CITY OF DUNNELLON, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2011

CITY OF DUNNELLON, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2011

TABLE OF CONTENTS

	PAGE NO.
Independent Auditor's Report	4 - 5
Management's Discussion and Analysis	6 - 11
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	13
Statement of Activities	14
Balance Sheet - All Governmental Funds	15
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Net Assets - Proprietary Funds	19 - 20
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	21
Statement of Cash Flows - Proprietary Funds	22 - 23
Statement of Fiduciary Net Assets - Pension Trust Funds	24
Statement of Changes in Fiduciary Net Assets - Pension Trust Funds	25
Notes to Financial Statements	26 - 46
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Major Fund - General Fund	48 - 51
Schedule of Revenues, Expenditures, and Changes to Fund Balance - Budget and Actual - Major Fund - Tax Increment Financing District Fund	52
Schedule of Contributions from Employer and Others	53

CITY OF DUNNELLON, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2011

TABLE OF CONTENTS

	PAGE NO.
SINGLE AUDIT AND COMPLIANCE SECTION	
Schedule of Expenditures of Federal Awards and State Financial Assistance	55
Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance	56
Independent Auditor's Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	57 - 58
Report on Compliance with Requirements that Could have a Direct and Material Effect pm Each Major Program and State Financial Assistance Project and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*	59 - 60
Schedule of Findings	61 - 62
Management Letter	63 - 64
Management's Response	65

Powell & Jones
Certified Public Accountants

Richard C. Powell, Jr., CPA
Marian Jones Powell, CPA

1359 S.W. Main Blvd.
Lake City, Florida 32025
386 / 755-4200
Fax: 386 / 719-5504
powellandjones@bellsouth.net

Honorable Mayor and City Council
City of Dunnellon
Dunnellon, Florida

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund and the remaining aggregate fund information for the City of Dunnellon, Florida (the City) as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund that the remaining aggregate fund information of the City as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable thereof, for the year ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 10, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Florida Institute of Certified Public Accountants • American Institute of Certified Public Accountants

The management's discussion and analysis and the major funds budgetary comparison information as listed in the table of contents, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis and as required by OMB Circular A-133 and Chapter 10.550 *Rules of the Auditor General* and is not a required part of the basic financial statements of the City of Dunnellon, Florida. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Powell & Jones

POWELL & JONES
Certified Public Accountants
April 10, 2012

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, 2011. Please read it in conjunction with the City's basic financial statements, which begin on page 13.

USING THIS ANNUAL REPORT

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

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 13. One of the most important questions asked about the City's finances is, "Is the City as a whole financially better or worse as a result of the year's activities?" The Statement of Net Assets 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 assets and changes in them. You can think of the City's net assets-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 assets 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 Assets and the Statement of Activities, we divide the City into two types of activities:

- Governmental activities-Most of the City's basic services are reported here, including the police, fire, general administration, streets and parks, property taxes, franchise fees, gas taxes, fines, and state and county-shared revenues.

- Business-type activities-The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer, and communications systems are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

- Governmental funds-Most of the City's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliations on pages 16 and 18.

- Proprietary funds-The City's proprietary funds are comprised of enterprise funds. An enterprise fund is used to account for activities when the City charges customers for the services it provides. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets 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 Assets Pension Trust Fund on page 24. The Fiduciary Fund Financial Statement is not presented as part of the Government-wide Financial Statements because the resources of these funds are not available to support the City's programs. Fiduciary (Trust and Agency) Funds represent trust responsibilities of the government. However, these assets are restricted in purpose and do not represent discretionary assets of the government.

THE CITY AS A WHOLE

	Governmental		Business-Type		Total	
	2010	2011	2010	2011	2010	2011
Revenues	$ 2,885,442	$ 3,347,501	$ 1,444,066	$ 5,025,503	$ 4,329,508	$ 8,373,004
Expenses	$ 3,106,349	$ 3,935,069	$ 1,304,645	$ 2,526,539	$ 4,410,994	$ 6,461,608

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 increased 16 percent.

Business-type Activities

The Water, Sewer and Communications Utilities show a combined operating loss of $1,346,056 and combined non-operating revenues of $3,845,020 for a net increase of $2,498,964 for fiscal year 2011. The net increase is primarily due to proceeds received from a Disadvantaged Small Community Grant through Florida Department of Environmental Services for only Phase III of the City's sewer project.

Net Assets

For the years ended September 30, 2011 and 2010, net assets changed as follows:

	Governmental Activities		Business-Type Activities		Total	
	2010	2011	2010	2011	2010	2011
Beginning net assets	$8,351,070	$8,130,163	$ 9,768,495	$ 9,907,917	$ 18,119,565	$ 18,038,080
Increase (decrease) in net assets	(220,907)	(587,568)	139,421	2,498,963	(81,486)	1,911,395
	$8,130,163	$7,542,595	$ 9,907,916	$ 12,406,880	$ 18,038,079	$ 19,949,475

This reflects a decrease of 7 percent for governmental activities and a 25 percent increase for business-type activities over prior year.

THE CITY'S FUNDS

The following schedule of Assets and Liabilities presents a summary of the City's Assets and Liabilities for the fiscal year ended September 30, 2011 and 2010.

Assets

	Governmental Activities		Business-Type Activities	
	2010	2011	2010	2011
Current Assets	$ 3,978,161	$ 3,116,842	$ 2,263,706	$ 2,409,790
Capital Assets, Net of Accumulated Depreciation	4,460,026	4,785,017	15,042,181	22,105,465
Unamortized Bond Issue Costs	-	-	59,383	182,883
Total Assets	$ 8,438,187	$ 7,901,859	$ 17,365,270	$ 24,698,138

Capital assets for governmental activities have increased 7 percent over the prior year. Business-type activities reflect an increase of 47 percent primarily due to completion of Phase III of the sewer project.

Liabilities

	Governmental Activities		Business-Type Activities	
	2010	2011	2010	2011
Current Liabilities	$ 175,568	$ 139,315	$ 297,438	$ 1,311,954
Payable from Restricted Assets	-	-	132,393	175,409
Deferred Revenue	29,528	26,466	-	-
Long-term Liabilities	102,928	193,483	7,027,523	10,803,895
Total Liabilities	$ 308,024	$ 359,264	$ 7,457,354	$ 12,291,258

Current liabilities for governmental activities decreased 21% over the prior year primarily due to legal expenses associated with sidewalk repair and Rainbow River Ranch litigation. Long-term liabilities increased 88% primarily due to addition of a capital lease agreement for a Public Safety vehicle. Current liabilities for business-type activities have increased 341% from prior year, primarily due to more construction activities.

The following schedule presents a summary of general, special revenue, capital project, debt service, and enterprise fund revenues and expenses for the fiscal year ended September 30, 2011 and 2010

	Governmental		Business-Type					
			Water Utility		Sewer Utility		Communications Utility	
	2010	2011	2010	2011	2010	2011	2010	2011
Program Revenues								
Charges for Services	$ 301,956	$ 745,506	$ 337,552	$ 385,328	$ 584,108	$ 643,785	$ -	$ -
Operating Grants and Contributions	1,080	45,249	-	-	-	-	-	-
Capital Grants and Contributions	74,386	166,958	1,000	46,700	468,169	3,934,681	-	-
General Revenues								
Taxes	2,182,814	2,129,705	-	-	-	-	-	-
State-shared	199,247	201,780	-	-	-	-	-	-
Investment income	99,914	9,200	39,536	4,621	12,980	2,030	-	(167)
Miscellaneous	26,045	49,103	579	703	142	340	-	7,482
	$ 2,885,442	$ 3,347,501	$ 378,667	$ 437,352	$ 1,065,399	$ 4,580,836	$ -	$ 7,315

Governmental revenue increased 16 percent over prior year. Charges for Services increased 147 percent. Taxes decreased 3 percent. State-shared Revenue increased 1 percent. Decrease in investment income, 91 percent, was primarily due to continued downward pressure on the economy. Business-type revenues increased 248 percent primarily due to the acquisition of the Rio Vista Utility System and the restructuring of water and sewer rates to encourage continued conservation. Capital Grants and Contributions increased 749 percent from prior year primarily due to the Phase III of the City's sewer project.

Expenses

Governmental		Water Utility		Sewer Utility		Communication Utility	
2010	2011	2010	2011	2010	2011	2010	2011
$ 3,106,349	$ 3,935,069	$ 333,835	$ 483,143	$ 946,749	$ 1,093,367	$ 24,061	$ 950,029

Expenses increased in the governmental fund and combined utility funds by 47 percent for the year ended September 30, 2011 primarily due to legal expenses associated with Rainbow River Ranch litigation, and the continued start-up of the communications utility.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total revenue for the year shows 21 percent under budget.

On the expense-side, total General Government is under budget 8 percent or $110,298. This is primarily a result of litigation expenses associated with the development of the Preserve at Blue Run offset by the delay of two grant funded projects. Total Public Safety is under budget 14 percent primarily due to position vacancies and delayed capital purchases. Transportation is under budget 31 percent primarily associated with the delay of the City's road resurfacing project $274,212.

CAPITAL ASSETS

As of September 30, 2011, the City had $26.9 million invested in capital assets including police and fire equipment, buildings, park facilities, roads, and water and sewer lines. (See table below) This represents a net increase of $7,388,276 or 38 percent, over the prior year.

	Governmental Activities		Business-Type Activities		Total	
	2010	2011	2010	2011	2010	2011
Capital Assets	$ 6,713,678	$ 7,229,050	$ 13,462,595	$ 18,745,311	$ 20,176,273	$ 25,974,361
Construction in Progress	53,880	-	5,495,917	7,686,451	5,549,797	7,686,451
Less Accumulated Depreciation	(2,307,532)	(2,444,033)	(3,916,331)	(4,326,296)	(6,223,863)	(6,770,329)
Total	$ 4,460,026	$ 4,785,017	$ 15,042,181	$ 22,105,466	$ 19,502,207	$ 26,890,483

This year's major addition was expansion of the City's wastewater system Phase III of the sewer project.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

Lisa Algiere

Lisa Algiere
City Manager

Jan Smith

Jan Smith
Finance Officer

BASIC FINANCIAL STATEMENTS

CITY OF DUNNELLON, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Investments	$ 2,915,433	$ 1,716,687	$ 4,632,120
Receivables, Net	64,527	91,140	155,667
Due from Other Governments	136,782	-	136,782
Other Assets	100	-	100
Capital Assets, Not Being Depreciated	3,178,443	7,944,424	11,122,867
Capital Assets, Being Depreciated	4,050,607	18,487,338	22,537,945
Less Accumulated Depreciation	(2,444,033)	(4,326,297)	(6,770,330)
Unamortized Bond Issuance Costs	-	182,883	182,883
Total Assets	7,901,859	24,096,175	31,998,034
Liabilities			
Accounts Payable	139,315	709,991	849,306
Payable from Restricted Assets:			
Customer Deposits	-	143,470	143,470
Accrued Interest	-	31,399	31,399
Deferred Revenue	26,466	-	26,466
Long-term Liabilities:			
Due Within One Year	108,470	1,270,412	1,378,882
Due in More Than One Year	85,013	9,533,553	9,618,566
Total Liabilities	359,264	11,688,825	12,048,089
Net Assets			
Invested in Capital Assets, Net of related debt	4,591,534	13,006,229	17,597,763
Restricted for:			
Debt Service	-	86,309	86,309
Capital Projects	-	494,545	494,545
Infrastructure	56,247	-	56,247
Roads and Streets	1,503,055	-	1,503,055
Public Safety	60,657	-	60,657
Cemetery Perpetual Care	43,452	-	43,452
Capital Improvements	1,257,209		1,257,209
Unrestricted	30,441	(1,180,204)	(1,149,763)
Total Net Assets	$ 7,542,595	$ 12,406,879	$ 19,949,474

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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 Assets, Primary Government: Governmental Activities	Net (Expense) Revenue and Change in Net Assets, Primary Government: Business-type Activities	Net (Expense) Revenue and Change in Net Assets, Primary Government: Total
Governmental Activities							
General Government	$ 1,339,402	$ 65,787	$ -	$ -	$ (1,273,615)	$ -	$ (1,273,615)
Public Safety	1,663,069	488,583	45,249	25,000	(1,104,237)	-	(1,104,237)
Physical Environment	181,388	164,624	-	141,958	125,194	-	125,194
Transportation	621,157	18,710	-	-	(602,447)	-	(602,447)
Culture and Recreation	34,580	7,802	-	-	(26,778)	-	(26,778)
Human Services	95,395	-	-	-	(95,395)	-	(95,395)
Interest on Long-term Debt	78	-	-	-	(78)	-	(78)
Total Governmental Activities	3,935,069	745,506	45,249	166,958	(2,977,356)	-	(2,977,356)
Business-type Activities							
Water Utility	483,143	385,328	-	46,700	-	(51,115)	(51,115)
Sewer Utility	1,093,367	643,785	-	3,934,681	-	3,485,099	3,485,099
Communications Utility	950,029	-	-	-	-	(950,029)	(950,029)
Total Business-type Activities	2,526,539	1,029,113	-	3,981,381	-	2,483,955	2,483,955
Total Primary Government	$ 6,461,608	$ 1,774,619	$ 45,249	$ 4,148,339	(2,977,356)	2,483,955	(493,401)
	General Revenues						
	Taxes:						
	Property Taxes				1,013,245	-	1,013,245
	Franchise Taxes				209,157	-	209,157
	Public Service Taxes				375,048	-	375,048
	Other Taxes				532,255	-	532,255
	State-shared Revenues				201,780	-	201,780
	Investment Income				9,200	6,484	15,684
	Miscellaneous				49,103	8,525	57,628
	Total General Revenues				2,389,788	15,009	2,404,797
	Change in Net Assets				(587,568)	2,498,964	1,911,396
	Net Assets, Beginning of Year				8,130,163	9,907,917	18,038,079
	Net Assets, End of Year				$ 7,542,595	$ 12,406,880	$ 19,949,475

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2011

	General Fund	Tax Increment Financing District Fund	Total Governmental Funds
Assets			
Cash and Investments	$ 2,358,780	$ 556,653	$ 2,915,433
Accounts Receivable	64,527	-	64,527
Due from Other Governments	136,782	-	136,782
Other Assets	100	-	100
Total Assets	$ 2,560,189	$ 556,653	$ 3,116,842
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	$ 139,102	$ 213	$ 139,315
Deferred Revenue	26,466	-	26,466
Total Liabilities	165,568	213	165,781
Fund Balances			
Restricted	-	556,440	556,440
Committed for:			
Roads and Streets	1,503,055	-	1,503,055
Public Safety	60,657	-	60,657
Infrastructure	56,247	-	56,247
Cemetery Perpetual Care	43,452	-	43,452
Assigned for:			
Capital Improvements	1,257,209	-	1,257,209
Unassigned	(525,999)	-	(525,999)
Total Fund Balances	2,394,621	556,440	2,951,061
Total Liabilities and Fund Balances	$ 2,560,189	$ 556,653	$ 3,116,842

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

Fund Balances - Total Governmental Funds	$ 2,951,061
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is $7,229,050 and the accumulated depreciation is $2,444,033	4,785,017
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 assets. Long-term liabilities at year end consist of:	
Note payable	(17,281)
OPEB payable	(22,360)
Compensated Absences	(153,842)
Total Net Assets of Governmental Activities	$ 7,542,595

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General Fund	Tax Increment Financing District Fund	Total Governmental Funds
Revenues			
Taxes	$ 1,976,031	$ 153,674	$ 2,129,705
Licenses and Permits	63,691	-	63,691
Intergovernmental Revenues	413,987	-	413,987
Charges for Service	196,367	-	196,367
Fines and Forfeitures	485,448	-	485,448
Miscellaneous Revenue	56,637	1,666	58,303
Total Revenues	3,192,161	155,340	3,347,501
Expenditures			
Current:			
General Government	1,107,995	122,782	1,230,777
Public Safety	1,557,751	-	1,557,751
Physical Environment	181,281	-	181,281
Transportation	613,526	-	613,526
Human Services	34,580	-	34,580
Culture and Recreation	78,526	-	78,526
Capital Outlay			
General Government	141,959	118,076	260,035
Public Safety	190,178	-	190,178
Transportation	6,848	-	6,848
Culture and Recreation	6,848	-	6,848
Debt Service:			
Principal Payments	9,077	-	9,077
Interest	78	-	78
Total Expenditures	3,928,647	240,858	4,169,505
Excess of Revenues Over (Under) Expenditures	(736,486)	(85,518)	(822,004)
Fund Balances, Beginning of Year	3,131,107	641,958	3,773,065
Fund Balances, End of Year	$ 2,394,621	$ 556,440	$ 2,951,061

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Net Change in Fund Balances - Total Governmental Funds		$ (822,004)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Governmental funds report capital purchases as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense:		
Net expenditures for Capital Assets	$ 463,909	
Donations of Capital Assets	19,700	
(Current Year Depreciation)	(184,977)	298,632
The issuance of long-term debt provides current financial resources to governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net assets. The amounts of the items that make up these differences in treatment of long-term debt items are:		
Principal Repayments:		
Notes Payable		9,077
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		(11,360)
Increase in Compensated Absences		(61,913)
Change in Net Assets of Governmental Activities		$ (587,568)

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011

	Business-Type Activities			
	Water Fund	Sewer Fund	Communications Fund	Total
Assets				
Current Assets				
Cash and Investments	$ 350,916	$ 641,447	$ -	$ 992,363
Accounts Receivable (Net of Allowance for Uncollectible Accounts)	34,567	55,419	-	89,986
Notes Receivable	-	1,049	-	1,049
Due From Employees	45	60	-	105
Due From Other Funds	601,963	-	-	601,963
Total Current Assets	$ 987,491	697,975	-	1,685,466
Restricted Assets				
Cash:				
Utility Deposit Cash	143,470	-	-	143,470
User Fee Cash	493,681	864	-	494,545
Debt Service - State Revolving Loan	-	10,120	-	10,120
Debt Service - Revenue Bonds	-	76,189	-	76,189
Total Restricted Assets	637,151	87,173	-	724,324
Utility Plant in Service				
Cost	1,646,791	16,950,313	148,205	18,745,309
(Accumulated Depreciation)	(1,121,098)	(3,199,904)	(5,293)	(4,326,295)
Construction in Progress	-	2,700,745	4,985,706	7,686,451
Total Utility Plant in Service - Cost Less Depreciation	525,693	16,451,154	5,128,618	22,105,465
Long-term Assets				
Bond Issuance Costs (Net of Amortization)	-	118,197	64,686	182,883
Total Assets	$ 2,150,335	$ 17,354,499	$ 5,193,304	$ 24,698,138

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011

	Business-Type Activities			
	Water Fund	Sewer Fund	Communications Fund	Total
Liabilities and Net Assets				
Current Liabilities, Unrestricted				
Payable from Current Assets:				
Accounts, Wages and Retainage Payable	$ 29,888	$ 414,274	$ 265,829	$ 709,991
Compensated Absences - Due Within One Year	26,717	34,386	5,387	66,489
Due To Other Funds	-	-	601,963	601,963
Total Current Liabilities, Unrestricted	56,605	448,660	873,179	1,378,443
Current Liabilities, Restricted				
Payable from Restricted Assets:				
Accrued Revenue Bond and SRF Loan Interest	-	22,268	9,671	31,939
Customer Deposits	143,470	-	-	143,470
Revenue Bonds Payable - Due Within One Year	-	-	857,095	857,095
Capital Lease Payable- Due Within One Year	-	-	355,949	355,949
Total Current Liabilities, Restricted	143,470	22,268	1,222,715	1,388,453
Total Current Liabilities	200,075	470,928	2,095,894	2,766,896
Long-term Liabilities				
Revenue Bonds - Noncurrent Portion	-	2,186,322	2,818,505	5,004,827
Capital Leases - Noncurrent Portion	-	-	1,242,780	1,242,780
State Revolving Loan	-	3,237,313	-	3,237,313
OPEB payable	1,820	1,820	-	3,640
Compensated Absences - Noncurrent Portion	14,386	18,515	2,900	35,802
Total Long-term Liabilities	16,206	5,443,970	4,064,185	9,524,362
Total Liabilities	216,281	5,914,898	6,160,079	12,291,258
Net Assets				
Invested in Capital Assets, Net of Related Debt	525,693	11,027,519	(145,711)	11,407,501
Restricted for Debt Service	-	86,309	-	86,309
Restricted for Capital Projects	493,681	864	-	494,545
Unrestricted	914,680	324,909	(821,064)	418,525
Total Net Assets (Deficit)	1,934,054	11,439,601	(966,775)	12,406,880
Total Liabilities and Net Assets	$ 2,150,335	$ 17,354,499	$ 5,193,304	$ 24,698,138

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business-Type Activities			
	Water Fund	Sewer Fund	Communications Fund	Total
Operating Revenues				
Charges for Services	$ 385,328	$ 643,785	$ -	$ 1,029,113
Total Operating Revenues	385,328	643,785	-	1,029,113
Operating Expenses				
Personal Services	205,463	292,334	302,322	800,119
Operating Expenses	137,040	207,546	352,068	696,654
Professional Services	107,625	111,827	223,672	443,124
Depreciation and Amortization	33,015	392,484	9,773	435,272
Total Operating Expenses	483,143	1,004,191	887,835	2,375,169
Operating Loss	(97,815)	(360,406)	(887,835)	(1,346,056)
Nonoperating Revenues (Expenses)				
Interest Income	4,621	2,030	(167)	6,484
Interest Expense	-	(89,176)	(62,194)	(151,370)
Capital Contributions	46,700	68,995	-	115,695
Miscellaneous	703	340	7,482	8,525
Department of Environmental Protection Grant	-	3,795,959	-	3,795,959
Department of Community Affairs Grant	-	69,727	-	69,727
Total Nonoperating Revenues	52,024	3,847,875	(54,879)	3,845,020
Net Income (Loss)	(45,791)	3,487,469	(942,714)	2,498,964
Net Assets, Beginning of Year	1,979,845	7,952,132	(24,061)	9,907,916
Net Assets, End of Year	$ 1,934,054	$ 11,439,601	$ (966,775)	$ 12,406,880

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Water Fund	Sewer Fund	Communications Fund	Total
Cash Flows from Operating Activities				
Cash Received from Customers, Including Cash Deposits	$ (160,752)	$ 712,731	$ -	$ 551,979
Cash Paid to Suppliers	(217,330)	(140,427)	234,135	(123,622)
Cash Paid to Employees	(176,900)	(259,006)	(299,914)	(735,820)
Net Cash Provided by (Used in) Operating Activities	(554,982)	313,298	(65,779)	(307,463)
Cash Flow from Noncapital Financing Activities				
State and Federal Grant Receipts	-	3,865,686	-	3,865,686
Net Cash Flow Provided by Noncapital Financing Activities	-	3,865,686	-	3,865,686
Cash Flows from Capital and Related Financing Activities				
Acquisition and Construction of Capital Assets	(98,608)	(2,244,961)	(5,129,680)	(7,473,249)
Capital Contributions	46,700	68,995	-	115,695
Loan Proceeds	-	2,186,322	5,284,001	7,470,323
Principal Payments on Debt	-	(3,750,218)	-	(3,750,218)
Interest Paid	-	(89,176)	(62,194)	(151,370)
Bond Issuance Costs	-	(67,244)	(69,307)	(136,551)
Miscellaneous Nonoperating	703	340	7,482	8,525
Net Cash Provided by (Used in) Capital and Related Financing Activities	(51,205)	(3,895,942)	30,302	(3,916,845)
Cash Flows from Investing Activities				
Interest Income	4,621	2,030	(167)	6,484
Net Increase (Decrease) in Cash and Cash Equivalents	(601,566)	285,072	(35,644)	(352,138)
Cash and Cash Equivalents, Beginning of Year	1,589,633	443,548	35,645	2,068,826
Cash and Cash Equivalents, End of Year	$ 988,067	$ 728,620	$ 1	$ 1,716,688
Shown in the Financial Statements as:				
Current Assets				
Cash and Cash Equivalents	$ 350,916	$ 641,447	$ -	$ 992,363
Restricted Cash	637,151	87,173	-	724,324
Totals	$ 988,067	$ 728,620	$ -	$ 1,716,687

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Water Fund	Sewer Fund	Communications Fund	Total
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities				
Operating Income (Loss)	$ (97,815)	$ (360,406)	$ (887,836)	$ (1,346,057)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	33,015	392,484	9,773	435,272
Changes in Assets Decrease (Increase) and Liabilities Increase (Decrease):				
Accounts Receivable, Net	(15,161)	(21,346)	-	(36,507)
Notes Receivable	50,000	1,022	-	51,022
Due From Other Governments	-	89,330	-	89,330
Due From Employees	(45)	(60)	-	(105)
Due From Other Funds	(601,963)	-	-	(601,963)
Accounts Payable	27,335	178,946	207,912	414,193
Accrued Expenses	28,563	33,328	2,408	64,299
Due To Other Funds	-	-	601,963	601,963
Customer Deposits	21,089	-	-	21,089
Total Adjustments	(457,167)	673,704	822,056	1,038,593
Net Cash Provided by (Used In) Operating Activities	$ (554,982)	$ 313,298	$ (65,780)	$ (307,464)

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
SEPTEMBER 30, 2011

		Pension Trust Funds
Assets		
Cash and Investments	$	1,960,023
Due from Other Governments		6,185
Total Assets	$	1,966,208
Net Assets		
Reserved for:		
Employees' Pension Benefits	$	1,966,208
Total Net Assets	$	1,966,208

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Pension Trust Funds
Additions	
Contributions	
Employer	$ 77,092
Net Employer Contributions	77,092
State	71,222
Employee	65,641
Total Contributions	213,955
Investment Income Increase	28,058
Net Investment Income	28,058
Total Additions	242,013
Deductions	
Pension Benefit Payments and Refunds	(183,883)
General and Administrative	(8,094)
Total Deductions	(191,977)
Increase in Fiduciary Net Assets	50,036
Net Assets Reserved for Employees' Pension Benefits:	
Beginning of Year	1,916,172
End of Year	$ 1,966,208

See accompanying notes.

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 in accordance with governmental accounting standards. The reporting entity for the City (the primary government) contained no separate legal entities (component units) for which the City Council has financial accountability. 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.

1. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support . The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are allocated automatically and certain indirect costs are included in program expenses reported for individual functions and activities. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The fiduciary funds are not included in the government-wide financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and

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

2. Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

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

Special Revenue Fund

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

Proprietary Funds

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

- Sewer Fund
- Water Fund
- Communications Fund

Fiduciary Funds

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

Summary of Significant Accounting Policies

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

Proprietary Funds

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidelines of GASB. Based on the accounting and reporting standards set forth in GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* the City has opted to apply only the accounting and reporting pronouncements issued by the Financial Accounting Standards Board (FASB) on or before November 30, 1989, for business-type activities and enterprise funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Budgeting

The annual operating budget serves as legal authorization for expenditures and the proposed means of financing them. The 2011 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 $1,078 for 2011. Other receivables in the General Fund consist primarily of franchise fees and receivables from miscellaneous services.

Payables

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

Due from Other Governments

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

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost, except for $249,192 of assets in the proprietary fund and $89,858 of assets in the general fund, acquired prior to 1975, which are valued at estimated historical cost. Donated capital assets are valued at their estimated fair value at the time of acquisition. Capital asset purchases are recorded as capital outlay expenditures in the fund level governmental funds in the year of acquisition. Property, plant, and equipment and infrastructure are depreciated using the straight-line method over the following estimated useful lives:

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

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

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

Transfers

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

Compensated Absences

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

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

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

Property Taxes

Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of the state regulating tax assessment are also designed to assure a consistent property valuation method statewide. Florida Statutes permit municipalities to levy property taxes at a rate of up to 10 mills. The millage rate assessed by the City for the fiscal year ended September 30, 2011 was 6.9101 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.

Reserves

Reserves indicate that portion of fund balance/net assets that is not available for appropriation or which is legally segregated for a specific future use. The description of each reserve indicates the purpose for which each was intended.

Designations

Designations are amounts voluntarily set aside by the City Council for a stated purpose. Unlike reserves, designations can be changed by a vote of the City Council.

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, 2011, 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, 2011, were held by qualified public depositories within the state of Florida and are considered to be fully insured. Total deposits as of September 30, 2011, are $4,509,981.

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, 2011, the City had the following investments and maturities:

Investment	Fair Value
State Board of Administration (SBA)	
Local Government Surplus Funds Trust Fund	$ 69,530
Fund B Surplus Funds Trust Fund	52,609
Pension Funds	
Florida Municipal Pension Trust Fund - Firefighters and Police Officers (FMIvT)	1,343,073
Florida Municipal Pension Trust Fund - General Employees (CitiStreet)	616,950
Total	2,082,162
Cash deposits	4,509,981
Total Cash and Investments	$ 6,592,143

As shown on the accompanying financial statements as:

Cash and investments - entity-wide	$ 4,632,120
Cash and investments - fiduciary funds	1,960,023
Total cash and investments	$ 6,592,143

State Board of Administration

Investments placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund and the Fund B Surplus Fund Trust Fund investment pools created by Sections 218.405 and 218.417, *Florida Statutes,* are not registered with the Securities and Exchange Commission. On December 4, 2007, the State Board of Administration restructured the Local Government Surplus Funds Trust Fund (Pool) to also establish the Fund B Surplus Funds Trust Fund. The local investments operate under the guidelines established by Section 218.415, *Florida Statutes.* The Council's investments in the Pool, which the State Board of Administration indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of September 30, 2011, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

The City's investments in the Fund B Surplus Trust Fund are accounted for as a fluctuating net asset value pool, with a fair value factor of .789565331 at September 30, 2011. The Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the State Board of Administration, are effected by transferring eligible cash or securities to the Local Government Surplus Funds Trust Fund, consistent with the pro rata allocation of Pool shareholders of record at the creation of Fund B. One hundred percent of such distributions from Fund B are available as a liquid balance within the Local Government Surplus Funds Trust Fund.

Credit Risk

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. GASB Statement No. 40 requires disclosure of credit quality

ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed-income securities.

Florida Municipal Pension Trust Fund – Police and Firefighters Pension Fund

Fixed Income Funds:	Fitch Rating
FMIvT Broad Market High Quality Bond Portfolio	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
Smith Barney M/M Cash Portfolio	Not Rated
SSGA Par Stable Value	Not Rated
American Fund American Balanced A	Not Rated
American Funds Intermediate Bond Fund A	Not Rated
PIMCO Long-term U.S. Government A	Not Rated
PIMCO Total Return A	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:	Fitch Rating
FMIvT Broad Market High Quality Bond Portfolio	5.11 years

Florida Municipal Pension Trust Fund – General Employees' Pension Fund

Fixed Income Funds:	Fitch Rating
Smith Barney MM Cash Portfolio	59 days
SSGA Par Stable Value	3.62 years
American Fund American Balanced A	3.53 years
American Funds Intermediate Bond Fund A	3.44 years
PIMCO Long-term U.S. Government A	18.76 years
PIMCO Total Return A	6.58 years
State Board of Administration Investments	
Surplus Funds Trust Fund Investment Pool	38 day average
Fund B Surplus Funds Trust Fund	4.82 years average

Concentration Risk

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

NOTE 3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land and improvements	$ 3,178,443	$ -	$ -	$ 3,178,443
Construction in progress	53,880	141,959	(195,839)	-
Total capital assets not being depreciated	3,232,323	141,959	(195,839)	3,178,443
Capital assets being depreciated:				
Buildings	961,902	-	-	961,902
Improvements other than buildings	519,432	313,915	-	833,347
Furniture, equipment and machinery	2,053,901	249,933	(48,476)	2,255,358
Total capital assets being depreciated	3,535,235	563,848	(48,476)	4,050,607
Less accumulated depreciation:				
Buildings	(349,200)	(24,089)	-	(373,289)
Improvements other than buildings	(232,364)	(25,514)	-	(257,878)
Furniture, equipment and machinery	(1,725,968)	(135,374)	48,476	(1,812,866)
Total accumulated depreciation	(2,307,532)	(184,977)	48,476	(2,444,033)
Total capital assets being depreciated, net	924,791	378,871	-	1,606,574
Governmental activities capital assets, net	$ 4,460,026	$ 520,830	$ (195,839)	$ 4,785,017
Business-type activities:				
Capital assets not being depreciated:				
Land and improvements	$ 257,973	$ -	$ -	$ 257,973
Construction in progress	5,495,917	7,115,785	(4,925,251)	7,686,451
Total capital assets not being depreciated	5,753,890	7,115,785	(4,925,251)	7,944,424
Capital assets being depreciated:				
Buildings and improvements	779,520	85,590	-	865,110
Improvements other than building	11,864,476	5,040,946	-	16,905,422
Machinery and equipment	560,626	156,180	-	716,806
Total capital assets being depreciated	13,204,622	5,282,716	-	18,487,338
Less accumulated depreciation:				
Buildings and improvements	(970,473)	(26,335)	-	(996,808)
Improvements other than building	(2,492,270)	(359,075)	-	(2,851,345)
Equipment	(453,588)	(24,555)	-	(478,143)
Total accumulated depreciation	(3,916,331)	(409,965)	-	(4,326,296)
Total capital assets being depreciated, net	9,288,291	4,872,751	-	14,161,042
Business-type activities capital assets, net	$ 15,042,181	$ 11,988,536	$ (4,925,251)	$ 22,105,466

Depreciation expense:	
Governmental activities	
General government and administration	$ 40,075
Public safety	120,295
Physical environment	107
Transportation	7,631
Culture and recreation	16,869
Total depreciation expense - governmental activities	$ 184,977
Business-type activities	
Water	$ 33,015
Sewer	371,798
Communications	5,152
Total depreciation expense - business-type activities	$ 409,965

NOTE 4. CAPITAL LEASES

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

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

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

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

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities	
	Fire Department Vehicle	Cisco Core Router	Headend Equipment
Asset			
Machinery and equipment	$ 26,358	$ 311,746	$ 1,521,729
(Accumulated depreciation)	(3,514)	-	-
Total	$ 22,844	$ 311,746	$ 1,521,729

Annual Requirements to Capital Leases

Maturities of capital leases for the years ending September 30, 2011 are as follows:

	Governmental Activities	Business-type Activities			
		Principal			
Year	Fire Department Vehicle	Cisco Core Router	Headend Equipment	Total Interest	Total Debt Service
2012	$ 8,473	$ 98,497	$ 257,452	$143,124	$ 507,546
2013	8,808	101,717	286,091	110,931	507,547
2014	-	-	317,914	75,434	393,348
2015	-	-	353,280	40,068	393,348
2016	-	-	183,778	5,560	189,338
	$ 17,281	$200,214	$1,398,515	$375,117	$1,991,127

NOTE 5. LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
Capital lease - FD vehicle	$ -	$ 26,358	$ (9,077)	$ 17,281	$ 8,473
Compensated absences	91,928	145,705	(83,791)	153,842	99,997
OPEB payable	11,000	11,360	-	22,360	-
Total Governmental Activities	$ 102,928	$ 183,423	$ (92,868)	$ 193,483	$ 108,470
Business-type Activities					
State revolving loan	$ 3,306,309	$ -	$ (68,996)	$ 3,237,313	$ -
SRF loan - ARRA	3,121,322	-	(3,121,322)	-	-
Revenue bonds payable	559,900	5,861,992	(559,900)	5,861,992	857,095
Compensated absences	37,992	90,972	(26,673)	102,291	66,490
Capital lease - Cisco Router	-	311,746	(111,532)	200,214	98,497
Capital lease - Headend equipment	-	1,521,729	(123,214)	1,398,515	257,452
OPEB payable	2,000	1,640	-	3,640	-
Total business-type activities	$ 7,027,523	$ 7,788,079	$ (4,011,637)	$ 10,803,965	$ 1,279,534

Sewer Improvement Revenue Bonds

In 1993 and 1994, the City obtained loans from Farmers Home Administration (USDA) for $384,000 and $414,800, respectively. Proceeds were used for the expansion and upgrading of the sewer system. The loans are in the form of fully registered bonds and are collateralized by a pledge of the net revenues of the utilities system. The bond ordinances provide for a current sinking fund, debt service reserve, bond amortization account and renewal and replacement account. The bonds are callable at various rates from 100% to 102% of face value.

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

The City was in compliance with all material provisions of the Sewer Bond Ordinances for the year ended September 30, 2011.

Telecommunications Revenue Bonds

On November 18, 2010, the City closed on bond issues from Regions Bank in the amounts of $3,300,000 and $2,200,000 with terms ranging to 15 years. These proceeds are being utilized to construct the City's telecommunications utility. Although certain general revenues are pledged on this debt, the City anticipates full repayment to be made from future telecommunications revenues. The City also was issued a line of credit from Regions Bank in the amount of $1,850,000 with the terms due in one year. These proceeds are being utilized to cover operating expenses of the City's telecommunications utility. At September 30, 2011 the balance on this loan was $857,095.

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.

ARRA Funded Loan

In June, 2009, the City obtained an additional construction loan from the Florida Department of Environmental Protection for the sewer project in the initial amount of $2,870,636, which was funded by the Federal American Recovery and Reinvestment Act (ARRA). Under the terms of this program, there is no interest payable on the loan and the principal drawn will be forgiven and not

required to be repaid. In the prior year an additional $2,883,289 was drawn on this loan. During the current year this loan was fully forgiven and had no balance.

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
2012	$ 857,095	$ 142,215	$ 284,382	$ 1,283,692
2013	436,150	144,852	264,325	845,327
2014	450,838	147,539	250,937	849,314
2015	466,021	150,275	232,517	848,813
2016	481,719	153,062	213,515	848,296
2017-2021	1,408,789	808,954	1,193,301	3,411,044
2022-2026	1,761,310	886,799	120,368	2,768,477
2027-2028	-	803,617	-	803,617
Total	$ 5,861,922	$ 3,237,313	$ 2,559,345	$ 11,658,580

NOTE 6. LEGAL COMPLIANCE AND ACCOUNTABILITY

There were no fund balance deficits of individual funds as of September 30, 2011.

NOTE 7. DEFINED BENEFIT/DEFINED CONTRIBUTION PENSION PLANS

Florida State Retirement System

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

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

The funding methods and the determination of benefits payable are provided in various acts of the Florida Legislature. These acts require that employers, such as the City, contribute the following percentages of eligible compensation to the plan: 10.77% for regular members, 12.25% for DROP members, and 23.25% for special risk members beginning July 2006. The contribution rates changed effective July 1, 2011; the new rates are: 4.91% for regular members, 4.42% for DROP members, and 14.10% for special risk members. 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, 2011, 2010, and 2009, were as follows, equal to the required contributions for each year:

Year	General	Special Risk	DROP	Total
2011	$ 18,757	$ 11,705	$ -	$ 30,462
2010	20,197	11,899	-	32,096
2009	22,552	11,546	-	34,098

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, 2011, there were seventeen 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, 2011. The City is required to contribute the remaining amounts necessary to fund the plan, using the actuarial determined amounts. Insurance excise taxes remitted by the state to the pension plan are available to offset City contributions up to the 1997 base amount. The increment above the base amount is to provide extra benefits to the firefighters and police officers.

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

Active	12
Retired, disabled, vested terminations and beneficiaries	7
Total number of participants	19

Annual Pension Costs and Net Pension Obligation

The City's annual pension costs and net pension obligation to the Firefighters' and Police Officers' Defined Benefit Plan based on the most recent actuarial information (valuation date October 1, 2011) was as follows:

Annual required contribution (ARC)	$ 102,646
Interest on net pension obligation	-
Adjustment to ARC	-
Annual pension costs	102,646
Contributions made	(100,375)
Increase in net pension obligation (NPO)	2,271
Net pension obligation (asset), beginning of year	13,348
Net pension obligation (asset), end of year	$ 15,619

Other Pension Plan Information

The annual required contribution for the current year was determined as part of the October 1, 2011, actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions include the following:

- The present value of future pension payments was computed by using a discount rate of 7.5%. The discount rate is equal to the estimated long-term rate of return on current and future investments of the pension plans.
- Future pension payments reflect an assumption of annual salary increase rates of 5.2%.

The actuarial value of assets was determined using market value.

Three-year Trend Information

Fiscal Year Ending	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2011	$ 102,646	98%	$ 15,619
September 30, 2010	96,380	100%	-
September 30, 2009	77,117	100%	-

Schedule of Changes in Pension Plan Net Assets as of September 30, 2011

	Pension Trust Funds		
	General Employees	Special Risk	Total
Assets			
Cash and investments	$ 616,950	$ 1,343,073	$ 1,960,023
Due from other governments	-	6,185	6,185
Total assets	616,950	1,349,258	1,966,208
Total liabilities	-	-	-
Net assets			
Reserved for:			
Employees' pension benefits	616,950	1,349,258	1,966,208
Total liabilities and net assets	616,950	1,349,258	1,966,208
Additions			
Contributions:			
Net employer contributions	77,092	-	77,092
State	-	71,222	71,222
Employee	60,429	5,212	65,641
Total contributions	137,521	76,434	213,955
Investment income increase	14,273	13,785	28,058
Investment management fees	-	-	-
Net investment income	14,273	13,785	28,058
Total additions	151,794	90,219	242,013
Deductions			
Pension benefit payment and refunds	(166,716)	(17,167)	(183,883)
General and administrative	-	(8,094)	(8,094)
(Total deductions)	(166,716)	(25,261)	(191,977)
Increase (decrease) in fiduciary net assets	(14,922)	64,958	50,036
Net assets reserved for employees pension benefit			
Beginning of year	631,872	1,284,300	1,916,172
End of year	$ 616,950	$ 1,349,258	$ 1,966,208

Other Post-Employment Benefits (OPEB)

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

Based on Governmental Accounting Standards Board (GASB) approval of Statement Nos. 43 and 45 which set for the guidelines and a future implementation timetable for reporting and disclosure of Other Post-Employment Benefits (OPEB), the City had an actuary calculate future funding requirements using an appropriate actuarial cost method. The valuation was performed as of October 1, 2010 and covers the subsidies for medical and life insurance benefits. The City has elected to implement the provisions of GASB Statement No. 45 prospectively. The City's annual OPEB cost for the Plan is calculated based on the annual

required contribution of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The projected unit credit cost method was used to determine all liabilities, with the liability for each active employee assumed to accrue over the working lifetime based on elapsed time from the date of hire until retirement.

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

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

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

Currently, the City's subsidy to OPEB benefits is unfunded. There are no separate Trust Funds or equivalent arrangements into which the City makes contributions to advance-fund the OPEB obligations, as it does for its retiree pension plans. The City's cost of the OPEB benefits, funded on a pay-as-you-go basis, was $26,000 for the year ended September 30, 2011.

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

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

Valuation date..... October 1, 2010

Actuarial cost method..... Projected Unit Credit Cost Method

Amortization method..... ..... Level Dollar Payment

Amortization period..... 10-Year Open Period

Assumes rate of return on investments..... 4.00% per annum

Assumed healthcare cost trend rates:

Fiscal Year Ending	Percent Increase
2011	10.00%
2012	9.50%
2013-thereafter `	9.00%

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

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

Annual OPEB cost and Net OPEB Obligation. The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize the actuarial liabilities (or funding excess) over a period not to exceed 30 years. The City's annual OPEB cost for the fiscal year was $50,847.

The City's annual OPEB cost and the net OPEB obligation for the fiscal year ended September 30, 2011 is as follows:

Annual required contribution (ARC)	$ 19,000
Interest on the net OPEB obligation	1,000
Adjustment to the ARC	(2,000)
	18,000
Employer contributions	(5,000)
Interest on employer contributions	-
	13,000
Net OPEB obligation - beginning of year	13,000
Net OPEB obligation - end of year	$ 26,000

The City's percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ended September 30, 2011 is as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2011	$ 19,000	137%	$ 26,000

The 2011 contribution represented 137% of the annual required contribution. The actuarial valuation for the Plan was done as of October 1, 2009. Thereafter, actuarial valuations will be done bi-annually.

As of October 1, 2009, the most recent actuarial valuation date, the Plan was unfunded. The actuarial accrued liability for benefits was $98,000, and the actuarial value of assets was $-0-, resulting in an unfunded actuarial accrued liability (UAAL) of $98,000.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) EAN (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a% of Covered Payroll ((b-1)/c)
10/01/2010	0	$ 98,000	$ 98,000	0.0%	$ 1,445,000	6.8%
10/01/2011	N/A	N/A	N/A	N/A	N/A	N/A
10/01/2012	N/A	N/A	N/A	N/A	N/A	N/A

NOTE 8. COMMITMENTS AND CONTINGENCIES

Grants and Loans

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

Small Community Wastewater Construction Grant Program

During September 2001, the City entered into a grant agreement with the Department of Environmental Protection entitling them to $723,829 for preconstruction costs associated with the City's wastewater/sewage system. During the 2004 fiscal year, an addendum was made to the original grant agreement to amend the total grant funding. The new grant agreement is for $8,100,894. Also, a State Revolving Loan agreement was added to the addendum with total funding of $5,348,642. During the 2009 fiscal year, an addendum agreement was made for $8,428,348. During the current fiscal year the State Revolving Loan Agreement was forgiven.

NOTE 9. RISK MANAGEMENT

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

- Workers' Compensation and employer's liability
- General and automobile liability
- Real and personal property damage

- Public officials' liability
- Accidental death and dismemberment

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

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

NOTE 10. SEGMENT INFORMATION FOR WATER AND SEWER ENTERPRISE FUNDS

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

NOTE 11. LITIGATION

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DUNNELLON, FLORIDA
MAJOR FUND - GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Taxes				
Ad Valorem	$ 895,740	$ 895,740	$ 859,571	$ (36,169)
Ninth-cent Gas Tax	57,188	57,188	52,112	(5,076)
Local Option Gas Tax	518,066	518,066	480,143	(37,923)
Franchise Tax:				
Electricity	200,000	200,000	209,157	9,157
Communication Service Tax	112,635	112,635	121,962	9,327
Utility Tax :				
Electricity	195,000	195,000	234,822	39,822
Propane	12,632	12,632	18,264	5,632
Total Taxes	1,991,261	1,991,261	1,976,031	(15,230)
Licenses and Permits				
Professional and Occupational	28,382	28,382	27,935	(447)
Building Permits	20,500	20,500	29,479	8,979
Other Licenses and Permits	9,760	9,760	6,277	(3,483)
Total Licenses and Permits	58,642	58,642	63,691	5,049
Intergovernmental Revenue				
State, Federal and Local Grants	386,197	386,197	212,207	(173,990)
State Shared Revenues:				
State Revenue Sharing	80,457	80,457	79,175	(1,282)
Mobile Home Licenses	10,000	10,000	6,212	(3,788)
Alcoholic Beverage Licenses	5,800	5,800	11,051	5,251
Local Government One-Half Cent Sales Tax	108,585	108,585	103,289	(5,296)
Motor Fuel Tax Rebate	1,200	1,200	2,053	853
Total Intergovernmental Revenue	592,239	592,239	413,987	(178,252)
Charges for Services				
Copying and Records Search	700	700	797	97
Garbage and Solid Waste	173,635	173,635	164,624	(9,011)
Cemetery Fees	300	300	1,148	848
City Beach User Fees	4,000	4,000	7,802	3,802
Other Miscellaneous Charges	22,709	22,709	21,996	(713)
Total Charges for Services	201,344	201,344	196,367	(4,977)
Fines and Forfeitures				
Court Fines	97,700	97,700	62,471	(35,229)
Other Fines	989,450	989,450	422,977	(566,473)
Total Fines and Forfeitures	1,087,150	1,087,150	485,448	(601,702)

CITY OF DUNNELLON, FLORIDA
MAJOR FUND - GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(Continued)

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Miscellaneous Revenue				
Investment Earnings	$ 42,723	$ 42,723	$ 7,534	$ (35,189)
Cemetery Lots	8,000	8,000	18,563	10,563
Other Miscellaneous	19,700	19,700	30,540	10,840
Total Miscellaneous Revenue	70,423	70,423	56,637	(13,786)
Total Revenues	$ 4,001,059	$ 4,001,059	$ 3,192,161	$ (808,898)
Expenditures				
General Government				
Legislative:				
Personal Services	$ 16,282	$ 16,282	$ 18,995	$ (2,713)
Operating Expenses	57,557	57,557	34,346	23,211
Total Legislative	73,839	73,839	53,341	20,498
City Clerk and General Administrative:				
Personal Services	180,319	180,319	186,508	(6,189)
Operating Expenses	70,240	74,525	81,459	(6,934)
Total City Clerk and General Administrative	250,559	254,844	267,967	(13,123)
City Manager:				
Personal Services	34,729	34,729	34,256	473
Operating Expenses	40,626	40,626	49,381	(8,755)
Total City Manager	75,355	75,355	83,637	(8,282)
Legal Counsel:				
Operating Expenses	200,000	200,000	333,621	(133,621)
Comprehensive Planning:				
Personal Services	50,027	50,027	43,517	6,510
Operating Expenses	104,875	104,875	80,550	24,325
Capital Outlay	271,953	271,953	141,959	129,994
Total Comprehensive Planning	426,855	426,855	266,026	160,829
Finance:				
Personal Services	79,412	79,412	89,192	(9,780)
Operating Expenses	16,433	16,433	15,608	825
Capital Outlay	17,667	17,667	-	17,667
Total Finance	113,512	113,512	104,800	8,712

CITY OF DUNNELLON, FLORIDA
MAJOR FUND - GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(Continued)

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures *(Continued)*				
Building Maintenance:				
Personal Services	$ 37,027	$ 37,027	$ 36,660	$ 367
Operating Expenses	61,278	61,278	33,467	27,811
Capital Outlay	43,558	43,558	-	43,558
Total Building Maintenance	141,863	141,863	70,127	71,736
Garage Department:				
Personal Services	60,817	60,817	59,061	1,756
Operating Expenses	11,667	13,167	11,374	1,793
Total Garage Department	72,484	73,984	70,435	3,549
Total General Government	1,354,467	1,360,252	1,249,954	110,298
Public Safety				
Law Enforcement:				
Personal Services	810,308	804,969	622,875	182,094
Operating Expenses	432,033	417,487	409,603	7,884
Capital Outlay	228,252	243,852	190,178	53,674
Total Law Enforcement	1,470,593	1,466,308	1,222,656	243,652
Fire Control:				
Personal Services	320,006	320,006	308,921	11,085
Operating Expenses	184,611	184,861	181,181	3,680
Capital Outlay	21,475	21,225	-	21,225
Debt Service:				
Principal	-	-	9,077	(9,077)
Interest	-	-	78	(78)
Total Fire Control	526,092	526,092	499,257	26,835
Protective Inspections:				
Personal Services	20,619	20,619	19,494	1,125
Operating Expenses	20,377	20,377	15,677	4,700
Total Protective Inspections	40,996	40,996	35,171	5,825
Total Public Safety	2,037,681	2,033,396	1,757,084	276,312

CITY OF DUNNELLON, FLORIDA
MAJOR FUND - GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(Concluded)

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures *(Concluded)*				
Physical Environment				
Cemetery:				
Personal Services	$ 21,906	$ 21,906	$ 21,279	$ 627
Operating Expenses	9,285	9,285	2,584	6,701
Total Cemetery	31,191	31,191	23,863	7,328
Garbage and Solid Waste:				
Personal Services	9,496	9,496	9,665	(169)
Operating Expenses	148,430	148,430	147,753	677
Total Garbage and Solid Waste	157,926	157,926	157,418	508
Total Physical Environment	189,117	189,117	181,281	7,836
Transportation				
Roads and Streets:				
Personal Services	311,559	308,814	225,104	83,710
Operating Expenses	576,527	576,527	388,422	188,105
Capital Outlay	-	9245	6,848	2,397
Total Transportation	888,086	894,586	620,374	274,212
Human Services				
Animal Control:				
Personal Services	12,117	12,117	11,800	317
Operating Expenses	3,916	3,916	1,704	2,212
Total Animal Control	16,033	16,033	13,504	2,529
Mosquito Control:				
Operating Expenses	23,000	23,000	21,076	1,924
Total Human Services	39,033	39,033	34,580	4,453
Culture and Recreation				
Parks and Recreation:				
Personal Services	58,934	58,934	57,174	1,760
Operating Expenses	22,597	22,597	21,352	1,245
Capital Outlay	16,000	8,000	6,848	1,152
Total Culture and Recreation	97,531	89,531	85,374	4,157
Total Expenditures	4,605,915	4,605,915	3,928,647	677,268
Excess of Revenues Under Expenditures	(604,856)	(604,856)	(736,486)	(131,630)
Fund Balance, Beginning of Year	604,856	604,856	3,131,107	2,526,251
Fund Balance, End of Year	$ -	$ -	$ 2,394,621	$ 2,394,621

CITY OF DUNNELLON, FLORIDA
MAJOR FUND - TAX INCREMENT FINANCING DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget Positive (Negative)
Revenues				
Taxes:				
Ad Valorem	$ 55,166	$ 55,166	$ 54,893	$ (273)
Intergovernmental Revenue	99,013	99,013	98,781	(232)
Miscellaneous Revenue:				
Investment Earnings	8,903	8,903	1,666	(7,237)
Total Revenues	163,082	163,082	155,340	(7,742)
Expenditures				
General Government:				
Industry Development:				
Personal Services	53,321	53,321	43,345	9,976
Operating Expenses	149,506	149,506	79,437	70,069
Capital Outlay	85,000	85,000	118,076	(33,076)
Total Expenditures	287,827	287,827	240,858	46,969
Excess of Revenues Over Expenditures	(124,745)	(124,745)	(85,518)	39,227
Fund Balances, Beginning of Year	124,745	124,745	641,958	356,177
Fund Balances, End of Year	$ -	$ -	$ 556,440	$ 395,404

REQUIRED SUPPLEMENTARY INFORMATION
SPECIAL RISK PENSION TRUST FUND
SEPTEMBER 30, 2011
CITY OF DUNNELLON, FLORIDA

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

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER AND OTHERS

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

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

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

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

Valuation date	October 1, 2011
Actuarial cost method	Aggregate actuarial cost method
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.5%*
Projected salary increases	5.2%*
Cost-of-living adjustments	None

*Includes inflation at 3.75%

SINGLE AUDIT AND
COMPLIANCE SECTION

City of Dunnellon, Florida
Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended September 30, 2011

Grantor /Program Title	Federal CFDA Number	State CFSA Number	Pass-Through Grant Number	Program or Loan Amount	Required Match	Deferred (Receivable) Balance @ 9/30/10	Receipts	Expenditures	(Deferred) or Receivable Balance @ 9/30/11
Federal Awards									
Major Programs									
Environmental Protection Agency									
Passed through the State DEP									
Clean Water State Revolving Fund (Const. Loan)									
ARRA Loan Fogiveness	66.458	n/a	WW511080	3,121,322	-	$ 15,686	$ 3,105,636	$ 3,105,636	$ -
Non-Major Grants									
U.S. Department of Housing & Urban Development									
Department of Community Affairs									
Community Development Block Grant	14.228	n/a	09-DB-2Q-05-52-02-N01	650,000	-	73,644	143,371	69,727	-
U.S. Department of Law Enforcement									
Justice Assistance Grant									
Dunnellon Police Department -AR15 Rifle	16.738	n/a	2010-JAGD-MARI-2-4Y-099	1,171	-	1,171	1,171	-	-
Dunnellon Police Department -Traffic Enforcement	16.738	n/a	2011-JAGD-MRI-2-53-097	1,000	-	-	1,000	1,000	-
Dunnellon Police Department -Fingerprint Technology	16.738	n/a	2011-JAGC-MARI-4-82-241	25,000	-	-	25,000	25,000	-
U. S. Department of Justice									
Bulletproof Vest Program FY2009	16.607	n/a	7039407	1,342	-	441	441	-	-
Edward byrne Memorial Justice Assistance Grant (ARRA)									
Dunnellon Police Department - Mobile Data Terminals	16.803	n/a	2010-ARRC-182	15,000	-	14,950	14,950	-	-
COPS-Hiring Recovery Program (ARRA)	16.710	n/a	2009RKWX0232	144,043	-	12,317	42,425	44,249	14,141
Total Federal Financial Assistance						$ 118,209	$ 3,333,994	$ 3,245,612	$ 14,141
State Financial Assistance									
Major Programs									
Department of Environmental Protection									
Small Community Wastewater Construction Grant	n/a	37.039	SG511070	8,428,348	-	$ 15,686	$ 690,322	$ 674,636	$ -
Dunnellon Stormwater Projects Relating to Blue Cove Lake	n/a	37.039	LP6715	367,000	-	2,320	135,073	141,958	9,205
Total State Financial Assistance						$ 18,006	$ 825,395	$ 816,594	$ 9,205

See notes to schedule of federal expenditures 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, 2011

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 COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and City Council
City of Dunnellon
Dunnellon, Florida

We have audited the basic financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Dunnellon, Florida, as of and for the year ended September 30, 2011, and have issued our report thereon dated April 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting.

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the City Council and and federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

POWELL & JONES
April 10, 2012

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT MATERIAL EFFECT ON EACH MAJOR PROGRAM AND STATE FINANCIAL ASSISTANCE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND CHAPTER 10.550 *RULES OF THE AUDITOR GENERAL*

Honorable Mayor and
City Council
City of Dunnellon, Florida

Compliance

We have audited the compliance of the City of Dunnellon, Florida with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement,* and the requirements described in the *Executive Office of the Governor's State Projects Compliance Supplement,* that are applicable to each of its major federal awards programs and state financial assistance projects for the year ended September 30, 2011. The City of Dunnellon, Florida's major federal awards programs and state financial assistance projects are identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal awards programs and state financial assistance projects is the responsibility of The City of Dunnellon, Florida's management. Our responsibility is to express an opinion on the City of Dunnellon, Florida's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States: OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations;* and Chapter 10.550, *Rules of the Auditor General.* Those standards, OMB Circular A-133, and Chapter 10.550, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal awards program or state financial assistance project occurred. An audit includes examining, on a test basis, evidence about The City of Dunnellon, Florida's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of The City of Dunnellon, Florida's compliance with those requirements.

In our opinion, The City of Dunnellon, Florida complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal awards programs and state financial assistance projects for the year ended September 30, 2010.

Internal Control Over Compliance

The management of The City of Dunnellon, Florida is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal awards programs and state financial assistance projects. In planning and performing our audit, we considered The City of Dunnellon, Florida's internal control over

compliance with requirements that could have a direct and material effect on a major federal awards program or state financial assistance project to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, and Chapter 10.550, *Rules of the Auditor General*, but not for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The City of Dunnellon, Florida's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect, noncompliance with a type of compliance requirement of a federal program or a state financial assistance project on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state financial assistance project will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, the City Council, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Powell & Jones

POWELL & JONES
Certified Public Accountants
April 10, 2012

CITY OF DUNNELLON, FLORIDA

SCHEDULE OF FINDINGS

For the Fiscal Year Ended September 30, 2011

Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs:

? Material weakness identified?	No
? Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	No

Identification of major programs:

CFDA Number	Name of Federal Programs
66.458	U.S. Department of Environmental Projection Clean Water State Revolving Fund ARRA Loan Forgiveness

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

Financial Statement Findings

None

Federal Awards Findings and Questioned Costs

None

CITY OF DUNNELLON, FLORIDA

SCHEDULE OF FINDINGS

For the Fiscal Year Ended September 30, 2011

State Financial Assistance

Internal control over major programs:

? Material weaknesses identified?	No
? Reportable condition identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Chapter 10.550 *Rules of the Auditor General?*	No

Identification of major programs:

CSFA Number	Name of Federal Programs
37.039	Department of Environmental Protection Small Community Wastewater Construction Grant

Dollar threshold used to distinguish between type A and type B programs:	$300,000
Auditee qualified as low-risk auditee?	No
Financial Statement Findings?	None
State Award Findings and Questioned Costs	None

MANAGEMENT LETTER REQUIRED BY
CHAPTER 10.550, *RULES OF THE AUDITOR GENERAL*

Honorable Mayor and City Council
City of Dunnellon
Dunnellon, Florida

We have audited the basic financial statements of the City of Dunnellon, Florida (the City) as of and for the year ended September 30, 2011, and have issued our report thereon dated April 10, 2012.

We have also issued our report on compliance and on internal control over financial reporting. That report should be considered in conjunction with the 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 , and *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 the following be addressed in this letter:

PRIOR YEAR FINDINGS

There were no reportable finings in the prior year.

CURRENT YEAR FINDINGS

There were no reportable findings in the current year.

FINANCIAL 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, for the fiscal year ended September 30, 2011.

Investment of Public Funds - The City complied with Section 218.415, *Florida Statutes*, regarding the investment of public funds during the fiscal year ended September 30, 2011.

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

Financial Condition Assessment Procedures - Pursuant to Chapter 10.556(7), *Rules of the Auditor General*, we applied financial condition assessment procedures to the City's financial statements. 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.

We noted no deteriorating financial conditions as defined by Rule 10.544(1)(d).

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 very much enjoyed the challenges and experiences with this audit of the City. We appreciate the helpful assistance of City staff in completing our audit and also the generally high quality of the City's financial records and internal controls.

POWELL & JONES
Certified Public Accountants
April 10, 2012

City of Dunnellon Management Response To
Auditors' Management Letter Comment
Annual Audit FYE 9/30/11

Honorable Mayor and City Council
City of Dunnellon
Dunnellon, Florida

We have reviewed the audit report for fiscal year ending September 30, 2011 including the management letter and are pleased there were no reportable findings. We believe the audit, as prepared and presented by Powell & Jones, CPA's, to be an accurate representation of the City's current financial status.

Lisa Algiere

Lisa Algiere
City Manager