

CITY OF DUNNELLON, FLORIDA
ANNUAL FINANCIAL REPORT
September 30, 2016

CITY OF DUNNELLON, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the City Council;
City of Dunnellon, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Dunnellon, Florida, (the City) as of and for the year ended September 30, 2016, 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, 2016, 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 are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2017, on our consideration of the City of Dunnellon, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Dunnellon, Florida's internal control over financial reporting and compliance.

POWELL & JONES

Certified Public Accountants

April 4, 2017

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, 2016. 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	
	2015	2016	2015	2016	2015	2016
Revenues	\$2,570,829	\$2,699,614	\$ 3,818,716	\$ 3,643,466	\$ 6,389,545	\$ 6,343,080
Expenses	\$2,338,610	\$2,478,837	\$ 3,130,976	\$ 2,945,130	\$ 5,469,586	\$ 5,423,967

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 5% in the current year.

Business-type Activities

The Water and Sewer Utilities show a combined operating income of \$3,036,530, combined non-operating revenues of \$606,936, and combined interest expense of \$381,239 for a net increase of \$698,336 for fiscal year 2016. The net increase is primarily due to excess of operating revenues over operating expenses, and capital grant revenue in the current year.

Net Position

For the years ended September 30, 2016 and 2015, Net Position changed as follows:

	Governmental Activities		Business-Type Activities		Total	
	2015	2016	2015	2016	2015	2016
Beginning net position	\$ 3,250,976	\$ 3,483,195	\$ 13,299,494	\$ 13,987,234	\$ 16,550,470	\$ 17,470,429
Increase in net position	232,219	220,777	687,740	698,336	919,959	919,113
	<u>\$ 3,483,195</u>	<u>\$ 3,703,972</u>	<u>\$ 13,987,234</u>	<u>\$ 14,685,570</u>	<u>\$ 17,470,429</u>	<u>\$ 18,389,542</u>

This reflects an increase of 6 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 correction of capital assets. 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, 2016 and 2015.

Assets

	Governmental Activities		Business-Type Activities	
	2015	2016	2015	2016
Current Assets	\$ 2,718,468	\$ 2,899,932	\$ 3,387,555	\$ 3,677,829
Capital Assets, Net of Accumulated Depreciation	4,251,768	4,150,823	24,471,710	23,976,172
Total Assets	6,970,236	7,050,755	27,859,265	27,654,001
Deferred outflows	\$ 25,133	\$ 35,725	\$ 74,741	\$ 87,955

Capital assets for governmental activities have increased 1.2 percent over the prior year. Business-type activities reflect a decrease of 0.7 percent primarily due to the reduction of the infrastructure from the net affect of depreciation on the assets.

Liabilities

	Governmental Activities		Business-Type Activities	
	2015	2016	2015	2016
Current Liabilities	\$ 392,828	\$ 340,890	\$ 526,006	\$ 324,168
Payable from Restricted Assets	-	-	949,271	1,006,626
Unearned Revenue	23,353	23,161	-	-
Long-term Liabilities	3,052,069	3,011,222	12,454,259	11,719,726
Total Liabilities	3,468,250	3,375,273	13,929,536	13,050,520
Deferred Inflows	\$ 43,924	\$ 8,928	\$ 17,236	\$ 5,866

Liabilities for governmental activities decreased by 3% over the prior year. Current liabilities for business-type activities have decreased by 6% over the prior year.

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, 2016 and 2015.

	Governmental		Business-Type			
	2015	2016	Water Utility		Sewer Utility	
	2015	2016	2015	2016	2015	2016
Program Revenues						
Charges for Services	\$ 217,426	\$ 386,727	\$ 1,358,448	\$ 1,370,427	\$ 1,674,254	\$ 1,666,103
Operating Grants and Contributions	9,551	73,500	-	-	-	-
Capital Grants and Contributions	-	-	2,460	565,360	780,692	38,660
General Revenues						
Taxes	1,919,029	1,789,240	-	-	-	-
Licenses and permits	159,979	166,351	-	-	-	-
Fines and forfeitures	19,593	5,424	-	-	-	-
State-shared	184,051	208,008	-	-	-	-
Investment income	8,842	3,384	1,791	1,715	1,067	1,201
Miscellaneous	52,358	66,980	-	-	-	-
	<u>\$ 2,570,829</u>	<u>\$ 2,699,614</u>	<u>\$ 1,362,699</u>	<u>\$ 1,937,502</u>	<u>\$ 2,456,013</u>	<u>\$ 1,705,964</u>

Governmental revenue increased 5 percent over prior year. Charges for Services increased 78 percent. Taxes decreased 7 percent. State-shared Revenue increased 13 percent. Business-type revenues increased 5 percent over the prior year.

Expenses

Governmental		Water Utility		Sewer Utility	
2015	2016	2015	2016	2015	2016
\$ 2,338,610	\$ 2,478,837	\$ 879,213	\$ 967,420	\$ 1,852,631	\$ 1,977,710

Expenses increased in the governmental fund and combined utility funds by 7 percent for the year ended September 30, 2016 over the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total revenue for the year shows 7 percent over budget.

On the expense-side, total General Government is over budget 0.2 percent or \$6,089. This is primarily associated with the net affect of total general government operating under budget and total public safety and physical environment operating over budget. Overall, the City essentially maintained their operating budget.

CAPITAL ASSETS

As of September 30, 2016, the City had \$28 million invested in capital assets including police and fire equipment, buildings, park facilities, roads, and water and sewer lines. (See table below) This represents a net decrease of \$920,273 or 3 percent, over the prior year. This can partially be attributable to the prior period adjustment to capital assets.

	Governmental		Business-Type		Total	
	Activities		Activities			
	2015	2016	2015	2016	2015	2016
Capital Assets	\$7,186,801	\$6,599,103	\$ 32,014,180	\$ 33,206,050	\$ 39,200,981	\$ 39,805,153
Construction In Progress		1,400	550,613		550,613	1,400
Less Accumulated						
Depreciation	(2,848,771)	(2,449,680)	(7,855,555)	(9,229,878)	(10,704,326)	(11,679,558)
Total	\$4,338,030	\$4,150,823	\$ 24,709,238	\$ 23,976,172	\$ 29,047,268	\$ 28,126,995

This year's major addition to capital assets was the addition of the water and sewer infrastructure related to the hotel 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.

Dawn Bowne

Dawn Bowne
Interim City Manager

Jan Smith

Jan Smith
Finance Officer

BASIC FINANCIAL STATEMENTS

CITY OF DUNNELLON, FLORIDA
STATEMENT OF NET POSITION
September 30, 2016

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and Investments	\$ 2,797,603	\$ 921,912	\$ 3,719,515
Receivables, net	63,331	208,326	271,657
Due from other governments	38,898	96,028	134,926
Other assets	100	-	100
Restricted cash	-	2,451,562	2,451,562
Net pension asset	858,276	-	858,276
Capital assets, not being depreciated	3,208,341	279,369	3,487,710
Capital assets, being depreciated	3,392,162	32,926,681	36,318,843
Less accumulated depreciation	(2,449,680)	(9,229,878)	(11,679,558)
Total assets	<u>7,909,031</u>	<u>27,654,000</u>	<u>35,563,031</u>
DEFERRED OUTFLOWS			
Pension obligations	190,965	13,302	204,267
Bond issue costs, net of amortization	-	74,654	74,654
	<u>190,965</u>	<u>87,956</u>	<u>278,921</u>
LIABILITIES			
Accounts payable and accrued liabilities	89,158	111,494	200,652
Settlement payable	-	212,674	212,674
Payable from restricted assets:			
Utility deposits	-	89,987	89,987
Accrued interest	-	117,489	117,489
Unearned revenue	23,161	-	23,161
Long-term liabilities:			
Due within one year	251,732	799,150	1,050,882
Due in more than one year	3,011,222	11,719,726	14,730,948
Total liabilities	<u>3,375,273</u>	<u>13,050,520</u>	<u>16,425,793</u>
DEFERRED INFLOWS	<u>327,083</u>	<u>5,866</u>	<u>332,949</u>
NET POSITION			
Invested in capital assets,			
Net of related debt	4,150,823	11,634,497	15,785,320
Restricted for:			
Debt service	43,750	776,363	820,113
Capital projects	163,454	1,309,385	1,472,839
Infrastructure	56,247	-	56,247
Roads and streets	1,621,288	-	1,621,288
Public safety	64,912	-	64,912
Cemetery perpetual care	59,729	-	59,729
Tree fund	1,048	-	1,048
Emergency reserve	14,244	-	14,244
Unrestricted (deficit)	(1,777,855)	965,325	(812,530)
Total net position	<u>\$ 4,397,640</u>	<u>\$ 14,685,570</u>	<u>\$ 19,083,210</u>

CITY OF DUNNELLON, FLORIDA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 925,509	\$ 150,710	\$ 73,500	\$ -	\$ (701,299)	\$ -	\$ (701,299)
Public safety	992,215	10,749	-	-	(981,466)	-	(981,466)
Physical environment	186,439	198,028	-	-	11,589	-	11,589
Transportation	242,069	26,837	-	-	(215,232)	-	(215,232)
Economic environment	38,491	-	-	-	(38,491)	-	(38,491)
Culture and recreation	13,277	403	-	-	(12,874)	-	(12,874)
Human services	80,837	-	-	-	(80,837)	-	(80,837)
Total governmental activities	2,478,837	386,727	73,500	-	(2,018,610)	-	(2,018,610)
Business-type activities							
Water utility	791,185	1,370,427	-	565,360	-	1,144,602	1,144,602
Sewer utility	1,772,706	1,666,103	-	38,660	-	(67,943)	(67,943)
Interest expense	381,239	-	-	-	-	(381,239)	(381,239)
Total business-type activities	2,945,130	3,036,530	-	604,020	-	695,420	695,420
Total primary government	\$ 5,423,967	\$ 3,423,257	\$ 73,500	\$ 604,020	(2,018,610)	695,420	(1,323,190)
General revenues							
Taxes:							
Property taxes					1,048,278	-	1,048,278
Franchise taxes					175,111	-	175,111
Public service taxes					355,812	-	355,812
Fuel taxes					210,039	-	210,039
State-shared revenues					208,008	-	208,008
Licenses and permits					166,351	-	166,351
Fines and forfeitures					5,424	-	5,424
Investment income					3,384	2,916	6,300
Miscellaneous					66,980	-	66,980
Total general revenues					2,239,387	2,916	2,242,303
Change in net position					220,777	698,336	919,113
Net position, beginning of year					3,569,457	14,224,762	17,794,219
Prior period adjustment					607,406	(237,528)	369,878
Net position, end of year					\$ 4,397,640	\$ 14,685,570	\$ 19,083,210

See notes to financial statements.

CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2016

	General Fund	Tax Increment Financing District Fund	Total Governmental Funds
Assets			
Cash and investments	\$ 2,471,841	\$ 325,762	\$ 2,797,603
Accounts receivable, net	63,331	-	63,331
Due from other governments	38,898	-	38,898
Other assets	100	-	100
Total assets	<u>\$ 2,574,170</u>	<u>\$ 325,762</u>	<u>\$ 2,899,932</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 57,363	\$ 5,369	\$ 62,732
Accrued liabilities	26,076	350	26,426
Unearned revenue	23,161	-	23,161
Total liabilities	<u>106,600</u>	<u>5,719</u>	<u>112,319</u>
Fund balances			
Restricted for:			
Public safety	53,821	-	53,821
Roads and streets, operations	588,081	-	588,081
Roads and streets, capital projects	1,033,207	-	1,033,207
Downtown redevelopment	-	320,043	320,043
Committed for:			
Public safety	11,091	-	11,091
Infrastructure	56,247	-	56,247
Cemetery perpetual care	59,729	-	59,729
Tree fund	1,048	-	1,048
Emergency reserve	14,244	-	14,244
Assigned for:			
Capital improvements, public safety - building	156,748	-	156,748
Capital improvements	6,706	-	6,706
Debt service	43,750	-	43,750
Unassigned	442,898	-	442,898
Total fund balances	<u>2,467,570</u>	<u>320,043</u>	<u>2,787,613</u>
Total liabilities and fund balances	<u>\$ 2,574,170</u>	<u>\$ 325,762</u>	<u>\$ 2,899,932</u>

CITY OF DUNNELLON, FLORIDA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
September 30, 2016

Fund balances - total governmental funds	\$	2,787,613
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Other assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Net pension asset		858,276
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$6,600,503 and the accumulated depreciation is \$2,449,680.		4,150,823
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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.

FRS pension obligations	35,725	
Special risk pension obligations	<u>155,240</u>	190,965

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	(2,843,750)	
OPEB payable	(32,900)	
Compensated absences	(183,501)	
Net pension liability	<u>(202,803)</u>	(3,262,954)

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.

FRS pension obligations	(8,928)	
Special risk pension obligations	<u>(318,155)</u>	<u>(327,083)</u>

Total net position of governmental activities	\$	<u>4,397,640</u>
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CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended September 30, 2016

	General Fund	Tax Increment Financing District Fund	Total Governmental Funds
Revenues			
Taxes	\$ 1,637,989	\$ 151,251	\$ 1,789,240
Licenses and permits	166,351	-	166,351
Intergovernmental revenues	281,508	-	281,508
Charges for service	386,727	-	386,727
Fines and forfeitures	5,424	-	5,424
Miscellaneous revenue	70,053	311	70,364
Total revenues	<u>2,548,052</u>	<u>151,562</u>	<u>2,699,614</u>
Expenditures			
Current:			
General government	867,742	-	867,742
Public safety	934,870	-	934,870
Physical environment	175,829	-	175,829
Transportation	228,896	-	228,896
Economic environment	-	38,491	38,491
Human services	12,667	-	12,667
Culture and recreation	58,001	-	58,001
Capital outlay			
Culture and recreation	1,400	-	1,400
Debt service			
Principal payments	175,000	-	175,000
Total expenditures	<u>2,454,405</u>	<u>38,491</u>	<u>2,492,896</u>
Excess of revenues over expenditures	<u>93,647</u>	<u>113,071</u>	<u>206,718</u>
Net change in fund balances	93,647	113,071	206,718
Fund balances, beginning of year	<u>2,373,923</u>	<u>206,972</u>	<u>2,580,895</u>
Fund balances, end of year	<u><u>\$ 2,467,570</u></u>	<u><u>\$ 320,043</u></u>	<u><u>\$ 2,787,613</u></u>

CITY OF DUNNELLON, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2016

Net change in fund balances - total governmental funds **\$ 206,718**

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

Some expenses related to other assets 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.

Special risk pension expense	(50,029)	
Special risk employee contributions	51,722	
Net change in deferred outflows/inflows	337,359	339,052

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	1,400	
(Current year depreciation)	(102,345)	(100,945)

Some expenses related to debt 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	(61,062)	
Revenue bonds	175,000	
OPEB liability	2,060	
Net pension expense	(2,687)	
Net change in deferred outflows/inflows	(45,588)	67,723

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

Net decrease in deferred outflows	(21,550)	
Net increase in deferred inflows	(270,221)	(291,771)

Change in net position of governmental activities		\$ 220,777
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CITY OF DUNNELLON, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
September 30, 2016

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
Assets			
Current assets			
Cash and investments	\$ 603,971	\$ 317,941	\$ 921,912
Accounts receivable (net of allowance for uncollectible accounts)	85,750	122,576	208,326
Due from other governments	91,305	4,723	96,028
Total current assets	781,026	445,240	1,226,266
Restricted assets			
Cash:			
Utility deposit cash	89,987		89,987
Water capital improvement funds	27,680		27,680
Sewer capital improvement funds		176,520	176,520
Emergency reserve	5,337	3,503	8,840
Revenue bond proceeds	784,423	524,962	1,309,385
Debt service, revenue bonds	387,109	452,042	839,151
Total restricted assets	1,294,536	1,157,027	2,451,563
Utility plant in service			
Cost of capital assets	7,203,198	26,002,852	33,206,050
(accumulated depreciation)	(2,319,502)	(6,910,376)	(9,229,878)
Total utility plant in service - cost less depreciation	4,883,696	19,092,476	23,976,172
Total assets	6,959,258	20,694,743	27,654,001
Deferred outflows of resources			
Bond issuance costs, net of amortization	37,350	37,304	74,654
Pension obligations	6,655	6,646	13,301
	44,005	43,950	87,955

CITY OF DUNNELLON, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
September 30, 2016

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
Liabilities and Net Position			
Current liabilities, unrestricted			
Payable from current assets:			
Accounts payable	\$ 80,213	\$ 22,039	\$ 102,252
Accrued liabilities	4,061	5,181	9,242
Settlement payable	78,689	133,985	212,674
Compensated absences, due within one year	19,206	24,188	43,394
Net pension liability, due within one year	2,500	2,500	5,000
Total current liabilities, unrestricted	184,669	187,893	440,144
Current liabilities, restricted			
Payable from restricted assets:			
Accrued revenue bond and SRF loan			
Interest payable	50,291	67,198	117,489
Customer deposits	89,987	-	89,987
Revenue bonds payable within one year	370,117	380,639	750,756
Total current liabilities, restricted	510,395	447,837	958,232
Total current liabilities	695,064	635,730	1,398,376
Long-term liabilities			
Revenue bonds, noncurrent portion	5,462,173	6,128,746	11,590,919
OPEB payable	7,050	7,050	14,100
Compensated absences, noncurrent portion	19,205	24,187	43,392
Net pension liability	35,677	35,638	71,315
Total long-term liabilities	5,524,105	6,195,621	11,719,726
Total liabilities	6,219,169	6,831,351	13,050,520
Deferred inflow of resources	2,918	2,948	5,866
Net Position			
Invested in capital assets, net of related debt	(948,594)	12,583,091	11,634,497
Restricted for debt service	373,408	402,955	776,363
Restricted for bond financed capital projects	784,423	524,962	1,309,385
Unrestricted	571,939	393,386	965,325
Total net position	\$ 781,176	\$ 13,904,394	\$ 14,685,570

CITY OF DUNNELLON, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended September 30, 2016

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
Operating revenues			
Charges for services	\$ 1,370,477	\$ 1,666,036	\$ 3,036,513
Miscellaneous revenue	(50)	67	17
Total operating revenues	1,370,427	1,666,103	3,036,530
Operating expenses			
Personnel services	213,098	270,635	483,733
Operating expenses	268,103	536,352	804,455
Professional services	3,355	11,730	15,085
Depreciation and amortization	306,629	953,989	1,260,618
Total operating expenses	791,185	1,772,706	2,563,891
Operating income (loss)	579,242	(106,603)	472,639
Nonoperating revenues (expenses)			
Interest income	1,715	1,201	2,916
Interest expense	(176,235)	(205,004)	(381,239)
Grant revenue	565,360	38,660	604,020
Total nonoperating revenues (expenses)	390,840	(165,143)	225,697
Net change in net position	970,082	(271,746)	698,336
Net position, beginning of year	(151,068)	14,375,830	14,224,762
Prior period adjustment	(37,838)	(199,690)	(237,528)
Net position, end of year	\$ 781,176	\$ 13,904,394	\$ 14,685,570

CITY OF DUNNELLON, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended September 30, 2016

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from customers, including cash deposits	\$ 1,270,746	\$ 1,543,646	\$ 2,814,392
Cash paid to suppliers	(213,603)	(567,558)	(781,161)
Cash paid to employees	(267,087)	(328,866)	(595,953)
Net cash provided by operating activities	<u>790,056</u>	<u>647,222</u>	<u>1,437,278</u>
Cash flows from capital and related financing activities			
Acquisition and construction of capital assets	(699,409)	(65,671)	(765,080)
Grant revenue	476,515	146,996	623,511
Principal payments	(254,060)	(300,392)	(554,452)
Interest paid	(195,699)	(221,575)	(417,274)
Net cash used in capital and related financing activities	<u>(672,653)</u>	<u>(440,642)</u>	<u>(1,113,295)</u>
Cash flows from investing activities			
Interest income	<u>1,715</u>	<u>1,201</u>	<u>2,916</u>
Net change in cash and cash equivalents	119,118	207,781	326,899
Cash and cash equivalents, October 1, 2015	<u>1,779,389</u>	<u>1,267,187</u>	<u>3,046,576</u>
Cash and cash equivalents, September 30, 2016	<u><u>\$ 1,898,507</u></u>	<u><u>\$ 1,474,968</u></u>	<u><u>\$ 3,373,475</u></u>
Shown in the financial statements as:			
Current assets			
Cash and cash equivalents	\$ 603,971	\$ 317,941	\$ 921,912
Restricted cash	1,294,536	1,157,027	2,451,563
Totals	<u><u>\$ 1,898,507</u></u>	<u><u>\$ 1,474,968</u></u>	<u><u>\$ 3,373,475</u></u>

CITY OF DUNNELLON, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended September 30, 2016

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Reconciliation of operating gain (loss) to net cash provided by (used) in operating activities			
Operating gain (loss)	\$ 579,242	\$ (106,603)	\$ 472,639
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities			
Depreciation and amortization	306,629	953,989	1,260,618
Changes in assets decrease (increase) and liabilities increase (decrease):			
Accounts receivable, net	5,606	11,528	17,134
Deferred outflows	(1,725)	(1,716)	(3,441)
Loan issue costs	(5,914)	(3,859)	
Accounts payable	63,769	(15,617)	48,152
Settlement payable	(78,690)	(133,985)	(212,675)
Customer deposits	(26,597)	-	(26,597)
Accrued wages and OPEB payable	(15,919)	(18,336)	(34,255)
Compensated absences	(38,506)	(40,331)	(78,837)
Deferred inflows	(5,700)	(5,670)	(11,370)
Net pension liability	7,861	7,822	15,683
Total adjustments	<u>210,814</u>	<u>753,825</u>	<u>964,639</u>
Net cash provided by operating activities	<u><u>\$ 790,056</u></u>	<u><u>\$ 647,222</u></u>	<u><u>\$ 1,437,278</u></u>

CITY OF DUNNELLON, FLORIDA
PENSION TRUST FUNDS
STATEMENT OF NET POSITION
September 30, 2016

	Pension Trust Funds
Assets	
Cash and investments	\$ 3,441,750
Total assets	<u>\$ 3,441,750</u>
 Net position	
Reserved for:	
Employees' pension benefits	\$ 3,441,750
Total net position	<u>\$ 3,441,750</u>

CITY OF DUNNELLON, FLORIDA
PENSION TRUST FUNDS
STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Year Ended September 30 , 2016

	<u>Pension Trust Funds</u>
Additions	
Contributions	
Employer	\$ 81,426
Forfeitures applied	(11,653)
Net employer contributions	<u>69,773</u>
State	51,722
Employee	<u>52,999</u>
Total contributions	<u>174,494</u>
Net investment income	<u>263,491</u>
Total additions	<u>437,985</u>
Deductions	
Pension benefit payments and refunds	(44,791)
General and administrative	(19,552)
Total deductions	<u>(64,343)</u>
Increase in net position	<u>373,642</u>
Net position reserved for employees'	
Pension benefits:	
Net position, beginning of year	<u>3,068,108</u>
Net position, end of year	<u><u>\$ 3,441,750</u></u>

CITY OF DUNNELLON, FLORIDA
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

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 the City to recognize as a liability, their long-term obligation for pension benefits. The City's 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 the City with a cost sharing plan 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.

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 \$31,830 for 2016. 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, and there was none such interest 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, 2016 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, 2016, 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, 2016, fund balances are composed of the following:

Restricted for:	
Downtown redevelopment	\$ 320,043
Roads and streets, operating	588,081
Roads and streets, capital projects	1,033,207
Public safety	53,821
Committed for:	
Public safety	11,091
Infrastructure	56,247
Cemetery perpetual care	59,729
Tree fund	1,048
Emergency reserve	14,244
Assigned for:	
Capital improvements, public safety, buildings	156,748
Capital improvements	6,706
Debt service	43,750
Unassigned	442,898
	<u>\$ 2,787,613</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, 2016, net position balances are composed of the following:

	Amount
Invested in capital assets, net	\$ 11,634,497
Restricted, debt service	776,363
Restricted, capital projects	1,309,385
Unrestricted	965,325
	<u>\$ 14,685,570</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, 2016, 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, 2016, were held by qualified public depositories within the state of Florida and are considered to be fully insured. Total deposits as of September 30, 2016, are \$6,169,090.

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, 2016, 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	\$ 146,732
Pension Funds	
Florida Municipal Pension Trust Fund - Firefighters and Police Officers (FMIvT)	2,246,749
Florida Municipal Pension Trust Fund - General Employees (CitiStreet)	1,195,001
Total	3,588,482
Cash deposits	3,572,783
Total cash and investments	<u>\$ 7,161,265</u>

As shown on the accompanying financial statements as:

Cash and investments - entity-wide	\$ 3,719,515
Cash and investments - fiduciary funds	3,441,750
Total cash and investments	<u>\$ 7,161,265</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, 2016, 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

<u>Fixed Income Fund:</u>	<u>Fitch Rating</u>
FMIvT Broad Market High Quality Bond Fund	AAf/S4
FMIvT Core Plus Fixed Income Fund	Not Rated
<u>Equity Funds:</u>	
FMIvT High Quality Growth Portfolio	Not Rated
FMIvT Large Cap Diversified Value Portfolio	Not Rated
FMIvT Russell 1000 Enhanced Index Portfolio	Not Rated
FMIvT Diversified Small Cap Equity Portfolio	Not Rated
FMIvT International Equity Portfolio	Not Rated

Florida Municipal Pension Trust Fund – General Employees' Pension Fund

<u>Fixed Income Funds:</u>	<u>Fitch Rating</u>
Vanguard Federal Money Market	Not Rated
Vanguard Retirement Savings Trust	Not Rated
Vanguard Total Bond Market Index Adm	Not Rated
Vanguard Term Bond Market Index Adm	Not Rated
Vanguard Long-term U.S. Treasury Adm	Not Rated
Vanguard Inflation-Protected Securities Adm	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

<u>Fixed Income Funds:</u>	<u>Average Maturity</u>	<u>WAM</u>
FMIvT Broad Market High Quality Bond Fund	4.45 years	5.90
FMIvT Core Plus Fixed Income Fund	2.04 years	6.84

Florida Municipal Pension Trust Fund – General Employees' Pension Fund

	<u>Interest Rate Risk Information in Years</u>	
	<u>Effective Duration</u>	<u>WAM</u>
<u>Fixed Income Funds:</u>		
Vanguard Federal Money Market (FMFX)	*	*
Vanguard Retirement Savings Trust	*	*
Vanguard Total Bond Market Index Adm (VBTIX)	6.00	8.30
Vanguard Intermediate Term Bond Index Adm (VBILX)	6.57	7.30
Vanguard Long-Term US Treasury Adm (VUSUX)	17.20	25.10
Vanguard Inflation-Protected Secs Adm (VAIPX)	8.35	8.80
<u>Lifestyle Funds:</u>		
Vanguard Wellington Adm (VWENX)	7.07	10.30
Vanguard Target Retirement Income (VTINX)	5.83	7.41
Vanguard Target Retirement 2010 (VTENX)	5.86	7.45
Vanguard Target Retirement 2015 (VTXVX)	6.06	7.75
Vanguard Target Retirement 2020 (VTWNX)	6.50	8.42
Vanguard Target Retirement 2025 (VTVX)	6.65	8.65
Vanguard Target Retirement 2030 (VTHRX)	6.65	8.65
Vanguard Target Retirement 2035 (VTTHX)	6.65	8.65
Vanguard Target Retirement 2040 (VFORX)	6.64	8.65
Vanguard Target Retirement 2045 (VTIVX)	6.64	8.65
Vanguard Target Retirement 2050 (VFIFX)	6.64	8.65
Vanguard Target Retirement 2055 (VFFVS)	6.63	8.64

State Board of Administration Investments

Surplus Funds Trust Fund Investment Pool	50 day average
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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.

GASB 72, Fair Value Measurement and Application

In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 amends the definitions of both fair value and investments, provides guidance for determining a fair value measurement for assets and liabilities required to be reported at fair value, provides guidance for applying fair value to certain investments, and provides additional disclosure for all fair value measurements. GASB 72 is effective for periods beginning after June 15, 2015.

The FMIvT, administered by the Florida League of Cities, Inc. is an interlocal government entity created under the laws of the State of Florida. The FMIvT is an Authorized Investment under § 163.01 *Florida Statutes*. The FMIvT is a Local Government Investment Pool (LGIP) and is considered an external investment pool for GASB reporting purposes. The City owns shares in one or more FMIvT portfolios. The City's investment is the FMIvT portfolio, not the individual securities held within each FMIvY portfolio.

GASB 72 requires the City to disclose the fair value hierarchy for each type of asset or liability measured at fair value in the notes to the financial statements. The standard also requires the City to disclose a description of the valuation techniques used in the fair value measurement and any significant changes in valuation techniques. The new disclosures are in addition to the disclosures currently required by GASB Statements No. 3, 31, 40, and 53 and should be organized by type of assets or liability instead of reporting entity segment.

GASB 72 establishes a three-tier fair value hierarchy:

Level 1 Inputs – directly observable, quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs are derived from or corroborated by observable market data through correlation or by other means.

Level 3 Inputs – unobservable inputs used only when relevant Level 1 and Level 2 inputs are unavailable.

The level in which an asset is assigned is not indicative of its quality but an indication of the source of valuation inputs.

The following information has been prepared for each FMIvT fund or portfolio:

FVIvT 0-2 Year High Quality Bond Fund

This fund invests mainly in US government and agency securities and asset-backed securities. The underlying securities have observable level 1 quoted pricing inputs or observable level 2 significant other observable pricing inputs. Most of the security prices were obtained from a pricing service, Interactive Data Corporation (IDC). While the underlying asset values are based on quoted prices or market-corroborated inputs, the net asset value of the portfolio is not publicly quoted. Members should consider reporting these shares as level 2, since the value is based on market-corroborated data.

FMIvT 1-3 Year High Quality Bond Fund

This fund invests mainly in US government and agency securities and asset-backed securities. The underlying securities have observable level 1 quoted pricing inputs or observable level 2 significant other observable pricing inputs. Most of the security prices were obtained from a pricing service, Interactive Data Corporation (IDC). While the underlying asset values are based on quoted prices or market-corroborated inputs, the net asset value of the portfolio is not publicly quoted. Members should consider reporting these shares as level 2, since the value is based on market-corroborated data.

FMIvT Intermediate High Quality Bond Fund

This fund invests mainly in US government and agency securities, asset-backed securities and corporate bonds and notes. The underlying securities have observable level 1 quoted pricing inputs or observable level 2 significant other observable pricing inputs. Most of the security prices were obtained from a pricing service, Interactive Data Corporation (IDC). While the underlying asset values are based on quoted prices or market-corroborated inputs, the net asset value of the portfolio is not publicly quoted. Members should consider reporting these shares as level 2, since the value is based on market-corroborated data.

FVIvT Broad Market High Quality Bond Fund

This fund invests mainly in US government and agency securities, asset-backed securities and corporate bonds and notes. The underlying securities have observable level 1 quoted pricing inputs or observable level 2 significant other observable pricing inputs. Most of the security prices were obtained from a pricing service, Interactive Data Corporation (IDC). While the underlying asset values are based on quoted prices or market-corroborated inputs, the net asset value of the portfolio is not publicly quoted. Members should consider reporting these shares as level 2, since the value is based on market-corroborated data.

FMIvT High Quality Growth Portfolio

This portfolio invests mainly in domestic stocks. The majority of the underlying securities have observable level 1 quoted pricing inputs. Most of the security prices were obtained from a pricing service, Interactive Data Corporation (IDC). While the underlying asset values are based on quoted market prices, the net asset value of the portfolio is not publicly quoted. Members should consider reporting these shares as level 2, since the value is based on market-corroborated data.

FVIvT Diversified Small to Mid Cap Equity Portfolio

This portfolio invests mainly in domestic stocks. The majority of the underlying securities have observable level 1 quoted pricing inputs. Most of the security prices were obtained from a pricing service, Interactive Data Corporation (IDC). While the underlying asset values are based on quoted market prices, the net asset value of the portfolio is not publicly quoted. Members should consider reporting these shares as level 1, since the value is based on market-corroborated data,

FMIvT Large Cap Diversified Value Portfolio

This portfolio invests mainly in domestic stocks. The majority of the underlying securities have observable level 1 quoted pricing inputs. Most of the security prices were obtained from a pricing service, Interactive Data Corporation (IDC). While the underlying asset values are based on quoted market prices, the net asset value of the portfolio is not publicly quoted. Members should consider reporting these shares as level 2, since the value is based on market-corroborated data.

FMIvT Russell 1000 Enhanced Index Portfolio

This portfolio invests in a single underlying fund, the Intech U.S. Broad Enhanced Plus Fund, LLC (Intech Fund), shares of which are not publicly quoted. The Intech Fund invests mainly in domestic stocks, all of which have observable level 1 quoted pricing inputs. The value of the portfolio's shares of the Intech Fund investment are determined based on the net asset value provided by the Intech Fund, which was calculated in accordance with generally accepted accounting principles. Members should consider reporting these shares as level 2, since the value is based on market-corroborated data.

FMIvT International Equity Portfolio

This portfolio invests in a single underlying fund, the Investec International Dynamic Equity Fund, LLC (Investec Fund), shares of which are not publicly quoted. The Investec Fund invests in stocks sold on U.S. and international exchanges, all of which have observable level 1 quoted pricing inputs. The value of the portfolio's shares of the Investec Fund investment are determined based on the net asset value provided by the Investec Fund, which was calculated in accordance with generally accepted accounting principles. Members should consider reporting these shares as level 2 since the value is based on market-corroborated data.

FMIvT Core Plus Fixed Income Fund

This fund invests in two underlying funds, the Franklin Templeton Global Multi-Sector Plus Fund, LP and the Pioneer Institutional Multi-Sector Fixed Income Portfolio, LLC. Shares of these funds are not publicly quoted. These underlying funds invest in a variety of financial investments, including equity investments, asset-backed securities, debt securities, swaps, forward exchange contracts, credit-linked notes, escrow accounts, litigation trusts for both U.S. and foreign companies and governments. Members should consider reporting shares of this fund as level 3, since the value is based on unobservable inputs.

FMIvT Expanded High Yield Bond Fund

This fund invests in a single underlying fund, the Oaktree Expanded High Yield Fund, LP (Oaktree Fund), which in turn, owns two underlying funds, holding high-yield debt securities issued by U.S. and foreign companies. The Oaktree Fund and the underlying funds are not publicly quoted. Many of the securities held by the underlying funds are valued based on unobservable inputs. Members should consider reporting shares of this fund as level 3, since the value is based on unobservable inputs.

NOTE 3. RECEIVABLE AND PAYABLE BALANCES**Receivables**

Receivables at September 30, 2016 were as follows:

	Accounts	Due from Other Governmental Units	Total
Governmental activities:			
General	\$ 63,331	\$ 38,898	\$ 102,229
Business-type activities:			
Water	85,750	91,305	177,055
Sewer	122,576	4,723	127,299
	<u>\$ 271,657</u>	<u>\$ 134,926</u>	<u>\$ 406,583</u>

Payables

	Accounts	Accrued Liabilities	Total
Governmental activities:			
General	\$ 57,363	\$ 26,076	\$ 83,439
Tax Increment			
Financing District	5,369	350	5,719
Business-type activities:			
Water	80,213	4,061	84,274
Sewer	22,039	5,181	27,220
	<u>\$ 164,984</u>	<u>\$ 35,668</u>	<u>\$ 200,652</u>

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2016, was as follows:

	Beginning Balance	Increases	Disposals	Reclassifications	Adjustments	Ending Balance
Governmental Activities						
Capital assets not being depreciated:						
Land and Improvements	\$ 3,210,071	\$ -	\$ -	\$ -	\$ (3,130)	\$ 3,206,941
Construction in progress	-	1,400	-	-	-	1,400
Total capital assets not being depreciated	<u>3,210,071</u>	<u>1,400</u>	<u>-</u>	<u>-</u>	<u>(3,130)</u>	<u>3,208,341</u>
Capital assets being depreciated:						
Buildings	1,082,252	-	(18,428)	-	(273)	1,063,551
Improvements other than buildings	840,362	-	(9,117)	-	7,529	838,774
Furniture, equipment and machinery	2,054,116	-	(574,415)	-	10,136	1,489,837
Total capital assets being depreciated, net	<u>3,976,730</u>	<u>-</u>	<u>(601,960)</u>	<u>-</u>	<u>17,392</u>	<u>3,392,162</u>
Less accumulated depreciation:	<u>(2,848,771)</u>	<u>(102,345)</u>	<u>601,960</u>	<u>-</u>	<u>(100,524)</u>	<u>(2,449,680)</u>
Total capital assets being depreciated, net	<u>1,127,959</u>	<u>(102,345)</u>	<u>-</u>	<u>-</u>	<u>(83,132)</u>	<u>942,482</u>
Governmental activities capital assets, net	<u>\$ 4,338,030</u>	<u>\$ (100,945)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (86,262)</u>	<u>\$ 4,150,823</u>
Business-type activities:						
Capital assets not being depreciated:						
Land and improvements	\$ 279,369	\$ -	\$ -	\$ -	\$ -	\$ 279,369
Construction in progress	550,813	60,059	-	(610,672)	-	-
Total capital assets not being depreciated	<u>829,982</u>	<u>60,059</u>	<u>-</u>	<u>(610,672)</u>	<u>-</u>	<u>279,369</u>
Capital assets being depreciated:						
Buildings and improvements	764,617	-	(1,845)	-	(4,577)	758,195
Improvements other than building	30,243,666	615,063	(7,878)	610,672	98,127	31,559,650
Machinery and equipment	726,528	69,733	(92,019)	-	(95,406)	608,836
Total capital assets being depreciated, net	<u>31,734,811</u>	<u>684,796</u>	<u>(101,742)</u>	<u>610,672</u>	<u>(1,856)</u>	<u>32,926,681</u>
Less accumulated depreciation:	<u>(7,855,555)</u>	<u>(1,240,391)</u>	<u>101,742</u>	<u>-</u>	<u>(235,674)</u>	<u>(9,229,878)</u>
Total capital assets being depreciated, net	<u>23,879,256</u>	<u>(555,595)</u>	<u>-</u>	<u>610,672</u>	<u>(237,530)</u>	<u>23,696,803</u>
Business-type activities capital assets, net	<u>\$ 24,709,238</u>	<u>\$ (495,536)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (237,530)</u>	<u>\$ 23,976,172</u>
Depreciation expense:						
Governmental activities						
General government and administration						\$ 31,840
Public safety						34,420
Physical environment						8,605
Transportation						6,589
Culture and recreation						20,891
Total depreciation expense - governmental activities						<u>\$ 102,345</u>
Business-type activities						
Water enterprise fund sewer system						\$ 295,743
Sewer enterprise fund						944,648
Total depreciation expense - business-type activities						<u>\$ 1,240,391</u>

NOTE 5. LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
Revenue bonds payable	\$ 3,018,750	\$ -	\$ (175,000)	\$ 2,843,750	\$ 175,000
Compensated absences	122,439	154,090	(93,028)	183,501	61,732
OPEB payable	34,960	-	(2,060)	32,900	-
Net pension liability	154,528	62,716	(14,441)	202,803	15,000
Total Governmental Activities	\$ 3,330,677	\$ 216,806	\$ (284,529)	\$ 3,262,954	\$ 251,732
Business-type Activities					
State revolving loan	\$ 13,887	\$ -	\$ (13,887)	\$ -	\$ -
Revenue bonds payable	12,882,240	-	(540,565)	12,341,675	750,756
Compensated absences	165,623	-	(78,837)	86,786	43,393
OPEB payable	11,040	3,060	-	14,100	-
Net pension liability	60,632	20,683	(5,000)	76,315	5,000
Total business-type activities	\$ 13,133,422	\$ 23,743	\$ (638,289)	\$ 12,518,876	\$ 799,149

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
2017	\$ 175,000	\$ -	\$ 175,000
2018	175,000	-	175,000
2019	175,000	-	175,000
2020	175,000	-	175,000
2021	175,000	-	175,000
2022-2026	875,000	-	875,000
2027-2031	875,000	-	875,000
2032-2033	218,750	-	218,750
	\$ 2,843,750	\$ -	\$ 2,843,750

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>
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	26,328	11,217	37,545
2022-2026	317,715	38,922	356,637
	<u>\$ 441,001</u>	<u>\$ 103,502</u>	<u>\$ 544,503</u>

Revenue Bond 2013

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	328,756	170,368	499,124
2022-2026	4,861,213	622,379	5,483,592
	<u>\$ 6,400,675</u>	<u>\$ 1,580,304</u>	<u>\$ 7,980,979</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. In August of 2016, the City has entered into a refunding revenue note for the principal amount of \$5,500,000. The note is payable in 10 payments to include 2.54% interest beginning December 1, 2016, and semiannually thereafter on each June 1 and December 1 of each year up to and including maturity on December 1, 2025. It is expressly agreed upon that the City shall never have the right to require the levy of ad valorem taxes for the payment of principal and interest on the note. In addition, this should constitute a lien only upon the net revenues of the water and sewer system and any related grant funds. On a monthly basis, the City will transfer funds in the amount of 1/12th to the Sinking Fund to provide for the upcoming principal and interest payments as they come due such that the funds will be depleted at least once a year except for any carryover that will facilitate the principle and interest payments. Maturity of this agreement for the years and September 30, are as follows:

Branch Bank & Trust Bond

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 440,000	\$ 106,560	\$ 546,560
2018	460,000	122,682	582,682
2019	490,000	110,617	600,617
2020	520,000	97,790	617,790
2021	540,000	84,328	624,328
2022-2026	3,050,000	197,485	3,247,485
	<u>\$ 5,500,000</u>	<u>\$ 719,462</u>	<u>\$ 6,219,462</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. This loan has been paid in full during the fiscal year.

Annual Requirements to Retire Long-term Debt

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

<u>Year</u>	<u>Business-type Activities</u> <u>Principal</u> <u>Bonds</u>	<u>Total</u> <u>Interest</u>	<u>Total</u> <u>Debt</u> <u>Service</u>
2017	\$ 750,754	\$ 333,226	\$ 1,083,980
2018	781,289	338,634	1,119,923
2019	822,180	345,493	1,167,673
2020	863,441	291,214	1,154,655
2021	895,084	265,912	1,160,996
2022-2026	8,228,928	858,785	9,087,713
Total	<u>\$ 12,341,676</u>	<u>\$ 2,433,264</u>	<u>\$ 14,774,940</u>

NOTE 6. 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, 2016, amounted to \$2,664. The future minimum lease payments for leases are as follows:

<u>Year ending</u> <u>September 30,</u>	<u>Amount</u>
2017	\$ 5,787
2018	5,787
2019	5,787
2020	3,547
	<u>\$ 20,908</u>

**NOTE 7. DEFINED BENEFIT/DEFINED CONTRIBUTION PENSION PLANS AND COST SHARING
MULTIPLE EMPLOYER DEFINED BENEFIT PENSION PLANS – FLORIDA RETIREMENT SYSTEM
PENSION PLAN AND THE RETIREMENT HEALTH INSURANCE SUBSIDY PROGRAM**

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, 2016, respectively, were as follows: Regular—7.26% and 7.52%; Special Risk Administrative Support—32.95% and 28.06%; Special Risk—22.04% and 22.57%; Senior Management Service—21.43% and 21.77%; Elected Officers—42.27% and 42.47%; and DROP participants—12.28% and 12.88%. These employer contribution rates include 1.66% and 1.66% HIS Plan subsidy for the periods October 1, 2014 through June 30, 2015 and from July 1, 2015 through September 30, 2016, respectively.

The City's contributions, including employee contributions, to the Pension Plan totaled \$22,356 for the fiscal year ended September 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2016, the City reported a liability of \$187,942 for its proportionate share of the Pension Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The City's proportionate share of the net pension liability was based on the City's 2015-16 fiscal year contributions relative to the 2014-15 fiscal year contributions of all participating members. At June 30, 2016, the City's proportionate share was 0.000744321 percent, which was an increase (decrease) of (0.000222374) percent from its proportionate share measured as of June 30, 2015.

For the fiscal year ended September 30, 2016, the City recognized pension expense of \$2,920. In addition the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 14,390	\$ 1,750
Changes in assumptions	11,370	-
Net difference between projected and actual earnings on Pension Plan investments	4,563	-
Changes in proportion and differences between City Pension Plan contributions and proportionate share of contributions	-	2,650
City Pension Plan contributions subsequent to the measurement date	<u>3,382</u>	<u>-</u>
Total	<u>\$ 33,705</u>	<u>\$ 4,400</u>

The deferred outflows of resources related to the Pension Plan, totaling \$3,382 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:

<u>Fiscal Year Ending September 30</u>	<u>Amount</u>
2017	\$ 3,571
2018	3,571
2019	10,334
2020	7,073
2021	1,040
Thereafter	334
	<u>\$ 25,923</u>

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	7.60%, 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, 2016 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*	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.0%	3.0%	3.0%	1.7%
Fixed income	18.0%	4.7%	4.6%	4.6%
Global equity	53.0%	8.1%	6.8%	17.2%
Real estate	10.0%	6.4%	5.8%	12.0%
Private equity	6.0%	11.5%	7.8%	30.0%
Strategic investments	12.0%	6.1%	5.6%	11.1%
Assumed Inflation - Mean			2.6%	1.9%

*As outlined in the Pension Plan's investment policy

Discount Rate - The discount rate used to measure the total pension liability was 7.60%. 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 7.60%, 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 (6.60%) or one percentage point higher (8.60%) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
City's proportionate share of the net pension liability	\$ 346,013	\$ 187,942	\$ 56,368

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, 2016, the City had \$2,114 payable for outstanding contributions to the Pension Plan required for the fiscal year ended September 30, 2016.

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, 2016, 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, 2016, the HIS contribution for the period October 1, 2015 through June 30, 2016 and from July 1, 2016 through September 30, 2016 was 1.66% 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 \$4,907 for the fiscal year ended September 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2016, the City reported a liability of \$91,176 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The City's proportionate share of the net pension liability was based on the City's 2015-16 fiscal year contributions relative to the 2014-15 fiscal year contributions of all participating members. At June 30, 2016, the City's proportionate share was 0.000782316 percent, which was an increase (decrease) of (0.008071784) percent from its proportionate share measured as of June 30, 2016.

For the fiscal year ended September 30, 2016, the City recognized pension expense of \$641. 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	\$ -	\$ 208
Changes in assumptions	14,308	-
Net difference between projected and actual earnings on HIS Plan investments	46	-
Changes in proportion and differences between City HIS Plan contributions and proportionate share of contributions	-	10,186
City HIS Plan contributions subsequent to the measurement date	968	-
Total	<u>\$ 15,322</u>	<u>\$ 10,394</u>

The deferred outflows of resources related to the HIS Plan, totaling \$968 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
2017	\$ 709
2018	709
2019	707
2020	705
2021	610
Thereafter	520
	<u>\$ 3,960</u>

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	2.85 %

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

The actuarial assumptions used in the July 1, 2016, 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 2.85%. 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 2.85%, 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 (1.85%) or one percentage point higher (3.85%) than the current rate:

	1% Decrease (1.85%)	Current Discount Rate (2.85%)	1% Increase (3.85%)
City's proportionate share of the net pension liability	\$ 104,599	\$ 91,176	\$ 80,035

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, 2016, the City had \$464 payable for outstanding contributions to the HIS Plan required for the fiscal year ended September 30, 2016.

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 2015-16 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, 2016, 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, 2016.

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, 2016, there were 30 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, 2016. 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, 2015, the plan had the following number of participants:

Active	10
Retired, disabled, vested terminations and beneficiaries	7
Total number of participants	<u>17</u>

Annual Pension Costs and Net Pension Liability

Net Pension Liability as of September 30, 2016

Total pension liability	\$ 1,213,513
Less fiduciary net position	(2,071,789)
Net pension liability (excess)	<u>\$ (858,276)</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, 2015) was as follows:

Service cost	\$ 78,329
Other recognized changes in net pension liability:	
Expected interest growth	(32,236)
Investment gain/loss	14,704
Demographic gain/loss	(26,626)
Employee contributions	(3,810)
Benefit payments and refunds	-
Administrative expense	14,020
Changes in benefit terms	-
Assumption changes	5,648
Pension expense	<u>\$ 50,029</u>

DISCLOSURES RELATED TO THE PUBLIC SAFETY PENSION PLAN

Deferred Inflow and Outflow of Resources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance as of September 30, 2015	\$ 187,382	\$ 12,938
Change due to:		
Amortization payments	(32,142)	(38,416)
Investment gain/loss	-	35,281
Demographic gain/loss	-	308,352
Assumption changes	-	-
Balance as of September 30, 2016	\$ 155,240	\$ 318,155

Balance Equation

Net pension liability as of September 30, 2015	\$ (519,224)
Plus pension expense for the 2015/16 fiscal year	50,029
Minus employer contribution for the 2015/16 fiscal year	(51,722)
Plus change in balance of deferred outflows of resources	(32,142)
Minus change in balance of deferred inflows of resources	(305,217)
Net pension liability as of September 30, 2016	\$ (858,276)

Amortization Schedule for Deferred Outflows and Inflows of Resources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance as of September 30, 2016	\$ 155,240	\$ 318,155
Amount recognized in the 2016/17 pension expense:		
Investment gain/loss	\$ 26,072	\$ 11,368
Demographic gain/loss	422	27,048
Assumption changes	5,648	-
	\$ 32,142	\$ 38,416
Balance as of September 30, 2017	\$ 123,098	\$ 279,739
Amount recognized in the 2016/17 pension expense:		
Investment gain/loss	\$ 26,072	\$ 11,370
Demographic gain/loss	422	27,048
Assumption changes	5,648	-
	\$ 32,142	\$ 38,418
Balance as of September 30, 2018	\$ 90,956	\$ 241,321
Amount recognized in the 2018/19 pension expense:		
Investment gain/loss	\$ 26,074	\$ 7,056
Demographic gain/loss	422	27,048
Assumption changes	5,648	-
	\$ 32,144	\$ 34,104
Balance as of September 30, 2019	\$ 58,812	\$ 207,217
Amount recognized in the 2019/20 pension expense:		
Investment gain/loss	\$ -	\$ 7,057
Demographic gain/loss	422	27,048
Assumption changes	5,648	-
	\$ 6,070	\$ 34,105
Balance as of September 30, 2020	\$ 52,742	\$ 173,112
Amount recognized in the 2020/21 pension expense:		
Investment gain/loss	\$ -	\$ -
Demographic gain/loss	422	27,048
Assumption changes	5,648	-
	\$ 6,070	\$ 27,048
Balance as of September 30, 2021	\$ 46,672	\$ 146,064

Changes in the Net Pension Liability

	Total Pension Liability	Fiduciary Net Position	Net Pension Liability
Balance as of September 30, 2015	\$ 1,363,180	\$ (1,882,404)	\$ (519,224)
Change due to:			
Service cost	78,329	-	78,329
Expected interest growth	100,275	(132,511)	(32,236)
Unexpected investment income	-	(35,281)	(35,281)
Demographic experience	(308,352)	-	(308,352)
Employer contributions	-	(51,722)	(51,722)
Benefit payments and refunds	-	(3,810)	(3,810)
Administrative expenses	(19,919)	19,919	-
Changes in benefit terms	-	14,020	14,020
Assumption changes	-	-	-
Balance as of September 30, 2016	<u>\$ 1,213,513</u>	<u>\$ (2,071,789)</u>	<u>\$ (858,276)</u>

Comparison of Net Pension Liability Using Alternative Discount Rates

	Discount Rate Minus 1.00%	7.00% Discount Rate	Discount Rate Plus 1.00%
Total pension liability	\$ 1,378,418	\$ 1,213,513	\$ 1,076,853
Less fiduciary net position	(2,071,789)	(2,071,789)	(2,071,789)
Net pension liability	<u>\$ (693,371)</u>	<u>\$ (858,276)</u>	<u>\$ (994,936)</u>

Historical Trend Information

Measurement Date	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	Funded Percentage	Covered Payroll	Net Pension Liability as a % of Covered Payroll
September 30, 2016	\$ 1,213,513	\$2,071,789	\$ (858,276)	170.73%	\$ 429,146	Not applicable
September 30, 2015	1,363,180	1,882,404	(519,224)	138.09%	614,903	Not applicable
September 30, 2014	1,094,714	1,844,903	(750,189)	168.53%	614,903	Not applicable
September 30, 2013	934,534	1,656,010	(721,476)	177.20%	614,903	Not applicable
October 1, 2011	758,063	802,214	(44,151)	105.82%	565,373	Not applicable
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	Not applicable

Historical Trend Information (continued)

Changes in the net pension liability by source

Fiscal Year	Service Cost	Expected Interest Growth	Unexpected Investment Income	Demographic Experience	Employer Contributions	Employee Contributions	Benefit / Payments and Refunds	Administrative Expenses	Changes in Benefit Terms	Assumption Changes
2015/16	\$78,329	\$ (32,236)	\$ (35,281)	\$ (308,352)	\$ (51,722)	\$ (3,810)	\$ -	\$ 14,020	\$ -	\$ -
2014/15	119,186	(46,414)	130,362	6,197	(66,928)	(4,684)	-	10,281	-	82,965
2013/14	106,900	(52,049)	(21,562)	-	(57,346)	(5,349)	(13,131)	13,824	-	-

Historical Trend Information (continued)

	(1)	(2)	(3)		
	Actuarially	Contributions	Difference		Column (2)
	Determined	Recognized	Between	Covered	as a % of
Fiscal Year End	Contribution	By the Plan	(1) and (2)	Payroll	Covered Payroll
September 30, 2016	\$ -	\$ 51,722	\$ 51,722	\$429,146	12.05%
September 30, 2015	63,134	66,928	3,794	614,903	10.88%
September 30, 2014	72,106	57,346	(14,760)	614,903	9.33%
September 30, 2013	373,978	397,437	23,459	Not available	Not available
September 30, 2012	77,030	77,030	-	565,373	13.62%
September 30, 2011	100,375	100,375	-	Not available	Not available
September 30, 2010	83,032	83,032	-	500,405	16.59%
September 30, 2009	77,117	77,117	-	Not available	Not available
September 30, 2008	74,849	74,849	-	471,515	15.91%
September 30, 2007	50,427	50,427	-	Not available	Not available

Other Pension Plan Information

The annual required contribution for the current year was determined as part of the October 1, 2015. The actuarial assumptions include the following:

- Interest (or Discount) Rate – 7.00% per annum (2.92% 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 (IRS) for purpose of Internal Revenue Code (IRC) 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
- Future contributions – Contributions from the employer and employees are assumed to be made as legal required.
- Changes – No assumptions or methods have changed since the prior measurement date.

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%	0.58% per annum
Multi-sector	24.00%	1.08% per annum
U.S. large cap equity	39.00%	6.08% per annum
U.S. small cap equity	11.00%	6.83% per annum
Non-U.S. equity	10.00%	6.83% per annum
Total or weighted arithmetic average	100.00%	4.08% per annum

Schedule of Changes in Pension Plan Net Position as of September 30, 2016

	<u>Pension Trust Funds</u>		
	<u>General Employees</u>	<u>Special Risk</u>	<u>Total</u>
Assets			
Cash and investments	<u>\$1,195,001</u>	<u>\$2,246,749</u>	<u>\$3,441,750</u>
Total assets	<u>1,195,001</u>	<u>2,246,749</u>	<u>3,441,750</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net assets			
Reserved for:			
Employees' pension benefits	<u>1,195,001</u>	<u>2,246,749</u>	<u>3,441,750</u>
Total liabilities and net assets	<u>\$1,195,001</u>	<u>\$2,246,749</u>	<u>\$3,441,750</u>
Additions			
Contributions:			
Employer	\$ 81,426	\$ -	\$ 81,426
(Forfeitures applied)	(11,653)	-	(11,653)
Net employer contributions	69,773	-	69,773
State	-	51,722	51,722
Employee	49,238	3,761	52,999
Total contributions	<u>119,011</u>	<u>55,483</u>	<u>174,494</u>
Investment income	<u>95,699</u>	<u>167,792</u>	<u>263,491</u>
Net investment income*	<u>95,699</u>	<u>167,792</u>	<u>263,491</u>
Total additions	<u>214,710</u>	<u>223,275</u>	<u>437,985</u>
Deductions			
Pension benefit payment and refunds	(24,872)	(19,919)	(44,791)
General and administrative	(5,532)	(14,020)	(19,552)
Total deductions	<u>(30,404)</u>	<u>(33,939)</u>	<u>(64,343)</u>
Increase (decrease) in fiduciary net assets	<u>184,306</u>	<u>189,336</u>	<u>373,642</u>
Net assets reserved for employees			
pension benefit			
Beginning of year	<u>1,010,694</u>	<u>2,057,414</u>	<u>3,068,108</u>
End of year	<u>\$1,195,000</u>	<u>\$2,246,750</u>	<u>\$3,441,750</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 \$1,000 for the year ended September 30, 2016.

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

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

Valuation date.....	October 1, 2016
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	8.00% for 2016-17 graded to 5.50% for 2020/21
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 \$1,000.

The City's annual OPEB cost and the net OPEB obligation for the fiscal year ended September 30, 2016 is as follows:

Annual required contribution (ARC).....	\$ 5,000
Interest on the net OPEB obligation.....	2,000
Adjustment to the ARC.....	<u>(5,000)</u>
	2,000
Employer contributions.....	(1,000)
Interest on employer contributions.....	<u>-</u>
	<u>1,000</u>
 Net OPEB obligation - beginning of year.....	 <u>46,000</u>
 Net OPEB obligation - end of year.....	 <u><u>\$ 47,000</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, 2016 is as follows:

A. Schedule of Employer Contributions

<u>Year Ended September 30</u>	<u>ARC</u>	<u>% Contributed</u>	<u>Annual OPEB Cost</u>	<u>% Contributed</u>
2014	\$ 12,000	25%	\$ 9,000	33%
2015	12,000	25%	9,000	33%
2016	5,000	20%	2,000	50%

The 2016 contribution represented 20% of the annual required contribution. The actuarial valuation for the Plan was done as of October 1, 2016. Thereafter, actuarial valuations will be done bi-annually.

As of October 1, 2016, the most recent actuarial valuation date, the Plan was unfunded. The actuarial accrued liability for benefits was \$47,000, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$47,000.

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

B. Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (2) - (1)	Funded Ratio (1) - (2)	Covered Payroll	UAAL As % of Covered Payroll (3) - (4)
October 1, 2010	\$ -	\$98,000	\$98,000	0.0%	\$1,445,000	6.8%
November 1, 2012	-	38,000	38,000	0.0%	2,107,000	1.8%
July 1, 2014	-	41,000	41,000	0.0%	2,219,000	1.8%
October 1, 2016	-	19,000	19,000	0.0%	1,199,000	1.6%

NOTE 9. 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 10. 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 11. 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 12. LITIGATION

The City is not currently a defendant in any pending or threatened litigation.

NOTE 13. PRIOR PERIOD ADJUSTMENT – RESTATEMENT OF BEGINNING NET POSITION

The City completed its capital assets analysis and comparison with recorded values, and as a result had to make adjustments to correct the recording of assets and related depreciation in response to the analysis. This resulted in a prior period adjustment in both the governmental and proprietary funds. The affects of these adjustments are as follows:

	Governmental Funds	Water Fund	Sewer Fund
Net position, beginning	\$ 3,569,457	\$ (151,068)	\$ 14,375,830
Decrease net capital assets	(86,262)	(37,838)	(199,690)
Net position, restated	<u>\$ 3,483,195</u>	<u>\$ (188,906)</u>	<u>\$ 14,176,140</u>

The implementation of GASB 68 requires employers participating in defined benefit pension plans to report the total net pension liability or asset and the related deferred outflows/inflows of resources for the plan on their government-wide financial statements. The following is related to showing the Special Risk Pension Plan asset and its related adjustments.

Deferred outflows	\$ 187,382
Deferred inflows	(12,938)
Net pension asset	519,224
Net position	<u>(693,668)</u>
	<u>\$ -</u>

Total net effect on net position:

	Governmental Funds	Business-type Activities
Net position, beginning	\$ 3,569,457	\$ 14,224,762
Net change	607,406	(237,528)
Net position, restated	<u>\$ 4,176,863</u>	<u>\$ 13,987,234</u>

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, 2016

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues			
Taxes			
Ad valorem	\$ 912,104	\$ 897,027	\$ (15,077)
Local option gas tax	210,464	210,039	(425)
Franchise tax:			
Electricity	178,714	175,111	(3,603)
Communication service tax	95,758	99,753	3,995
Utility tax :			
Electricity	223,223	230,051	6,828
Propane	24,755	26,008	1,253
Total taxes	1,645,018	1,637,989	(7,029)
Licenses and permits			
Professional and occupational	23,503	23,948	445
Building permits	47,375	81,392	34,017
Other licenses and permits	25,082	32,970	7,888
Special assessments	1,200	28,041	26,841
Total licenses and permits	97,160	166,351	69,191
Intergovernmental revenue			
State, federal and local grants	-	73,500	73,500
State shared revenues:			
State revenue sharing	61,219	60,943	(276)
Mobile home licenses	7,397	7,424	27
Alcoholic beverage licenses	3,521	734	(2,787)
Local government one-half cent sales tax	114,836	117,223	2,387
Motor fuel tax	19,016	18,940	(76)
Motor fuel tax rebate	2,243	2,744	501
Total intergovernmental revenue	208,232	281,508	73,276
Charges for services			
Copying and records search	604	6,982	6,378
Garbage and solid waste	169,198	179,049	9,851
Cemetery fees and lots	13,579	18,979	5,400
Transportation services	26,837	26,837	-
Administrative services	143,728	143,728	-
City beach user fees	710	403	(307)
Other miscellaneous charges	3,500	10,749	7,249
Total charges for services	358,156	386,727	28,571

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, 2016
(Continued)

	Original and Final Budget	Actual Amounts	Variance With Final Budget Positive (Negative)
Fines and forfeitures			
Court fines	\$ 35,962	\$ 4,220	\$ (31,742)
Other fines	2,706	1,204	(1,502)
Total fines and forfeitures	<u>38,668</u>	<u>5,424</u>	<u>(33,244)</u>
 Miscellaneous revenue			
Investment earnings	2,200	3,073	873
Contributions and donations	-	13,159	13,159
Other miscellaneous	20,000	53,821	33,821
Total miscellaneous revenue	<u>22,200</u>	<u>70,053</u>	<u>47,853</u>
Total revenues	<u>\$ 2,369,434</u>	<u>\$ 2,548,052</u>	<u>\$ 178,618</u>
 Expenditures			
General government			
Legislative:			
Personnel services	\$ 15,454	\$ 9,033	\$ 6,421
Operating expenses	15,909	11,347	4,562
Capital outlay	-	-	-
Debt service	175,000	175,000	-
Total legislative	<u>206,363</u>	<u>195,380</u>	<u>10,983</u>
Executive:			
Personnel services	99,110	126,903	(27,793)
Operating expenses	13,653	4,775	8,878
Total executive	<u>112,763</u>	<u>131,678</u>	<u>(18,915)</u>
Financial and administrative:			
Personnel services	350,336	352,876	(2,540)
Operating expenses	65,275	59,827	5,448
Total Financial and administrative	<u>415,611</u>	<u>412,703</u>	<u>2,908</u>
Legal counsel:			
Operating expenses	49,000	105,815	(56,815)
Comprehensive planning:			
Personnel services	30,128	29,455	673
Operating expenses	13,623	80,980	(67,357)
Total comprehensive planning	<u>43,751</u>	<u>110,435</u>	<u>(66,684)</u>
Other general government			
Personnel services	80,735	66,764	13,971
Operating expenses	33,793	19,967	13,826
Total other general government	<u>114,528</u>	<u>86,731</u>	<u>27,797</u>
Total general government	<u>\$ 942,016</u>	<u>\$ 1,042,742</u>	<u>\$ (100,726)</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, 2016
(Continued)

	Original and Final Budget	Actual Amounts	Variance With Final Budget Positive (Negative)
Expenditures (continued)			
Public safety			
Law enforcement:			
Personnel services	\$ 379,935	\$ 346,543	\$ 33,392
Operating expenses	132,147	144,338	(12,191)
Total law enforcement	<u>512,082</u>	<u>490,881</u>	<u>21,201</u>
Fire control:			
Personnel services	265,166	278,041	(12,875)
Operating expenses	46,770	50,307	(3,537)
Total fire control	<u>311,936</u>	<u>328,348</u>	<u>(16,412)</u>
Protective inspections:			
Personnel services	55,165	47,026	8,139
Operating expenses	41,682	68,615	(26,933)
Total protective inspections	<u>96,847</u>	<u>115,641</u>	<u>(18,794)</u>
Total public safety	<u>920,865</u>	<u>934,870</u>	<u>(14,005)</u>
Physical environment			
Garbage and solid waste:			
Personnel services	7,743	7,731	12
Operating expenses	143,150	147,081	(3,931)
Total garbage and solid waste	<u>150,893</u>	<u>154,812</u>	<u>(3,919)</u>
Cemetery:			
Personnel services	16,199	15,904	295
Operating expenses	3,109	5,113	(2,004)
Total Cemetery	<u>19,308</u>	<u>21,017</u>	<u>(1,709)</u>
Total physical environment	<u>170,201</u>	<u>175,829</u>	<u>(5,628)</u>
Transportation			
Roads and streets:			
Personnel services	138,703	135,283	3,420
Operating expenses	138,703	93,613	45,090
Capital Outlay	60,000	-	60,000
Total transportation	<u>337,406</u>	<u>228,896</u>	<u>108,510</u>
Human services			
Animal control:			
Personnel services	11,946	11,832	114
Operating expenses	2,839	835	2,004
Total human services	<u>\$ 14,785</u>	<u>\$ 12,667</u>	<u>\$ 2,118</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, 2016
(Concluded)

	Original and Final Budget	Actual Amounts	Variance With Final Budget Positive (Negative)
Expenditures (concluded)			
Culture and recreation			
Parks and recreation:			
Personnel services	\$ 38,718	\$ 38,950	\$ (232)
Operating expenses	18,325	19,051	(726)
Capital Outlay	6,000	1,400	4,600
Total culture and recreation	<u>63,043</u>	<u>59,401</u>	<u>3,642</u>
Total expenditures	<u>2,448,316</u>	<u>2,454,405</u>	<u>(6,089)</u>
Excess of revenues over expenditures	<u>(78,882)</u>	<u>93,647</u>	<u>172,529</u>
 Net change in fund balance	 (78,882)	 93,647	 172,529
 Fund balance, beginning of year	 2,373,923	 2,373,923	 -
Fund balance, end of year	<u><u>\$ 2,295,041</u></u>	<u><u>\$ 2,467,570</u></u>	<u><u>\$ 172,529</u></u>

CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUND - TAX INCREMENT FINANCING DISTRICT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2016

	Original and Final Budget	Actual Amounts	Variance With Budget Positive (Negative)
Revenues			
Taxes:			
Ad valorem	\$ 156,607	\$ 151,251	\$ (5,356)
Miscellaneous revenue:			
Investment earnings	185	311	126
Total revenues	<u>156,792</u>	<u>151,562</u>	<u>(5,230)</u>
Expenditures			
Economic environment			
Industry development:			
Personnel services	20,619	20,748	(129)
Operating expenses	136,173	17,743	118,430
Total expenditures	<u>156,792</u>	<u>38,491</u>	<u>118,301</u>
Deficiency of revenues over expenditures	<u>-</u>	<u>113,071</u>	<u>113,071</u>
Net change in fund balance	<u>-</u>	<u>113,071</u>	<u>113,071</u>
Fund balances, beginning of year	<u>206,972</u>	<u>206,972</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 206,972</u></u>	<u><u>\$ 320,043</u></u>	<u><u>\$ 113,071</u></u>

**CITY OF DUNNELLON, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2016**

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, 2016
CITY OF DUNNELLON, FLORIDA**

Historical Trend Information

Measurement Date	Total Pension Liability	Fiduciary Net Position	Net Pension Liability (excess)	Funded Percentage	Covered Payroll	Net Pension Liability as a % of Covered Payroll
September 30, 2016	\$ 1,213,513	\$2,071,789	\$ (859,276)	170.73%	\$ 429,146	N/A
September 30, 2015	1,363,180	1,822,404	(59,224)	138.09%	614,903	N/A
September 30, 2014	1,094,714	1,844,903	(7,150,184)	169	614,903	N/A
September 30, 2013	934,584	1,656,010	(721,476)	177.20%	614,903	N/A
October 1, 2011	758,063	802,214	(44,151)	105.82%	565,373	N/A
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
2016	\$ -	\$ 51,722	\$ 51,722	\$ 429,146	12.05%
2015	63,134	66,928	3,794	614,903	10.88%
2014	72,106	57,346	(14,760)	614,903	Not available
2013	373,978	397,487	23,459	614,903	0.45%
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

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 except 2014, 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, 2016
CITY OF DUNNELLON, FLORIDA**

SCHEDULE OF FUNDING PROGRESS

B. Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (2) - (1)	Funded Ratio (1) - (2)	Covered Payroll	UAAL As % of Covered Payroll (3) - (4)
October 1, 2010	\$ -	\$98,000	\$98,000	0.0%	\$1,445,000	6.8%
November 1, 2012	-	38,000	38,000	0.0%	2,107,000	1.8%
July 1, 2014	-	41,000	41,000	0.0%	2,219,000	1.8%
October 1, 2016	-	19,000	19,000	0.0%	1,199,000	1.6%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

ARC	Contributed	OPEB Cost	Contributed
\$ 12,000	25%	\$ 9,000	33%
12,000	25%	9,000	33%
5,000	20%	1,000	100%

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*

	2016	2015	2014
City's proportion of the FRS net pension liability (asset)	0.000744321%	0.000966695%	0.000991560%
City's proportionate share of the FRS net pension liability (asset)	\$ 187,942	\$ 124,862	\$ 60,475
City's proportion of the HIS net pension liability (asset)	0.000782316%	0.000885410%	0.000904896%
City's proportionate share of the HIS net pension liability (asset)	91,176	90,298	84,610
City's proportionate share of the total net pension liability (asset)	\$ 279,118	\$ 215,160	\$ 145,085
City's covered-employee payroll	\$ 237,990	\$ 299,379	\$ 299,265
Citys' proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	117.28%	71.87%	48.48%
Plan fiduciary net position as a percentage of the total pension liability	85.85%	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***

	2016	2015	2014
Contractually required FRS contribution	\$ 22,356	\$ 24,148	\$ 22,676
Contractually required HIS contribution	4,907	3,608	3,388
Total Contractually Required Contributions	<u>27,263</u>	<u>27,756</u>	<u>26,064</u>
Contributions in relation to the contractually required contribution	(27,263)	(27,756)	(26,064)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 237,990	\$ 299,379	\$ 299,265
Contributions as a percentage of covered-employee payroll	11.46%	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, 2016**

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, 2016, are shown below (in thousands):

	FRS	HIS
Total pension liability	\$ 167,030,999	\$ 11,768,445
Plan fiduciary net position	(141,780,921)	(113,859)
	\$ 25,250,078	\$ 11,654,586
Plan fiduciary net position as a percentage of the total pension liability	84.88%	0.97%

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, 2015, and update procedures were used to determine liabilities as of July 1, 2016. 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, 2014, 2015 and 2016, 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 7.60%. 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 2.85% 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 2016:

- FRS: The long-term expected rate of return was decreased from 7.65% to 7.60%, and the active mortality assumption was updated.
- HIS: The municipal rate used to determine total pension liability was decreased from 3.80% to 2.85%.

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, 2016, and our report thereon dated April 4, 2017, 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, 2016, 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 4, 2017

**CITY OF DUNNELLON, FLORIDA
DEBT SERVICE COVERAGE SCHEDULE
WATER AND SEWER REVENUE BONDS
For the Fiscal Year Ended September 30, 2016
UNAUDITED**

	<u>September 30, 2016</u>
Gross revenue (B)	
Operating revenue	3,036,530
Interest income	2,916
Total gross revenue	<u>3,039,446</u>
Costs of operation and maintenance	
Personnel services	483,733
Operating expenses (C)	804,455
Total costs of operation and maintenance	<u>1,288,188</u>
Gross revenues less costs of operation and maintenance	1,751,258
Senior Lien Debt Service and Coverage	
Senior lien debt service	
Regions principal	278,279
Regions interest	236,304
BB&T principal	240,000
BB&T interest	144,781
Total senior lien debt service	<u>899,364</u>
Senior lien debt service coverage for rate covenant (D)	1.95
Non-operating revenue (wastewater project grant funds) (E)	<u>604,020</u>
Total pledged funds	<u>2,355,278</u>
Senior lien debt service coverage for all pledged funds	2.62

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

CITY OF DUNNELLO, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
For the Fiscal Year Ended September 30, 2016

GRANTOR/PROGRAM TITLE	CFDA #/ CSFA #	Grant Number	Amount	Reported in Prior Years	Expenditures Recognized in Current Year	Accrual (Deferral) in Current Year
Federal Awards						
<i>Non-major programs</i>						
U.S. Department of Housing & Urban Development	14.228	15DB-OJ-05-52-02-E-02	\$ 650,000	\$ 2,460	\$ 604,020	\$ 96,028
Total federal awards			<u>650,000</u>	<u>2,460</u>	<u>604,020</u>	<u>96,028</u>
State Financial Assistance						
<i>Non-major programs</i>						
Florida Department of Economic Opportunity						
Technical Assistance - Comprehensive Plan	40.038	P0139	74,000	-	73,500	73,500
Total State Financial Assistance			<u>74,000</u>	<u>-</u>	<u>73,500</u>	<u>73,500</u>
Total federal awards and state financial assistance			<u>\$ 724,000</u>	<u>\$ 2,460</u>	<u>\$ 677,520</u>	<u>\$ 169,528</u>

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

CITY OF DUNNELLON, FLORIDA

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

For the Year Ended September 30, 2016

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 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, and the requirements described in the Department of Financial Services State Projects Compliance Supplement.

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.

C. Subrecipients

The Schedule of Expenditures of Federal Awards and State Financial Assistance is required to identify amounts passed through to subrecipients of grant funding. The City did not have any subrecipients of grant funding in the current year.

**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, 2016, 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 4, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

POWELL & JONES

Certified Public Accountants

April 4, 2017

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, 2016, and have issued our report thereon dated April 4, 2017. 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. This finding was substantially corrected in the current year.

PRIOR 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 again 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 \$93,647 and the enterprise funds had operating income of \$472,639. To assist the City in restoring and maintaining its financial

financial reserves at appropriate levels we again 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.

CURRENT YEAR FINDINGS

There were no reportable recommendations or findings in the current year.

AUDITOR GENERAL COMPLIANCE MATTERS

Annual Local Government Financial Report - The Financial Report filed with the Department of Financial Services pursuant to Section 218.32(1)(a), *Florida Statutes*, is in agreement with the accompanying financial statements of the City of Dunnellon, Florida, for the fiscal year ended September 30, 2016.

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, 2016, the City paid the first installment of \$175,000 on the new loan and still managed to increase the General Fund Balance by \$93,647, and achieved an ending unassigned fund balance of \$442,898 which was approximately two months of General Fund expenditures. The Enterprise Funds had a combined net increase in ending net position of \$698,336 which would allow the City to fund the lawsuit judgment for the remaining year of 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.

POWELL & JONES

Certified Public Accountants

April 4, 2017

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, 2016. 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, 2016.

This report is intended solely for the information and use of the City of Dunnellon, 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 4, 2017



**City of Dunnellon Management Response To
Auditors' Management Letter Comment
Annual Audit FYE 9/30/16**

Honorable Mayor and City Council
City of Dunnellon
Dunnellon, Florida

We have reviewed the audit report for fiscal year ending September 30, 2016 including the management letter. The following is in response to Powell & Jones CPA's current year recommendations.

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. During the current fiscal year 2016-2017 it was discovered that there were several incorrect accounting codes that were contributing to the inaccuracy of the monthly bank reconciliations. We are currently in the process of correcting the accounting codes. We anticipate that these corrections will resolve the issue between the individual bank balance and fund balance.

Fund Balance Policy

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

Dawn M. Bowne

Dawn M. Bowne
Interim 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, 2016. 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 4, 2017.

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 4, 2017