

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**CITY OF DUNNELLON  
DUNNELLON, FLORIDA**

**SEPTEMBER 30, 2007**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**CITY OF DUNNELLON  
DUNNELLON, FLORIDA**

**SEPTEMBER 30, 2007**

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**CITY OF DUNNELLON, FLORIDA**

**SEPTEMBER 30, 2007**

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## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council  
City of Dunnellon  
Dunnellon, Florida

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund and the remaining aggregate fund information for the City of Dunnellon, Florida (the City) as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the remaining aggregate fund information of the City as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 11, 2008, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

### **Certified Public Accountants**

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Honorable Mayor and City Council  
City of Dunnellon  
Dunnellon, Florida

**INDEPENDENT AUDITORS' REPORT**  
*(Concluded)*

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

*Purvis, Gray and Company, LLP*

April 11, 2008  
Ocala, Florida

**CITY OF DUNNELLON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007**

Our discussion and analysis of the City of Dunnellon's (the City) financial performance provides an overview of the City's financial activities for the year ended September 30, 2007. Please read it in conjunction with the City's basic financial statements, which begin on page 8.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities (pages 8-9) 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 12. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

**Reporting the City as a Whole**

**The Statement of Net Assets and the Statement of Activities**

Our analysis of the City as a whole begins on page 8. One of the most important questions asked about the City's finances is: "Is the City as a whole financially better or worse as a result of the year's activities?" The statement of net assets and the statement of activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, we divide the City into two types of activities:

- Governmental activities - Most of the City's basic services are reported here, including the police, fire, general administration, streets and parks, property taxes, franchise fees, gas taxes, fines, and state and county-shared revenues.
- Business-type activities - The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water 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 12. 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.

**CITY OF DUNNELLON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007  
(Continued)**

**Reporting the City's Most Significant Funds (Concluded)**

**Fund Financial Statements (Concluded)**

- Governmental funds - Most of the City's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliations on pages 11 and 13.
- Proprietary funds - The City's proprietary funds are comprised of enterprise funds. An enterprise fund is used to account for activities when the City charges customers for the services it provides. Proprietary funds are reported in the same way that all activities are reported in the statement of net assets and the statement of activities. In fact, the City's enterprise fund is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

**The City as Trustee**

**Reporting the City's Fiduciary Responsibilities**

The City is the trustee, or fiduciary, for the Special Risk Pension Trust Fund. The City's fiduciary activities are reported in a separate statement of fiduciary net assets pension trust fund on page 19. 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**

	<b>Governmental</b>		<b>Business-Type</b>		<b>Total</b>	
	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>
Revenues	\$ 4,095,510	\$ 2,854,928	\$ 1,110,208	\$ 2,489,774	\$ 5,205,718	\$ 5,344,702
Expenses	\$ 2,401,810	\$ 2,754,310	\$ 821,348	\$ 1,175,573	\$ 3,223,158	\$ 3,929,883

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:

**CITY OF DUNNELLON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007  
(Continued)**

**THE CITY AS A WHOLE (Concluded)**

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 revenue decreased 30.3 percent primarily due to the one-time sale of the Dunnellon Middle School property in May 2006.

**Business-type Activities**

The Water Utility is showing an operating loss of \$38,103 offset by nonoperating revenues of \$52,737 for a net increase of \$14,634 for fiscal year 2007. The net increase is primarily due to investment income.

**Net Assets**

For the year ended September 30, 2007, net assets changed as follows:

	Governmental Activities		Business-Type Activities		Total	
	2006	2007	2006	2007	2006	2007
Beginning net assets	\$ 3,472,796	\$ 5,179,303	\$ 6,652,716	\$ 7,020,203	\$ 10,125,512	\$ 12,199,506
Increase in net assets	1,706,507	113,562	367,487	1,342,479	2,073,994	1,456,041
Ending net assets	<u>\$ 5,179,303</u>	<u>\$ 5,292,865</u>	<u>\$ 7,020,203</u>	<u>\$ 8,362,682</u>	<u>\$ 12,199,506</u>	<u>\$ 13,655,547</u>

This reflects an increase of 2.2 percent for governmental activities and an 18.5 percent increase for business-type activities over prior year.

**THE CITY'S FUNDS**

The following schedule of Assets and Liabilities presents a summary of the City's Assets and Liabilities for the fiscal year ended September 30, 2007:

**CITY OF DUNNELLON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007  
(Continued)**

**THE CITY'S FUNDS (Continued)**

<b>Assets</b>	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>
Current Assets	\$ 4,193,731	\$ 4,466,684	\$ 3,056,230	\$ 3,568,800
Capital Assets, Net of Accumulated Depreciation	1,319,487	1,397,419	6,904,634	9,027,495
Unamortized Bond Issue Costs			63,081	62,078
<b>Total Assets</b>	<b>\$ 5,513,218</b>	<b>\$ 5,864,103</b>	<b>\$ 10,023,945</b>	<b>\$ 12,658,373</b>

Current assets for governmental activities have increased 6.5 percent over prior year primarily due to Interest Income.

<b>Liabilities</b>	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>
Current Liabilities	\$ 16,066	\$ 156,890	\$ 25,717	\$ 1,195,898
Payable form Restricted Assets			95,805	103,697
Deferred Revenue	36,847	39,030	2,158	1,682
Long-term Liabilities	281,002	375,318	2,880,062	2,994,414
<b>Total Liabilities</b>	<b>\$ 333,915</b>	<b>\$ 571,238</b>	<b>\$ 3,003,742</b>	<b>\$ 4,295,691</b>

Current liabilities for governmental activities increased 876.5 percent over prior year primarily due to an increase in accounts payable - \$137,482 resulting from the Blue Cove Outfall stormwater management project. Long-term liabilities increased 33.6 percent primarily due to the acquisition of 6 patrol units for Public Safety. Current liabilities and Long-term liabilities for business-type activities have increased due to the start of phase II of the City's sewer project.

The following schedule presents a summary of general, special revenue, capital project, debt service, and permanent fund revenues and expenditures for the fiscal year ended September 30, 2007.

**Revenues**

<b>Program Revenues</b>	<b>Governmental</b>		<b>Water Utility</b>		<b>Business-Type Sewer Utility</b>	
	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>
Charges for Services	\$ 372,948	\$ 388,585	\$ 283,100	\$ 291,677	\$ 605,584	\$ 602,454
Operating Grants and Contributions	7,104	7,000				
Capital Grants and Contributions	103,987	47,576	55,744	19,343	165,780	1,450,089
<b>General Revenues</b>						
Taxes	1,756,507	1,974,455				
State-shared	257,846	237,667				
Investment Income	67,774	181,771	24,397	32,655	67,037	92,506
Miscellaneous	1,529,344	17,874				1,050
Transfers	12,807	12,944			(12,807)	(12,944)
<b>Total Revenues</b>	<b>\$ 4,108,317</b>	<b>\$ 2,867,872</b>	<b>\$ 363,241</b>	<b>\$ 343,675</b>	<b>\$ 825,594</b>	<b>\$ 2,133,155</b>

Governmental revenue decreased 30.2 percent over prior year with General Revenues experiencing the largest percentage decrease; Miscellaneous Revenue 988.4 percent resulting from the sale of the Dunnellon Middle School property in 2006; State-shared Revenue 7.8 percent offset by increases in Interest Income 168.2 percent, and Taxes 12.4 percent. Business-type revenues, water and sewer, increased .62 percent and Capital Grants and Contributions increased 774.7 percent from prior year primarily due to the start of Phase II of the City's sewer project.

**CITY OF DUNNELLON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007  
(Concluded)**

**THE CITY'S FUNDS (Concluded)**

Expenses		Governmental		Water Utility		Sewer Utility	
	2006	2007		2006	2007		2006
\$	2,401,810	\$	2,754,310	\$	303,984	\$	517,364
					329,780		804,571

Expenses decreased in the governmental fund by 68.6 percent primarily due to delaying the start of grant funded related hazard mitigation projects to 2008.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Total revenue for the year shows 15.6 percent under budget primarily due to the delay of grant funded projects.

On the expense-side, total General Government is under budget 44.4 percent or \$596,567. This is primarily a result of deferring stormwater related expenses to fiscal year 2008 offset by an overage in legal expenses \$91,644. Total Public Safety is over budget 15.9 percent primarily as a result of the purchase of 6 patrol units and personnel overtime. Transportation is under budget 54.2 percent primarily associated with the delay of the City's road resurfacing project \$478,481.

**CAPITAL ASSETS**

At the end of September 30, 2007, the City had \$10.5 million invested in capital assets including police and fire equipment, buildings, park facilities, roads, and water and sewer lines. (See table below) This represents a net increase of \$2,225,794 or 27.1 percent, over prior year.

	Governmental		Business-Type		Total	
	Activities		Activities			
	2006	2007	2006	2007	2006	2007
Capital Assets	2,998,117	3,093,731	9,306,996	9,362,028	12,305,113	12,455,759
Constr-in-progress		70,649	139,060	2,489,697	139,060	2,560,346
Less Accumulated Depreciation	(1,678,630)	(1,766,961)	(2,541,422)	(2,824,229)	(4,220,052)	(4,591,190)
Total \$	1,319,487	1,397,419	6,904,634	9,027,496	8,224,121	10,424,915

This year's major additions were 6 patrol units for Public Safety and the start of Phase II of the sewer project.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Finance Office at 20790 River Drive, Dunnellon, Florida.

Howard H. Bailey  
City Manager

## **BASIC FINANCIAL STATEMENTS**

**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2007**  
**CITY OF DUNNELLON, FLORIDA**

<b>Assets</b>	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
Cash and Investments	\$ 4,280,688	\$ 3,084,575	\$ 7,365,263
Receivables, Net	67,668	76,439	144,107
Due from Other Governments	118,228	407,786	526,014
Other Assets	100	0	100
Capital Assets, Not Being Depreciated	225,946	2,747,670	2,973,616
Capital Assets, Being Depreciated (Accumulated Depreciation)	2,938,434 (1,766,961)	9,104,054 (2,824,229)	12,042,488 (4,591,190)
Unamortized Bond Issue Costs	0	62,078	62,078
<b>Total Assets</b>	<b>5,864,103</b>	<b>12,658,373</b>	<b>18,522,476</b>
<b>Liabilities</b>			
Accounts Payable	153,548	1,195,898	1,349,446
Accrued Interest	3,342	0	3,342
Payable from Restricted Assets:			
Customer Deposits	0	95,449	95,449
Accrued Interest	0	8,248	8,248
Deferred Revenue	39,030	1,682	40,712
Long-term Liabilities:			
Due Within One Year	117,058	186,849	303,907
Due in More Than One Year	258,260	2,807,565	3,065,825
<b>Total Liabilities</b>	<b>571,238</b>	<b>4,295,691</b>	<b>4,866,929</b>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	1,109,467	6,129,739	7,239,206
Restricted for:			
Debt Service	0	73,052	73,052
Capital Projects	0	770,832	770,832
Infrastructure	56,247	0	56,247
Roads and Streets	1,122,544	0	1,122,544
Police Expenditures	65,004	0	65,004
Cemetery Perpetual Care	59,663	0	59,663
Unrestricted	2,879,940	1,389,059	4,268,999
<b>Total Net Assets</b>	<b>\$ 5,292,865</b>	<b>\$ 8,362,682</b>	<b>\$ 13,655,547</b>

See accompanying notes.

**STATEMENT OF ACTIVITIES**  
**SEPTEMBER 30, 2007**  
**CITY OF DUNNELLON, FLORIDA**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities</b>							
General Government	\$ 735,906	\$ 134,250	\$ 0	\$ 0	\$ (601,656)	\$ 0	\$ (601,656)
Public Safety	1,371,965	50,198	0	17,500	(1,304,267)	0	(1,304,267)
Physical Environment	169,540	183,661	0	30,076	44,197	0	44,197
Transportation	359,911	16,825	0	0	(343,086)	0	(343,086)
Culture and Recreation	93,257	3,651	7,000	0	(82,606)	0	(82,606)
Human Services	20,097	0	0	0	(20,097)	0	(20,097)
Interest on Long-term Debt	3,634	0	0	0	(3,634)	0	(3,634)
<b>Total Governmental Activities</b>	<b>2,754,310</b>	<b>388,585</b>	<b>7,000</b>	<b>47,576</b>	<b>(2,311,149)</b>	<b>0</b>	<b>(2,311,149)</b>
<b>Business-type Activities</b>							
Water Utility	329,780	291,677	0	19,343	0	(18,760)	(18,760)
Sewer Utility	804,571	602,454	0	1,450,089	0	1,247,972	1,247,972
<b>Total Business-type Activities</b>	<b>1,134,351</b>	<b>894,131</b>	<b>0</b>	<b>1,469,432</b>	<b>0</b>	<b>1,229,212</b>	<b>1,229,212</b>
<b>Total Primary Government</b>	<b>\$ 3,888,661</b>	<b>\$ 1,282,716</b>	<b>\$ 7,000</b>	<b>\$ 1,517,008</b>	<b>(2,311,149)</b>	<b>1,229,212</b>	<b>(1,081,937)</b>
<b>General Revenues</b>							
Taxes:							
Property Taxes					1,008,975	0	1,008,975
Franchise Taxes					199,958	0	199,958
Public Service Taxes					355,469	0	355,469
Other Taxes					410,053	0	410,053
State-shared Revenues					237,667	0	237,667
Investment Income					181,771	125,161	306,932
Sale of Property					0	1,050	1,050
Miscellaneous					17,874	0	17,874
Transfers					12,944	(12,944)	0
<b>Total General Revenues, Special Items and Transfers</b>					<b>2,424,711</b>	<b>113,267</b>	<b>2,537,978</b>
<b>Change in Net Assets</b>					<b>113,562</b>	<b>1,342,479</b>	<b>1,456,041</b>
<b>Net Assets, Beginning of Year</b>					<b>5,179,303</b>	<b>7,020,203</b>	<b>12,199,506</b>
<b>Net Assets, End of Year</b>					<b>\$ 5,292,865</b>	<b>\$ 8,362,682</b>	<b>\$ 13,655,547</b>

See accompanying notes.

**BALANCE SHEET**  
**ALL GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2007**  
**CITY OF DUNNELLON, FLORIDA**

	<b>General Fund</b>	<b>Tax Increment Financing District</b>	<b>Total Governmental Funds</b>
<b>Assets</b>			
Cash and Investments	\$ 4,000,675	\$ 280,013	\$ 4,280,688
Accounts Receivable	67,668	0	67,668
Due from Other Governments	118,228	0	118,228
Other Assets	100	0	100
<b>Total Assets</b>	<u>4,186,671</u>	<u>280,013</u>	<u>4,466,684</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	153,379	169	153,548
Deferred Revenue	39,030	0	39,030
<b>Total Liabilities</b>	<u>192,409</u>	<u>169</u>	<u>192,578</u>
<b>Fund Balances</b>			
Reserved for:			
Roads and Streets	1,122,544	0	1,122,544
Public Safety	65,004	0	65,004
Infrastructure	56,247	0	56,247
Cemetery Perpetual Care	59,663	0	59,663
Unreserved:			
Unreserved - Designated for Capital Improvements	1,828,132	0	1,828,132
Unreserved	862,672	279,844	1,142,516
<b>Total Fund Balances</b>	<u>3,994,262</u>	<u>279,844</u>	<u>4,274,106</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 4,186,671</u>	<u>\$ 280,013</u>	<u>\$ 4,466,684</u>

See accompanying notes.

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
CITY OF DUNNELLON, FLORIDA**

**Fund Balance - Total Governmental Funds** \$ 4,274,106

**Amounts Reported for Governmental Activities in the Statement of  
Assets are Different Because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$3,164,380 and the accumulated depreciation is \$(1,766,961). 1,397,419

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

Notes Payable	(287,952)
Accrued Interest	(3,342)
Compensated Absences	(87,366)
	(178,660)

**Total Net Assets of Governmental Activities** **\$ 5,292,865**

See accompanying notes.

**STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
CITY OF DUNNELLON, FLORIDA**

	<b>General Fund</b>	<b>Tax Increment Financing District</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Taxes	\$ 1,834,821	\$ 56,196	\$ 1,891,017
Licenses and Permits	116,559	0	116,559
Intergovernmental Revenues	292,271	83,437	375,708
Charges for Service	191,639	0	191,639
Fines and Forfeitures	40,061	0	40,061
Miscellaneous Revenue	231,344	8,600	239,944
<b>Total Revenues</b>	<b>2,706,695</b>	<b>148,233</b>	<b>2,854,928</b>
<b>Expenditures</b>			
Current:			
General Government	675,071	22,774	697,845
Public Safety	1,245,863	0	1,245,863
Physical Environment	169,433	0	169,433
Transportation	343,703	0	343,703
Culture and Recreation	79,267	0	79,267
Human Services	20,097	0	20,097
Capital Outlay	266,488	0	266,488
Debt Service:			
Principal Payments	40,700	0	40,700
Interest	292	0	292
<b>(Total Expenditures)</b>	<b>(2,840,914)</b>	<b>(22,774)</b>	<b>(2,863,688)</b>
<b>(Deficiency) of Revenues (Under)</b>			
<b>Expenditures</b>	<b>(134,219)</b>	<b>125,459</b>	<b>(8,760)</b>
<b>Other Financing Sources (Uses)</b>			
Capital Lease Proceeds	129,104	0	129,104
Transfers in	12,944	0	12,944
<b>Total Other Financing Sources (Uses)</b>	<b>142,048</b>	<b>0</b>	<b>142,048</b>
<b>Net Change in Fund Balances</b>	<b>7,829</b>	<b>125,459</b>	<b>133,288</b>
<b>Fund Balances, Beginning of Year</b>	<b>3,986,433</b>	<b>154,385</b>	<b>4,140,818</b>
<b>Fund Balances, End of Year</b>	<b>\$ 3,994,262</b>	<b>\$ 279,844</b>	<b>\$ 4,274,106</b>

See accompanying notes.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
CITY OF DUNNELLON, FLORIDA**

**Net Change in Fund Balances - Total Governmental Funds** \$ 133,288

**Amounts Reported for Governmental Activities in the Statement of Activities  
are Different Because:**

Governmental funds report capital purchases as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense. This reconciling item is the amount by which capital purchases of \$266,488 exceeded depreciation of \$188,556. 77,932

The issuance of long-term debt provides current financial resources to governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net assets. The amounts of the items that make up these differences in treatment of long-term debt items are:

New Debt Issuances:	
Capital Lease Payable	(129,104)
Principal Repayments:	
Notes Payable	40,700

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds:

Change in Accrued Interest	(3,342)
Change in Compensated Absences	(5,912)

**Change in Net Assets of Governmental Activities** \$ 113,562

See accompanying notes.

**STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 SEPTEMBER 30, 2007  
 CITY OF DUNNELLON, FLORIDA**

	<b>Business-Type Activities</b>		
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Investments	\$ 776,653	\$ 1,360,341	\$ 2,136,994
Accounts Receivable (Net of Allowance for Uncollectible Accounts)	26,098	50,341	76,439
Due from Other Governments	0	407,786	407,786
<b>Total Current Assets</b>	<u>802,751</u>	<u>1,818,468</u>	<u>2,621,219</u>
<b>Restricted Assets</b>			
Cash:			
Utility Deposit Cash	95,449	0	95,449
User Fee Cash	460,364	310,468	770,832
Debt Service - State Revolving Loan	0	33,333	33,333
Debt Service - Revenue Bonds	0	47,967	47,967
<b>Total Restricted Assets</b>	<u>555,813</u>	<u>391,768</u>	<u>947,581</u>
<b>Utility Plant in Service</b>			
Capital Assets	1,532,260	7,829,767	9,362,027
(Accumulated Depreciation)	(974,833)	(1,849,396)	(2,824,229)
Construction in Progress	0	2,489,697	2,489,697
<b>Total Utility Plant in Service - Cost</b>	<u>557,427</u>	<u>8,470,068</u>	<u>9,027,495</u>
<b>Less Depreciation</b>			
<b>Long-term Assets</b>			
Bond Issue Costs (Net of Amortization)	<u>0</u>	<u>62,078</u>	<u>62,078</u>
<b>Total Assets</b>	<u>\$ 1,915,991</u>	<u>\$ 10,742,382</u>	<u>\$ 12,658,373</u>

See accompanying notes.

	<b>Business-Type Activities</b>		
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>Liabilities and Net Assets</b>			
<b>Current Liabilities, Unrestricted</b>			
Payable from Current Assets:			
Accounts and Retainage Payable	\$ 7,251	\$ 1,188,647	\$ 1,195,898
Deferred Revenue	0	1,682	1,682
Compensated Absences - Due Within One Year	2,499	4,417	6,916
<b>Total Current Liabilities, Unrestricted</b>	<b>9,750</b>	<b>1,194,746</b>	<b>1,204,496</b>
<b>Current Liabilities, Restricted</b>			
Payable from Restricted Assets:			
Accrued Revenue Bond Interest	0	8,248	8,248
Customer Deposits	95,449	0	95,449
Revenue Bonds Payable - Due Within One Year	0	18,400	18,400
State Revolving Loan - Due Within One Year	0	161,533	161,533
<b>Total Current Liabilities, Restricted</b>	<b>95,449</b>	<b>188,181</b>	<b>283,630</b>
<b>Total Current Liabilities</b>	<b>105,199</b>	<b>1,382,927</b>	<b>1,488,126</b>
<b>Long-term Liabilities</b>			
Revenue Bonds - Noncurrent Portion	0	600,500	600,500
State Revolving Loan	0	2,179,401	2,179,401
Compensated Absences - Noncurrent Portion	9,997	17,667	27,664
<b>Total Long-term Liabilities</b>	<b>9,997</b>	<b>2,797,568</b>	<b>2,807,565</b>
<b>Total Liabilities</b>	<b>115,196</b>	<b>4,180,495</b>	<b>4,295,691</b>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	557,427	5,572,312	6,129,739
Restricted for Debt Service	0	73,052	73,052
Restricted for Capital Projects	460,364	310,468	770,832
Unrestricted	783,004	606,055	1,389,059
<b>Total Net Assets</b>	<b>\$ 1,800,795</b>	<b>\$ 6,561,887</b>	<b>\$ 8,362,682</b>

See accompanying notes.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**  
**CITY OF DUNNELLON, FLORIDA**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Funds</u>
<b>Operating Revenues</b>			
Charges for Services	\$ 291,677	\$ 602,454	\$ 894,131
<b>Total Operating Revenues</b>	<u>291,677</u>	<u>602,454</u>	<u>894,131</u>
<b>Operating Expenses</b>			
Personal Services	160,249	228,003	388,252
Operating Expenses	84,485	193,049	277,534
Professional Services	38,006	69,347	107,353
Depreciation and Amortization	47,040	236,666	283,706
<b>(Total Operating Expenses)</b>	<u>(329,780)</u>	<u>(727,065)</u>	<u>(1,056,845)</u>
<b>Operating (Loss) Income</b>	<u>(38,103)</u>	<u>(124,611)</u>	<u>(162,714)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Interest Income	32,655	92,506	125,161
Interest Expense	0	(77,506)	(77,506)
Capital Contributions	19,343	43,982	63,325
Department of Environmental Services Grant	0	926,024	926,024
Legislative Appropriation Grant	0	476,765	476,765
Department of Community Affairs Grant	0	3,318	3,318
Other	739	311	1,050
<b>Total Nonoperating Revenues (Expenses)</b>	<u>52,737</u>	<u>1,465,400</u>	<u>1,518,137</u>
<b>Net Income Before Transfers</b>	<u>14,634</u>	<u>1,340,789</u>	<u>1,355,423</u>
<b>Operating Transfers</b>			
Transfer (out)	0	(12,944)	(12,944)
<b>Total Operating Transfers</b>	<u>0</u>	<u>(12,944)</u>	<u>(12,944)</u>
<b>Change in Net Assets</b>	14,634	1,327,845	1,342,479
<b>Net Assets, Beginning of Year</b>	<u>1,786,161</u>	<u>5,234,042</u>	<u>7,020,203</u>
<b>Net Assets, End of Year</b>	<u>\$ 1,800,795</u>	<u>\$ 6,561,887</u>	<u>\$ 8,362,682</u>

See accompanying notes.

**STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2007  
 CITY OF DUNNELLON, FLORIDA**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Funds</u>
<b>Cash Flows from Operating Activities</b>			
Cash Received from Customers, Including Cash Deposits	\$ 287,033	\$ 596,017	\$ 883,050
Cash Paid to Suppliers	(118,862)	(136,307)	(255,169)
Cash Paid to Employees	(154,892)	(220,259)	(375,151)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u>13,279</u>	<u>239,451</u>	<u>252,730</u>
<b>Cash Flow from Noncapital Financing Activities</b>			
Federal Grant Receipts	0	998,320	998,320
Operating Transfers (out)	0	(12,944)	(12,944)
<b>Net Cash Flow from Noncapital Financing Activities</b>	<u>0</u>	<u>985,376</u>	<u>985,376</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition and Construction of Capital Assets	(7,081)	(1,341,561)	(1,348,642)
Capital Contributions	19,343	43,983	63,326
Loan Proceeds	0	266,000	266,000
Principal Payments on Debt	0	(181,312)	(181,312)
Interest Paid	0	(71,854)	(71,854)
Miscellaneous Nonoperating	739	311	1,050
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>	<u>13,001</u>	<u>(1,284,433)</u>	<u>(1,271,432)</u>
<b>Cash Flows from Investing Activities</b>			
Interest Income	32,655	92,506	125,161
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	58,935	32,900	91,835
<b>Cash and Cash Equivalents, Beginning of Year</b>	1,273,531	1,719,209	2,992,740
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 1,332,466</u>	<u>\$ 1,752,109</u>	<u>\$ 3,084,575</u>
<b><u>Shown in the Financial Statements as</u></b>			
<b>Current Assets</b>			
Cash and Cash Investments	\$ 776,653	\$ 1,360,341	\$ 2,136,994
Restricted Cash	555,813	391,768	947,581
<b>Totals</b>	<u>\$ 1,332,466</u>	<u>\$ 1,752,109</u>	<u>\$ 3,084,575</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities</u></b>			
Operating Income (Loss)	\$ (38,103)	\$ (124,611)	\$ (162,714)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Depreciation and Amortization	47,040	236,666	283,706
Changes in Assets Decrease (Increase) and Liabilities Increase (Decrease):			
Accounts Receivable, Net	(6,988)	(5,961)	(12,949)
Accounts Payable	3,629	126,088	129,717
Deferred Revenue	0	(476)	(476)
Accrued Expenses	5,357	7,745	13,102
Customer Deposits	2,344	0	2,344
Total Adjustments	<u>51,382</u>	<u>364,062</u>	<u>415,444</u>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u>\$ 13,279</u>	<u>\$ 239,451</u>	<u>\$ 252,730</u>

See accompanying notes.

**STATEMENT OF FIDUCIARY NET ASSETS  
PENSION TRUST FUNDS  
SEPTEMBER 30, 2007  
CITY OF DUNNELLON, FLORIDA**

	<u>Pension Trust Funds</u>
<b>Assets</b>	
Cash and Investments	\$ 1,600,154
Due from Other Governments	<u>15,040</u>
<b>Total Assets</b>	<u><u>1,615,194</u></u>
<b>Net Assets</b>	
Reserved for:	
Employees' Pension Benefits	<u>1,615,194</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 1,615,194</u></u>

See accompanying notes.

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
PENSION TRUST FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
CITY OF DUNNELLON, FLORIDA**

	<u>Pension Trust Funds</u>
<b>Additions</b>	
Contributions:	
Employer	\$ 41,096
(Forfeitures Applied)	0
Net Employer Contributions	<u>41,096</u>
State	101,438
Employee	<u>32,280</u>
Total Contributions	<u>174,814</u>
Investment Income	164,429
(Investment Management Fees)	<u>(4,464)</u>
Net Investment Income	<u>159,965</u>
<b>Total Additions</b>	<u>334,779</u>
<b>Deductions</b>	
Pension Benefit Payments and Refunds	77,546
General and Administrative	6,947
<b>(Total Deductions)</b>	<u>(84,493)</u>
<b>Increase in Fiduciary Net Assets</b>	<u>250,286</u>
<b>Net Assets Reserved for Employees' Pension Benefits:</b>	
<b>Beginning of Year</b>	<u>1,364,908</u>
<b>End of Year</b>	<u>\$ 1,615,194</u>

See accompanying notes.

**NOTES TO FINANCIAL STATEMENTS  
CITY OF DUNNELLON, FLORIDA**

**Note 1 - Description of Funds and Summary of Significant Accounting Policies**

The financial statements of the City of Dunnellon, Florida (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Significant City accounting policies are described below.

**Reporting Entity**

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 fund types and account groups governed by the City Council of the City in accordance with governmental accounting standards. The reporting entity for the City (the primary government) contained no separate legal entities (component units) for which the City Council has financial accountability. Financial accountability is present if the City Council appoints a voting majority of a component unit's governing body and has the ability to impose its will on that organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City.

**Government-wide and Fund Financial Statements**

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds are excluded from 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.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF DUNNELLON, FLORIDA**  
*(Continued)*

**Note 1 - Description of Funds and Summary of Significant Accounting Policies (Continued)**

**Government-wide Financial Statements (Concluded)**

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.

**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.

The City operates the following major governmental funds:

■ **Government Fund**

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

- The **General Fund** is the government'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

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF DUNNELLON, FLORIDA**  
*(Continued)*

**Note 1 - Description of Funds and Summary of Significant Accounting Policies (Continued)**

**Fund Financial Statements (Concluded)**

■ **Fiduciary Funds**

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

**Summary of Significant Accounting Policies**

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

**Proprietary Funds**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance 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 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 2007 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.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF DUNNELLON, FLORIDA**  
*(Continued)*

**Note 1 - Description of Funds and Summary of Significant Accounting Policies (Continued)**

**Budgeting (Concluded)**

- The City Manager is authorized to transfer budgeted amounts within any fund, but may not revise total fund expenditures without the approval of the City Council. The budgetary data presented is in agreement with the originally adopted budget.
- Budgets are adopted on a basis consistent with generally accepted accounting principles. Total budgeted fund expenditures within the governmental fund type may not be exceeded legally. Appropriations lapse at the end of the year. Encumbrance accounting is not used by the City.

**Investments**

The City accounts for investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. Under this provision, investments are recorded at fair value on the balance sheets. Investment income, including changes in the fair value of investments, is reported as revenue in the statements of revenues, expenses, and changes in fund balances.

In accordance with GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, the investments within the pension trust funds are stated at market value.

**Receivables**

Governmental and Business-type activities receivables are composed generally of amounts due from customers. Customer accounts receivable are recorded at their net realizable value reduced by an allowance for uncollectible accounts of \$9,000 for 2007. 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 Fund consists primarily of amounts due to vendors.

**Due from Other Governments**

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

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF DUNNELLON, FLORIDA**  
*(Continued)*

**Note 1 - Description of Funds and Summary of Significant Accounting Policies *(Continued)***

**Capital Assets *(Concluded)***

Plant, Buildings, and Improvements	10-40 Years
Machinery, Vehicles, and Equipment	5-7 Years
Infrastructure	30 Years

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

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

**Transfers**

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

**Compensated Absences**

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

In proprietary funds, the amount of compensated absences associates 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 carryover 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.

**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, 2007, was 6.5 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.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF DUNNELLON, FLORIDA**  
*(Continued)*

**Note 1 - Description of Funds and Summary of Significant Accounting Policies (Concluded)**

**Property Taxes (Concluded)**

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 franchisee.

**Capital Grants and Contributions**

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

**Reserves**

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

**Designations**

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

**Reclassifications**

Certain beginning balances in the notes to the financial statements, not effecting fund equity, have been reclassified to facilitate the new reporting format.

**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.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF DUNNELLON, FLORIDA**  
*(Continued)*

**Note 2 - Cash Deposits and Investments**

For the fiscal year ending September 30, 2007, the City is required to implement a new financial statement disclosure standard issued by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which requires 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, 2007, were held by qualified public depositories within the state of Florida and are considered to be fully insured. Total deposits as of September 30, 2007, are \$4,337,096.

**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.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF DUNNELLON, FLORIDA**  
*(Continued)*

**Note 2 - Cash Deposits and Investments (Continued)**

**Investments (Concluded)**

As of September 30, 2007, the City had the following investments and maturities:

<b>Investment</b>	<b>Fair Value</b>
State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Pension Funds	\$ 3,028,167
Florida Municipal Pension Trust Fund - Firefighters and Police Officers (FMIVT)	1,109,157
Florida Municipal Pension Trust Fund - General Employees (CitiStreet)	490,997
Total	4,628,321
Cash Deposits	4,337,096
<b>Total Cash and Investments</b>	<b>\$ 8,965,417</b>

As shown on the accompanying financial statements as:

Cash and Investments - Entity-wide	\$ 7,365,263
Cash and Investments - Fiduciary Funds	1,600,154
<b>Total Cash and Investments</b>	<b>\$ 8,965,417</b>

■ **State Board of Administration**

The Local Government Surplus Funds Trust Fund (SBA) is not a registrant with the Securities and Exchange Commission; however, its Board has adopted operating procedures consistent with the requirements for a 2a-7 like pool fund. This fund is governed by Chapter 19-7 of the Florida Administrative Code, which identifies the rules of the State Board of Administration. These rules provide guidance and establish the general operating procedures for the administration of the pool.

It is the SBA's interpretation that GASB Statement No. 40 does not require disclosure pertaining to foreign currency risk, custodial credit risk, concentration of credit risk, or interest rate risk for a 2a-7 like pool fund. Given that 2a-7 pools are similar to money market funds where shares are owned in the fund rather than the actual underlying investments, disclosures for foreign currency risk, custodial credit risk and concentration of credit risk are not applicable. For credit risk disclosure, the local government investment pool is not rated by a nationally recognized statistical rating agency as of the date of September 30, 2007.

**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.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF DUNNELLON, FLORIDA**  
*(Continued)*

**Note 2 - Cash Deposits and Investments (Concluded)**

**Credit Risk (Concluded)**

■ **Florida Municipal Pension Trust Fund - Police and Firefighters Pension Fund**

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

■ **Florida Municipal Pension Trust Fund - General Employees' Pension Fund**

<i>Fixed Income Funds:</i>	<u>Rating</u>
Smith Barney MM Cash Portfolio	Not Rated
SSGA Par Stable Value	Not Rated
American Fund American Balanced A	Not Rated
American Funds Intermediate Bond Fund A	Not Rated
PIMCO Long-term U.S. Government A	Not Rated
PIMCO Total Return A	Not Rated

**Custodial Credit Risk**

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

**Interest Rate Risk**

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

■ **Florida Municipal Pension Trust Fund - Police and Firefighters Pension Fund**

<i>Fixed Income Funds:</i>	<u>WAM</u>
FMIvT Broad Market High Quality Bond Portfolio	5.75 Years

■ **Florida Municipal Pension Trust Fund - General Employees' Pension Fund**

<i>Fixed Income Funds:</i>	<u>WAM</u>
Smith Barney MM Cash Portfolio	59 Days
SSGA Par Stable Value	3.62 Years
American Fund American Balanced A	3.53 Years
American Funds Intermediate Bond Fund A	3.44 Years
PIMCO Long-term U.S. Government A	18.76 Years
PIMCO Total Return A	6.58 Years

**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.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF DUNNELLON, FLORIDA**  
*(Continued)*

**Note 3 - Capital Assets**

Capital asset activity for the year ended September 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 155,297	\$ 0	\$ 0	\$ 155,297
Construction in Progress	0	70,649	0	70,649
Total Capital Assets Not Being Depreciated	<u>155,297</u>	<u>70,649</u>	<u>0</u>	<u>225,946</u>
Capital Assets Being Depreciated:				
Buildings	696,096	0	0	696,096
Improvements Other Than Buildings	376,514	0	0	376,514
Furniture, Equipment and Machinery	1,770,210	195,839	(100,225)	1,865,824
Total Capital Assets Being Depreciated	<u>2,842,820</u>	<u>195,839</u>	<u>(100,225)</u>	<u>2,938,434</u>
Less Accumulated Depreciation:				
Buildings	(277,059)	(18,696)	0	(295,755)
Improvements Other Than Buildings	(133,996)	(22,622)	0	(156,618)
Furniture, Equipment and Machinery	(1,267,575)	(147,238)	100,225	(1,314,588)
Total Accumulated Depreciation	<u>(1,678,630)</u>	<u>(188,556)</u>	<u>100,225</u>	<u>(1,766,961)</u>
Total Capital Assets Being Depreciated, Net	<u>1,164,190</u>	<u>7,283</u>	<u>0</u>	<u>1,171,473</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 1,319,487</u>	<u>\$ 77,932</u>	<u>\$ 0</u>	<u>\$ 1,397,419</u>
<b>Business-type Activities</b>				
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 257,973	\$ 0	\$ 0	\$ 257,973
Construction in Progress	139,060	2,350,637	0	2,489,697
Total Capital Assets Not Being Depreciated	<u>397,033</u>	<u>2,350,637</u>	<u>0</u>	<u>2,747,670</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	779,520	0	0	779,520
Improvements Other Than Building	7,861,319	22,834	(72,972)	7,811,181
Machinery and Equipment	408,184	32,197	72,972	513,353
Total Capital Assets Being Depreciated	<u>9,049,023</u>	<u>55,031</u>	<u>0</u>	<u>9,104,054</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(677,614)	(224,033)	0	(901,647)
Improvements Other Than Building	(1,514,727)	(23,261)	0	(1,537,988)
Equipment	(349,081)	(35,513)	0	(384,594)
Total Accumulated Depreciation	<u>(2,541,422)</u>	<u>(282,807)</u>	<u>0</u>	<u>(2,824,229)</u>
Total Capital Assets Being Depreciated, Net	<u>6,507,601</u>	<u>(227,776)</u>	<u>0</u>	<u>6,279,825</u>
<b>Business-type Activities Capital Assets, Net</b>	<u>\$ 6,904,634</u>	<u>\$ 2,122,861</u>	<u>\$ 0</u>	<u>\$ 9,027,495</u>
<b>Depreciation Expense -</b>				
<b>Governmental Activities</b>				
General Government and Administration				\$ 32,149
Public Safety				126,102
Physical Environment				107
Transportation				16,208
Culture and Recreation				13,990
<b>Total Depreciation Expense - Governmental Activities</b>				<u>\$ 188,556</u>
<b>Business-type Activities</b>				
Water and Sewer System				\$ 282,807
<b>Total Depreciation Expense - Business-type Activities</b>				<u>\$ 282,807</u>

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF DUNNELLON, FLORIDA**  
*(Continued)*

**Note 4 - Capital Leases**

In 2006, the City obtained a capital lease to purchase 800Mhz radio communication equipment valued at \$191,192. This equipment is required by Marion County for the police and fire departments to communicate with the County. The City will begin making annual principal and interest payments in October 2007. The interest rate is 2.15%.

In 2007, the City obtained a capital lease to purchase six police patrol units valued at \$129,104. The City began making annual principal and interest payments in February 2007. The interest rate is 6.1%.

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

The assets acquired through capital leases are as follows:

	<b>Governmental Activities</b>	
	<b>Radio Communication Equipment</b>	<b>Police Patrol Vehicles</b>
<b>Asset</b>		
Machinery and Equipment	\$ 191,192	\$ 129,104
(Accumulated Depreciation)	(29,320)	(19,221)
<b>Total</b>	\$ 161,872	\$ 109,883

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2007, were as follows:

	<b>Governmental Activities</b>	
<b>Year Ending September 30,</b>	<b>Radio Communication Equipment</b>	<b>Police Patrol Vehicles</b>
2008	\$ 67,264	\$ 29,468
2009	60,262	31,266
2010	63,666	33,173
<b>Total Minimum Lease Payments</b>	191,192	93,907
<b>(Amount Representing Interest)</b>	(10,599)	(11,683)
<b>Present Value of Minimum Lease Payments</b>	\$ 180,593	\$ 82,224

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF DUNNELLON, FLORIDA**  
*(Continued)*

**Note 5 - Long-term Liabilities**

Long-term liability activity for the year ended September 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
Note Payable	\$ 8,356	\$ 0	\$ (5,503)	\$ 2,853	\$ 2,853
Capital Lease - Radios	191,192	0	0	191,192	67,264
Capital Lease - 6 Patrol Units	0	129,104	(35,197)	93,907	29,468
Compensated Absences	<u>81,454</u>	<u>94,250</u>	<u>(88,338)</u>	<u>87,366</u>	<u>17,473</u>
<b>Total Governmental Activities</b>	<u>\$ 281,002</u>	<u>\$ 223,354</u>	<u>\$ (129,038)</u>	<u>\$ 375,318</u>	<u>\$ 117,058</u>
<b>Business-type Activities</b>					
State Revolving Loan	\$ 2,238,346	\$ 266,000	\$ (163,412)	\$2,340,934	\$ 161,533
Revenue Bonds Payable	636,800	0	(17,900)	618,900	18,400
Compensated Absences	<u>28,519</u>	<u>26,017</u>	<u>(19,956)</u>	<u>34,580</u>	<u>6,916</u>
<b>Total Business-type Activities</b>	<u>\$ 2,903,665</u>	<u>\$ 292,017</u>	<u>\$ (201,268)</u>	<u>\$2,994,414</u>	<u>\$ 186,849</u>

**Note Payable**

In 2004, the City obtained a promissory note for \$20,970 with Dunnellon State Bank for the purchase of a police vehicle. The interest rate for the note is 5% and the City makes monthly payments of \$483 until the balance is paid in full.

**Sewer Improvement Revenue Bonds**

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

The City was in compliance with all material provisions of the Sewer Bond Ordinance for the year ended September 30, 2007.

**State Revolving Loan**

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.

■ **Annual Requirements to Retire Long-term Debt**

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

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF DUNNELLON, FLORIDA**  
*(Continued)*

**Note 5 - Long-term Liabilities (Concluded)**

**State Revolving Loan (Concluded)**

■ **Annual Requirements to Retire Long-term Debt (Concluded)**

<u>Year</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Interest</u>	<u>Total Debt Service</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>			
			<u>Bonds</u>	<u>SRL</u>		
2008	\$ 2,853	\$ 30	\$ 18,400	\$ 161,533	\$ 67,672	\$ 250,488
2009	0	0	20,000	159,130	69,190	248,320
2010	0	0	20,600	162,184	65,176	247,960
2011	0	0	21,300	165,296	61,074	247,670
2012-2016	0	0	124,900	875,299	239,926	1,240,125
2017-2021	0	0	157,300	817,492	119,587	1,094,379
2022-2026	0	0	121,400	0	44,275	165,675
2027-2031	0	0	93,000	0	22,320	115,320
2032-2033	0	0	42,000	0	2,835	44,835
<b>Total</b>	<u>\$ 2,853</u>	<u>\$ 30</u>	<u>\$ 618,900</u>	<u>\$2,340,934</u>	<u>\$ 692,055</u>	<u>\$ 3,654,772</u>

**Note 6 - Legal Compliance and Accountability**

There were no fund balance deficits of individual funds as of September 30, 2007.

**Note 7 - Defined Benefit/Defined Contribution Pension Plans**

**Florida State Retirement System**

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

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

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF DUNNELLON, FLORIDA**  
*(Continued)*

**Note 7 - Defined Benefit/Defined Contribution Pension Plans (Continued)**

**Florida State Retirement System (Concluded)**

The funding methods and the determination of benefits payable are provided in various acts of the Florida Legislature. These acts require that employers, such as the City, contribute the following percentages of eligible compensation to the plan: 9.85% for regular members, 10.91% for DROP members, and 20.92% for special risk members beginning July 2006. The City's contributions to the System for the years ended September 30, 2007, 2006, and 2005, were as follows, equal to the required contributions for each year:

<u>Year</u>	<u>General</u>	<u>Special Risk</u>	<u>DROP</u>	<u>Total</u>
2007	\$ 20,546	\$ 30,218	\$ 3,442	\$ 54,206
2006	16,202	24,959	2,947	44,108
2005	15,557	23,900	1,314	40,771

**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 50% at five years of service increasing incrementally by 10% each year thereafter. Vesting of 100% occurs at ten years.

At September 30, 2007, there were twelve 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 of age fifty-five and have completed ten years of service, or age fifty-two and twenty-five years of credited service are entitled to a monthly retirement benefit, payable for life or a minimum of ten years, in an amount equal to 2% of their final monthly compensation. The plan also provides for death and disability benefits. Administrative costs are financed through investment earnings.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF DUNNELLON, FLORIDA**  
*(Continued)*

**Note 7 - Defined Benefit/Defined Contribution Pension Plans (Continued)**

**Florida Municipal Pension Trust Fund (Defined Benefit Plan) (Continued)**

■ **Contributions**

Firefighters and police officers were required to contribute 1% of their annual salary to the plan for the year ended September 30, 2007. 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 date October 1, 2005, the plan had the following number of participants:

Active	10
Retired, Disabled, Vested Terminations and Beneficiaries	<u>1</u>
<b>Total Number of Participants</b>	<b><u>11</u></b>

■ **Annual Pension Costs and Net Pension Obligation**

The City's annual pension costs and net pension obligation to the Firefighters' and Police Officers' Defined Benefit Plan based on the most recent actuarial information (valuation date October 1, 2005) was as follows:

Annual Required Contribution	\$ 58,816
Interest on Net Pension Obligation	0
Adjustment to ARC	0
 Annual Pension Costs	 \$ 58,816
Contributions Made	<u>(58,816)</u>
Increase (Decrease) in NPO	0
Net Pension Obligation (Asset), Beginning of Year	<u>0</u>
Net Pension Obligation (Asset), End of Year	<u>\$ 0</u>

■ **Other Pension Plan Information**

The annual required contribution for the current year was determined as part of the October 1, 2005, actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions include the following:

- The present value of future pension payments was computed by using a discount rate of 7.5% including inflation at 3.75%. The discount rate is equal to the estimated long-term rate of return on current and future investments of the pension plans.
- Future pension payments reflect an assumption of annual salary increase rates of 5.2% including inflation at 3.75%.

The actuarial value of assets was determined using market value.

■ **Three-year Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2003	\$ 36,398	100%	\$ 0
September 30, 2004	52,506	100%	0
September 30, 2005	58,816	100%	0

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF DUNNELLON, FLORIDA**  
*(Continued)*

**Note 7 - Defined Benefit/Defined Contribution Pension Plans (Concluded)**

**Florida Municipal Pension Trust Fund (Defined Benefit Plan) (Concluded)**

**Schedule of Change in Pension Plan Net Assets as of September 30, 2007**

	<b>Pension Trust Funds General Employees</b>	<b>Special Risk</b>	<b>Total</b>
<b>Assets</b>			
Cash and Investments	\$ 490,997	\$ 1,109,157	\$ 1,600,154
Due from Other Governments	0	15,040	15,040
<b>Total Assets</b>	<u>490,997</u>	<u>1,124,197</u>	<u>1,615,194</u>
<b>Total Liabilities</b>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net Assets</b>			
Reserved for:			
Employees' Pension Benefits	<u>490,997</u>	<u>1,124,197</u>	<u>1,615,194</u>
<b>Total Liabilities and Net Assets</b>	<u>490,997</u>	<u>1,124,197</u>	<u>1,615,194</u>
<b>Additions</b>			
Contributions:			
Net Employer Contributions	41,096	0	41,096
State	0	101,438	101,438
Employee	28,043	4,237	32,280
<b>Total Contributions</b>	<u>69,139</u>	<u>105,675</u>	<u>174,814</u>
Investment Income	52,488	111,941	164,429
(Investment Management Fees)	(2,523)	(1,941)	(4,464)
Net Investment Income	49,965	110,000	159,965
<b>Total Additions</b>	<u>119,104</u>	<u>215,675</u>	<u>334,779</u>
<b>Deductions</b>			
Pension Benefit Payment and Refunds	50,109	27,437	77,546
General and Administrative	0	6,947	6,947
<b>(Total Deductions)</b>	<u>(50,109)</u>	<u>(34,384)</u>	<u>(84,493)</u>
<b>Increase in Fiduciary Net Assets</b>	<u>68,995</u>	<u>181,291</u>	<u>250,286</u>
<b>Net Assets Reserved for Employees Pension Benefit</b>			
Beginning of Year	<u>422,002</u>	<u>942,906</u>	<u>1,364,908</u>
End of Year	<u>\$ 490,997</u>	<u>\$ 1,124,197</u>	<u>\$ 1,615,194</u>

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF DUNNELLON, FLORIDA**  
*(Continued)*

**Note 8 - Commitments and Contingencies**

**Grants and Loans**

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

**Small Community Wastewater Construction Grant Program**

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

The City has a current construction contract of \$2,970,923 for this project. As of September 2007, \$1,620,061 has been expensed.

**Note 9 - Risk Management**

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

- Workers' Compensation and Employer's Liability
- General and Automobile Liability
- Real and Personal Property Damage
- Public Officials' Liability
- Accidental Death and Dismemberment

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

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

**Note 10 - Segment Information for Water and Sewer Enterprise Funds**

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

**Note 11 - Litigation**

The longstanding litigation by Cornerstone Businesses for the contested amount of \$1.5 million was settled via court-sponsored mediation with the City agreeing to pay \$625,000 for materials and work actually done on the Sewer Project, Phase 1, and has been accrued in the accompanying financial statements. The City expects to be reimbursed for this cost through the grant initially provided by the DEP. There is no other major litigation pending.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF DUNNELLON, FLORIDA**  
*(Continued)*

**Note 12 - Subsequent Event**

**Property Tax Revisions**

On January 29, 2008, the Florida electorate approved an amendment to the Florida Constitution relative to property taxation. This amendment (referred to as Amendment 1) was placed on the ballot by the Florida Legislature at a special session held in October 2007. With respect to homestead property, Amendment 1 increases the current \$25,000 homestead exemption by another \$25,000 (for property values between \$50,000 and \$75,000), except for school district taxes. Since the new \$25,000 homestead exemption does not apply to school district taxes, this effectively amounts to a \$15,000 increase to the existing homestead exemption, resulting in an estimated annual savings of \$240 for an average homeowner. Amendment 1 also allows property owners to transfer (make portable) up to \$500,000 of the Save Our Homes benefits to their next homestead when they move. Save Our Homes became effective in 1995 and limits (caps) the annual increase in assessed value for homestead property to 3% or the percentage change in the Consumer Price Index, whichever is less.

With respect to nonhomestead property, Amendment 1 limits (caps) the annual increase in assessed value for nonhomestead property (businesses, industrial property, rental property, second homes, etc.) to 10%, except for school district taxes. The Amendment also provides a \$25,000 exemption for tangible personal property.

Amendment 1 becomes effective on October 1, 2008, with the exception of the 10% assessment cap on nonhomestead property which becomes effective on January 1, 2009.

The City has received appraisal data from Marion County Appraiser which translate to ad valorem tax loss in excess of \$178,000 for the 2009 fiscal year.

**Note 13 - State Board of Administration's Local Government Surplus Funds**

As discussed in note 2, at September 30, 2007, the City had \$3,028,167 invested in the SBA's Local Government Surplus Funds Trust Fund Investment Pool (Pool). On November 29, 2007, the SBA implemented a temporary freeze on the assets held in the Pool due to an unprecedented amount of withdrawals from the fund coupled with the absence of market liquidity for certain securities within the Pool. The significant amount of withdrawals followed reports that the Pool held asset-backed commercial paper that was subject to subprime mortgage risk. On December 4, 2007, based on recommendations from an outside advisor, the SBA restructured the Pool into two separate pools. *Pool A* - consisted of all money market appropriate assets, which was approximately \$2 billion or 86% of Pool assets. *Pool B* - consisted of assets that either defaulted on a payment, paid more slowly than expected, and/or had any significant credit and liquidity risk, which was approximately \$2 billion or 14% of Pool assets. At the time of the restructuring, all current pool participants had their existing balances proportionately allocated into Pool A and Pool B.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF DUNNELLON, FLORIDA**  
*(Concluded)*

**Note 13 - State Board of Administration's Local Government Surplus Funds (Concluded)**

Currently, Pool A participants may withdraw 15% of their balance or \$2 million, whichever is greater, without penalty. Withdrawals from Pool A in excess of the above limit are subject to the 2% redemption fee. New investments in Pool A are not subject to the redemption fee or withdrawal restrictions. Future withdrawal provisions from Pool A will be subject to further evaluation based on the maturities of existing investments and the liquidity requirements of the Pool. On December 21, 2007, Standard & Poor's Rating Services assigned its "AAAM" principal stability fund rating to the Pool A.

Currently, Pool B participants are prohibited from withdrawing any amount from the Pool and a formal withdrawal policy has not been developed. Market valuations of the assets held in Pool B are not readily available. In addition, full realization of the principle value of Pool B assets is not readily determinable.

As of March 31, 2008, the City's balance in the SBA fund was \$1,052,364.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**MAJOR FUND - GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**  
**CITY OF DUNNELLON, FLORIDA**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
<b>Revenues</b>				
<b>Taxes</b>				
Ad Valorem	\$ 883,453	\$ 883,453	\$ 869,341	\$ (14,112)
Ninth-cent Gas Tax	58,325	58,325	62,820	4,495
Local Option Gas Tax	330,546	330,546	347,233	16,687
Franchise Tax:				
Electricity	360,000	360,000	403,594	43,594
Communication Service Tax	146,677	146,677	139,279	(7,398)
Utility Tax	9,800	9,800	12,554	2,754
<b>Total Taxes</b>	<u>1,788,801</u>	<u>1,788,801</u>	<u>1,834,821</u>	<u>46,020</u>
<b>Licenses and Permits</b>				
Professional and Occupational	30,650	30,650	28,721	(1,929)
Building Permits	70,000	70,000	87,817	17,817
Other Licenses and Permits	24,373	24,373	21	(24,352)
<b>Total Licenses and Permits</b>	<u>125,023</u>	<u>125,023</u>	<u>116,559</u>	<u>(8,464)</u>
<b>Intergovernmental Revenue</b>				
State, Federal and Local Grants	639,906	639,906	54,604	(585,302)
State Shared Revenues:				
State Revenue Sharing	83,007	83,007	76,014	(6,993)
Mobile Home Licenses	12,000	12,000	12,229	229
Alcoholic Beverage Licenses	6,000	6,000	4,033	(1,967)
Local Government One-half Cent Sales Tax	161,398	161,398	143,542	(17,856)
Motor Fuel Tax Rebate	5,000	5,000	1,849	(3,151)
Occupational Licenses	1,100	1,100	0	(1,100)
<b>Total Intergovernmental Revenue</b>	<u>908,411</u>	<u>908,411</u>	<u>292,271</u>	<u>(616,140)</u>
<b>Charges for Services</b>				
Zoning and Development	6,000	6,000	10,538	4,538
Copying and Records Search	1,000	1,000	1,424	424
Garbage and Solid Waste	152,700	152,700	160,161	7,461
Cemetery Fees	3,800	3,800	5,728	1,928
City Beach User Fees	2,500	2,500	3,651	1,151
Other Miscellaneous Charges	27,124	27,124	10,137	(16,987)
<b>Total Charges for Services</b>	<u>193,124</u>	<u>193,124</u>	<u>191,639</u>	<u>(1,485)</u>
<b>Fines and Forfeitures</b>				
Court Fines	37,316	37,316	38,318	1,002
Other Fines	1,250	1,250	1,743	493
<b>Total Fines and Forfeitures</b>	<u>38,566</u>	<u>38,566</u>	<u>40,061</u>	<u>1,495</u>
<b>Miscellaneous Revenue</b>				
Investment Earnings	99,630	99,630	173,171	73,541
Cemetery Lots	31,640	31,640	23,472	(8,168)
Other Miscellaneous	23,652	23,652	34,701	11,049
<b>Total Miscellaneous Revenue</b>	<u>154,922</u>	<u>154,922</u>	<u>231,344</u>	<u>76,422</u>
<b>Total Revenues</b>	<u>\$ 3,208,847</u>	<u>\$ 3,208,847</u>	<u>\$ 2,706,695</u>	<u>\$ (502,152)</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**MAJOR FUND - GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**  
**CITY OF DUNNELLON, FLORIDA**  
*(Continued)*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
<b>Expenditures</b>				
<b>General Government</b>				
Legislative:				
Personal Services	\$ 16,871	\$ 16,871	\$ 12,038	\$ 4,833
Operating Expenses	33,337	33,337	33,608	(271)
Total Legislative	<u>50,208</u>	<u>50,208</u>	<u>45,646</u>	<u>4,562</u>
City Clerk and General Administrative:				
Personal Services	116,971	116,971	119,457	(2,486)
Operating Expenses	50,734	50,734	46,332	4,402
Capital Outlay	2,059	2,059	1,327	732
Total City Clerk and General Administrative	<u>169,764</u>	<u>169,764</u>	<u>167,116</u>	<u>2,648</u>
City Manager:				
Personal Services	42,236	42,236	49,856	(7,620)
Operating Expenses	8,863	8,863	7,630	1,233
Total City Manager	<u>51,099</u>	<u>51,099</u>	<u>57,486</u>	<u>(6,387)</u>
Legal Counsel:				
Operating Expenses	59,360	59,360	151,004	(91,644)
Comprehensive Planning:				
Personal Services	58,864	58,864	35,541	23,323
Operating Expenses	135,004	135,004	51,062	83,942
Capital Outlay	602,935	602,935	70,648	532,287
Total Comprehensive Planning	<u>796,803</u>	<u>796,803</u>	<u>157,251</u>	<u>639,552</u>
Finance:				
Personal Services	46,725	46,725	41,477	5,248
Operating Expenses	22,095	22,095	15,907	6,188
Capital Outlay	0	0	1,283	(1,283)
Total Finance	<u>68,820</u>	<u>68,820</u>	<u>58,667</u>	<u>10,153</u>
Grant Development:				
Personal Services	9,385	9,385	8,171	1,214
Operating Expenses	2,300	2,300	381	1,919
Total Grant Development	<u>11,685</u>	<u>11,685</u>	<u>8,552</u>	<u>3,133</u>
Building Maintenance:				
Personal Services	14,302	14,302	13,953	349
Operating Expenses	59,184	59,184	23,618	35,566
Total Building Maintenance	<u>73,486</u>	<u>73,486</u>	<u>37,571</u>	<u>35,915</u>
Garage Department:				
Personal Services	49,851	49,851	51,282	(1,431)
Operating Expenses	13,819	13,819	13,754	65
Total Garage Department	<u>63,670</u>	<u>63,670</u>	<u>65,036</u>	<u>(1,366)</u>
<b>Total General Government</b>	<u>1,344,895</u>	<u>1,344,895</u>	<u>748,329</u>	<u>596,566</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**MAJOR FUND - GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**  
**CITY OF DUNNELLON, FLORIDA**  
*(Continued)*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
<b>Expenditures (Continued)</b>				
<b>Public Safety</b>				
Law Enforcement:				
Personal Services	\$ 622,247	\$ 622,247	\$ 621,345	\$ 902
Operating Expenses	112,983	112,983	121,655	(8,672)
Capital Outlay	2,200	2,200	173,852	(171,652)
Debt Service:				
Principal	5,480	5,480	40,699	(35,219)
Interest	315	315	293	22
Total Law Enforcement	<u>743,225</u>	<u>743,225</u>	<u>957,844</u>	<u>(214,619)</u>
Fire Control:				
Personal Services	284,216	284,216	304,847	(20,631)
Operating Expenses	113,849	113,849	84,410	29,439
Capital Outlay	25,480	25,480	17,685	7,795
Total Fire Control	<u>423,545</u>	<u>423,545</u>	<u>406,942</u>	<u>16,603</u>
Protective Inspections:				
Personal Services	33,281	33,281	20,237	13,044
Operating Expenses	61,795	61,795	79,349	(17,554)
Capital Outlay	2,825	2,825	1,692	1,133
Total Protective Inspections	<u>97,901</u>	<u>97,901</u>	<u>101,278</u>	<u>(3,377)</u>
<b>Total Public Safety</b>	<u>1,264,671</u>	<u>1,264,671</u>	<u>1,466,064</u>	<u>(201,393)</u>
<b>Physical Environment</b>				
Cemetery:				
Personal Services	11,963	11,963	12,125	(162)
Operating Expenses	5,171	5,171	2,684	2,487
Total Cemetery	<u>17,134</u>	<u>17,134</u>	<u>14,809</u>	<u>2,325</u>
Garbage and Solid Waste:				
Personal Services	25,017	25,017	26,189	(1,172)
Operating Expenses	121,135	121,135	128,435	(7,300)
Total Garbage and Solid Waste	<u>146,152</u>	<u>146,152</u>	<u>154,624</u>	<u>(8,472)</u>
<b>Total Physical Environment</b>	<u>163,286</u>	<u>163,286</u>	<u>169,433</u>	<u>(6,147)</u>
<b>Transportation</b>				
Roads and Streets:				
Personal Services	141,277	141,277	130,326	10,951
Operating Expenses	129,939	129,939	213,376	(83,437)
Capital Outlay	478,481	478,481	0	478,481
<b>Total Transportation</b>	<u>749,697</u>	<u>749,697</u>	<u>343,702</u>	<u>405,995</u>
<b>Human Services</b>				
Animal Control:				
Personal Services	12,795	12,795	12,982	(187)
Operating Expenses	2,881	2,881	2,046	835
Total Animal Control	<u>15,676</u>	<u>15,676</u>	<u>15,028</u>	<u>648</u>
Mosquito Control:				
Operating Expenses	20,400	20,400	20,097	303
<b>Total Human Services</b>	<u>36,076</u>	<u>36,076</u>	<u>35,125</u>	<u>951</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**MAJOR FUND - GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**  
**CITY OF DUNNELLON, FLORIDA**  
*(Concluded)*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
<b>Expenditures (Concluded)</b>				
<b>Culture and Recreation</b>				
Parks and Recreation:				
Personal Services	\$ 43,332	\$ 43,332	\$ 38,382	\$ 4,950
Operating Expenses	30,466	30,466	39,879	(9,413)
<b>Total Culture and Recreation</b>	<u>73,798</u>	<u>73,798</u>	<u>78,261</u>	<u>(4,463)</u>
<b>(Total Expenditures)</b>	<u>(3,632,423)</u>	<u>(3,632,423)</u>	<u>(2,840,914)</u>	<u>791,509</u>
<b>(Deficiency) of Revenues (Under)</b>				
<b>Expenditures</b>	<u>(423,576)</u>	<u>(423,576)</u>	<u>(134,219)</u>	<u>289,357</u>
<b>Other Financing Sources (Uses)</b>				
Capital Lease	0	0	129,104	129,104
Transfers in	0	0	12,944	12,944
<b>Total Other Financing Sources (Uses)</b>	<u>0</u>	<u>0</u>	<u>142,048</u>	<u>142,048</u>
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Sources</b>	(423,576)	(423,576)	7,829	431,405
<b>Fund Balance, Beginning of Year</b>	<u>475,081</u>	<u>475,081</u>	<u>3,986,433</u>	<u>3,511,352</u>
<b>Fund Balance, End of Year</b>	<u>\$ 51,505</u>	<u>\$ 51,505</u>	<u>\$ 3,994,262</u>	<u>\$ 3,942,757</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
MAJOR FUND - TAX INCREMENT FINANCING DISTRICT  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
CITY OF DUNNELLON, FLORIDA**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
<b>Revenues</b>				
Taxes:				
Ad Valorem	\$ 55,930	\$ 55,930	\$ 56,196	\$ 266
Intergovernmental Revenue	65,127	65,127	83,437	18,310
Miscellaneous Revenue	34,332	34,332	0	(34,332)
Investment Earnings	2,000	2,000	8,600	6,600
<b>Total Revenues</b>	<u>157,389</u>	<u>157,389</u>	<u>148,233</u>	<u>(9,156)</u>
<b>Expenditures</b>				
General Government:				
Industry Development:				
Personal Services	23,636	23,636	16,510	7,126
Operating Expenses	133,753	133,753	6,264	127,489
<b>(Total Expenditures)</b>	<u>(157,389)</u>	<u>(157,389)</u>	<u>(22,774)</u>	<u>134,615</u>
<b>Excess of Revenues Over Expenditures</b>	<u>0</u>	<u>0</u>	<u>125,459</u>	<u>125,459</u>
<b>Fund Balances, Beginning of Year</b>	<u>88,504</u>	<u>88,504</u>	<u>154,385</u>	<u>65,881</u>
<b>Fund Balances, End of Year</b>	<u>\$ 88,504</u>	<u>\$ 88,504</u>	<u>\$ 279,844</u>	<u>\$ 191,340</u>

**REQUIRED SUPPLEMENTARY INFORMATION  
SPECIAL RISK PENSION TRUST FUND  
SEPTEMBER 30, 2007  
CITY OF DUNNELLON, FLORIDA**

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

**SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER AND OTHERS**

<u>Year Ended September 30,</u>	<u>Annual Required Contribution (ARC) (1)</u>	<u>Percentage Contributed</u>
1997	\$ 6,233	100%*
1998	15,647	100%*
1999	20,797	100%*
2000	25,619	100%*
2001	29,299	100%*
2002	32,362	100%*
2003	36,398	100%*
2004	52,506	100%*
2005	58,816	100%*

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

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

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

<b>Valuation Date</b>	October 1, 2005
<b>Actuarial Cost Method</b>	Aggregate Actuarial Cost Method
<b>Amortization Method</b>	N/A
<b>Remaining Amortization Period</b>	N/A
<b>Asset Valuation Method</b>	Market Value
<b>Actuarial Assumptions:</b>	
Investment Rate of Return	7.5%*
Projected Salary Increases	5.2%*
Cost-of-Living Adjustments	None

\*Includes inflation at 3.75%

**ADDITIONAL ELEMENTS OF REPORT PREPARED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS*, ISSUED BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES; AND THE *RULES OF THE  
AUDITOR GENERAL* OF THE STATE OF FLORIDA**

**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***

Honorable Mayor and City Council  
City of Dunnellon  
Dunnellon, Florida

We have audited the financial statements of the governmental activities, 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, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 11, 2008. We conducted our audit in accordance with generally auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management of employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principals such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material misstatement of the financial statements will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2007-1 to be significant deficiencies.

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Honorable Mayor and City Council  
City of Dunnellon  
Dunnellon, Florida

**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*  
(*Concluded*)**

**Internal Control Over Financial Reporting (*Concluded*)**

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material 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*.

We noted certain matters that we reported to management of the City in a separate letter dated April 11, 2008.

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

*Purvis, Gray and Company, LLP*

April 11, 2008  
Ocala, Florida

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE FLORIDA DEPARTMENT OF FINANCIAL SERVICES,  
STATE PROJECTS COMPLIANCE SUPPLEMENT**

Honorable Mayor and City Council  
City of Dunnellon  
Dunnellon, Florida

**Compliance**

We have audited the compliance of the City of Dunnellon, Florida (the City) with the types of compliance requirements described in the Florida Department of Financial Service's *State Projects Compliance Supplement*, that are applicable to each of its major state projects for the year ended September 30, 2007. The City's state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state projects is the responsibility of the County's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; Chapter 691-5, *Rules of the Florida Department of Financial Services*, and Chapter 10.550, *Rules of the Auditor General*. Those standards and rules require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes 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 audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major state projects for the year ended September 30, 2007.

**Internal Control Over Compliance**

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

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Honorable Mayor and City Commissioners  
City of Dunnellon  
Dunnellon, Florida

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE FLORIDA DEPARTMENT OF FINANCIAL SERVICES,  
STATE PROJECTS COMPLIANCE SUPPLEMENT  
(Concluded)**

**Internal Control Over Compliance (Concluded)**

considered the City's internal control over compliance with requirements that could have a direct and material effect on a state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a state project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state project that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of a significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state project will not be prevented or detected by the entity's internal control.

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

**Schedule of Expenditures of State Financial Assistance**

We have audited the basic financial statements of the City as of and for the year ended September 30, 2007, and have issued our report thereon dated April 11, 2008. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by Chapter 10.550, *Rules of the Auditor General* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

*Purvis, Gray and Company, LLP*

April 11, 2008  
Ocala, Florida

**SCHEDULE OF EXPENDITURES OF  
STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
CITY OF DUNNELLON, FLORIDA**

<b>GRANTOR/Pass-Through Agency Program Title</b>	<b>CSFA Number</b>	<b>Contract Number</b>	<b>Program Award</b>	<b>Expenditures</b>
<b>State Financial Assistance</b>				
<b>Florida Department of Environmental Protection</b>				
Southwest Florida Water Management District Water Protection and Sustainability Program: (Blue Cove Lake and East Blue Cove Drive Outfalls)	37.066	06CS0000001	\$ 25,000	\$ 15,892
Southwest Florida Water Management District Statewide Surface Water Restoration and Wastewater Project: (Blue Cove Lake and East Blue Cove Drive Outfalls)	37.039	06CS0000001	12,500	7,946
<b>Florida Department of Environmental Protection</b>				
Statewide Surface Water Restoration and Wastewater Projects:				
Small Community Wastewater Construction Grant	37.039	SG511070	8,100,894	923,866
Community Budget Issue Request	37.039	LP6747	500,000	476,765
<b>Total State Financial Assistance</b>				<b>\$ 1,424,469</b>

**Notes to Schedule of Expenditures of State Financial Assistance**

***Basis of Accounting***

The modified accrual basis of accounting is followed in the Schedule of Expenditures of State Financial Assistance. In some financial assistance programs where monies must be expended on the purpose or project before any amounts will be paid to the City of Dunnellon, Florida, revenues are recognized based upon the expenditures recorded.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
STATE FINANCIAL ASSISTANCE PROJECTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
CITY OF DUNNELLON, FLORIDA**

**PART A - SUMMARY OF AUDIT RESULTS**

1. The independent auditors' report expresses an unqualified opinion on the basic financial statements of City of Dunnellon, Florida.
2. A significant deficiency relating to the audit of the financial statements is identified in the report on internal control over financial reporting and on compliance and other matters based on an audit of the basic financial statements of the City of Dunnellon, Florida (the City) and is reported in this Schedule.
3. No instances of noncompliance material to the basic financial statements of the City of Dunnellon, Florida were disclosed during the audit.
4. No significant deficiencies relating to internal control and compliance over major state projects were disclosed.
5. The auditors' report on compliance for the major state projects for the City of Dunnellon, Florida expresses an unqualified opinion.
6. No audit findings were disclosed relative to the major state projects for the City of Dunnellon, Florida.
7. The project tested as major projects included the following:
  - **State Projects**
    - Florida Department of Environment Protection  
Small County Wastewater Treatment Grant 37.039
8. The threshold for distinguishing Type A and Type B programs/projects was \$427,341 for major state financial assistance projects.

**PART B - FINDINGS - FINANCIAL STATEMENTS**

**2007-1**

In preparation of the audit, we noted increased improvement in the accounting records and supporting documentation, including the Finance Officer's willingness to prepare the City's financial statements. However, we noted through the audit process the following deficiencies in internal control over financial reporting that was corrected through adjustments to the general ledger:

- Reconciliation of capital assets with the accounting records or capital asset subsidiary ledger;
- Correction of the recording of the transaction with the state revolving loan fund; and
- Correction to properly record liabilities associated with construction contracts.

Accordingly, we recommend that the City address these items to increase controls over financial reporting.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
STATE FINANCIAL ASSISTANCE PROJECTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
CITY OF DUNNELLON, FLORIDA  
(Concluded)**

**PART C - FINDINGS AND QUESTIONED COSTS – MAJOR STATE PROJECT**

1. No matters were reported.

**PART D - OTHER ISSUES**

1. No summary Schedule of Prior Audit Findings is required because there were no prior audit findings related to state projects.



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## ACTION PLAN AMENDMENTS

June 3, 2008

The City of Dunnellon respectfully submits the following action plan amendments for the fiscal year ended September 30, 2007.

Purvis Gray and Company, CPAs  
2347 S.E. 17<sup>th</sup> Street  
Ocala, FL 34471

Audit period: 10/01/06-09/30/07

The findings from the September 30, 2007 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

## SIGNIFICANT DEFICIENCY

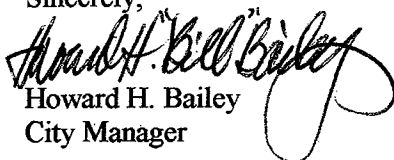
### 2007-1 Internal Control over Financial Reporting

- Reconciliation of capital assets with the accounting records or capital asset subsidiary ledger.
- Recording of each transaction with the state revolving loan fund.
- Properly recording liabilities associated with construction contracts.

Action Taken: All recommendations were implemented, effective October 1, 2007.

- Monthly reconciliation of transaction documents, general ledger and capital asset subsidiary ledger.
- Reconciliation of the state revolving loan account statements provided by the Florida Department of Environmental Protection, and the general ledger. Adjusting journal entries to show actual principal and interest paid.
- Record all construction liabilities as they are incurred.

Sincerely,

  
Howard H. Bailey  
City Manager

**MANAGEMENT LETTER**

Honorable Mayor and City Council  
City of Dunnellon  
Dunnellon, Florida

We have audited the basic financial statements of the City of Dunnellon, Florida (the City) as of and for the fiscal year ended September 30, 2007, and have issued our report thereon dated April 11, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Florida Single Audit Act. We have issued our independent auditors' report on internal control over financial reporting and on compliance and other matters; independent auditors' report on compliance and internal control over compliance applicable to each State project, and schedule of finds and questioned costs. Disclosures in those reports and schedule, which are dated April 11, 2008, should be considered in conjunction with this management letter.

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.

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. There were no significant findings and recommendations in the preceding audit report.

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we noted no instances of noncompliance with Section 218.415, Florida Statutes.

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls, (see management letter comments).

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that we address violations of provisions of contracts and grants agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connections with our audit, we did not have any such findings.

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Honorable Mayor and City Council  
City of Dunnellon  
Dunnellon, Florida

**MANAGEMENT LETTER**  
*(Concluded)*

Section 10.554(1)(i)5., *Rules of the Auditor General*, requires, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal actions that would have an immaterial effect on the financial statements, and (3) control deficiencies that are not significant deficiencies, including, but not limited to, (a) improper or inadequate account procedures (e.g., the omission of required disclosures from the financial statements; (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor (see management letter comments).

Section 10.554(1)(i)6., *Rules of the Auditor General*, requires that the name of official title and legal authority for the primary government be disclosed in this management letter, unless disclosed in the notes of the financial statements. See note 1 for the official title and legal authority for the City.

Section 10.554(1)(i)7., *Rules of the Auditor General*, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1) Florida Statutes.

Section 10.554(1)(i)7b., *Rules of the Auditor General*, requires that we determine whether the annual financial report for the City for the fiscal year ending September 30, 2007, filed with the Florida Department of Financial Services pursuant of Section 218.31.(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ending September 30, 2007. In connection with our audit, we determined that these two reports were in agreement.

Section 10.554(1)(i)7c. and 10.556(7), *Rules of the Auditor General*, require that we apply financial condition assessment procedures. In connections with our audit, 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 provided by same.

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

*Purvis, Gray and Company, LLP*

April 11, 2008  
Ocala, Florida

## MANAGEMENT LETTER COMMENTS

Honorable Mayor and City Council  
City of Dunnellon  
Dunnellon, Florida

### Current Year Comments and Recommendations

#### **Journal Entry Process**

During review of the City of Dunnellon, Florida (the City) controls over the journal entry process, we noted that there was not a formal approval process for recording journal entries. We recommend that a journal entry approval process be implemented as part of the City's internal control system. This requires that the entry be drafted by the appropriate staff in the finance and accounting department and then approved by other supervisory finance and accounting staff for verification and accuracy before it is recorded in the general ledger.

#### **Building Permits**

During the review and reconciliation of the building permits' general ledger account, we noted there was insufficient supporting documentation to support the account balance. The City believes that the proper reconciliation of the account was not performed timely due to the employee turnover in that department.

We recommend that the City develops a control procedure for better record keeping and monthly reconciliations with the general ledger for these transactions that are random and are susceptible to abuse.

#### **Fixed Asset Subsidiary System**

The fixed asset subsidiary ledger used to inventory assets and calculate depreciation expense for the City did not reconcile with the accounting records as of September 30, 2007. Several adjustments had to be made to the general and subsidiary ledger to add new assets purchased during the year and remove assets sold or no longer in use.

We recommend that the City develop a procedure that will integrate all purchases and sales recorded in the general ledger with the fixed asset system as the transactions occur. An improved and timelier system of reconciling these records will help to ensure accuracy in financial reporting. Additionally, the City should periodically perform an inventory count of the assets verifying all assets recorded and depreciated are owned and operating by the City.

#### **Water and Sewer Fund Operations**

Through review of the financial activity of the Water and Sewer Fund, we noted that both funds are experiencing operating losses wherein operating revenues are not sufficient to cover the direct costs to operate the systems.

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Honorable Mayor and City Council  
City of Dunnellon  
Dunnellon, Florida

**MANAGEMENT LETTER COMMENTS**  
*(Concluded)*

**Current Year Comments and Recommendations** *(Concluded)*

**Water and Sewer Fund Operations** *(Concluded)*

We recommend that the City review the operations of the system for cost containment opportunities and to ensure that the rates charged to users are sufficient to cover the costs of the system.

**Capitalization of Wastewater Construction Costs**

In the past several years the City has been expanding, renovating and developing the wastewater treatment facilities primarily through the acquisition of grants and loans. The costs of this project has been accumulated in the financial records and recorded as construction in progress. In the near future, the City will need to capitalize these costs and began depreciating the new capital assets.

We recommend that the City review the costs and begin to unitize the new assets and components that are identifiable for inclusion in the capital asset records.

We wish to take this opportunity to thank you and your staff for the cooperation and courtesies extended to us during the course of our audit. Please let us know if you have any questions or comments concerning this letter, our accompanying reports, or other matters.

*Purvis, Gray and Company, LLP*

April 11, 2008  
Ocala, Florida



**CITY OF DUNNELLON**  
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**City of Dunnellon Management Response To  
Auditors' Management Letter Comments  
Annual Audit FYE 9/30/07**

Honorable Mayor and City Council  
City of Dunnellon  
Dunnellon, Florida

June 3, 2008

The following is in response to Purvis Gray and Company's management letter comments of April 11, 2008.

**Journal Entry Process**

A formal approval process for journal entries has now been implemented. Journal entries are submitted for supervisory review and approval by Finance prior to entering the data in the general ledger and subsidiary ledgers.

**Building Permits**

The Community Development Staff Assistant has implemented a process to reconcile all building permit payments with the general ledger, through Finance, on a monthly basis.

**Fixed Asset Subsidiary System**

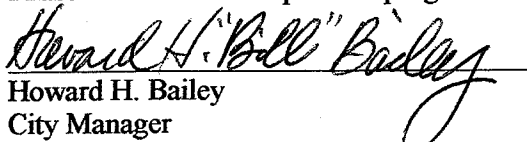
A monthly reconciliation process for purchases of capital assets has been implemented to ensure all capital transactions in the General Ledger are recorded in the Fixed Asset Subsidiary Ledger in a timely manner. Before the next annual Audit, the Finance Department staff will arrange for physical inventory counts for all City departments.

**Water and Sewer Fund Operations**

Correcting Water Fund operating losses in Fiscal Years 2005-2006 and 2006-2007, the City instituted a water and sewer rate study during Fiscal Year 2007. The previous study was done in 2002. As a result of the 2007 study, water rates were adjusted for budget year 2007-2008 to ensure full financial coverage of the budgeted operating costs of the system.

**Capitalization of Wastewater Construction Costs**

Finance Department Staff has capitalized and depreciated sewer project assets with the completion of Phase I of the sewer expansion program. These assets are capitalized based on area and street completed.

  
Howard H. Bailey  
City Manager