

CITY OF DUNNELLON, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2015

CITY OF DUNNELLON, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2015

TABLE OF CONTENTS

	PAGE NO.
Independent Auditor's Report	4 - 6
Management's Discussion and Analysis	7 - 12
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	14
Statement of Activities	15
Balance Sheet - All Governmental Funds	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Net Position - Proprietary Funds	20 - 21
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	22
Statement of Cash Flows - Proprietary Funds	23 - 24
Statement of Net Position - Pension Trust Funds	25
Statement of Changes in Net Position - Pension Trust Funds	26
Notes to Financial Statements	27 - 56
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Governmental Fund - General Fund	58 - 61
Schedule of Revenues, Expenditures, and Changes to Fund Balance - Budget and Actual - Governmental Fund - Tax Increment Financing District Fund	62
Notes to Required Supplementary Information	63
Schedule of Contributions from Employer and Others, Special Risk Pension Trust Fund	64
Schedule of Contributions from Employer and Others, Other Post-Employment Benefits Plan	65
Schedules of Proportionate Share of Net Pension Liability and Contributions	66 - 67
Notes to Required Supplementary Information	68 - 69

CITY OF DUNNELLON, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2015

TABLE OF CONTENTS

	PAGE NO.
SUPPLEMENTARY INFORMATION	
Independent Auditor's Report on Supplementary Information	70
Debt Service Coverage Schedule (Unaudited)	71
SINGLE AUDIT AND COMPLIANCE SECTION	
Schedule of Expenditures of Federal Awards and State Financial Assistance	73
Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance	74
Independent Auditor's Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	75 - 76
Independent Auditor's Report on Compliance With Requirements That Could Have A Direct and Material Effect on Each Major State Project and On Internal Control Over Compliance With Chapter 10.550, <i>Rules of the Auditor General</i> , Office of the Auditor General	77 - 78
Schedule of Findings	79
Management Letter	80 - 82
Independent Accountant's Report	83
City of Dunnellon Response to Management Letter	84
Communication with Those Charged with Governance	85 - 86



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
admin@powellandjonescpa.com

INDEPENDENT AUDITOR'S REPORT

To the City Council;
City of Dunnellon, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Dunnellon, Florida, (the City) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Dunnellon, Florida, as of September 30, 2015, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

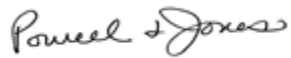
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Dunnellon, Florida's basic financial statements. The schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis and the requirements described in the *Department of Financial Services' State Projects Compliance Supplement*, and are not a required part of the basic financial statements. The City's major State projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2016, on our consideration of the City of Dunnellon, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Dunnellon, Florida's internal control over financial reporting and compliance.

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

POWELL & JONES
Certified Public Accountants
April 29, 2016

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, 2015. Please read it in conjunction with the City's basic financial statements, which begin on page 14.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 14-15) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 16. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

Our analysis of the City as a whole begins on page 14. One of the most important questions asked about the City's finances is, "Is the City as a whole financially better or worse as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's major funds begins on page 16. The fund financial statements provide detailed information about the General Fund and Enterprise Funds-not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes other funds to help it control and manage money for particular purposes. The City's two types of funds-governmental and proprietary (business-type)-use different accounting approaches.

- **Governmental funds** - Most of the City's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations on pages 17 and 19.
- **Proprietary funds** - The City's proprietary funds are comprised of enterprise funds. An enterprise fund is used to account for activities when the City charges customers for the services it provides. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise fund is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

The City as Trustee

Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for the Special Risk Pension Trust Fund. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position Pension Trust Fund on page 25. The Fiduciary Fund Financial Statement is not presented as part of the Government-wide Financial Statements because the resources of these funds are not available to support the City's programs. Fiduciary (Trust and Agency) Funds represent trust responsibilities of the government. However, these assets are restricted in purpose and do not represent discretionary assets of the government.

THE CITY AS A WHOLE

	Governmental		Business-Type		Total	
	2014	2015	2014	2015	2014	2015
Revenues	\$2,534,092	\$2,570,829	\$ 7,230,126	\$ 3,818,716	\$ 9,764,218	\$ 6,389,545
Expenses	\$2,411,226	\$2,338,610	\$ 5,646,220	\$ 3,130,976	\$ 8,057,446	\$ 5,469,586

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 by 1.5% in the current year.

Business-type Activities

The Water and Sewer Utilities show a combined operating income of \$300,858, combined non-operating revenues of \$786,014, and combined interest expense of \$399,132 for a net increase of \$687,740 for fiscal year 2015. The net increase is primarily due to excess of operating revenues over operating expenses.

Net Position

For the years ended September 30, 2015 and 2014, Net Position changed as follows:

	Governmental		Business-Type		Total	
	Activities		Activities			
	2014	2015	2014	2015	2014	2015
Beginning net position	\$ 6,732,749	\$ 3,337,238	\$ 8,693,995	\$ 13,537,022	\$ 15,426,744	\$ 16,874,260
Increase (decrease) in net position	(3,395,511)	232,219	4,843,027	687,740	1,447,516	919,959
	<u>\$ 3,337,238</u>	<u>\$ 3,569,457</u>	<u>\$ 13,537,022</u>	<u>\$ 14,224,762</u>	<u>\$ 16,874,260</u>	<u>\$ 17,794,219</u>

This reflects an increase of 7 percent for governmental activities and a 5 percent increase for business-type activities over the prior year. The beginning net positions of both governmental and business-type activities are shown as restated to include a prior period adjustment related to the implementation of GASB 68. This is discussed in detail in the notes to the financial statements.

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, 2015 and 2014.

Assets

	Governmental Activities		Business-Type Activities	
	2014	2015	2014	2015
	Current Assets	\$ 2,550,289	\$ 2,718,468	\$ 3,715,974
Capital Assets, Net of Accumulated Depreciation	4,457,831	4,338,030	24,345,255	24,709,238
Total Assets	7,008,120	7,056,498	28,061,229	28,096,793
Deferred outflows	\$ 14,076	\$ 25,133	\$ 87,631	\$ 74,741

Capital assets for governmental activities have decreased 3 percent over the prior year. Business-type activities reflect an increase of 2 percent primarily due to the addition of the infrastructure from the Rio Vista decommissioning project.

Liabilities

	Governmental Activities		Business-Type Activities	
	2014	2015	2014	2015
	Current Liabilities	\$ 360,703	\$ 392,828	\$ 113,161
Payable from Restricted Assets	-	-	1,181,755	949,271
Unearned Revenue	23,199	23,353	-	-
Long-term Liabilities	3,100,783	3,052,069	13,238,341	12,454,259
Total Liabilities	3,484,685	3,468,250	14,533,257	13,929,536
Deferred Inflows	\$ 96,071	\$ 43,924	\$ 37,695	\$ 17,236

Liabilities for governmental activities substantially increased primarily due to the implementation of GASB 68 and the resulting recognition of the City's proportionate share of the Florida Retirement System. Current liabilities for business-type activities have decreased substantially due to the aforementioned.

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, 2015 and 2014.

	Governmental		Business-Type					
			Water Utility		Sewer Utility		Communications Utility	
	2014	2015	2014	2015	2014	2015	2014	2015
Program Revenues								
Charges for Services	\$ 204,372	\$ 217,426	\$ 1,151,072	\$ 1,358,448	\$ 1,622,673	\$ 1,674,254	\$ 188,216	\$ -
Operating Grants and Contributions	9,630	9,551	-	-	-	-	-	-
Capital Grants and Contributions	-	-	-	2,460	57,560	780,692	-	-
General Revenues								
Taxes	1,912,272	1,919,029	-	-	-	-	-	-
Licenses and permits	82,456	159,979	-	-	-	-	-	-
Fines and forfeitures	64,575	19,593	-	-	-	-	-	-
State-shared	209,536	184,051	-	-	-	-	-	-
Investment income	2,548	8,842	1,831	1,791	1,235	1,067	130	-
Miscellaneous	48,703	52,358	-	-	-	-	-	-
Gain on debt refinance	-	-	-	-	-	-	4,207,409	-
Transfers in	-	-	11	-	(30)	-	205,000	-
	<u>\$ 2,534,092</u>	<u>\$ 2,570,829</u>	<u>\$ 1,152,914</u>	<u>\$ 1,362,699</u>	<u>\$ 1,681,438</u>	<u>\$ 2,456,013</u>	<u>\$ 4,600,755</u>	<u>\$ -</u>

Governmental revenue decreased 1 percent over prior year. Charges for Services decreased 24 percent. Taxes increased 0.3 percent. State-shared Revenue decreased 12 percent. Business-type revenues increased 35 percent primarily due to the Small Community Wastewater Construction Grant coming to a close.

Expenses

Governmental		Water Utility		Sewer Utility		Communication Utility	
2014	2015	2014	2015	2014	2015	2014	2015
\$ 2,447,032	\$ 2,338,610	\$ 1,377,556	\$ 879,213	\$ 2,465,921	\$ 1,852,631	\$ 1,802,743	\$ -

Expenses decreased in the governmental fund and combined utility funds by 37 percent for the year ended September 30, 2015 primarily due to the close of the communications fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total revenue for the year shows 7 percent over budget.

On the expense-side, total General Government is under budget 4 percent or \$109,404. This is primarily associated with conservative operations lowering operating expenses.

CAPITAL ASSETS

As of September 30, 2015, the City had \$29 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 \$244,182 or 1 percent, over the prior year.

	Governmental		Business-Type		Total	
	Activities		Activities			
	2014	2015	2014	2015	2014	2015
Capital Assets	\$7,387,082	\$7,186,801	\$ 31,656,000	\$ 32,014,180	\$ 39,043,082	\$ 39,200,981
Construction in Progress	-	-	188,747	550,613	188,747	550,613
Less Accumulated						
Depreciation	(2,929,251)	(2,848,771)	(7,499,492)	(7,855,555)	(10,428,743)	(10,704,326)
Total	\$4,457,831	\$4,338,030	\$ 24,345,255	\$ 24,709,238	\$ 28,803,086	\$ 29,047,268

This year's major addition was due to the addition of the sewer infrastructure in the Rio Vista decommissioning 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.

Eddie Esch

Eddie Esch
City Manager

Jan Smith

Jan Smith
Finance Officer

BASIC FINANCIAL STATEMENTS

CITY OF DUNNELLON, FLORIDA
STATEMENT OF NET POSITION
September 30, 2015

ASSETS	Governmental Activities	Business- Type Activities	Total
Cash and investments	\$ 2,578,911	\$ 334,774	\$ 2,913,685
Receivables, net	64,542	225,460	290,002
Due from other governments	74,915	115,519	190,434
Other assets	100	-	100
Restricted cash	-	2,711,802	2,711,802
Capital assets, not being depreciated	3,210,071	829,982	4,040,053
Capital assets, being depreciated	3,976,730	31,734,811	35,711,541
Less accumulated depreciation	(2,848,771)	(7,855,555)	(10,704,326)
Total assets	7,056,498	28,096,793	35,153,291
 DEFERRED OUTFLOWS			
Pension obligations	25,133	9,860	34,993
Bond issue costs, net of amortization	-	64,881	64,881
	<u>25,133</u>	<u>74,741</u>	<u>99,874</u>
 LIABILITIES			
Accounts payable and accrued liabilities	114,220	100,657	214,877
Settlement payable	-	425,349	425,349
Payable from restricted assets:			
Utility deposits	-	116,584	116,584
Accrued interest	-	153,524	153,524
Unearned revenue	23,353	-	23,353
Long-term liabilities:			
Due within one year	278,608	701,449	980,057
Due in more than one year	3,052,069	12,431,973	15,484,042
Total liabilities	3,468,250	13,929,536	17,397,786
 DEFERRED INFLOWS	<u>43,924</u>	<u>17,236</u>	<u>61,160</u>
 NET POSITION			
Invested in capital assets, Net of related debt	4,338,030	11,813,111	16,151,141
Restricted for:			
Debt service	-	812,196	812,196
Capital projects	156,748	1,649,863	1,806,611
Infrastructure	56,247	-	56,247
Roads and streets	1,617,074	-	1,617,074
Public safety	65,585	-	65,585
Cemetery perpetual care	53,403	-	53,403
Tree fund	1,048	-	1,048
Emergency reserve	11,211	-	11,211
Unrestricted (deficit)	(2,729,889)	(50,408)	(2,780,297)
Total net position	\$ 3,569,457	\$ 14,224,762	\$ 17,794,219

See notes to financial statements.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 483,985	\$ 1,306	\$ -	\$ -	\$ (482,679)	\$ -	\$ (482,679)
Public safety	1,248,044	14,469	9,551	-	(1,224,024)	-	(1,224,024)
Physical environment	157,168	179,780	-	-	22,612	-	22,612
Transportation	320,786	21,155	-	-	(299,631)	-	(299,631)
Economic environment	58,309	-	-	-	(58,309)	-	(58,309)
Culture and recreation	12,932	716	-	-	(12,216)	-	(12,216)
Human services	57,386	-	-	-	(57,386)	-	(57,386)
Total governmental activities	2,338,610	217,426	9,551	-	(2,111,633)	-	(2,111,633)
Business-type activities							
Water utility	879,213	1,358,448	-	2,460	-	481,695	481,695
Sewer utility	1,852,631	1,674,254	-	780,696	-	602,319	602,319
Interest expense	399,132	-	-	-	-	(399,132)	(399,132)
Total business-type activities	3,130,976	3,032,702	-	783,156	-	684,882	684,882
Total primary government	\$ 5,469,586	\$ 3,250,128	\$ 9,551	\$ 783,156	(2,111,633)	684,882	(1,426,751)
General revenues							
Taxes:							
Property taxes					1,048,381	-	1,048,381
Franchise taxes					193,097	-	193,097
Public service taxes					353,642	-	353,642
Fuel taxes					323,909	-	323,909
State-shared revenues					184,051	-	184,051
Licenses and permits					159,979	-	159,979
Fines and forfeitures					19,593	-	19,593
Investment income					8,842	2,858	11,700
Miscellaneous					52,358	-	52,358
Total general revenues					2,343,852	2,858	2,346,710
Change in net position					232,219	687,740	919,959
Net position, beginning of year					3,523,435	13,610,080	17,133,515
Prior period adjustment					(186,197)	(73,058)	(259,255)
Net position, end of year					\$ 3,569,457	\$ 14,224,762	\$ 17,794,219

CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2015

	General Fund	Tax Increment Financing District Fund	Total Governmental Funds
Assets			
Cash and investments	\$ 2,369,370	\$ 209,541	\$ 2,578,911
Accounts receivable	64,542	-	64,542
Due from other governments	74,915	-	74,915
Other assets	100	-	100
Total assets	\$ 2,508,927	\$ 209,541	\$ 2,718,468
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 50,527	\$ 225	\$ 50,752
Accrued liabilities	61,124	2,344	63,468
Unearned revenue	23,353	-	23,353
Total liabilities	135,004	2,569	137,573
Fund balances			
Restricted for:			
Public safety	53,472	-	53,472
Roads and streets, operations	659,070	-	659,070
Roads and streets, capital projects	958,004	-	958,004
Downtown redevelopment	-	206,972	206,972
Committed for:			
Public safety	12,113	-	12,113
Infrastructure	56,247	-	56,247
Cemetery perpetual care	53,403	-	53,403
Tree fund	1,048	-	1,048
Emergency reserve	11,211	-	11,211
Assigned for:			
Capital improvements, public safety - building	156,748	-	156,748
Unassigned	412,607	-	412,607
Total fund balances	2,373,923	206,972	2,580,895
Total liabilities and fund balances	\$ 2,508,927	\$ 209,541	\$ 2,718,468

See notes to financial statements.

CITY OF DUNNELLON, FLORIDA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
September 30, 2015

Fund balances - total governmental funds \$ 2,580,895

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$7,186,801 and the accumulated depreciation is \$2,848,771. 4,338,030

Deferred outflows of resources represent a consumption of fund equity that will be reported as an outflow of resources in a future period and therefore are not reported in governmental funds. 25,133

Long-term liabilities are not due and payable in the current period, and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position. Long-term liabilities at year end consist of:

Revenue bonds payable	\$ (3,018,750)	
OPEB payable	(34,960)	
Compensated absences	(122,439)	
Net pension liability	<u>(154,528)</u>	(3,330,677)

Deferred inflows of resources represent an acquisition of fund equity that will be recognized as an inflow of resources in a future period and therefore are not reported in governmental funds. (43,924)

Total net position of governmental activities \$ 3,569,457

See notes to financial statements.

CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended September 30, 2015

	General Fund	Tax Increment Financing District Fund	Total Governmental Funds
Revenues			
Taxes	\$ 1,754,523	\$ 142,116	\$ 1,896,639
Licenses and permits	159,979	-	159,979
Intergovernmental revenues	215,992	-	215,992
Charges for service	217,426	-	217,426
Fines and forfeitures	19,593	-	19,593
Miscellaneous revenue	61,005	195	61,200
Total revenues	2,428,518	142,311	2,570,829
Expenditures			
Current:			
General government	448,824	-	448,824
Public safety	1,201,909	-	1,201,909
Physical environment	158,962	-	158,962
Transportation	318,028	-	318,028
Economic environment	-	59,172	59,172
Human services	13,774	-	13,774
Culture and recreation	35,145	-	35,145
Capital outlay			
Transportation	15,075	-	15,075
Debt service			
Principal payments	175,000	-	175,000
Total expenditures	2,366,717	59,172	2,425,889
Excess of revenues over expenditures	61,801	83,139	144,940
Net change in fund balances	61,801	83,139	144,940
Fund balances, beginning of year	2,312,122	123,833	2,435,955
Fund balances, end of year	\$ 2,373,923	\$ 206,972	\$ 2,580,895

See notes to financial statements.

CITY OF DUNNELLON, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For The Fiscal Year Ended September 30, 2015

Net change in fund balances - total governmental funds **\$ 144,940**

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	\$ 15,075	
(Current year depreciation)	<u>(134,876)</u>	(119,801)

Some expenses reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds. Also, recognition of certain obligations related to prior and subsequent periods are not recognized in the statement of activities.

Compensated absences	23,053	
Revenue bonds	175,000	
OPEB liability	(3,849)	
Net pension liability	12,876	
Net decrease in deferred outflows/inflows	<u>(63,204)</u>	143,876

Recognition of certain obligations related to prior and future periods are not recognized in governmental funds.

Net increase in deferred outflows	11,057	
Net decrease in deferred inflows	<u>52,147</u>	<u>63,204</u>

Change in net position of governmental activities **\$ 232,219**

See notes to financial statements.

CITY OF DUNNELLON, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
September 30, 2015

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
Assets			
Current assets			
Cash and investments	\$ 211,215	\$ 123,559	\$ 334,774
Accounts receivable (net of allowance for uncollectible accounts)	91,356	134,104	225,460
Due from other governments	2,460	113,059	115,519
Total current assets	305,031	370,722	675,753
Restricted assets			
Cash:			
Utility deposit cash	116,584	-	116,584
Water capital improvement funds	18,653	-	18,653
Sewer capital improvement funds	-	108,582	108,582
Emergency reserve	3,622	2,302	5,924
Revenue bond proceeds	1,067,277	582,586	1,649,863
Debt service, state revolving loan	-	33,893	33,893
Debt service, revenue bonds	362,038	416,265	778,303
Total restricted assets	1,568,174	1,143,628	2,711,802
Utility plant in service			
Cost of capital assets	6,015,105	25,999,075	32,014,180
(accumulated depreciation)	(2,036,964)	(5,818,591)	(7,855,555)
Construction in progress	550,613	-	550,613
Total utility plant in service - cost less depreciation	4,528,754	20,180,484	24,709,238
Total assets	6,401,959	21,694,834	28,096,793
Deferred outflows of resources			
Bond issuance costs, net of amortization	31,436	33,445	64,881
Pension obligations	4,930	4,930	9,860
	36,366	38,375	74,741

(continued)

CITY OF DUNNELLON, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
September 30, 2015

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
Liabilities and Net Position			
Current liabilities, unrestricted			
Payable from current assets:			
Accounts payable	\$ 16,444	\$ 37,656	\$ 54,100
Accrued liabilities	21,510	25,047	46,557
Settlement payable, due within one year	157,379	267,970	425,349
Compensated absences, due within one year	49,521	58,134	107,655
Net pension liability, due within one year	4,671	4,671	9,342
Total current liabilities, unrestricted	249,525	393,478	808,792
Current liabilities, restricted			
Payable from restricted assets:			
Accrued revenue bond and SRF loan interest payable	69,755	83,769	153,524
Customer deposits	116,584	-	116,584
SRF loan payable within one year	-	13,887	13,887
Revenue bonds payable within one year	270,860	299,705	570,565
Total current liabilities, restricted	457,199	397,361	854,560
Total current liabilities	706,724	790,839	1,663,352
Long-term liabilities			
Revenue bonds, noncurrent portion	5,815,490	6,496,185	12,311,675
OPEB payable	5,520	5,520	11,040
Compensated absences, noncurrent portion	27,396	30,572	57,968
Net pension liability	25,645	25,645	51,290
Total long-term liabilities	5,874,051	6,557,922	12,431,973
Total liabilities	6,580,775	7,348,761	13,929,536
Deferred inflow of resources	8,618	8,618	17,236
Net Position			
Invested in capital assets, net of related debt	(1,557,596)	13,370,707	11,813,111
Restricted for debt service	362,038	450,158	812,196
Restricted for bond financed capital projects	1,067,277	582,586	1,649,863
Unrestricted (deficit)	(22,787)	(27,621)	(50,408)
Total net position (deficit)	\$ (151,068)	\$ 14,375,830	\$ 14,224,762

See notes to financial statements.

CITY OF DUNNELLON, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Fiscal Year Ended September 30, 2015

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
Operating revenues			
Charges for services	\$ 1,345,673	\$ 1,673,257	\$ 3,018,930
Miscellaneous revenue	12,775	997	13,772
Total operating revenues	1,358,448	1,674,254	3,032,702
Operating expenses			
Personnel services	386,768	452,264	839,032
Operating expenses	189,638	432,004	621,642
Professional services	29,203	50,304	79,507
Depreciation and amortization	273,604	918,059	1,191,663
Total operating expenses	879,213	1,852,631	2,731,844
Operating income (loss)	479,235	(178,377)	300,858
Nonoperating revenues (expenses)			
Interest income	1,791	1,067	2,858
Interest expense	(184,537)	(214,595)	(399,132)
Grant revenue	2,460	780,696	783,156
Total nonoperating revenues (expenses)	(180,286)	567,168	386,882
Net change in net position	298,949	388,791	687,740
Net position, beginning of year	(413,488)	14,023,568	13,610,080
Prior period adjustment	(36,529)	(36,529)	(73,058)
Net position, end of year	\$ (151,068)	\$ 14,375,830	\$ 14,224,762

See notes to financial statements.

CITY OF DUNNELLON, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended September 30, 2015

	Water Fund	Sewer Fund	Total
Cash flows from operating activities			
Cash received from customers, Including cash deposits	\$ 1,316,722	\$ 1,617,243	\$ 2,933,965
Cash paid to suppliers	(241,167)	(487,603)	(728,770)
Cash paid to employees	(374,294)	(433,920)	(808,214)
Net cash provided by operating activities	701,261	695,720	1,396,981
Cash flows from capital and related financing activities			
Acquisition and construction of capital assets	(497,249)	(1,041,171)	(1,538,420)
Grant revenue	-	730,740	730,740
Principal payments	(264,137)	(305,217)	(569,354)
Interest paid	(187,514)	(218,171)	(405,685)
Net cash used in capital and related financing activities	(948,900)	(833,819)	(1,782,719)
Cash flows from investing activities			
Interest Income	1,791	1,067	2,858
Net change in cash and cash equivalents	(245,848)	(137,032)	(382,880)
Cash and cash equivalents, October 1, 2014	2,025,237	1,404,219	3,429,456
Cash and cash equivalents, September 30, 2015	\$ 1,779,389	\$ 1,267,187	\$ 3,046,576
<u>Shown in the financial statements as:</u>			
Current assets			
Cash and cash equivalents	\$ 211,215	\$ 123,559	\$ 334,774
Restricted cash	1,568,174	1,143,628	2,711,802
Totals	\$ 1,779,389	\$ 1,267,187	\$ 3,046,576

(continued)

CITY OF DUNNELLON, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended September 30, 2015

<u>Reconciliation of operating gain (loss) to net cash provided by (used) in operating activities</u>			
Operating gain (loss)	\$ 479,235	\$ (178,377)	\$ 300,858
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities			
Depreciation and amortization	273,604	918,059	1,191,663
Changes in assets decrease (increase) and liabilities increase (decrease):			
Accounts receivable, net	(13,444)	(7,812)	(21,256)
Deffered outflows	(2,169)	(2,169)	(4,338)
Accounts payable	(22,326)	(5,295)	(27,621)
Settlement payable	(27,621)	(47,030)	(74,651)
Customer deposits	(661)	-	(661)
Accrued wages and OPEB payable	16,669	19,812	36,481
Compensated absences	(1,670)	(1,112)	(2,782)
Deferred inflows	(10,230)	(10,230)	(20,460)
Net pension liability	9,874	9,874	19,748
Total adjustments	<u>222,026</u>	<u>874,097</u>	<u>1,096,123</u>
Net cash provided by operating activities	<u>\$ 701,261</u>	<u>\$ 695,720</u>	<u>\$ 1,396,981</u>

See notes to financial statements.

**CITY OF DUNNELLON, FLORIDA
PENSION TRUST FUNDS
STATEMENT OF NET POSITION
September 30, 2015**

	<u>Pension Trust Funds</u>
Assets	
Cash and investments	\$ 3,068,108
Total assets	<u>\$ 3,068,108</u>
Net position	
Reserved for:	
Employees' pension benefits	\$ 3,068,108
Total net position	<u>\$ 3,068,108</u>

See notes to financial statements.

CITY OF DUNNELLON, FLORIDA
PENSION TRUST FUNDS
STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Year Ended September 30, 2015

	<u>Pension Trust Funds</u>
Additions	
Contributions	
Employer	\$ 111,462
Forfeitures applied	(58,627)
Net employer contributions	<u>52,835</u>
State	38,556
Employee	<u>51,888</u>
Total contributions	<u>143,279</u>
Net investment income	423
Total additions	<u>143,702</u>
Deductions	
Pension benefit payments and refunds	(92,604)
General and administrative	(16,069)
Total deductions	<u>(108,673)</u>
Increase in net position	<u>35,029</u>
Net position reserved for employees'	
Pension benefits:	
Net position, beginning of year	<u>3,033,079</u>
Net position, end of year	<u>\$ 3,068,108</u>

See notes to financial statements.

CITY OF DUNNELLON, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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

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

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

Blended component unit. The financial activity of the City of Dunnellon, Florida Community Redevelopment Agency (the Agency), is included in the financial reporting entity as a blended component unit. The Agency was established by Ordinances #00-3 and #2011-07 as provided in Chapter 163, *Florida Statutes*, for the fostering of economic development in the downtown area of the City. The City Council serves as the Agency's governing board. The Agency is fiscally dependent on the City, and the City Council approves the Agency's annual budget as a component of the City's budget. The Agency is presented as a governmental fund type.

1. Government-wide and Fund Financial Statements

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

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

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

statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues.

2. Fund Financial Statements

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

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

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

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

Special Revenue Fund

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

Proprietary Funds

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

- Sewer Fund
- Water Fund

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.

Implementation of New GASB Pronouncements

In fiscal year 2014-15 the City adopted the following new accounting standard in order to conform to the following Governmental Accounting Standards Board Statement:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, effective for periods beginning after June 15, 2014, replaces the requirements of GASB Statements Nos. 27 and 50 as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The standard requires government employers to recognize as a liability, for the first time, their long-term obligation for pension benefits. The employer liability is to be measured as the difference between the present value of projected benefit payments to be provided through the pension plan for past periods of service less the amount of the pension plan's fiduciary net position. Obligations for employers with cost sharing plans will be based on their proportionate share of contributions to the pension plan. The standard also requires more immediate recognition of annual service cost, interest and changes in benefits for pension expense; specifies requirements for discount rates, attribution methods; and changes disclosure requirements. The impact on the financial statements was a decrease in the beginning net position as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Net position, beginning of year, as previously reported	\$ 3,523,435	\$ 13,610,080
Restatement of net pension liability	(186,197)	(73,058)
Net position, beginning of year, as restated	<u>\$ 3,337,238</u>	<u>\$ 13,537,022</u>

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 2015 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*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, 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 \$19,801 for 2015. 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City only has two items that qualify for reporting in this category. The first is the deferred charge on pensions in the government-wide statement of net position. Deferred outflows on pensions are recorded when actual earnings on pension plan investments exceed projected earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred outflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the City's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan. Contributions to pension plans made subsequent to the measurement date are also deferred and reduce net pension liability in the subsequent year. The second is the deferred charge of bond issue costs. Bond issue costs include the professional fees and registration fees associated with the issuance of bonds. These amounts will be amortized over the life of the bonds.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which is related to pensions. Deferred inflows on pension plan investments exceed actual earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred inflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the City's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan.

Due from Other Governments

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

Capital Assets

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

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

Construction interest cost is generally not capitalized; approximately \$397 in such interest was expensed during the fiscal year.

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

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

Transfers

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

Compensated Absences

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

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

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

Property Taxes

Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of the state regulating tax assessment are also designed to assure a consistent property valuation method statewide. Florida Statutes permit municipalities to levy property taxes at a rate of up to 10 mills. The millage rate assessed by the City for the fiscal year ended September 30, 2015 was 7.5000 mills.

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

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

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

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

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

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

Franchise Fees

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

Capital Grants and Contributions

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

Fund Balances

A. Governmental Funds

As of September 30, 2015, fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned – all other spendable amounts.

As of September 30, 2015, fund balances are composed of the following:

Restricted for:	
Downtown redevelopment	\$ 206,972
Roads and streets, operating	659,070
Roads and streets, capital projects	958,004
Public safety	53,472
Committed for:	
Public safety	12,113
Infrastructure	56,247
Cemetery perpetual care	53,403
Tree fund	1,048
Emergency reserve	11,211
Assigned for:	
Capital improvements, public safety, buildings	156,748
Unassigned	412,607
	<u>\$ 2,580,895</u>

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

B. Proprietary Funds

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

As of September 30, 2015, net position balances are composed of the following:

	Amount
Invested in capital assets, net	\$ 11,813,111
Restricted, debt service	812,196
Restricted, capital projects	1,649,863
Unrestricted (deficit)	(50,408)
	<u>\$ 14,224,762</u>

Cash and Cash Equivalents

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

NOTE 2. CASH DEPOSITS AND INVESTMENTS

For the fiscal year ending September 30, 2015, 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, 2015, were held by qualified public depositories within the state of Florida and are considered to be fully insured. Total deposits as of September 30, 2015, are \$5,479,548.

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, 2015, the City had the following investments and maturities:

<u>Investment</u>	<u>Fair Value</u>
State Board of Administration (SBA)	
Local Government Surplus Funds Trust Fund	\$ 145,939
Pension Funds	
Florida Municipal Pension Trust Fund - Firefighters and	
Police Officers (FMIvT)	2,057,414
Florida Municipal Pension Trust Fund - General Employees (CitiStreet)	<u>1,010,694</u>
Total	<u>3,214,047</u>
Cash deposits	5,479,548
Total cash and investments	<u><u>\$ 8,693,595</u></u>

As shown on the accompanying financial statements as:

Cash and investments - entity-wide	\$ 5,625,487
Cash and investments - fiduciary funds	<u>3,068,108</u>
Total cash and investments	<u><u>\$ 8,693,595</u></u>

State Board of Administration

Investments placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pool created by Sections 218.405 and 218.417, *Florida Statutes*, is not registered with the Securities and Exchange Commission. The local investments operate under the guidelines established by Section 218.415, *Florida Statutes*. The Council's investments in the Pool, which the State Board of Administration indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of September 30, 2015, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

Credit Risk

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

Florida Municipal Pension Trust Fund – Police and Firefighters Pension Fund

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

Florida Municipal Pension Trust Fund – General Employees’ Pension Fund

<i>Fixed Income Funds:</i>	<u>Fitch Rating</u>
Mellon Stable Value M	Not Rated
Vanguard Intermediate Bond Index	Not Rated
Vanguard Prime Money Market Instal	Not Rated
Vanguard Total Bond Market Index	Not Rated
Vanguard Long-term Treasury	Not Rated
Vanguard Inflation-Protected Securities	Not Rated

Custodial Credit Risk

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

Interest Rate Risk

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

Florida Municipal Pension Trust Fund – Police and Firefighters Pension Fund

<i>Fixed Income Funds:</i>	<u>Average Maturity</u>
FMIvT Broad Market High Quality Bond Portfolio	5.98 years
FMIvT Core Plus Fixed Income Fund	5.41 years

Florida Municipal Pension Trust Fund – General Employees’ Pension Fund

<i>Fixed Income Funds:</i>	<u>Average Maturity</u>
Mellon Stable Value M	2.51 years average
Vanguard Intermediate Bond Index	7.30 years average
Vanguard Prime Money Market Instal	Data is not available
Vanguard Total Bond Market Index	7.70 years average
Vanguard Long-term Treasury	24.30 years average
Vanguard Inflation-Protected Securities	8.60 years average

<i>Lifestyle Funds:</i>	
Vanguard Wellington Adm	9.20 years average
Vanguard Target Retirement Income	6.71 years average
Vanguard Target Retirement 2010	6.82 years average
Vanguard Target Retirement 2015	7.16 years average
Vanguard Target Retirement 2020	7.76 years average
Vanguard Target Retirement 2025	7.76 years average
Vanguard Target Retirement 2025	7.76 years average
Vanguard Target Retirement 2030	7.76 years average
Vanguard Target Retirement 2035	7.76 years average
Vanguard Target Retirement 2040	7.76 years average
Vanguard Target Retirement 2045	7.76 years average
Vanguard Target Retirement 2050	7.76 years average
Vanguard Target Retirement 2055	7.76 years average

State Board of Administration Investments	
Surplus Funds Trust Fund Investment Pool	29 day average

Concentration Risk

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

NOTE 3. RECEIVABLE AND PAYABLE BALANCES

Receivables

Receivables at September 30, 2015 were as follows:

	Accounts	Due from Other Governmental Units	Total
Governmental activities:			
General	\$ 64,542	\$ 74,915	\$ 139,457
Business-type activities;			
Water	91,356	2,460	93,816
Sewer	134,104	113,059	247,163
	<u>\$ 290,002</u>	<u>\$ 190,434</u>	<u>\$ 480,436</u>

Payables

	Accounts	Accrued Liabilities	Total
Governmental activities:			
General	\$ 50,527	\$ 61,124	\$ 111,651
Tax Increment Financing District	225	2,344	2,569
Business-type activities;			
Water	16,444	21,510	37,954
Sewer	37,656	25,047	62,703
	<u>\$ 104,852</u>	<u>\$ 110,025</u>	<u>\$ 214,877</u>

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2015, was as follows:

	Beginning Balance	Increases	Disposals	Reclassifications /Adjustments	Ending Balance
Governmental Activities					
Capital assets not being depreciated:					
Land and improvements	\$ 3,210,071	\$ -	\$ -	\$ -	\$ 3,210,071
Construction in progress	-	-	-	-	-
Total capital assets not being depreciated	<u>3,210,071</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,210,071</u>
Capital assets being depreciated:					
Buildings	1,087,664	-	(5,412)	-	1,082,252
Improvements other than buildings	840,362	-	-	-	840,362
Furniture, equipment and machinery	2,248,985	15,075	(209,944)	-	2,054,116
Total capital assets being depreciated	<u>4,177,011</u>	<u>15,075</u>	<u>(215,356)</u>	<u>-</u>	<u>3,976,730</u>
Less accumulated depreciation:					
Buildings	(477,219)	(30,358)	5,412	-	(502,165)
Improvements other than buildings	(354,994)	(34,801)	-	-	(389,795)
Furniture, equipment and machinery	(2,097,038)	(69,717)	209,944	-	(1,956,811)
Total accumulated depreciation	<u>(2,929,251)</u>	<u>(134,876)</u>	<u>215,356</u>	<u>-</u>	<u>(2,848,771)</u>
Total capital assets being depreciated, net	<u>1,247,760</u>	<u>(119,801)</u>	<u>-</u>	<u>-</u>	<u>1,127,959</u>
Governmental activities capital assets, net	<u>\$ 4,457,831</u>	<u>\$ (119,801)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,338,030</u>
Business-type activities:					
Capital assets not being depreciated:					
Land and improvements	\$ 274,835	\$ -	\$ -	\$ 4,534	\$ 279,369
Construction in progress	188,747	464,613	-	(102,747)	550,613
Total capital assets not being depreciated	<u>463,582</u>	<u>464,613</u>	<u>-</u>	<u>(98,213)</u>	<u>829,982</u>
Capital assets being depreciated:					
Buildings and improvements	787,432	-	(22,815)	-	764,617
Improvements other than building	29,702,148	1,072,408	(629,104)	98,214	30,243,666
Machinery and equipment	891,585	-	(165,057)	-	726,528
Total capital assets being depreciated	<u>31,381,165</u>	<u>1,072,408</u>	<u>(816,976)</u>	<u>98,214</u>	<u>31,734,811</u>
Less accumulated depreciation:					
Buildings and improvements	(1,063,304)	(23,282)	22,815	-	(1,063,771)
Improvements other than building	(5,513,279)	(1,116,110)	629,104	1,398	(5,998,887)
Equipment	(922,909)	(35,045)	165,057	-	(792,897)
Total accumulated depreciation	<u>(7,499,492)</u>	<u>(1,174,437)</u>	<u>816,976</u>	<u>1,398</u>	<u>(7,855,555)</u>
Total capital assets being depreciated, net	<u>23,881,673</u>	<u>(102,029)</u>	<u>-</u>	<u>99,612</u>	<u>23,879,256</u>
Business-type activities capital assets, net	<u>\$ 24,345,255</u>	<u>\$ 362,584</u>	<u>\$ -</u>	<u>\$ 1,399</u>	<u>\$ 24,709,238</u>
Depreciation expense:					
Governmental activities					
General government and administration					\$ 41,283
Public safety					62,226
Physical environment					107
Transportation					8,075
Culture and recreation					23,185
Total depreciation expense - governmental activities					<u>\$ 134,876</u>
Business-type activities					
Water					\$ 264,398
Sewer					910,038
Total depreciation expense - business-type activities					<u>\$ 1,174,436</u>

NOTE 7. LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
Revenue bonds payable	\$ 3,193,750	\$ -	\$ (175,000)	\$ 3,018,750	\$ 175,000
Compensated absences	145,490	98,124	(121,175)	122,439	79,585
OPEB payable	31,111	3,849	-	34,960	-
Net pension liability	-	154,528	-	154,528	24,023
Total Governmental Activities	\$ 3,370,351	\$ 256,501	\$ (296,175)	\$ 3,330,677	\$ 278,608
Business-type Activities					
State revolving loan	\$ 27,531	\$ -	\$ (13,644)	\$ 13,887	\$ 13,887
Revenue bonds payable	13,437,950	-	(555,710)	12,882,240	570,565
Compensated absences	168,405	55,229	(58,011)	165,623	107,655
OPEB payable	8,888	2,152	-	11,040	-
Net pension liability	-	60,632	-	60,632	9,342
Total business-type activities	\$ 13,642,774	\$ 118,013	\$ (627,365)	\$ 13,133,422	\$ 701,449

A. Governmental Activities

Telecommunications Revenue Bonds

On November 18, 2010, the City closed on bond issues from Regions Bank in the amounts of \$3,300,000 and \$2,200,000 with terms ranging to 15 years. These proceeds were utilized to construct the City's telecommunications utility. Although certain general revenues were pledged on this debt, the City anticipated full repayment to be made from future telecommunications revenues. In November 2012, the City refinanced the bond in the amount of \$2,200,000, extending repayment from five years to 10 years, with an interest rate of 3.20%, requiring a down payment of \$275,000. The City was also issued a line of credit from Regions Bank in the amount of \$1,850,000 with the terms due in one year. These proceeds were utilized to cover operating expenses of the City's telecommunications utility. At September 30, 2013 the balance on this loan was \$1,650,000. In November 2012, the City signed an extension which required a down payment of \$200,000 with the remaining balance plus interest due on November 1, 2013. On March 31, 2014, the City signed a settlement agreement which restructured the debt to a total amount due of \$3,468,750. A new payment schedule provided for a payment of \$200,000 due no later than April 1, 2014, followed by another payment of \$75,000 due no later than September 1, 2014. Subsequent payments in the amount of \$43,750 shall be paid quarterly beginning on December 31, 2014 and continue through and including December 31, 2032. The effective interest rate is 0.0%. The terms of this arrangement are contingent upon timely payments. Maturity on this bond agreement for the years ending September 30, is as follows:

September 30	Principal	Interest	Total
2016	\$ 175,000	\$ -	\$ 175,000
2017	175,000	-	175,000
2018	175,000	-	175,000
2019	175,000	-	175,000
2020	175,000	-	175,000
2021 - 2025	875,000	-	875,000
2026 - 2030	875,000	-	875,000
2031 - 2033	393,750	-	393,750
	\$ 3,018,750	\$ -	\$ 3,018,750

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

B. Business-type Activities

Water/Sewer Improvement Revenue Bonds

On December 27, 2010, the City closed on a bond issue from Regions Bank in the total amount of \$7,952,033. The proceeds of the bond issue were used to retire the USDA financing totaling \$559,000 with the balance used in the ongoing sewer improvement project. In February 2013, the City entered into an extension agreement with Regions Bank in order to facilitate the remaining draw down of the revenue bonds. This balance is to be used in ongoing sewer and water improvement projects. Maturity of this bond agreement for the years ending September 30, are as follows:

Revenue Bond 2010A

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 22,286	\$ 15,328	\$ 37,614
2017	23,041	14,559	37,600
2018	23,822	13,765	37,587
2019	24,630	12,944	37,574
2020	25,465	12,095	37,560
2021 - 2025	140,872	46,695	187,567
2026	203,170	3,444	206,614
	<u>\$ 463,286</u>	<u>\$ 118,830</u>	<u>\$ 582,116</u>

Revenue Bond 2013

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 278,279	\$ 221,700	\$ 499,979
2017	287,713	212,106	499,819
2018	297,466	202,188	499,654
2019	307,550	191,933	499,483
2020	317,977	181,330	499,307
2021 - 2025	1,759,070	734,593	2,493,663
2026	3,430,899	58,144	3,489,043
	<u>\$ 6,678,954</u>	<u>\$ 1,801,994</u>	<u>\$ 8,480,948</u>

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

Branch Bank & Trust Bond

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 270,000	\$ 147,972	\$ 417,972
2017	5,470,000	72,204	5,542,204
	<u>\$ 5,740,000</u>	<u>\$ 220,176</u>	<u>\$ 5,960,176</u>

State Revolving Loan (SRL)

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

reserve in the amount of \$33,333 has been established as required by the loan agreement. In February 2007, the City began making semiannual loan repayments with interest of 1.91% for Phase 1 and 1.77% for Phase 2 over the next twenty years. An amendment in July of 2011 reduced the amount of the loan by \$1,546,868. The City continued making semiannual loan repayments. The balance of this loan is \$13,887 as of September 30, 2015. The City expects to pay this remaining amount due subsequently to the fiscal year end.

Annual Requirements to Retire Long-term Debt

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

Year	Business-type Activities		Total Interest	Total Debt Service
	Principal			
	Bonds	SRL		
2016	\$ 570,565	\$ 13,887	\$ 385,245	\$ 969,697
2017	5,780,754	-	298,870	6,079,624
2018	321,289	-	215,952	537,241
2019	332,180	-	204,876	537,056
2020	343,441	-	193,424	536,865
2021 - 2025	1,899,942	-	781,287	2,681,229
2026	3,634,069	-	61,597	3,695,666
Total	<u>\$ 12,882,240</u>	<u>\$ 13,887</u>	<u>\$ 2,141,251</u>	<u>\$ 15,037,378</u>

NOTE 8. LEGAL COMPLIANCE AND ACCOUNTABILITY

At year end, the Water Fund had a deficit net position of \$151,068. This deficit was the result of prior year operating income insufficient to cover operating expenses related to annual depreciation on assets. In addition, the City lost a lawsuit against them which resulted in a significant loss being recorded in the Water and Sewer Fund. This deficit was significantly reduced by current year operating income resulting in a change in net position of \$298,949. The remaining deficit is expected to be fully recovered by the subsequent fiscal year operations.

NOTE 9. OPERATING LEASES

The City has various operating leases for office equipment under non-cancellable operating lease agreements. Lease expenditures for the year ended September 30, 2015, amounted to \$7,732. The future minimum lease payments for leases are as follows:

Year ending September 30,	Amount
2016	\$ 8,272
2017	5,151
2018	5,151
2019	3,123
	<u>\$ 21,697</u>

NOTE 10. DEFINED BENEFIT/DEFINED CONTRIBUTION PENSION PLANS

Florida Retirement System

General Information - All full-time employees of the City hired prior to January 1, 1996, participate in the Florida Retirement System (FRS). As provided by Chapters 121 and 112, Florida Statutes, the FRS provides two cost sharing, multiple employer defined benefit plans administered by the Florida Department of Management Services, Division of Retirement, including the FRS Pension

Plan (“Pension Plan”) and the Retiree Health Insurance Subsidy (“HIS Plan”). Under Section 121.4501, Florida Statutes, the FRS also provides a defined contribution plan (“Investment Plan”) alternative to the FRS Pension Plan, which is administered by the State Board of Administration (“SBA”). As a general rule, membership in the FRS is compulsory for all employees working in a regularly established position for a state agency, county government, City school board, state university, community college, or a participating city or special City within the State of Florida. The FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 121, Florida Statutes, and Chapter 60S, Florida Administrative Code. Amendments to the law can be made only by an act of the Florida State Legislature.

The State of Florida annually issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. The latest available report may be obtained by writing to the State of Florida Division of Retirement, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or from the Web site: www.dms.myflorida.com/workforce_operations/retirement/publications.

A. Pension Plan

Plan Description – The Pension Plan is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program (“DROP”) for eligible employees.

Benefits Provided - Benefits under the Pension Plan are computed on the basis of age, average final compensation, and service credit. For Pension Plan members enrolled before July 1, 2011, Regular class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service. Vested members with less than 30 years of service may retire before age 62 and receive reduced retirement benefits. Special Risk Administrative Support class members who retire at or after age 55 with at least six years of credited service or 25 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service. Special Risk class members (sworn law enforcement officers, firefighters, and correctional officers) who retire at or after age 55 with at least six years of credited service, or with 25 years of service regardless of age, are entitled to a retirement benefit payable monthly for life, equal to 3.0% of their final average compensation based on the five highest years of salary for each year of credited service. Senior Management Service class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 2.0% of their final average compensation based on the five highest years of salary for each year of credited service. Elected Officers’ class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 3.0% (3.33% for judges and justices) of their final average compensation based on the five highest years of salary for each year of credited service.

For Plan members enrolled on or after July 1, 2011, the vesting requirement is extended to eight years of credited service for all these members and increasing normal retirement to age 65 or 33 years of service regardless of age for Regular, Senior Management Service, and Elected Officers’ class members, and to age 60 or 30 years of service regardless of age for Special Risk and Special Risk Administrative Support class members. Also, the final average compensation for all these members will be based on the eight highest years of salary.

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the Pension Plan before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is three percent per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of three percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by three percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

In addition to the above benefits, the DROP program allows eligible members to defer receipt of monthly retirement benefit payments while continuing employment with a FRS employer for a period not to exceed 60 months after electing to participate. Deferred monthly benefits are held in the FRS Trust Fund and accrue interest. There are no required contributions by DROP participants

Contributions – Effective July 1, 2011, all enrolled members of the FRS, other than DROP participants, are required to contribute three percent of their salary to the FRS. In addition to member contributions, governmental employers are required to make contributions to the FRS based on state-wide contribution rates established by the Florida Legislature. These rates are updated as of July 1 of each year. The employer contribution rates by job class for the periods from October 1, 2014 through June 30, 2015 and from July 1, 2015 through September 30, 2015, respectively, were as follows: Regular—7.37% and 7.26%; Special Risk Administrative Support—42.07% and 32.95%; Special Risk—19.82% and 22.04%; Senior Management Service—21.14% and 21.43%; Elected Officers’—43.24% and 42.27%; and DROP participants—12.28% and 12.88%. These employer contribution rates include 1.26% and 1.66% HIS Plan subsidy for the periods October 1, 2014 through June 30, 2015 and from July 1, 2015 through September 30, 2015, respectively.

The City’s contributions, including employee contributions, to the Pension Plan totaled \$24,148 for the fiscal year ended September 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2015, the City reported a liability of \$124,862 for its proportionate share of the Pension Plan’s net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The City’s proportionate share of the net pension liability was based on the City’s 2014-15 fiscal year contributions relative to the 2013-14 fiscal year contributions of all participating members. At June 30, 2015, the City’s proportionate share was 0.000966695 percent, which was an increase (decrease) of (0.000024461) percent from its proportionate share measured as of June 30, 2014.

For the fiscal year ended September 30, 2015, the City recognized pension expense of \$10,020. In addition the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 13,182	\$ 2,961
Changes in assumptions	8,287	-
Net difference between projected and actual earnings on Pension Plan investments	-	29,775
Changes in proportion and differences between City Pension Plan contributions and proportionate share of contributions	-	26,192
City Pension Plan contributions subsequent to the measurement date	5,389	-
Total	\$ 26,858	\$ 58,928

The deferred outflows of resources related to the Pension Plan, totaling \$5,389 resulting from City contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pension Plan will be recognized in pension expense as follows:

Fiscal Year Ending September 30	Amount
2016	(32,723)
2017	(32,723)
2018	(32,723)
2019	48,768
2020	9,471
Thereafter	2,472
	\$ (37,459)

Actuarial Assumptions – The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumption, applied to all period included in the measurement:

Inflation	2.60 %
Salary increases	3.25%, average, including inflation
Investment rate of return	7.65%, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013 completed in 2014.

The long-term expected rate of return on Pension Plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions and includes an adjustment for the inflation assumption. The target allocation and best estimates

of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.00%	3.11%	3.10%	1.65%
Intermediate - Term Bonds	18.00%	4.18%	4.05%	5.15%
High Yield Bonds	3.00%	6.79%	6.25%	10.95%
Broad U.S. Equities	26.50%	8.51%	6.95%	18.90%
Developed Foreign Entities	21.20%	8.66%	6.85%	20.40%
Emerging Market Equities	5.30%	11.58%	7.60%	31.15%
Private Equity	6.00%	11.80%	8.11%	30.00%
Hedge Funds/Absolute Return	7.00%	5.81%	5.35%	10.00%
Real Estate (Property)	12.00%	7.11%	6.35%	13.00%
Total	100.00%			
Assumed Inflation - Mean		2.60%		2.00%

(1) As outlined in the Pension Plan's investment policy

Discount Rate - The discount rate used to measure the total pension liability was 7.65%. The Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculation the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the City's Proportionate Share of the Net Position Liability to Changes in the Discount Rate - The following represents the City's proportionate share of the net pension liability calculated using the discount rate of 7.65%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.65%) or one percentage point higher (8.65%) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
City's proportionate share of the net pension liability	\$ 323,545	\$ 124,862	\$ (40,475)

Pension Plan Fiduciary Net Position - Detailed information regarding the Pension Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan - At September 30, 2015, the City had \$2,385 payable for outstanding contributions to the Pension Plan required for the fiscal year ended September 30, 2015.

B. HIS Plan

Plan Description - The HIS Plan is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida legislature at any time. The benefit is a monthly payment to assist retirees of State-administered

retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

Benefits Provided – For the fiscal year ended September 30, 2015, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month. To be eligible to receive these benefits, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Contributions – The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2015, the HIS contribution for the period October 1, 2014 through June 30, 2015 and from July 1, 2015 through September 30, 2015 was 1.26% and 1.66%, respectively. The City contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

The City’s contributions to the HIS Plan totaled \$3,608 for the fiscal year ended September 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2015, the City reported a liability of \$90,298 for its proportionate share of the HIS Plan’s net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The City’s proportionate share of the net pension liability was based on the City’s 2014-15 fiscal year contributions relative to the 2013-14 fiscal year contributions of all participating members. At June 30, 2015, the City’s proportionate share was 0.000885410 percent, which was an increase (decrease) of (0.000019486) percent from its proportionate share measured as of June 30, 2014.

For the fiscal year ended September 30, 2015, the City recognized pension expense of \$1,497. In addition the City reported deferred outflows of resources and deferred in flows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	7,104	-
Net difference between projected and actual earnings on HIS Plan investments	9	-
Changes in proportion and differences between City HIS Plan contributions and proportionate share of contributions	-	2,232
City HIS Plan contributions subsequent to the measurement date	1,022	-
Total	<u>\$ 8,135</u>	<u>\$ 2,232</u>

The deferred outflows of resources related to the HIS Plan, totaling \$1,022 resulting from City contributions to the HIS Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan will be recognized in pension expense as follows:

Fiscal Year Ending September 30	Amount
2016	\$ 844
2017	844
2018	844
2019	837
2020	834
Thereafter	677
	\$ 4,881

Actuarial Assumptions – The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 %
Salary increases	3.25%, average, including inflation
Municipal bond rate	4.29 %

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

Discount Rate - The discount rate used to measure the total pension liability was 4.29%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the City's Proportionate Share of the Net Position Liability to Changes in the Discount Rate - The following represents the City's proportionate share of the net pension liability calculated using the discount rate of 4.29%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (3.29%) or one percentage point higher (5.29%) than the current rate:

	1% Decrease (3.29%)	Current Discount Rate (4.29%)	1% Increase (5.29%)
City's proportionate share of the net pension liability	\$ 102,890	\$ 90,298	\$ 79,798

Fiduciary Net Position - Detailed information regarding the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan - At September 30, 2015, the City had \$356 payable for outstanding contributions to the HIS Plan required for the fiscal year ended September 30, 2015.

C. Investment Plan

The SBA administers the defined contribution plan officially titled the FRS Investment Plan. The investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. City employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected City Officers, etc.), as the Pension Plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of plan members. Allocations to the investment member's accounts during the 2014-15 fiscal year, as established by Section 121.72, Florida Statutes, are based on a percentage of gross compensation, by class, as follows: Regular class 6.30%, Special Risk Administrative Support class 7.95%, Special Risk class 14.00%, Senior Management Service class 7.67% and City Elected Officers class 11.34%.

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the Pension Plan is transferred to the Investment Plan, the member must have the years of service required for Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to five years. If the employee returns to FRS-covered employment within the five-year period, the employee will regain control over their account. If the employee does not return within the five-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended September 30, 2015, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the City.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided; the member may either transfer the account balance to the Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The City did not have any participants in the Investment Plan for the fiscal year ended September 30, 2015.

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, 2015, there were 33 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 for years served and purchased before October 1, 2011, and 2.5% of their final monthly compensation for years served and purchased after September 30, 2011. 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, 2015. The City is required to contribute the remaining amounts necessary to fund the plan, using the actuarial determined amounts. Insurance excise taxes remitted by the state to the pension plan are available to offset City contributions up to the 1997 base amount. The increment above the base amount is to provide extra benefits to the firefighters and police officers.

As of the most recent actuarial reports dated October 1, 2013, the plan had the following number of participants:

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

Annual Pension Costs and Net Pension Liability

Net Pension Liability as of October 1, 2013

Total pension liability	\$ 934,534
Less fiduciary net position	<u>(1,632,551)</u>
Net pension liability (excess)	<u><u>\$ (698,017)</u></u>

The City's annual pension costs and net pension obligation to the Firefighters' and Police Officers' Defined Benefit Plan based on the most recent actuarial information (valuation date October 1, 2013) was as follows:

Service cost	\$ 106,900
Other recognized changes in net pension liability:	
Expected interest growth	(47,703)
Investment gain/loss	-
Demographic gain/loss	-
Employee contributions	(6,149)
Benefit payments and refunds	-
Administrative expense	10,761
Changes in benefit terms	-
Assumption changes	-
Pension expense	<u><u>\$ 63,809</u></u>

Other Pension Plan Information

The annual required contribution for the current year was determined as part of the October 1, 2013. The actuarial assumptions include the following:

- Interest (or Discount) Rate – 8.07% per annum (3.59% per annum is attributable to long-term inflation)
- Salary Increases – Plan compensation is assumed to increase at the rate of 4% per annum, unless actual plan compensation is known for a prior plan year.
- Cost-of-living increases – None assumed
- Mortality basis – Sex-distinct rates set forth in the RP-2000 Mortality Table for annuitants, projected to 2015 by Scale AA, as published in the Internal Revenue Service for purpose of Internal Revenue Code section 430; future generational improvements in mortality have not been reflected.
- Retirement – Retirement is assumed to occur at the most valuable retirement age.
- Decrements – None assumed
- Non-investment expense – 1.75% of future payroll
- Future contributions – Contributions from the employer and employees are assumed to be made as legal required; employer contributions are assumed equal to \$82,861 for the fiscal year.
- Changes – The actuarial assumptions did not change from the prior measurement date since GASB 67 is first effective for this measurement period.

Determination of the Long-Term Expected Rate of Return on Plan Assets

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Expected Long-term Real Return</u>
Core bonds	16.00%	2.29% per annum
Multi-sector	24.00%	2.78% per annum
U.S. large cap equity	39.00%	5.68% per annum
U.S. small cap equity	11.00%	6.24% per annum
Non-U.S. equity	10.00%	5.44% per annum
Total or weighted arithmetic average	100.00%	4.48% per annum

Comparison of Net Pension Liability Using Alternate Discount Rates

	<u>Discount Rate</u>	<u>8.07% Discount</u>	<u>Discount Rate</u>
	<u>Minus 1.00%</u>	<u>Rate</u>	<u>Plus 1.00%</u>
Total pension liability	1,060,610	934,534	813,812
Less fiduciary net position	(1,632,551)	(1,632,551)	(1,632,551)
Net pension liability	<u>\$ (571,941)</u>	<u>\$ (698,017)</u>	<u>\$ (818,739)</u>

Schedule of Changes in Pension Plan Net Position as of September 30, 2015

	<u>Pension Trust Funds</u>		<u>Total</u>
	<u>General Employees</u>	<u>Special Risk</u>	
Assets			
Cash and investments	\$ 1,010,694	\$ 2,057,414	\$ 3,068,108
Total assets	<u>1,010,694</u>	<u>2,057,414</u>	<u>3,068,108</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net assets			
Reserved for:			
Employees' pension benefits	1,010,694	2,057,414	3,068,108
Total liabilities and net assets	<u>\$ 1,010,694</u>	<u>\$ 2,057,414</u>	<u>\$ 3,068,108</u>
Additions			
Contributions:			
Employer	\$ 84,767	\$ 26,695	\$ 111,462
(Forfeitures applied)	(58,627)	-	(58,627)
Net employer contributions	26,140	26,695	52,835
State	-	38,556	38,556
Employee	52,514	(626)	51,888
Total contributions	<u>78,654</u>	<u>64,625</u>	<u>143,279</u>
Investment income	354	69	423
Net investment income*	354	69	423
Total additions	<u>79,008</u>	<u>64,694</u>	<u>143,702</u>
Deductions			
Pension benefit payment and refunds	(68,705)	(23,899)	(92,604)
General and administrative	(5,788)	(10,281)	(16,069)
Total deductions	<u>(74,493)</u>	<u>(34,180)</u>	<u>(108,673)</u>
Increase in fiduciary net assets	<u>4,515</u>	<u>30,514</u>	<u>35,029</u>
Net assets reserved for employees pension benefit			
Beginning of year	1,006,179	2,026,900	3,033,079
End of year	<u>\$ 1,010,694</u>	<u>\$ 2,057,414</u>	<u>\$ 3,068,108</u>

Other Post-Employment Benefits (OPEB)

Pursuant to Section 112.0801, *Florida Statutes*, The City is required to permit participation in the single-employer health insurance program (the "Plan") by retirees and their eligible dependents at

a cost to the retiree that is no greater than the cost at which coverage is available for active employees.

Based on Governmental Accounting Standards Board (GASB) approval of Statement Nos. 43 and 45 which set forth the guidelines and a future implementation timetable for reporting and disclosure of Other Post-Employment Benefits (OPEB), the City had an actuary calculate future funding requirements using an appropriate actuarial cost method. The valuation was performed as of October 1, 2011 and covers the subsidies for medical and life insurance benefits. The City has elected to implement the provisions of GASB Statement No. 45 prospectively. The City's annual OPEB cost for the Plan is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The projected unit credit cost method was used to determine all liabilities, with the liability for each active employee assumed to accrue over the working lifetime based on elapsed time from the date of hire until retirement.

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

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

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

Currently, the City's subsidy to OPEB benefits is unfunded. There are no separate Trust Funds or equivalent arrangements into which the City makes contributions to advance-fund the OPEB obligations, as it does for its retiree pension plans. The City's cost of the OPEB benefits, funded on a pay-as-you-go basis, was \$6,000 for the year ended September 30, 2015.

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

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

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

Assumed healthcare cost trend rates:

Healthcare cost trend rate(s):

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

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

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

Annual OPEB cost and Net OPEB Obligation. The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize the actuarial liabilities (or funding excess) over a period not to exceed 10 years. The City's annual OPEB cost for the fiscal year was \$6,000.

The City's annual OPEB cost and the net OPEB obligation for the fiscal year ended September 30, 2015 is as follows:

Annual required contribution (ARC).....	\$ 12,000
Interest on the net OPEB obligation.....	2,000
Adjustment to the ARC.....	<u>(5,000)</u>
	9,000
Employer contributions.....	(3,000)
Interest on employer contributions.....	<u>-</u>
	6,000
Net OPEB obligation - beginning of year.....	<u>40,000</u>
Net OPEB obligation - end of year.....	<u><u>\$ 46,000</u></u>

The City's percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ended September 30, 2015 is as follows:

A. Schedule of Employer Contributions

<u>Year Ended</u> <u>September 30</u>	<u>ARC</u>	<u>%</u> <u>Contributed</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>%</u> <u>Contributed</u>
2013	\$ 12,000	0%	\$ 9,000	0%
2014	12,000	0%	9,000	0%
2015	12,000	0%	9,000	0%

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

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

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

B. Schedule of Funding Progress

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

NOTE 11. COMMITMENTS AND CONTINGENCIES

Grants and Loans

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

NOTE 12. RISK MANAGEMENT

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

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

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

The City is covered for health insurance under a group policy with a commercial carrier with premiums reassessed annually.

NOTE 13. 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 14. LITIGATION

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

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

The implementation of GASB 68 requires employers participating in cost-sharing defined benefit pension plans to report their proportionate share of the total net pension liability and deferred outflows/inflows of resources for the plan on their government-wide financial statements. This resulted in the following adjustments:

Deferred outflows	\$	19,599
Deferred inflows		(133,766)
Net pension liability		(145,085)
Net position		259,252
	\$	-

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUND – GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2015

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Taxes				
Ad valorem	\$ 904,335	\$ 904,335	\$ 906,265	\$ 1,930
Local option gas tax	287,769	287,769	301,519	13,750
Franchise tax:				
Electricity	165,000	165,000	193,097	28,097
Communication service tax	111,388	111,388	97,230	(14,158)
Utility tax :				
Electricity	214,200	214,200	227,924	13,724
Propane	24,432	24,432	28,488	4,056
Total taxes	<u>1,707,124</u>	<u>1,707,124</u>	<u>1,754,523</u>	<u>47,399</u>
Licenses and permits				
Professional and occupational	23,139	23,139	24,156	1,017
Building permits	44,628	44,628	114,188	69,560
Other licenses and permits	7,980	7,980	21,635	13,655
Total licenses and permits	<u>75,747</u>	<u>75,747</u>	<u>159,979</u>	<u>84,232</u>
Intergovernmental revenue				
State, federal and local grants	1,620	1,620	9,551	7,931
State shared revenues:				
State revenue sharing	59,478	59,478	60,106	628
Mobile home licenses	7,954	7,954	7,478	(476)
Alcoholic beverage licenses	4,123	4,123	5,415	1,292
Local government one-half cent sales tax	107,472	107,472	111,052	3,580
Motor fuel tax	19,678	19,678	19,585	(93)
Motor fuel tax rebate	2,000	2,000	2,805	805
Total intergovernmental revenue	<u>202,325</u>	<u>202,325</u>	<u>215,992</u>	<u>13,667</u>
Charges for services				
Copying and records search	300	300	1,002	702
Garbage and solid waste	164,137	164,137	175,747	11,610
Cemetery fees	1,177	1,177	4,033	2,856
City beach user fees	750	750	716	(34)
Other miscellaneous charges	17,044	17,044	35,928	18,884
Total charges for services	<u>183,408</u>	<u>183,408</u>	<u>217,426</u>	<u>34,018</u>
Fines and forfeitures				
Court fines	75,000	75,000	10,530	(64,470)
Other fines	7,200	7,200	9,063	1,863
Total fines and forfeitures	<u>\$ 82,200</u>	<u>\$ 82,200</u>	<u>\$ 19,593</u>	<u>\$ (62,607)</u>

CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUND – GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2015
(continued)

	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget Positive (Negative)
Miscellaneous revenue				
Investment earnings	\$ 2,200	\$ 2,200	\$ 8,647	\$ 6,447
Cemetery lots	6,000	6,000	13,683	7,683
Other miscellaneous	20,000	20,000	38,675	18,675
Total miscellaneous revenue	<u>28,200</u>	<u>28,200</u>	<u>61,005</u>	<u>32,805</u>
Total revenues	<u><u>\$ 2,279,004</u></u>	<u><u>\$ 2,279,004</u></u>	<u><u>\$ 2,428,518</u></u>	<u><u>\$ 149,514</u></u>
Expenditures				
General government				
Legislative:				
Personnel services	\$ 41,209	\$ 41,209	\$ 16,623	\$ 24,586
Operating expenses	12,626	12,626	22,622	(9,996)
Capital outlay	10,250	10,250	-	10,250
Debt service	225,000	225,000	175,000	50,000
Total legislative	<u>289,085</u>	<u>289,085</u>	<u>214,245</u>	<u>14,590</u>
Executive:				
Personnel services	19,834	19,834	18,612	1,222
Operating expenses	13,795	13,795	5,659	8,136
Total executive	<u>33,629</u>	<u>33,629</u>	<u>24,271</u>	<u>9,358</u>
Financial and administrative:				
Personnel services	66,161	66,161	62,778	3,383
Operating expenses	63,984	63,984	57,023	6,961
Total Financial and administrative	<u>130,145</u>	<u>130,145</u>	<u>119,801</u>	<u>10,344</u>
Legal counsel:				
Operating expenses	80,000	80,000	107,154	(27,154)
Comprehensive planning:				
Personnel services	43,895	43,720	10,154	33,566
Operating expenses	22,415	22,640	39,673	(17,033)
Total comprehensive planning	<u>66,310</u>	<u>66,360</u>	<u>49,827</u>	<u>16,533</u>
Other general government				
Personnel services	88,173	88,173	84,528	3,645
Operating expenses	29,691	29,691	23,998	5,693
Total other general government	<u>117,864</u>	<u>117,864</u>	<u>108,526</u>	<u>9,338</u>
Total general government	<u><u>\$ 717,033</u></u>	<u><u>\$ 717,083</u></u>	<u><u>\$ 623,824</u></u>	<u><u>\$ 37,352</u></u>

CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUND – GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2015
(continued)

	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget Positive (Negative)
Expenditures (continued)				
Public safety				
Law enforcement:				
Personnel services	\$ 517,477	\$ 517,477	\$ 533,711	\$ (16,234)
Operating expenses	157,660	157,660	170,066	(12,406)
Total law enforcement	<u>675,137</u>	<u>675,137</u>	<u>703,777</u>	<u>(28,640)</u>
Fire control:				
Personnel services	301,583	301,583	340,317	(38,734)
Operating expenses	54,353	54,353	39,894	14,459
Total fire control	<u>355,936</u>	<u>355,936</u>	<u>380,211</u>	<u>(24,275)</u>
Protective inspections:				
Personnel services	80,832	80,832	31,016	49,816
Operating expenses	38,649	38,599	86,905	(48,306)
Total protective inspections	<u>119,481</u>	<u>119,431</u>	<u>117,921</u>	<u>1,510</u>
Total public safety	<u>1,150,554</u>	<u>1,150,504</u>	<u>1,201,909</u>	<u>(51,405)</u>
Physical environment				
Garbage and solid waste:				
Personnel services	8,307	8,307	8,328	(21)
Operating expenses	140,094	140,094	132,501	7,593
Total garbage and solid waste	<u>148,401</u>	<u>148,401</u>	<u>140,829</u>	<u>7,572</u>
Cemetery:				
Personnel services	16,636	16,636	16,488	148
Operating expenses	4,488	4,488	1,645	2,843
Total Cemetery	<u>21,124</u>	<u>21,124</u>	<u>18,133</u>	<u>2,991</u>
Total physical environment	<u>169,525</u>	<u>169,525</u>	<u>158,962</u>	<u>10,563</u>
Transportation				
Roads and streets:				
Personnel services	227,280	227,280	189,431	37,849
Operating expenses	142,064	142,064	128,597	13,467
Capital Outlay	10,000	10,000	15,075	(5,075)
Total transportation	<u>379,344</u>	<u>379,344</u>	<u>333,103</u>	<u>46,241</u>
Human services				
Animal control:				
Personnel services	13,017	13,017	13,073	(56)
Operating expenses	2,360	2,360	701	1,659
Total human services	<u>\$ 15,377</u>	<u>\$ 15,377</u>	<u>\$ 13,774</u>	<u>\$ 1,603</u>

CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUND – GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2015
(concluded)

	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget Positive (Negative)
Expenditures (concluded)				
Culture and recreation				
Parks and recreation:				
Personnel services	\$ 19,725	\$ 19,725	\$ 19,971	\$ (246)
Operating expenses	24,563	24,563	15,174	9,389
Total culture and recreation	<u>44,288</u>	<u>44,288</u>	<u>35,145</u>	<u>9,143</u>
Total expenditures	<u>2,476,121</u>	<u>2,476,121</u>	<u>2,366,717</u>	<u>109,404</u>
Excess of revenues over expenditures	<u>(197,117)</u>	<u>(197,117)</u>	<u>61,801</u>	<u>258,918</u>
Net change in fund balance	(197,117)	(197,117)	61,801	258,918
Fund balance, beginning of year	2,312,122	2,312,122	2,312,122	-
Fund balance, end of year	<u><u>\$ 2,115,005</u></u>	<u><u>\$ 2,115,005</u></u>	<u><u>\$ 2,373,923</u></u>	<u><u>\$ 258,918</u></u>

CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUND – TAX INCREMENT FINANCING DISTRICT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended September 30, 2015

	Original and Final Budget	Actual Amounts	Variance With Budget Positive (Negative)
Revenues			
Taxes:			
Ad valorem	\$ 143,395	\$ 142,116	\$ (1,279)
Miscellaneous revenue:			
Investment earnings	110	195	85
Total revenues	<u>143,505</u>	<u>142,311</u>	<u>(1,194)</u>
Expenditures			
Economic environment			
Industry development:			
Personnel services	70,582	43,460	27,122
Operating expenses	43,424	15,712	27,712
Total expenditures	<u>114,006</u>	<u>59,172</u>	<u>54,834</u>
Deficiency of revenues over expenditures	<u>29,499</u>	<u>83,139</u>	<u>53,640</u>
Net change in fund balance	29,499	83,139	53,640
Fund balances, beginning of year	<u>123,833</u>	<u>123,833</u>	<u>-</u>
Fund balances, end of year	<u>\$ 153,332</u>	<u>\$ 206,972</u>	<u>\$ 53,640</u>

**CITY OF DUNNELLON, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2015**

I. Stewardship, Compliance, and Accountability

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

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

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

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

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

1. Prior to September 1, the Finance Officer and City Manager submit to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted in September to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance.
4. The legal level of budgetary control is the department level; however, the City Council may, by formal motion, transfer appropriations between departments and may use surplus revenues not appropriated in the budget for any municipal purpose.
5. Budgets are prepared in accordance with accounting principles generally accepted in the United States of America for governmental fund types.

**REQUIRED SUPPLEMENTARY INFORMATION
SPECIAL RISK PENSION TRUST FUND
SEPTEMBER 30, 2015
CITY OF DUNNELLON, FLORIDA**

Historical Trend Information

Measurement Date	Total Pension Liability	Fiduciary Net Position	Net Pension Liability (excess)	Percentage	Covered Payroll	as a % of Covered Payroll
October 1, 2013	934,534	1,632,551	(698,017)	174.69%	614,903	0.00%
October 1, 2011	758,063	802,214	(44,151)	105.82%	565,373	0.00%
October 1, 2009	716,547	547,459	169,088	76.40%	500,405	33.79%
October 1, 2007	392,293	565,801	(173,508)	144.23%	470,515	0.00%

Schedule of Employer Contributions

Fiscal Year End September 30,	(1) Actuarially Determined Contribution	(2) Contributions Recognized By the Plan	Defference Between (1) and (2)	Covered Payroll	Column (3) as a % of Covered Payroll
2014	81,861	81,861	-	614,903	0.00%
2013	373,978	373,978	-	Not available	Not available
2012	77,030	77,030	-	565,373	0.00%
2011	100,375	100,375	-	Not available	Not available
2010	83,032	83,032	-	500,405	0.00%
2009	77,117	77,117	-	Not available	Not available
2008	74,849	74,849	-	470,515	0.00%
2007	50,427	50,427	-	Not available	Not available
2006	50,427	50,427	-	316,266	0.00%
2005	54,713	54,713	-	Not available	Not available

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.

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST-EMPLOYMENT BENEFITS PLAN
SEPTEMBER 30, 2015
CITY OF DUNNELLON, FLORIDA**

SCHEDULE OF FUNDING PROGRESS

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended September 30	ARC	% Contributed	Annual OPEB Cost	% Contributed
2013	\$ 12,000	0%	\$ 9,000	0%
2014	12,000	0%	9,000	0%
2015	12,000	0%	9,000	0%

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY OF DUNNELLON'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
FLORIDA RETIREMENT SYSTEM AND HEALTH INSURANCE SUBSIDY PROGRAM
LAST 10 FISCAL YEARS*

	<u>2015</u>	<u>2014</u>
City's proportion of the FRS net pension liability (asset)	0.000966695%	0.000991156%
City's proportionate share of the FRS net pension liability (asset)	\$ 124,862	\$ 60,475
City's proportion of the HIS net pension liability (asset)	0.000885410%	0.000904896%
City's proportionate share of the HIS net pension liability (asset)	<u>90,298</u>	<u>84,610</u>
City's proportionate share of the total net pension liability (asset)	<u>\$ 215,160</u>	<u>\$ 145,085</u>
City's covered-employee payroll	\$ 299,379	\$ 299,265
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	71.87%	48.48%
Plan fiduciary net position as a percentage of the total pension liability	92.00%	96.09%

Note 1) The amounts presented for each year were determined as of the June 30 year end of the Florida Retirement System

*GASB 68 requires information for 10 years. However, until a full 10-year trend is compiled, only those years for which information is available is presented.

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY OF DUNNELLON'S CONTRIBUTIONS
FLORIDA RETIREMENT SYSTEM AND HEALTH INSURANCE SUBSIDY PROGRAM
LAST 10 FISCAL YEARS***

	<u>2015</u>	<u>2014</u>
Contractually required FRS contribution	\$ 24,148	\$ 22,676
Contractually required HIS contribution	<u>3,608</u>	<u>3,388</u>
Total Contractually Required Contributions	<u>27,756</u>	<u>26,064</u>
Contributions in relation to the contractually required contribution	<u>(27,756)</u>	<u>(26,064)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 299,379	\$ 299,265
Contributions as a percentage of covered-employee payroll	9.27%	8.71%

*GASB 68 requires information for 10 years. However, until a full 10-year trend is compiled, only those years for which information is available is presented.

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
THE CITY OF DUNNELLON'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND
REQUIRED CONTRIBUTIONS
FLORIDA RETIREMENT SYSTEM AND HEALTH INSURANCE SUBSIDY PROGRAM
For the Fiscal Year End September 30, 2015**

Net Pension Liability

The components of the collective net pension liability of the participating employers for each defined benefit plan for the measurement date of September 30, 2015, are shown below (in thousands):

	FRS	HIS
Total pension liability	\$ 161,370,735	\$ 10,249,201
Plan fiduciary net position	(148,454,394)	(50,774)
	\$ 12,916,341	\$ 10,198,427
 Plan fiduciary net position as a percentage of the total pension liability	92.00%	0.50%

The total pension liability for each plan was determined by the plans' actuary and reported in the plans' valuations dated July 1, 2015. The fiduciary net position used by the actuary to determine the net pension liability (as shown above) was determined on the same basis used by the plan. The fiduciary net position is reported in the financial statements and the net pension liability is disclosed in the notes to the financial statements. Update procedures were not used.

The HIS actuarial valuation was prepared as of July 1, 2014, and update procedures were used to determine liabilities as of July 1, 2015. The fiduciary net position used by the actuary to determine the net pension liability (as shown above) was determined on the same basis used by the Plan. The fiduciary net position is reported in the financial statements and the net pension liability is disclosed in the notes to the financial statements.

Basis for Allocation

The employer's proportionate share reported in the pension allocation schedules was calculated using accrued retirement contributions related to the reporting periods included in the System's fiscal years ending June 30, 2013, 2014 and 2015, respectively, for employers that were members of the FRS and HIS during those fiscal years. For fiscal year 2015, in addition to contributions from employers the required accrued contributions for the Division (paid on behalf of the Division's employees who administer the Plans) were allocated to each employer on a proportionate basis. The Division administers the Plans, and therefore, cannot allocate a portion of the liability to itself. Although GASB 68 encourages the use of the employers' projected long-term contribution effort to the retirement plan, allocating on the basis of historical employer contributions is acceptable. The aggregate employer contribution amounts for each fiscal year agree to the employer contribution amounts reported in the system's CAFR for that fiscal year.

The proportion calculated based on contributions for each of the fiscal years presented in the pension allocation schedules was applied to the net pension liability and other pension amounts

applicable for that fiscal year to determine each employer's proportionate share of the liability, deferred outflows of resources, deferred inflow of resources and associated pension expense.

For the purposes of the pension allocation schedules, pension amounts are allocated to reporting employers. The pension amounts of participating employers whose payrolls are reported and contributions are remitted by another entity are included in the reporting employer's amounts and will be allocated to the participating employer by the reporting employer.

Actuarial Methods and Assumptions

Actuarial assumptions for both cost-sharing defined benefit plans are reviewed annually by the Florida Retirement System Actuarial Assumptions Conference. The FRS Pension Plan has a valuation performed annually. The HIS Program has a valuation performed biennially that is updated for GASB reporting in the year a valuation is not performed. The most recent experience study for the FRS Pension Plan was completed in 2014 for the period July 1, 2008 through June 30, 2013. Because the HIS Program is funded on a pay-as-you-go basis, no experience study has been completed for that program. The actuarial assumptions that determined the total pension liability for the HIS Program were based on certain results of the most recent experience study for the FRS Pension Plan.

The total pension liability for each cost-sharing defined benefit plan was determined using the individual entry age actuarial cost method. Inflation increases for both Plans is assumed at 2.60%. Payroll growth, including inflation, for both Plans is assumed at 3.25%. Both the discount rate and the long-term expected rate of return used for FRS Pension Plan investments is 7.65%. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Because the HIS Program uses a pay-as-you-go funding structure, a municipal bond rate of 3.80% was used to determine the total pension liability for the program (Bond Buyer General Obligation 20-Bond Municipal Bond Index). Mortality assumptions for both Plans were based on the Generational RP-2000 with Projection Scale BB tables (refer to the valuation reports for more information – See Additional Financial and Actuarial Information).

The following changes in actuarial assumptions occurred in 2015:

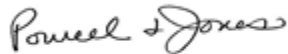
- **FRS:** There were no changes in actuarial assumptions. The inflation rate assumption remained at 2.60%, the real payroll growth assumption remained at 0.65%, and the overall payroll growth rate assumption remained at 3.25%. The long-term expected rate of return remained at 7.65%
- **HIS:** The municipal bonds rate used to determine total pension liability was decreased from 4.29% to 3.80%.

SUPPLEMENTARY INFORMATION

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION**

To the City Council
City of Dunnellon, Florida

We have audited the financial statements of the City of Dunnellon, Florida as of and for the year ended September 30, 2015, and our report thereon dated April 29, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 4 through 6. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Debt Service Coverage Schedule - Water and Sewer Revenue Bonds for the fiscal year ended September 30, 2015, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.



POWELL & JONES
Certified Public Accountants
April 29, 2016

CITY OF DUNNELLON, FLORIDA
DEBT SERVICE COVERAGE SCHEDULE
WATER AND SEWER REVENUE BONDS
For the Fiscal Year Ended September 30, 2015
UNAUDITED

	September 30, 2015
Gross revenue (B)	
Operating revenue	\$ 3,032,702
Interest income	2,858
Total gross revenue	3,035,560
Costs of operation and maintenance	
Personnel services	839,032
Operating expenses (C)	621,642
Total costs of operation and maintenance	1,460,674
Gross revenues less costs of operation and maintenance	1,574,886
Senior Lien Debt Service and Coverage	
Senior lien debt service	
Regions principal	290,710
Regions interest	246,033
BB&T principal	265,000
BB&T interest	152,702
Total senior lien debt service	954,445
Senior lien debt service coverage for rate covenant (D)	1.65
Non-operating revenue (wastewater project grant funds) (E)	780,696
Total pledged funds	2,355,582
Senior lien debt service coverage for all pledged funds	2.47
Subordinate Lien Debt Service and Coverage	
Gross revenues less costs of operation and maintenance	1,574,886
Senior lien debt service plus coverage (F)	1,145,334
Net income available for SRF coverage	429,552
SRF debt service	14,133
SRF debt service coverage (G)	30.39

Notes to the Debt Service Coverage Schedule

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

SINGLE AUDIT AND COMPLIANCE SECTION

CITY OF DUNNELLON, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
For the Fiscal Year Ended September 30, 2015

GRANTOR/PROGRAM TITLE	CFDA #/ CSFA #	Grant Number	Amount	Reported in Prior Years	Revenue Recognized	Expenditures
Federal Awards						
<i>Non-major programs</i>						
<i>U.S. Department of Housing & Urban Development</i>	14.228	15DB-OJ-05-52-02-E-02	\$ 650,000	\$ -	\$ 2,460	\$ 2,460
<i>U.S. Department of Justice Justice Assistance Grant - Car C.A.P.S.</i>	16.738	2015-JAGC-MARI-6-R3-185	9,600	-	9,283	9,283
Bullet Proof vest Program 2014	16.607	11055237	919	-	268	268
Total federal awards			<u>660,519</u>	<u>-</u>	<u>12,011</u>	<u>12,011</u>
State Financial Assistance						
<i>Major programs</i>						
<i>Florida Department of Environmental Protection Small Community Wastewater Construction Grant</i>	37.075	SG420800	914,294	133,598	780,696	780,696
Total State Financial Assistance			<u>914,294</u>	<u>133,598</u>	<u>780,696</u>	<u>780,696</u>
Total federal awards and state financial assistance			<u>\$ 1,574,813</u>	<u>\$ 133,598</u>	<u>\$ 792,707</u>	<u>\$ 792,707</u>

CITY OF DUNNELLON, FLORIDA

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

For the Year Ended September 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Basis of Accounting

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

The modified accrual basis of accounting is followed in the Schedule of Expenditures of Federal Awards and State Financial Assistance. Under the modified accrual basis, revenues are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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

To the City Council
City of Dunnellon, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of the City of Dunnellon, Florida, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Dunnellon, Florida's basic financial statements, and have issued our report thereon dated April 29, 2016.

Internal Control Over Financial Reporting

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

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

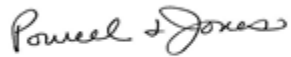
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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

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

POWELL & JONES
Certified Public Accountants
April 29, 2016

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

To the City Council
City of Dunnellon, Florida

Report on Compliance for Each Major State Project

We have audited the compliance of the City of Dunnellon with the types of compliance requirements described in the State of Florida, Department of Financial Services State Projects Compliance and Supplement, that could have a direct and material effect on its major State project for the year ended September 30, 2015. The City of Dunnellon's major State project is identified in the summary of auditors' results section of the accompanying Schedule of Findings.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on the City of Dunnellon's compliance for each major State Project based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 10.550, Rules of the State of Florida, Office of the Auditor General. Those standards and Chapter 10.550, Rules of the State of Florida, Office of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State project occurred. An audit includes examining, on a test basis, evidence about the City of Dunnellon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major State Project. However, our audit does not provide a legal determination of the City of Dunnellon's compliance.

Opinion on Each Major State Project

In our opinion, the City of Dunnellon complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major State project for the fiscal year ended September 30, 2015.

Other Matters

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

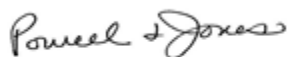
Internal Control Over Compliance

Management of City of Dunnellon is responsible for establishing and maintaining effective internal control over the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Dunnellon's internal control over compliance with the types of requirements that could have a direct and material effect on a major State project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major State Project and to test and report on internal control over compliance in accordance with Chapter 10.550, Rules of the State of Florida, Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Dunnellon's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a State project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State project will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State Project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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



POWELL & JONES
Certified Public Accountants
April 29, 2016

**CITY OF DUNNELLON
SCHEDULE OF FINDINGS
For the Fiscal Year Ended September 30, 2015**

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 noted?	No

State Financial Assistance

Internal control over major projects:	
• Material weakness identified?	No
• Reportable condition identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major projects:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Rule 10.656, <i>Rules of the Auditor General</i> ?	No

CSFA Number
37.075

Name of State Programs
Small Community Wastewater
Construction Grant

Dollar threshold used to distinguish between Type A and Type B programs:	\$234,209
--	-----------

Financial Statement Findings

None

State Financial Assistance Findings and Questioned Costs

None

MANAGEMENT LETTER

To The City Council
City of Dunnellon, Florida

We have audited the financial statements of the City of Dunnellon, Florida, as of and for the fiscal year ended September 30, 2015, and have issued our report thereon dated April 29, 2016. We have also issued our report on compliance and on internal control over financial reporting. That report should be considered in conjunction with this management letter.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Additionally our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

PRIOR YEAR FINDINGS

Finding 2013-02: Fixed Assets (second preceding year)

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

CURRENT YEAR RECOMMENDATIONS

Recommendation 2015-01: Cash Management

The City currently prepares monthly bank reconciliations on a manual basis. This procedure was adequate in prior years when the full pooled cash system was utilized by the City. However, since the separation of cash accounts between the general and enterprise funds, the manual bank reconciliation process is not adequate to produce accurate monthly bank reconciliations for each individual fund. This has resulted in the cash balances being correct in the accounting system for each of the funds, but the corresponding bank balances do not always agree on an individual fund basis.

To correct this weakness we recommend that the City consider implementing the bank reconciliation module of the financial software. Properly utilized this system will fully correct this weakness. Alternatively, the individual fund cash accounts should be fully reconciled to the overall bank reconciliation on a monthly basis.

Recommendation 2015-02: Fund Balance Policy

The City has experienced several prior years of deteriorating financial conditions primarily due to transactions relating to the prior Communications Fund. During the current year this trend was reversed as the governmental funds increased fund balances by \$144,940 and the enterprise funds had operating income of \$300,858. To assist the City in restoring and maintaining its

financial reserves at appropriate levels we recommend that the City Council adopt a formal “Financial Reserves” policy. Such a policy would specify reserve levels for each fund and direct uses of excess funds when such situations occur.

There were no other reportable recommendations in the current year.

AUDITOR GENERAL COMPLIANCE MATTERS

Annual Local Government Financial Report - The Financial Report filed with the Department of Financial Services pursuant to Section 218.32(1)(a), *Florida Statutes*, is in agreement with the accompanying financial statements of the City of Dunnellon, Florida, for the fiscal year ended September 30, 2015.

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

Prior Year

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

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

Current Year

During the fiscal year ended September 30, 2015, the City paid the first installment of \$175,000 on the new loan and still managed to increase the General Fund Balance by \$61,801, and achieved an ending unassigned fund balance of \$412,607 which was approximately two months of General Fund expenditures. The Enterprise Funds had a combined net increase in ending net position of \$687,740 which would allow the City to fund the lawsuit judgment with the required two years.

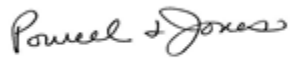
If the City continues this trend of financial performance in the ensuing years, then it should result in full restoration of the City's unrestricted reserves to prudent levels.

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

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

CONCLUSION

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

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

POWELL & JONES
Certified Public Accountants
April 29, 2016

INDEPENDENT ACCOUNTANT'S REPORT

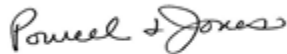
To The City Council
City of Dunnellon, Florida

We have examined the City of Dunnellon, Florida's compliance with Section 218.415, *Florida Statutes*, regarding the investment of public funds during the year ended September 30, 2015. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

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

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2015.

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



POWELL & JONES
Certified Public Accountants
April 29, 2016



**City of Dunnellon Management Response To
Auditors' Management Letter Comment
Annual Audit FYE 9/30/15**

Honorable Mayor and City Council
City of Dunnellon
Dunnellon, Florida

We have reviewed the audit report for fiscal year ending September 30, 2015 including the management letter. The following is in response to Powell & Jones CPA's current year finding and recommendations.

Fixed Assets

During fiscal years 2013-2014 and 2014-2015 we took a physical inventory of the assets recorded in the fixed asset module of the City's financial system. We identified assets that are no longer in the City's possession and began to remove them from the financial system. It was also discovered that some assets were not entered into the system properly which resulted in inaccurate reporting. This task was not completed as of September 30, 2015 due to a staffing shortage. We will continue with the review and cleanup of the fixed asset module and will process adjusting entries accordingly. We anticipate completion of this very large project no later than September 30, 2016.

Cash Management

We will research the Munis Financial System treasury management module to determine if it meets the needs of the City and is affordable within our financial constraints. At a minimum, all cash accounts will be fully reconciled to the overall bank reconciliation on a monthly basis.

Fund Balance Policy

A Fund Balance Policy will be presented to City Council for their consideration.

Eddie Esch
Eddie Esch
City Manager

Communication with Those Charged with Governance

To the City Council
City of Dunnellon, Florida

We have audited the financial statements of the City of Dunnellon, Florida for the year ended September 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Dunnellon, Florida are described Note 1 to the financial statements. As described in Note 1 and Note 10 to the financial statements, the City changed accounting policies related to the recognition of their proportionate share of the net pension liability of the Florida Retirement System by adopting Statement of Governmental Accounting Standards (GASB statement) No. 68, Accounting and Financial Reporting for Pension Plans, in 2015. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the statement of net position. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 29, 2016.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

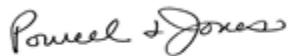
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses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

Other Information in Documents Containing Audited Financial Statements

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

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

Very truly yours,



POWELL & JONES
Certified Public Accountants
April 29, 2016