciliation of operating loss to net cash provided by (used) in operating activities				
Operating gain (loss)	$ 151,860	$ (303,097)	$ (362,963)	$ (514,200)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities				
Depreciation and amortization	273,329	917,329	83,196	1,273,854
Changes in assets decrease (increase) and liabilities increase (decrease):				
Accounts receivable, net	(15,859)	(2,716)	41,832	23,257
Inventory	-	-	119,688	119,688
Accounts payable	129,066	(112,188)	(78,380)	(61,502)
Accrued wages and OPEB payable	(7,794)	(9,127)	(19,776)	(36,697)
Compensated absences	8,842	9,603	(40,195)	(21,750)
Utility deposits	(17,091)	-	-	(17,091)
Total adjustments	370,493	802,901	106,365	1,279,759
Net cash provided by (used in) operating activities	$ 522,353	$ 499,804	$ (256,598)	$ 765,559

See notes to financial statements.

CITY OF DUNNELLON, FLORIDA
PENSION TRUST FUNDS
STATEMENT OF NET POSITION
September 30, 2014

		Pension Trust Funds
Assets		
Cash and investments	$	3,026,009
Due from other governments		7,070
Total assets	$	3,033,079
Net position		
Reserved for:		
Employees' pension benefits	$	3,033,079
Total net position	$	3,033,079

See notes to financial statements.

CITY OF DUNNELLON, FLORIDA
PENSION TRUST FUNDS
STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Year Ended September 30 , 2014

		Pension Trust Funds
Additions		
Contributions		
Employer	$	97,855
Forfeitures applied		(13,196)
Net employer contributions		84,659
State		57,597
Employee		67,953
Total contributions		210,209
Net investment income		253,382
Total additions		463,591
Deductions		
Pension benefit payments and refunds		(378,082)
General and administrative		(21,380)
Total deductions		(399,462)
Increase in net position		64,129
Net position reserved for employees' Pension benefits:		
Net position, beginning of year		2,968,950
Net position, end of year	$	3,033,079

See notes to financial statements.

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 2014 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 $11,217 for 2014. 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

"Construction interest cost is generally not capitalized; approximately $160,312 in such interest was expensed during the fiscal year.

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, 2014 was 7.1408 mills.

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

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

All taxes are assessed on November 1 of each year, or as soon thereafter, as the assessment roll is certified and delivered to the County Tax Collector. All unpaid taxes become delinquent on April 1 following the year in which they are assessed. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January, and 1% in the month of February. Taxes paid in March are without discount.

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

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

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

Franchise Fees

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

Capital Grants and Contributions

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

Fund Balances

A. Governmental Funds

As of September 30, 2014, 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, 2014, fund balances are composed of the following:

Restricted for Downtown Redevelopment	$	123,833
Committed for:		
Roads and streets		1,634,572
Public safety		52,425
Infrastructure		56,247
Cemetery perpetual care		47,930
Tree fund		373
Emergency reserve		2,597
Assigned for:		
Capital improvements		395,705
Unassigned		122,273
	$	2,435,955

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, 2014, net position balances are composed of the following:

		Amount
Invested in capital assets, net	$	10,879,774
Restricted, debt service		784,762
Restricted, capital projects		2,140,301
Unrestricted (deficit)		(194,757)
	$	13,610,080

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, 2014, 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, 2014, were held by qualified public depositories within the state of Florida and are considered to be fully insured. Total deposits as of September 30, 2014, are $5,853,378.

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, 2014, the City had the following investments and maturities:

Investment	Fair Value
State Board of Administration (SBA)	
Local Government Surplus Funds Trust Fund	$ 139,685
Pension Funds	
Florida Municipal Pension Trust Fund - Firefighters and Police Officers (FMIvT)	2,019,830
Florida Municipal Pension Trust Fund - General Employees (CitiStreet)	1,006,179
Total	3,165,694
Cash deposits	2,621,577
Total cash and investments	$ 5,787,271
As shown on the accompanying financial statements as:	
Cash and investments - entity-wide	$ 2,761,262
Cash and investments - fiduciary funds	3,026,009
Total cash and investments	$ 5,787,271

State Board of Administration

Investments placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pool created by Sections 218.405 and 218.417, *Florida Statutes,* is not registered with the Securities and Exchange Commission. 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, 2014, 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.

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

	Fitch Rating
Fixed Income Funds:	
FMIvT Broad Market High Quality Bond Fund	AA/V4
Equity Funds:	
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

Fixed Income Funds:	Fitch Rating
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

Fixed Income Funds:	Average Maturity
FMIvT Broad Market High Quality Bond Portfolio	6.47 years

Florida Municipal Pension Trust Fund – General Employees' Pension Fund

Fixed Income Funds:	Average Maturity
Vanguard Intermediate Bond Index	7.1 years average
Vanguard Total Bond Market Index	8.1 years average
Vanguard Long-term Treasury	25.0 years average
Vanguard Inflation-Protected Securities	8.6 years average
Balanced Vanguard Wellington Fund	909 years average
State Board of Administration Investments	
Surplus Funds Trust Fund Investment Pool	39.3 day 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. RECEIVABLE AND PAYABLE BALANCES

Receivables

Receivables at September 30, 2014 were as follows:

	Accounts	Due from Other Governmental Units	Total
Governmental activities:			
General	$ 68,134	$ 77,666	$ 145,800
Business-type activities;			
Water	77,912	-	77,912
Sewer	126,292	63,103	189,395
	$ 272,338	$ 140,769	$ 413,107

Payables

	Accounts	Due from Other Governmental Units	Total
Governmental activities:			
General	$ 64,371	$ 25,171	$ 89,542
Tax Increment Financing District	826	767	1,593
Business-type activities;			
Water	38,770	5,917	44,687
Sewer	42,951	6,311	49,262
Communications	18,581	631	19,212
	$ 165,499	$ 38,797	$ 204,296

NOTE 4. INTERFUND TRANSFERS

Fund	Transfers In	Transfers Out
General	$ 19,126	$ 205,000
General long-term debt	(3,200,216)	-
General fixed assets	53,911	-
Water - enterprise	11	-
Sewer - enterprise	(30)	-
Communications enterprise	205,000	(3,127,198)
	$ (2,922,198)	$ (2,922,198)

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2014, was as follows:

	Beginning Balance	Increases	Reclassification	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land and improvements	$ 3,210,071	$ -	$ -	$ 3,210,071
Construction in progress	-	-	-	-
Total capital assets not being depreciated	3,210,071	-	-	3,210,071
Capital assets being depreciated:				
Buildings	1,009,986	77,678	-	1,087,664
Improvements other than buildings	833,347	7,015	-	840,362
Furniture, equipment and machinery	2,307,957	9,377	(68,349)	2,248,985
Total capital assets being depreciated	4,151,290	94,070	(68,349)	4,177,011
Less accumulated depreciation:				
Buildings	(420,634)	(56,585)	-	(477,219)
Improvements other than buildings	(320,485)	(34,509)	-	(354,994)
Furniture, equipment and machinery	(2,064,849)	(99,057)	66,868	(2,097,038)
Total accumulated depreciation	(2,805,968)	(190,151)	66,868	(2,929,251)
Total capital assets being depreciated, net	1,345,322	(96,081)	(1,481)	1,247,760
Governmental activities capital assets, net	$ 4,555,393	$ (96,081)	$ (1,481)	$ 4,457,831
Business-type activities:				
Capital assets not being depreciated:				
Land and improvements	$ 274,835	$ -	$ -	$ 274,835
Construction in progress	110,329	78,418	-	188,747
Total capital assets not being depreciated	385,164	78,418	-	463,582
Capital assets being depreciated:				
Buildings and improvements	806,583	-	(19,151)	787,432
Improvements other than building	30,894,596	52,119	(1,244,567)	29,702,148
Machinery and equipment	1,559,041	-	(667,456)	891,585
Total capital assets being depreciated	33,260,220	52,119	(1,931,174)	31,381,165
Less accumulated depreciation:				
Buildings and improvements	(1,061,468)	(25,787)	23,951	(1,063,304)
Improvements other than building	(4,867,182)	(1,107,242)	461,145	(5,513,279)
Equipment	(1,151,094)	(40,402)	268,587	(922,909)
Total accumulated depreciation	(7,079,744)	(1,173,431)	753,683	(7,499,492)
Total capital assets being depreciated, net	26,180,476	(1,121,312)	(1,177,491)	23,881,673
Business-type activities capital assets, net	$ 26,565,640	$ (1,042,894)	$ (1,177,491)	$ 24,345,255

Depreciation expense:	
Governmental activities	
General government and administration	$ 48,049
Public safety	76,748
Physical environment	108
Transportation	8,454
Culture and recreation	23,648
Total depreciation expense - governmental activities	$ 157,007
Business-type activities	
Water	$ 264,123
Sewer	909,308
Communications	-
Total depreciation expense - business-type activities	$ 1,173,431

NOTE 6. CAPITAL LEASES

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 in the prior year in anticipation of the sale of the financed assets. In the current year the assets were relinquished with the sale of the communication system.

NOTE 7. LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance	Due Within One Year
Governmental Activities						
Revenue bonds payable	$ -	$ -	$ -	$ 3,193,750	$ 3,193,750	$ 175,000
Compensated absences	130,313	109,727	(95,905)	1,355	145,490	94,568
OPEB payable	22,100	3,900	-	5,111	31,111	-
Total Governmental Activities	$ 152,413	$ 113,627	$ (95,905)	$ 3,200,216	$ 3,370,351	$ 269,568
Business-type Activities						
State revolving loan	$ 40,936	$ -	$ (13,405)	$ -	$ 27,531	$ 14,071
Revenue bonds payable	20,663,227	-	(4,031,527)	(3,193,750)	13,437,950	555,710
Compensated absences	190,155	78,447	(98,842)	(1,355)	168,405	84,652
Capital lease - Headend equipment	873,144	-	(873,144)	-	-	-
OPEB payable	11,900	2,099	-	(5,111)	8,888	-
Total business-type activities	$ 21,779,362	$ 80,546	$(5,016,918)	$(3,200,216)	$ 13,642,774	$ 654,433

A. Governmental Activities

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 were utilized to construct the City's telecommunications utility. Although certain general revenues were pledged on this debt, the City anticipated full repayment to be made from future telecommunications revenues. In 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. The City was also 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 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. On March 31, 2014, the City signed a settlement agreement which restructured the debt to a total amount due of $3,468,750. A new payment schedule provided for a payment of $200,000 due no later than April 1, 2014, followed by another payment of $75,000 due no later than September 1, 2014. Subsequent payments in the amount of $43,750 shall be paid quarterly beginning on December 31, 2014 and continue through and including December 31, 2032. The effective interest rate is 0.0%. The terms of this arrangement are contingent upon timely payments. Maturity on this bond agreement for the years ending September 30, is as follows:

Regions Bank

September 30	Principal	Interest	Total
2015	$ 175,000	$ -	$ 175,000
2016	175,000	-	175,000
2017	175,000	-	175,000
2018	175,000	-	175,000
2019	175,000	-	175,000
2020-2024	875,000	-	875,000
2025-2029	875,000	-	875,000
2030-2033	568,750	-	568,750
	$ 3,193,750	$ -	$ 3,193,750

This debt service is budgeted and paid from General Fund revenues.

B. Business-type Activities

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
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	24,630	12,944	37,574
2020-2024	136,252	51,393	187,645
2025-2026	233,255	10,841	244,096
	$ 484,841	$ 134,901	$ 619,742

Revenue Bond 2013

September 30	Principal	Interest	Total
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	307,550	191,933	499,483
2020-2024	1,701,393	793,249	2,494,642
2025-2026	3,806,553	180,829	3,987,382
	$ 6,948,109	$ 2,032,983	$ 8,981,092

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

September 30	Principal	Interest	Total
2015	$ 265,000	$ 155,034	$ 420,034
2016	270,000	147,972	417,972
2017	5,470,000	72,204	5,542,204
	$ 6,005,000	$ 375,210	$ 6,380,210

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 $27,531 as of September 30, 2014. 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:

	Business-type Activities			
	Principal			Total
Year	Bonds	SRL	Total Interest	Debt Service
2015	$ 555,710	$ 14,071	$ 402,509	$ 972,290
2016	570,565	13,460	385,184	969,209
2017	5,780,754	-	298,869	6,079,623
2018	321,288	-	215,953	537,241
2019	332,180	-	204,877	537,057
2020-2024	1,837,645	-	844,642	2,682,287
2025-2026	4,039,808	-	191,670	4,231,478
Total	$ 13,437,950	$ 27,531	$ 2,543,704	$ 16,009,185

NOTE 8. LEGAL COMPLIANCE AND ACCOUNTABILITY

At year end, the Water Fund had a deficit net position of $413,488. This deficit was the result of operating income insufficient to cover operating expenses related to annual depreciation on assets. In addition, the City lost a lawsuit against them which resulted in a significant loss being recorded in the Water and Sewer Fund. The details of this are discussed further in the related notes.

NOTE 9. 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: 7.37% for regular members, 12.28% for DROP members, 19.82% for special risk members, and 21.14% 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, 2014, 2013, and 2012, were as follows, equal to the required contributions for each year:

Year	Total
2014	$ 26,064
2013	21,234
2012	21,234

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, 2014, 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, 2014. 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, 2013, the plan had the following number of participants:

Annual Pension Costs and Net Pension Obligation

Active	13
Retired, disabled, vested terminations and beneficiaries	7
Total number of participants	20

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, 2013) was as follows:

Annual required contribution (ARC)	$ 82,861
Interest on net pension obligation	2,012
Adjustment to ARC	(1,404)
Annual Pension Costs	$ 83,469

Other Pension Plan Information

The annual required contribution for the current year was determined as part of the July 1, 2014, actuarial valuation using the aggregate cost method. The actuarial assumptions include the following:

- Asset Method – The actuarial value of assets is equal to the market value of assets.
- Interest (or Discount) Rate – 7% per annum.
- Salary Increases – Plan compensation is assumed to increase at the rate of 4% per annum, unless actual plan compensation is known for a prior plan year.
- Decrements – No decrements are assumed to occur during the year that immediately follows the valuation date.
- Form of Payment – Future retirees have been assumed to select 10-year certain and life annuity.
- Expenses – Administrative expenses are assumed to be equal to 1.75% of covered payroll. In addition, the interest rate set forth above is assumed to be net of investment expenses and commissions.

Actuarial Present Value of Accrued Benefits

	As of October 1, 2011	As of October 1, 2013
Vested Benefits		
Participants currently receiving benefits	$ 208,132	$ 217,421
Other participants	201,188	441,131
Sub-total	$ 409,320	$ 658,552
Non-Vested Benefits	$ 101,302	$ 84,023
Total Benefits	$ 510,622	$ 742,575
Funded Percentage (based on the market value of assets)	175.58%	223.01%

Statement of Change in Actuarial Present Value of Accrued Benefits

Actuarial Present Value as of October 1, 2011	$ 510,622
Increase (Decrease) Due To:	
Interest	$ 79,466
Benefits accumulated	$ 86,660
Benefits paid	$ (37,828)
Plan amendments	$ 55,952
Changes in actuarial methods and assumptions	$ 47,703
Net increase (decrease)	$ 231,953
Actuarial Present Value as of October 1, 2013	$ 742,575

Schedule of Employer Contributions

Year Ended September 30	Annual Required Contribution	% Contribution	Annual Pension Cost	% Contribution
2008	$ 74,849	100%	$ 74,849	100%
2009	$ 77,117	100%	$ 77,117	100%
2010	$ 96,380	86%	$ 96,380	86%
2011	$ 102,182	98%	$ 102,646	98%
2012	$ 86,716	89%	$ 86,657	89%
2013	$ 92,153	97%	$ 93,057	96%

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability* (AAL)	Unfunded AAL (UAAL) (2) - (1)	Funded Ratio (1) ÷ (2)	Covered Payroll	UAAL As % of Covered Payroll (3) ÷ (5)
Not Applicable	N/A	N/A	N/A	N/A	N/A	N/A
October 1, 2009	$ 547,459	$ 716,547	$ 169,088	76.40%	$ 500,405	33.79%
Not Applicable	N/A	N/A	N/A	N/A	N/A	N/A
October 1, 2011	802,214	758,063	-	105.82%	565,373	0.00%
Not Applicable	N/A	N/A	N/A	N/A	N/A	N/A
October 1, 2013	1,632,551	1,058,984	-	154.16%	614,903	0.00%

Additional Information

Valuation Date	**October 1, 2013**
Actuarial Cost Method	**Aggregate**
Amortization Method	**Level percentage, open**
Remaning Amortization Period	**30 years**
Asset Valuation Method	**Market value**
Discount Rate	**7.00%**
Salary Increase Rate	**4.00%**

The actuarial value of assets was determined using market value.

Schedule of Changes in Pension Plan Net Position as of September 30, 2014

	Pension Trust Funds		
	General Employees	Special Risk	Total
Assets			
Cash and investments	$ 1,006,179	$ 2,019,830	$ 3,026,009
Due from other governments	-	7,070	7,070
Total assets	1,006,179	2,026,900	3,033,079
Total liabilities	-	-	-
Net assets			
Reserved for:			
Employees' pension benefits	1,006,179	2,026,900	3,033,079
Total liabilities and net assets	1,006,179	2,026,900	3,033,079
Additions			
Contributions:			
Employer	97,855	-	97,855
(Forfeitures applied)	(13,196)	-	(13,196)
Net employer contributions	84,659	-	84,659
State	-	57,597	57,597
Employee	62,567	5,386	67,953
Total contributions	147,226	62,983	210,209
Investment income	96,898	156,484	253,382
Less: Investment management fees	-	-	-
Net investment income*	96,898	156,484	253,382
Total additions	244,124	219,467	463,591
Deductions			
Pension benefit payment and refunds	(361,620)	(16,462)	(378,082)
General and administrative	(7,556)	(13,824)	(21,380)
Total deductions	(369,176)	(30,286)	(399,462)
Increase (decrease) in fiduciary net assets	(125,052)	189,181	64,129
Net assets reserved for employees pension benefit			
Beginning of year	1,131,231	1,837,719	2,968,950
End of year	$ 1,006,179	$ 2,026,900	$ 3,033,079

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 $6,000 for the year ended September 30, 2014.

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	July 1, 2014
Actuarial cost method	Project unit credit
Amortization method	Level-dollar credit
Amortization period	10 year, open
Assumes rate of return on investments	4.00% per annum (includes inflation at 2.75% per annum)

Assumed healthcare cost trend rates:

Healthcare cost trend rate(s):	Insurance Premiums
Select rates	7.50% for 1014/15 graded to 5.17% for 2018/19
Ultimate rate	5.00% per annum

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 10 years. The City's annual OPEB cost for the fiscal year was $6,000.

The City's annual OPEB cost and the net OPEB obligation for the fiscal year ended September 30, 2014 is as follows:

Annual required contribution (ARC)	$ 12,000
Interest on the net OPEB obligation	1,000
Adjustment to the ARC	(4,000)
	9,000
Employer contributions	(3,000)
Interest on employer contributions	-
	6,000
Net OPEB obligation - beginning of year	34,000
Net OPEB obligation - end of year	$ 40,000

The City's percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ended September 30, 2014 is as follows:

A. Schedule of Employer Contributions

Year Ended September 30	ARC	% Contributed	Annual OPEB Cost	% Contributed
2013	$ 12,000	42%	$ 9,000	56%
2014	12,000	25%	9,000	33%
2015	12,000	25%	9,000	33%

The 2014 contribution represented 25% of the annual required contribution. The actuarial valuation for the Plan was done as of July 1, 2014. Thereafter, actuarial valuations will be done bi-annually.

As of July 1, 2014, the most recent actuarial valuation date, the Plan was unfunded. The actuarial accrued liability for benefits was $41,000, and the actuarial value of assets was $-0-, resulting in an unfunded actuarial accrued liability (UAAL) of $41,000.

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

B. Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (2) - (1)	Funded Ratio (1) - (2)	Covered Payroll	UAAL As % of Covered Payroll (3) - (4)
October 1, 2010	$ -	$98,000	$98,000	0.0%	$1,445,000	6.8%
November 1, 2012	-	38,000	38,000	0.0%	2,107,000	1.8%
July 1, 2014	-	41,000	41,000	0.0%	2,219,000	1.8%

NOTE 10. 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.

NOTE 11. 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 12. 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 13. 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 14. LEASED FACILITIES

The City has the following lease agreement for facilities at September 30, 2014:

1. The City has a lease for a warehouse facility with non-cancelable provisions. Rent is $1,700 per month through December 31, 2016. On February 1, 2014, the City signed a termination of lease agreement effectively terminating the lease with a lump sum payment of $18,700.

NOTE 15. PRIOR PERIOD ADJUSTMENT - RESTATEMENT OF BEGINNING OF THE YEAR NET POSITION

Subsequent to the issuance of the City's September 30, 2013 financial statements, management became aware of certain errors in the prior year liabilities and expenses related to debt. The correction of these items in the September 30, 2014 financial statements had the effect of increasing beginning net position by $241,606 and $275,577, in the Water Fund and Sewer Fund, respectively, to correct these errors.

NOTE 16. SUBSEQUENT EVENTS

On November 13, 2014, subsequent to year end, the City entered into a settlement agreement and release (the agreement) as a result of court-ordered mediation stemming from litigation related to the water and sewer rates outside of the city limits. In this agreement the City has agreed to pay the sum of $500,000, to include attorney fees, to completely and fully settle this matter. Once the attorney fees have been paid, half of the remaining balance shall be paid by the City in the form of credits to the affected customers within 12 months from the date of the agreement. The other half shall be paid by the City in the same manner within 24 months from the date of the agreement. A liability in the amount of $500,000 was allocated between water and sewer funds to account for this expense.

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, 2014

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Taxes				
Ad valorem	$ 834,872	$ 834,872	$ 845,879	$ 11,007
Local option gas tax	374,342	374,342	379,904	5,562
Franchise tax:				
Electricity	170,000	170,000	191,182	21,182
Communication service tax	139,661	139,661	102,060	(37,601)
Utility tax :				
Electricity	200,000	200,000	232,318	32,318
Propane	18,000	18,000	33,442	15,442
Total taxes	1,736,875	1,736,875	1,784,785	47,910
Licenses and permits				
Professional and occupational	28,621	28,621	22,844	(5,777)
Building permits	36,500	36,500	33,586	(2,914)
Other licenses and permits	7,128	7,128	26,026	18,898
Total licenses and permits	72,249	72,249	82,456	10,207
Intergovernmental revenue				
State, federal and local grants	694	694	9,630	8,936
State shared revenues:				
State revenue sharing	78,559	78,559	78,833	274
Mobile home licenses	7,373	7,373	7,263	(110)
Alcoholic beverage licenses	2,200	2,200	15,735	13,535
Local government one-half cent sales tax	100,863	100,863	104,654	3,791
Motor fuel tax rebate	2,000	2,000	3,051	1,051
Total intergovernmental revenue	191,689	191,689	219,166	27,477
Charges for services				
Copying and records search	1,000	1,000	221	(779)
Garbage and solid waste	164,766	164,766	172,613	7,847
Cemetery fees	200	200	240	40
City beach user fees	1,000	1,000	844	(156)
Other miscellaneous charges	200	200	30,454	30,254
Total charges for services	167,166	167,166	204,372	37,206
Fines and forfeitures				
Court fines	129,785	129,785	36,922	(92,863)
Other fines	7,042	7,042	27,653	20,611
Total fines and forfeitures	136,827	136,827	64,575	(72,252)

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, 2014
(Continued)

	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget Positive (Negative)
Miscellaneous revenue				
Investment earnings	$ 3,000	$ 3,000	$ 2,445	$ (555)
Cemetery lots	4,100	4,100	11,195	7,095
Other miscellaneous	42,741	42,741	37,508	(5,233)
Total miscellaneous revenue	49,841	49,841	51,148	1,307
Total revenues	$ 2,354,647	$ 2,354,647	$ 2,406,502	$ 51,855
Expenditures				
General government				
Legislative:				
Personnel services	$ 111,012	$ 111,012	$ 10,825	$ 100,187
Operating expenses	11,248	11,766	13,413	(1,647)
Capital outlay	41,137	41,137	-	41,137
Debt service	100,000	98,440	-	98,440
Total legislative	263,397	262,355	24,238	98,540
City clerk and general administrative:				
Personnel services	31,311	31,311	40,686	(9,375)
Operating expenses	58,779	60,339	52,093	8,246
Total city clerk and general Administrative	90,090	91,650	92,779	(1,129)
City manager:				
Personnel services	16,503	16,503	9,100	7,403
Operating expenses	12,880	12,880	7,982	4,898
Total city manager	29,383	29,383	17,082	12,301
Legal counsel:				
Operating expenses	83,500	83,500	95,431	(11,931)
Comprehensive planning:				
Personnel services	33,773	33,773	31,633	2,140
Operating expenses	37,961	37,961	23,723	14,238
Total comprehensive planning	71,734	71,734	55,356	16,378
Finance:				
Personnel services	21,201	21,201	20,232	969
Operating expenses	11,055	11,055	14,666	(3,611)
Total finance	32,256	32,256	34,898	(2,642)

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, 2014
(Continued)

	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget Positive (Negative)
Expenditures *(continued)*				
Building maintenance:				
Personnel services	$ 31,574	$ 31,574	$ 30,917	$ 657
Operating expenses	21,655	26,205	23,481	2,724
Total building maintenance	53,229	57,779	54,398	3,381
Garage department:				
Personnel services	45,290	44,772	48,090	(3,318)
Operating expenses	5,201	5,201	5,161	40
Total garage department	50,491	49,973	53,251	(3,278)
Total general government	674,080	678,630	427,433	111,620
Public safety				
Law enforcement:				
Personnel services	534,919	521,954	568,482	(46,528)
Operating expenses	117,515	130,480	142,588	(12,108)
Total law enforcement	652,434	652,434	711,070	(58,636)
Fire control:				
Personnel services	306,275	306,275	329,167	(22,892)
Operating expenses	30,186	30,186	40,200	(10,014)
Total fire control	336,461	336,461	369,367	(32,906)
Protective inspections:				
Personnel services	34,722	34,722	24,991	9,731
Operating expenses	28,756	28,756	50,283	(21,527)
Total protective inspections	63,478	63,478	75,274	(11,796)
Total public safety	1,052,373	1,052,373	1,155,711	(103,338)
Physical environment				
Cemetery:				
Personnel services	17,490	17,490	17,030	460
Operating expenses	3,511	3,511	1,220	2,291
Total Cemetery	21,001	21,001	18,250	2,751

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, 2014
(Concluded)

	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget Positive (Negative)
Expenditures *(concluded)*				
Physical environment				
Garbage and solid waste:				
Personnel services	$ 9,169	$ 9,169	$ 8,882	$ 287
Operating expenses	141,127	141,127	142,033	(906)
Total garbage and solid waste	150,296	150,296	150,915	(619)
Total physical environment	171,297	171,297	169,165	2,132
Transportation				
Roads and streets:				
Personnel services	241,092	241,092	212,525	28,567
Operating expenses	156,310	156,310	131,915	24,395
Capital Outlay	-	-	7,015	(7,015)
Total transportation	397,402	397,402	351,455	45,947
Human services				
Animal control:				
Personnel services	12,205	12,205	12,187	18
Operating expenses	2,138	2,138	464	1,674
Total human services	14,343	14,343	12,651	1,692
Culture and recreation				
Parks and recreation:				
Personnel services	18,869	18,869	20,194	(1,325)
Operating expenses	17,462	17,462	16,724	738
Total culture and recreation	36,331	36,331	36,918	(587)
Total expenditures	2,345,826	2,350,376	2,153,333	197,043
Excess of revenues over expenditures	8,821	4,271	253,169	248,898
Other financing sources (uses)				
Interfund transfers in	-	-	19,126	19,126
Interfund transfers out	-	-	(205,000)	(205,000)
	-	-	(185,874)	(185,874)
Net change in fund balance	8,821	4,271	67,295	63,024
Fund balance, beginning of year	2,244,827	2,244,827	2,244,827	-
Fund balance, end of year	$ 2,253,648	$ 2,249,098	$ 2,312,122	$ 63,024

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, 2014

	Original and Final Budget	Actual Amounts	Variance With Budget Positive (Negative)
Revenues			
Taxes:			
Ad valorem	$ 123,431	$ 127,487	$ 4,056
Miscellaneous revenue:			
Investment earnings	315	103	(212)
Total revenues	123,746	127,590	3,844
Expenditures			
General government:			
Industry development:			
Personnel services	64,462	50,758	13,704
Operating expenses	59,284	37,941	21,343
Total expenditures	123,746	88,699	35,047
Deficiency of revenues over expenditures	-	38,891	38,891
Net change in fund balance	-	38,891	38,891
Fund balances, beginning of year	84,942	84,942	-
Fund balances, end of year	$ 84,942	$ 123,833	$ 38,891

CITY OF DUNNELLON, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2014

I. Stewardship, Compliance, and Accountability

A. **Budgetary Information.** The City, in establishing its budgetary data reflected in the financial statements follows the procedures set out in Chapters 166 and 200, *Florida Statutes*. The City prepares a tentative budget, which is used by the City at a public workshop to prepare the budgets for the coming year. Public hearings are conducted to obtain taxpayer comments. Subsequently, these budgets are legally adopted through the passage of a resolution at an advertised public session. Such actions are recorded in the City's minutes.

The budget is adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America (GAAP). The only exception to the GAAP basis is the Enterprise Fund, where depreciation is not budgeted for capital assets, while capital outlay expenditures are budgeted and are reclassified into fixed assets. These are then eliminated from the results of operations for financial reporting purposes in the Enterprise Fund. Estimated beginning fund balances are considered in the budgetary process, but are not included in the financial statements as budgeted revenues.

The annual budget serves as the legal authorization for expenditures. All budget amendments, which change the legally adopted total appropriation for a fund, are approved by the City Council.

If during the fiscal year, additional revenue becomes available for appropriations in excess of those estimated in the budget, the City Council, by resolution, may make supplemental appropriations for the year up to the amount of such excess.

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

1. Prior to September 1, the Finance Officer and City Manager submit to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted in September to obtain taxpayer comments.

3. Prior to October 1, the budget is legally enacted through passage of an ordinance.

4. The legal level of budgetary control is the department level; however, the City Council may, by formal motion, transfer appropriations between departments and may use surplus revenues not appropriated in the budget for any municipal purpose.

5. Budgets are prepared in accordance with accounting principles generally accepted in the United States of America for governmental fund types.

REQUIRED SUPPLEMENTARY INFORMATION
SPECIAL RISK PENSION TRUST FUND
SEPTEMBER 30, 2014
CITY OF DUNNELLON, FLORIDA

A. Schedule of Employer Contributions

Year Ended September 30	ARC	% Contributed	Annual OPEB Cost	% Contributed
2013	$ 12,000	42%	$ 9,000	56%
2014	12,000	25%	9,000	33%
2015	12,000	25%	9,000	33%

B. Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (2) - (1)	Funded Ratio (1) - (2)	Covered Payroll	UAAL As % of Covered Payroll (3) - (4)
October 1, 2010	$ -	$98,000	$98,000	0.0%	$1,445,000	6.8%
November 1, 2012	-	38,000	38,000	0.0%	2,107,000	1.8%
July 1, 2014	-	41,000	41,000	0.0%	2,219,000	1.8%

(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:

C. Actuarial Methods and Assumptions

Valuation date	July 1, 2014
Actuarial cost method	Projected unit credit
Amortization method	10-year open period; level-dollar payment
Investment return	4.00% per annum (includes inflation at 2.75% per annum)

Healthcare cost trend rate(s):

	Insurance Premiums
Select rates	7.50% for 1014/15 graded to 5.17% for 2018/19
Ultimate rate	5.00% per annum

SUPPLEMENTARY INFORMATION

CITY OF DUNNELLON, FLORIDA
DEBT SERVICE COVERAGE SCHEDULE
WATER AND SEWER REVENUE BONDS
For the Fiscal Year Ended September 30, 2014
UNAUDITED

	September 30, 2014
Gross revenue (B)	
Operating revenue	2,773,745
Interest income	3,066
Total gross revenue	2,776,811
Costs of operation and maintenance	
Personnel services	888,503
Operating expenses (C)	692,344
Total costs of operation and maintenance	1,580,847
Gross revenues less costs of operation and maintenance	1,195,964
Senior Lien Debt Service and Coverage	
Senior lien debt service	
Regions principal	214,152
Regions interest	258,182
BB&T principal	260,000
BB&T interest	159,677
Total senior lien debt service	892,011
Senior lien debt service coverage for rate covenant (D)	1.34
Non-operating revenue (wastewater project grant funds) (E)	57,560
Total pledged funds	1,253,524
Senior lien debt service coverage for all pledged funds	1.41
Subordinate Lien Debt Service and Coverage	
Gross revenues less costs of operation and maintenance	1,195,964
Senior lien debt service plus coverage (F)	1,070,413
Net income available for SRF coverage	125,551
SRF debt service	14,042
SRF debt service coverage (G)	8.94

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

CITY OF DUNNELLON, FLORIDA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

For the Fiscal Year Ended September 30, 2014

GRANTOR/PROGRAM TITLE	CFDA #/ CSFA #	Grant Number	Amount	Reported in Prior Years	Revenue Recognized	Expenditures
Federal Awards						
Non-major programs						
U.S. Department of Justice						
Justice Assistance Grant - Don't Drink Just Drive	16.738	2013-JAGC-MARI-1-D7-124	$ 13,699	$ 7,000	$ 6,699	$ 6,699
Justice Assistance Grant - Zero Tolerance DUI & BUI Program	16.738	2014-JAGC-MARI-1-E5-227	2,270	-	2,270	2,270
			15,969	7,000	8,969	8,969
Bullet Proof vest Program 2012	16.607	12063080	1,385	724	661	661
Total federal awards			17,354	7,724	9,630	9,630
State Financial Assistance						
Nonmajor programs						
Florida Department of Environmental Protection						
Small Community Wastewater Construction Grant	37.075	SG420800	632,437	76,038	57,560	57,560
Total State Financial Assistance			632,437	76,038	57,560	57,560
Total federal awards and state financial assistance			$ 649,791	$ 83,762	$ 67,190	$ 67,190

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, 2014

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 Council
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, 2014, 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 1, 2015.

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

POWELL & JONES
Certified Public Accountants
April 1, 2015

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, 2014, and have issued our report thereon dated April 1, 2015. 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

Finding 2013-1 - Cash Management. This finding was substantially corrected in the current year.

Finding 2013-02 (first preceding year)
Fixed Assets. From our review of the City's fixed assets in the prior and current year we found that the detail fixed assets did not agree with the corresponding general ledger balances. We again 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. This finding was substantially corrected in the current year.

CURRENT YEAR FINDINGS

Finding 2014-1
Police Department Trust Fund. From our audit procedures we found that the Police Department maintains a checking account titled the "Dunnellon Police Department Trust Fund" which is not maintained in the City's financial records, and where the check signer is not an authorized signatory of the City. Due to the fact that this bank account is not subject to the established fiscal policies and procedures of other City funds, we recommend that the account either be discontinued or fully integrated with other funds and bank accounts of the City subject to established policies and procedures.

There were no other reportable findings in the current year.

AUDITOR GENERAL COMPLIANCE MATTERS

Annual Local Government Financial Report - The Financial Report filed with the Department of Financial Services pursuant to Section 218.32(1)(a), *Florida Statutes*, is in agreement with the accompanying financial statements of the City of Dunnellon, Florida, for the fiscal year ended September 30, 2014.

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.

Prior Year

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 prior fiscal years. At September 30, 2013, 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 in the current year:

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.

Current Year

During the fiscal year ended September 30, 2014, the Communications Fund was closed into the General fund resulting in an incurred deficit of approximately $(3,146,305) to the General Fund. This deficit will be repaid over approximately 18 years at $175,000 per year. The City intends to annually budget this debt service in the General Fund.

Additionally, as described in Note 13, on page 48, the City has agreed to pay $500,000 to certain of its utility customers as the result of a lawsuit. These funds must be fully repaid within the next two years, and be budgeted and funded within current City revenues until fully repaid.

Failure to fully provide funding for these obligations as well as all other City operations could cause the City to again face a statutory financial emergency.

Financial Emergency Status - Notwithstanding the foregoing conditions, we have determined that the City of Dunnellon, Florida, did not meet any of the conditions described in Section 218.503(1)(a), *Florida Statutes*, that might result in a financial emergency.

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

CONCLUSION

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

Powell & Jones

POWELL & JONES
Certified Public Accountants
April 1, 2015

INDEPENDENT ACCOUNTANT'S REPORT

To The City Council
City of Dunnellon, Florida

We have examined the City of Dunnellon, Florida's compliance with Section 218.415, *Florida Statutes*, regarding the investment of public funds during the year ended September 30, 2014. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examianation does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2014.

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

Powell & Jones

POWELL & JONES
Certified Public Accountants
April 1, 2015

Communication with Those Charged with Governance

To the City Council
City of Dunnellon, Florida

We have audited the financial statements of the City of Dunnellon, Florida for the year ended September 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Dunnellon, Florida are described Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There are no sensitive estimates affecting the City of Dunnellon, Florida's financial statements.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There are no sensitive disclosures affecting the financial statements.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no such misstatements identified during our audit.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 1, 2015.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Very truly yours,

Powell & Jones

POWELL & JONES
Certified Public Accountants
April 1, 2015

City of Dunnellon Management Response To
Auditors' Management Letter Comment
Annual Audit FYE 9/30/14

Honorable Mayor and City Council
City of Dunnellon
Dunnellon, Florida

We have reviewed the audit report for fiscal year ending September 30, 2014 including the management letter. The following is in response to Powell & Jones CPA's current year findings.

Fixed Assets

During fiscal year 2013-2014 we took a physical inventory of the assets recorded in the fixed asset module of the City's financial system. We have identified assets that are no longer in the City's possession and have begun to remove them from the financial system. It was also discovered that some assets were not entered into the system properly which resulted in inaccurate reporting. We are continuing with the review and cleanup of the fixed asset module and will process adjusting entries accordingly. We anticipate completion of this very large project no later than September 30, 2015.

Police Department Trust Fund

Management was unaware the Police Department was maintaining a separate bank account for the deposit of funds donated for public safety activities. This bank account will be closed and funds remaining will be turned over to be held in trust for public safety activities by City management. These funds will be maintained in accordance with policies and procedures that govern all City bank accounts.

Eddie Esch

Eddie Esch
Interim City Manager