

CITY OF DUNNELLON, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2008

CITY OF DUNNELLON, FLORIDA

ANNUAL FINANCIAL REPORT

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INDEPENDENT AUDITOR'S 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, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund that the remaining aggregate fund information of the City as of September 30, 2008, 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 February 16, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

POWELL & JONES
Certified Public Accountants
February 16, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Dunnellon's financial performance provides an overview of the City's financial activities for the year ended September 30, 2008. Please read it in conjunction with the City's basic financial statements, which begin on page 13.

USING THIS ANNUAL REPORT

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

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 13. One of the most important questions asked about the City's finances is, "Is the City as a whole financially better or worse as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

- Governmental activities -Most of the City's basic services are reported here, including the police, fire, general administration, streets and parks, property taxes, franchise fees, gas taxes, fines, and state and county-shared revenues.
- Business-type activities -The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water 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 15. The fund financial statements provide detailed information about the General Fund and Enterprise Funds-not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes other funds to

help it control and manage money for particular purposes. The City's two types of funds-governmental and proprietary (business-type)-use different accounting approaches.

- **Governmental funds**-Most of the City's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliations on pages 16 and 18.
- **Proprietary funds**-The City's proprietary funds are comprised of enterprise funds. An enterprise fund is used to account for activities when the City charges customers for the services it provides. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise fund is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

The City as Trustee

Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for the Special Risk Pension Trust Fund. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets Pension Trust Fund on page 22. The Fiduciary Fund Financial Statement is not presented as part of the Government-wide Financial Statements because the resources of these funds are not available to support the City's programs. Fiduciary (Trust and Agency) Funds represent trust responsibilities of the government. However, these assets are restricted in purpose and do not represent discretionary assets of the government.

THE CITY AS A WHOLE

	Governmental		Business-Type		Total	
	2007	2008	2007	2008	2007	2008
Revenues	\$ 2,854,928	\$ 5,548,907	\$ 2,489,774	\$ 2,379,248	\$ 5,344,702	\$ 7,928,155
Expenses	\$ 2,754,310	\$ 2,692,571	\$ 1,175,573	\$ 1,208,895	\$ 3,929,883	\$ 3,901,466

To aid in the understanding of the Statement of Activities some additional explanation is given. Expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. Some of the individual line item revenues reported for each function are:

General Government	Building permits, occupational licenses, and plumbing/electric inspections
Public Safety	Fire inspections, accident responses, police fines for traffic and parking violations, Department of Justice grants

Physical Environment	Grave opening and closing, burial lot purchases, sanitation activities -trash removal
Transportation	Gasoline Tax
Culture and Recreation	City beach user fees

All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted for a specific purpose.

Governmental Activities

Total Governmental revenue increased 94.4 percent primarily due to proceeds from a Florida Communities Trust Grant for the acquisition of property for the Blue Run of Dunnellon Park.

Business -type Activities

The Water and Sewer Utility is showing a combined operating loss of \$200,248 and a combined increase in non-operating revenues of \$1,370,601 for a net increase of \$1,170,353 for fiscal year 2008. The net increase is primarily due to proceeds received from a Disadvantaged Small Community Grant through Florida Department of Environmental Services for Phase II of the City's sewer project.

Net Assets

For the year ended September 30, 2008, net assets changed as follows:

	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
Beginning net assets	\$ 5,179,303	\$ 5,292,865	\$ 7,020,203	\$ 8,362,682	\$ 12,199,506	\$ 13,655,547
Increase/(Decrease) in net assets	113,562	2,856,336	1,342,479	1,170,353	1,456,041	4,026,689
Ending net assets	\$ 5,292,865	\$ 8,149,201	\$ 8,362,682	\$ 9,533,035	\$ 13,655,547	\$ 17,682,236

This reflects an increase of 54.0 percent for governmental activities and a 14.0 percent increase for business-type activities over prior year. The increase in governmental activities is primarily due to the acquisition of land for the Blue Run Park of Dunnellon. The increase for business-type activities is primarily due to the substantial completion of Phase II of the sewer project.

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, 2008.

Assets	Governmental Activities		Business-Type Activities	
	2007	2008	2007	2008
	Current Assets	\$ 4,466,684	\$ 4,349,832	\$ 3,568,800
Capital Assets, Net of Accumulated Depreciation	1,397,419	4,197,507	9,052,495	11,017,002
Unamortized Bond Issue Costs			62,078	61,180
Total Assets	\$ 5,864,103	\$ 8,547,339	\$ 12,683,373	\$ 14,350,277

Capital assets for governmental activities have increased 200.38 percent over prior year primarily due to the acquisition of land for Blue Run of Dunnellon Park.

Liabilities	Governmental Activities		Business-Type Activities	
	2007	2008	2007	2008
	Current Liabilities	\$ 156,890	\$ 95,516	\$ 1,195,898
Payable from Restricted Assets	-	-	103,697	109,752
Deferred Revenue	39,030	35,151	1,682	-
Long-term Liabilities	375,289	267,471	2,994,414	4,212,791
Total Liabilities	\$ 571,209	\$ 398,138	\$ 4,295,691	\$ 4,817,242

Current liabilities for governmental activities decreased 38.1 percent over prior year primarily due to substantial completion of the Blue Cove Outfall stormwater management project – Phase 1. Long-term liabilities decreased 28.7 percent primarily due to payment on capital lease agreements for Public Safety radio communications system and 6 patrol units. Current liabilities for business-type activities have decreased 58.6 percent from prior year as a result of the negotiated settlement for Phase 1 of the sewer project. Long-term liabilities for business-type activities increased 40.7 percent over prior year as a result of substantial completion of phase II of the City's sewer project.

The following schedule presents a summary of general, special revenue, capital project, debt service, and enterprise fund revenues and expenses for the fiscal year ended September 30, 2008.

Program Revenues	Governmental		Business-Type			
			Water Utility		Sewer Utility	
	2007	2008	2007	2008	2007	2008
Charges for Services	\$ 388,585	\$ 296,105	\$ 291,677	\$ 344,422	\$ 602,454	\$ 577,496
Operating Grants and Contributions	7,000	7,000				
Capital Grants and Contributions	47,576	2,982,465	19,343	8,000	1,450,089	1,362,731
General Revenues						
Taxes	1,974,455	1,884,147				
State-shared	237,667	220,928				
Investment Income	181,771	126,825	32,655	25,881	92,506	66,446
Miscellaneous	17,874	31,437		(376)	1,050	(5,352)
Transfers	12,944	-			(12,944)	-
Total Revenues	\$ 2,867,872	\$ 5,548,907	\$ 343,675	\$ 377,927	\$ 2,133,155	\$ 2,001,321

Governmental revenue increased 93.5 percent over prior year primarily as a result of proceeds received from an FCT Capital Grant for land offset by decreases in; Charges for Services - 23.8 percent as a result of a citywide building moratorium, Taxes - 4.6 percent primarily due to decreasing property values coupled with the passage of Amendment 1, State-shared - 7.0 percent as a result of depressed economic conditions, Investment Income - 30.2 percent as a result of decreasing interest rates available for public deposits. Business-type revenues decreased 3.1 percent primarily due to the restructuring of water and sewer rates to encourage conservation. Capital Grants and Contributions decreased 12.6 percent from prior year primarily due to the completion of Phase II of the City's sewer project.

Expenses

Governmental		Water Utility		Sewer Utility	
2007	2008	2007	2008	2007	2008
\$ 2,754,310	\$ 2,692,571	\$ 329,780	\$ 310,030	\$ 804,571	\$ 898,865

Expenses decreased in the governmental fund by 2.2 percent primarily due to substantial completion of the Blue Cove Outfall project – Phase 1.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total revenue for the year shows 16.6 percent under budget primarily due to depressed economic conditions and decreased property values.

On the expense-side, total General Government is under budget 78.2 percent or \$220,919. This is primarily a result of deferring stormwater related expenses to fiscal year 2009 offset by an overage in legal expenses \$77,731. Total Public Safety is under budget 12.1 percent primarily as a result of delaying the retirement of debt as a result of the uncertainty of future revenue streams. Transportation is under budget 48.4 percent primarily associated with the delay of the City's road resurfacing project \$402,553.

CAPITAL ASSETS

As of September 30, 2008, the City had \$15.2 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 \$4,764,596 or 45.6 percent, over prior year.

	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
Capital Assets	3,093,731	6,034,111	9,362,028	13,425,146	12,455,759	19,459,257
Constr-in-progress	70,649	115,810	2,514,697	709,719	2,585,346	825,529
Less Accumulated Depreciation	(1,766,961)	(1,952,414)	(2,824,229)	(3,117,863)	(4,591,190)	(5,070,277)
Total	\$ 1,397,419	\$ 4,197,507	\$ 9,052,496	\$ 11,017,002	\$ 10,449,915	\$ 15,214,509

This year's major additions were land for Blue Run of Dunnellon Park and completion 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 20750 River Drive, Dunnellon, Florida.

Jan Smith
Finance Officer

BASIC FINANCIAL STATEMENTS

**CITY OF DUNNELLON, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008**

Assets	Governmental Activities	Business- Type Activities	Total
Cash and Investments	\$ 4,175,960	\$ 2,877,572	\$ 7,053,532
Receivables, Net	66,006	75,911	141,917
Due from Other Governments	107,766	318,612	426,378
Other Assets	100	-	100
Capital Assets, Not Being Depreciated	3,187,753	967,690	4,155,443
Capital Assets, Being Depreciated	2,962,168	13,167,175	16,129,343
Less Accumulated Depreciation	(1,952,414)	(3,117,863)	(5,070,277)
Unamortized Bond Issue Costs	-	61,180	61,180
Total Assets	<u>8,547,339</u>	<u>14,350,277</u>	<u>22,897,616</u>
Liabilities			
Accounts Payable	93,700	494,699	588,399
Payable from Restricted Assets:			
Customer Deposits	-	98,940	98,940
Accrued Interest	1,816	10,812	12,628
Deferred Revenue	35,151	-	35,151
Long-term Liabilities:			
Due Within One Year	142,946	188,666	319,550
Due in More Than One Year	124,525	4,024,125	4,160,712
Total Liabilities	<u>398,138</u>	<u>4,817,242</u>	<u>5,215,380</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	4,009,145	6,901,739	10,910,884
Restricted for:			
Debt Service	-	81,300	81,300
Capital Projects	-	823,724	823,724
Infrastructure	56,247	-	56,247
Roads and Streets	1,185,605	-	1,185,605
Police Expenditures	67,626	-	67,626
Cemetery Perpetual Care	60,869	-	60,869
Unrestricted	2,769,709	1,726,272	4,495,981
Total Net Assets	<u>\$ 8,149,201</u>	<u>\$ 9,533,035</u>	<u>\$ 17,682,236</u>

See accompanying notes.

**CITY OF DUNNELLON, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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
Governmental Activities							
General Government	\$ 812,941	\$ 55,101	\$ -	\$ 25,000	\$ (732,840)	\$ -	\$ (732,840)
Public Safety	1,204,757	52,873	-	2,362	(1,149,522)	-	(1,149,522)
Physical Environment	182,465	165,648	-	28,757	11,940	-	11,940
Transportation	356,565	17,276	-	-	(339,289)	-	(339,289)
Culture and Recreation	95,001	5,207	7,000	2,926,346	2,843,552	-	2,843,552
Human Services	35,073	-	-	-	(35,073)	-	(35,073)
Interest on Long-term Debt	5,769	-	-	-	(5,769)	-	(5,769)
Total Governmental Activities	<u>2,692,571</u>	<u>296,105</u>	<u>7,000</u>	<u>2,982,465</u>	<u>592,999</u>	<u>-</u>	<u>592,999</u>
Business-type Activities							
Water Utility	310,030	344,422	-	8,000	-	42,392	42,392
Sewer Utility	898,865	577,496	-	1,362,731	-	1,041,362	1,041,362
Total Business-type Activities	<u>1,208,895</u>	<u>921,918</u>	<u>-</u>	<u>1,370,731</u>	<u>-</u>	<u>1,083,754</u>	<u>1,083,754</u>
Total Primary Government	<u>\$ 3,901,466</u>	<u>\$ 1,218,023</u>	<u>\$ 7,000</u>	<u>\$ 4,353,196</u>	<u>592,999</u>	<u>1,083,754</u>	<u>1,676,753</u>
General Revenues							
Taxes:							
Property Taxes					960,275	-	960,275
Franchise Taxes					192,324	-	192,324
Public Service Taxes					354,897	-	354,897
Other Taxes					376,651	-	376,651
State-shared Revenues					220,928	-	220,928
Investment Income					126,825	92,327	219,152
Miscellaneous					31,437	(5,728)	25,709
Total General Revenues					<u>2,263,337</u>	<u>86,599</u>	<u>2,349,936</u>
Change in Net Assets					<u>2,856,336</u>	<u>1,170,353</u>	<u>4,026,689</u>
Net Assets, Beginning of Year					<u>5,292,865</u>	<u>8,362,682</u>	<u>13,655,547</u>
Net Assets, End of Year					<u>\$ 8,149,201</u>	<u>\$ 9,533,035</u>	<u>\$ 17,682,236</u>

See accompanying notes.

**CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2008**

	<u>General Fund</u>	<u>Tax Increment Financing District Fund</u>	<u>Total Governmental Funds</u>
Assets			
Cash and Investments	\$ 3,767,002	\$ 408,958	\$ 4,175,960
Accounts Receivable	66,006	-	66,006
Due from Other Governments	107,766	-	107,766
Other Assets	100	-	100
Total Assets	<u>\$ 3,940,874</u>	<u>\$ 408,958</u>	<u>\$ 4,349,832</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ 91,825	\$ 1,875	\$ 93,700
Deferred Revenue	35,151	-	35,151
Total Liabilities	<u>126,976</u>	<u>1,875</u>	<u>128,851</u>
Fund Balances			
Reserved for:			
Roads and Streets	1,185,605	-	1,185,605
Public Safety	67,626	-	67,626
Infrastructure	56,247	-	56,247
Cemetery Perpetual Care	60,869	-	60,869
Unreserved:			
Designated			
for Capital Improvements	1,910,407	-	1,910,407
Undesignated	533,144	407,083	940,227
Total Fund Balances	<u>3,813,898</u>	<u>407,083</u>	<u>4,220,981</u>
Total Liabilities and Fund Balances	<u>\$ 3,940,874</u>	<u>\$ 408,958</u>	<u>\$ 4,349,832</u>

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

Fund Balances - Total Governmental Funds \$ 4,220,981

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$6,149,921 and the accumulated depreciation is \$1,952,414 4,197,507

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	(188,367)
Accrued Interest	(1,816)
Compensated Absences	<u>(79,104)</u>

Total Net Assets of Governmental Activities \$ 8,149,201

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>General Fund</u>	<u>Tax Increment Financing District Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 1,708,707	\$ 175,440	\$ 1,884,147
Licenses and Permits	74,057	-	74,057
Intergovernmental Revenues	284,047	2,926,346	3,210,393
Charges for Service	193,480	-	193,480
Fines and Forfeitures	28,568	-	28,568
Miscellaneous Revenue	150,352	7,910	158,262
Total Revenues	<u>2,439,211</u>	<u>3,109,696</u>	<u>5,548,907</u>
Expenditures			
Current:			
General Government	742,961	49,331	792,292
Public Safety	1,079,947	-	1,079,947
Physical Environment	182,358	-	182,358
Transportation	340,799	-	340,799
Human Services	35,073	-	35,073
Culture and Recreation	80,698	-	80,698
Capital Outlay	52,415	2,933,126	2,985,541
Debt Service:			
Principal Payments	99,556	-	99,556
Interest	5,769	-	5,769
Total Expenditures	<u>2,619,576</u>	<u>2,982,457</u>	<u>5,602,033</u>
Excess of Revenues Over (Under)			
Expenditures	(180,365)	127,239	(53,126)
Fund Balances, Beginning of Year	<u>3,994,263</u>	<u>279,844</u>	<u>4,274,107</u>
Fund Balances, End of Year	<u>\$ 3,813,898</u>	<u>\$ 407,083</u>	<u>\$ 4,220,981</u>

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Net Change in Fund Balances - Total Governmental Funds \$ (53,126)

**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 \$2,985,541 exceeded depreciation of \$185,453

2,800,088

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

Principal Repayments:
Notes Payable

99,556

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

Change in Accrued Interest
Decrease in Compensated Absences

1,556

8,262

Change in Net Assets of Governmental Activities

\$ 2,856,336

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2008

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
Assets			
Current Assets			
Cash and Investments	\$ 864,148	\$ 1,009,460	\$ 1,873,608
Accounts Receivable (Net of Allowance for Uncollectible Accounts)	28,009	44,424	72,433
Notes Receivable	-	3,478	3,478
Due From Other Governments	-	318,611	318,611
Total Current Assets	892,157	1,375,973	2,268,130
Restricted Assets			
Cash:			
Utility Deposit Cash	98,940	-	98,940
User Fee Cash	477,775	345,949	823,724
Debt Service - State Revolving Loan	-	33,333	33,333
Debt Service - Revenue Bonds	-	47,967	47,967
Total Restricted Assets	576,715	427,249	1,003,964
Utility Plant in Service			
Cost	1,534,609	11,890,537	13,425,146
(Accumulated Depreciation)	(1,015,436)	(2,102,427)	(3,117,863)
Construction in Progress	-	709,719	709,719
Total Utility Plant in Service - Cost	519,173	10,497,829	11,017,002
Less Depreciation			
	519,173	10,497,829	11,017,002
Long-term Assets			
Bond Issue Costs (Net of Amortization)	-	61,180	61,180
Total Assets	\$ 1,988,045	\$ 12,362,231	\$ 14,350,276

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2008

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
Liabilities and Net Assets			
Current Liabilities, Unrestricted			
Payable from Current Assets:			
Accounts, Wages and Retainage Payable	\$ 5,803	\$ 488,896	\$ 494,699
Compensated Absences - Due Within One Year	9,497	14,129	23,626
Total Current Liabilities, Unrestricted	<u>15,300</u>	<u>503,025</u>	<u>518,325</u>
Current Liabilities, Restricted			
Payable from Restricted Assets:			
Accrued Revenue Bond and SRF Loan Interest	-	10,812	10,812
Customer Deposits	98,940	-	98,940
Revenue Bonds Payable - Due Within One Year	-	20,000	20,000
State Revolving Loan-Due Within One Year	-	145,040	145,040
Total Current Liabilities, Restricted	<u>98,940</u>	<u>175,852</u>	<u>274,792</u>
Total Current Liabilities	<u>114,240</u>	<u>678,877</u>	<u>793,117</u>
Long-term Liabilities			
Revenue Bonds - Noncurrent Portion	-	580,500	580,500
State Revolving Loan	-	3,430,903	3,430,903
Compensated Absences - Noncurrent Portion	5,114	7,608	12,722
Total Long-term Liabilities	<u>5,114</u>	<u>4,019,011</u>	<u>4,024,125</u>
Total Liabilities	<u>119,354</u>	<u>4,697,888</u>	<u>4,817,242</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	519,173	6,382,566	6,901,739
Restricted for Debt Service	-	81,300	81,300
Restricted for Capital Projects	477,775	345,949	823,724
Unrestricted	871,743	854,528	1,726,271
Total Net Assets	<u>1,868,691</u>	<u>7,664,343</u>	<u>9,533,034</u>
Total Liabilities and Net Assets	<u>\$ 1,988,045</u>	<u>\$ 12,362,231</u>	<u>\$ 14,350,276</u>

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
Operating Revenues			
Charges for Services	\$ 344,422	\$ 577,496	\$ 921,918
Total Operating Revenues	<u>344,422</u>	<u>577,496</u>	<u>921,918</u>
Operating Expenses			
Personal Services	158,313	225,593	383,906
Operating Expenses	110,387	218,957	329,344
Professional Services	727	113,657	114,384
Depreciation and Amortization	40,603	253,929	294,532
Total Operating Expenses	<u>310,030</u>	<u>812,136</u>	<u>1,122,166</u>
Operating Income (Loss)	<u>34,392</u>	<u>(234,640)</u>	<u>(200,248)</u>
Nonoperating Revenues (Expenses)			
Interest Income	25,881	66,446	92,327
Interest Expense	-	(86,729)	(86,729)
Capital Contributions	8,000	227,430	235,430
Miscellaneous	(376)	(5,352)	(5,728)
Department of Environmental Protection Grant	-	1,063,384	1,063,384
Legislative Appropriation Grant	-	23,235	23,235
Department of Community Affairs Grant	-	48,682	48,682
Total Nonoperating Revenues	<u>33,505</u>	<u>1,337,096</u>	<u>1,370,601</u>
Net Income	67,897	1,102,456	1,170,353
Net Assets, Beginning of Year	<u>1,800,794</u>	<u>6,561,887</u>	<u>8,362,681</u>
Net Assets, End of Year	<u>\$ 1,868,691</u>	<u>\$ 7,664,343</u>	<u>\$ 9,533,034</u>

See accompanying notes.

**CITY OF DUNNELLON, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Cash Flows from Operating Activities			
Cash Received from Customers, Including Cash Deposits	\$ 346,002	\$ 579,935	\$ 925,937
Cash Paid to Suppliers	(112,917)	(330,561)	(443,478)
Cash Paid to Employees	(155,844)	(225,940)	(381,784)
Net Cash Provided by Operating Activities	<u>77,241</u>	<u>23,434</u>	<u>100,675</u>
Cash Flow from Noncapital Financing Activities			
Federal Grant Receipts	-	1,222,795	1,222,795
Net Cash Flow Provided by Noncapital Financing Activities	<u>-</u>	<u>1,222,795</u>	<u>1,222,795</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition and Construction of Capital Assets	(2,349)	(2,982,596)	(2,984,945)
Capital Contributions	8,000	227,430	235,430
Loan Proceeds	-	1,380,049	1,380,049
Principal Payments on Debt	-	(163,440)	(163,440)
Interest Paid	-	(84,165)	(84,165)
Miscellaneous Nonoperating	(376)	(5,352)	(5,728)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>5,275</u>	<u>(1,628,074)</u>	<u>(1,622,799)</u>
Cash Flows from Investing Activities			
	<u>25,881</u>	<u>66,445</u>	<u>92,326</u>
Net Increase (Decrease) in Cash and Cash Equivalents	108,397	(315,400)	(207,003)
Cash and Cash Equivalents, Beginning of Year	1,332,466	1,752,109	3,084,575
Cash and Cash Equivalents, End of Year	<u>\$ 1,440,863</u>	<u>\$ 1,436,709</u>	<u>\$ 2,877,572</u>
<u>Shown in the Financial Statements as:</u>			
Current Assets			
Cash and Cash Equivalents	\$ 864,148	\$ 1,009,460	\$ 1,873,608
Restricted Cash	576,715	427,249	1,003,964
Totals	<u>\$ 1,440,863</u>	<u>\$ 1,436,709</u>	<u>\$ 2,877,572</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</u>			
Operating Income (Loss)	\$ 34,392	\$ (234,641)	\$ (200,249)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	40,603	253,929	294,532
Changes in Assets Decrease (Increase) and Liabilities Increase (Decrease):			
Accounts Receivable, Net	(1,911)	2,439	528
Accounts Payable	(1,448)	2,053	605
Accrued Expenses	2,115	(346)	1,769
Customer Deposits	3,491	-	3,491
Total Adjustments	<u>42,850</u>	<u>258,075</u>	<u>300,925</u>
Net Cash Provided by Operating Activities	<u>\$ 77,241</u>	<u>\$ 23,434</u>	<u>\$ 100,675</u>

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
SEPTEMBER 30, 2008

	<u>Pension Trust Funds</u>
Assets	
Cash and Investments	\$ 1,535,259
Due from Other Governments	<u>14,880</u>
Total Assets	<u>\$ 1,550,139</u>
Net Assets	
Reserved for:	
Employees' Pension Benefits	<u>\$ 1,550,139</u>
Total Net Assets	<u>\$ 1,550,139</u>

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Pension Trust Funds
Additions	
Contributions	
Employer	\$ 44,176
Net Employer Contributions	44,176
State	98,989
Employee	35,937
Total Contributions	179,102
Investment Income Increase (Decrease)	(209,691)
Less: Investment Management Fees	(4,305)
Net Investment Income (Loss)	(213,996)
Total Additions	(34,894)
 Deductions	
Pension Benefit Payments and Refunds	23,897
General and Administrative	6,264
(Total Deductions)	(30,161)
 Increase in Fiduciary Net Assets	(65,055)
 Net Assets Reserved for Employees' Pension Benefits:	
 Beginning of Year	1,615,194
 End of Year	\$ 1,550,139

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

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

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

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

1. Government-wide and Fund Financial Statements

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

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

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

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

2. Fund Financial Statements

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

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

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

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

Special Revenue Fund

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

Proprietary Funds

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

- Sewer Fund
- Water Fund

Fiduciary Funds

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

Summary of Significant Accounting Policies

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

Proprietary Funds

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds 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 2008 annual operating budget was prepared for all funds, except the pension trust funds, which are not budgeted annually by the City Council.

The City's procedures in preparing and adopting the annual budget are as follows:

- The City Manager is responsible for preparing a proposed operating budget for the upcoming year prior to September 30 that includes estimated revenues, proposed expenditures, and other financing sources and uses.
- Public hearings are held to obtain taxpayer comments and suggestions. The budget is enacted through passage of a resolution.
- The City Manager is authorized to transfer budgeted amounts within any fund, but may not revise total fund expenditures without the approval of the City Council. The budgetary data presented is in agreement with the originally adopted budget.
- Budgets are adopted on a basis consistent with generally accepted accounting principles. Total budgeted fund expenditures within the governmental fund type may not be exceeded legally. Appropriations lapse at the end of the year. Encumbrance accounting is not used by the City.

Investments

The City accounts for investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools. Under this provision, investments are

recorded at fair value on the balance sheets. Investment income, including changes in the fair value of investments, is reported as revenue in the statements of revenues, expenses, and changes in fund balances.

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

Receivables

Governmental and Business-type activities receivables are comprised generally of amounts due from customers. Customer accounts receivable are recorded at their net realizable value reduced by an allowance for uncollectible accounts of \$9,000 for 2008. Other receivables in the General Fund consist primarily of franchise fees and receivables from miscellaneous services.

Payables

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

Due from Other Governments

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

Capital Assets

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

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

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

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

Transfers

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

Compensated Absences

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

In proprietary funds, the amount of compensated absences 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 carry over a maximum of twenty work days. An accrual has been made for unpaid sick pay under the City's policy to pay and 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, 2008 was 5.2266 mills.

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

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

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

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

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

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

Franchise Fees

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

Capital Grants and Contributions

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

Reserves

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

Designations

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

Cash and Cash Equivalents

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

NOTE 2. CASH DEPOSITS AND INVESTMENTS

For the fiscal year ending September 30, 2008, the City is required to utilize a new financial statement disclosure standard issued by GASB Statement No. 40, Deposit and Investment Risk Disclosures, which required additional disclosures concerning investment and deposit risk as stated below.

Pooled Cash and Investments

The City maintains a cash and investment pool, which carries substantially all cash and investments of the City, and is used by all funds except the pension trust funds. Each fund's portion of the pool is displayed in the accompanying financial statements as "Cash and Investments". The cash and investments of the pension trust funds are held separately from those other funds of the City.

Cash Deposits

Chapter 280 of the Florida Statutes requires, in general, that all public deposits (including those of the City) be made in qualified public depositories within the state of Florida.

Per statute, no qualified public depository may hold public deposits exceeding 10% of that qualified public depository's total deposits received in this state, or 10% of the total public deposits held by all qualified public depositories of the same type. Additionally, no qualified public depository may accept or retain any public deposit in excess of deposit insurance limits unless it pledges eligible collateral having a market value equal to 50% of the public deposits held by the depository.

In the event of a default or insolvency of a qualified public depository, the loss to public depositors shall be satisfied, first through any applicable deposit insurance and then through the sale of securities pledged by the defaulting depository. If the loss to public depositors is not covered by such insurance or the proceeds of such sale, the State Treasurer shall provide coverage of the remaining loss by assessment against the other qualified public depositories of the same type as the depository in default.

All of the City's cash deposits (excluding investments) at September 30, 2008, were held by qualified public depositories within the state of Florida and are considered to be fully insured. Total deposits as of September 30, 2008, are \$4,375,633.

Restricted Cash

Customer deposits, renewal and replacement, and unspent use benefit fees are shown as restricted cash due to legal limitations imposed on them.

Investments

Investments are recorded in all funds of the City at fair value. The deposits and investments of the pension trust funds are held separately from those of other City funds and are recorded at fair value.

The City's investment policy allows the City to invest surplus money in instruments provided by Florida Statutes. Among them are U.S. Treasury bills, bonds, notes and their derivatives, federal agency securities, local government surplus trust fund, domestic time deposits, bankers acceptance notes, repurchase agreements, federal securities trusts, collateralized mortgage obligations, assets-backed securities, taxable and tax-exempt securities, and mortgage securities mutual funds.

As of September 30, 2008, the City had the following investments and maturities:

<u>Investment</u>	<u>Fair Value</u>
State Board of Administration (SBA)	
Local Government Surplus Funds Trust Fund	\$ 1,787
Fund B Surplus Funds Trust Fund	136,889
Pension Funds	
Florida Municipal Pension Trust Fund - Firefighters and Police Officers (FMLvT)	1,038,773
Florida Municipal Pension Trust Fund - General Employees (CitiStreet)	496,486
Total	<u>1,673,935</u>
Cash deposits	6,914,856
Total Cash and Investments	<u>\$ 8,588,791</u>

As shown on the accompanying financial statements as:

Cash and investments - entity-wide	\$ 7,053,532
Cash and investments - fiduciary funds	1,535,259
Total cash and investments	<u>\$ 8,588,791</u>

State Board of Administration

Investments placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund and the Fund B Surplus Fund Trust Fund investment pools created by Sections 218.405 and 218.417, Florida Statutes, are not registered with the Securities and Exchange Commission. On December 4, 2007, the State Board of Administration restructured the Local Government Surplus Funds Trust Fund (Pool) to also establish the Fund B Surplus Funds Trust Fund. The local investments operate under the guidelines established by Section 218.415, Florida Statutes. The Council's investments in the Pool, which the State Board of Administration indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of September 30, 2008, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

The City's investments in the Fund B Surplus Trust Fund are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.798385 at September 30, 2008. The Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the State Board of Administration, are effected by transferring eligible cash or securities to the Local Government Surplus Funds Trust Fund, consistent with the pro rata allocation of Pool shareholders of record at the creation of Fund B. One hundred percent of such distributions from Fund B are available as a liquid balance within the Local Government Surplus Funds Trust Fund.

Credit Risk

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

Florida Municipal Pension Trust Fund – Police and Firefighters Pension Fund

Fixed Income Funds:

FMLvT Broad Market High Quality Bond Portfolio

Fitch Rating

AAV4

Equity Funds:

FMLvT High Quality Growth Portfolio

Not Rated

FMLvT Large Cap Diversified Value Portfolio

Not Rated

FMLvT Russell 1000 Index Portfolio

Not Rated

FMLvT Diversified Small Cap Equity Portfolio

Not Rated

FMLvT International Blend Portfolio

Not Rated

Florida Municipal Pension Trust Fund – General Employees' Pension Fund

Fixed Income Funds:

Smith Barney M/M Cash Portfolio

Fitch Rating

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>Fitch Rating</u>
FMLvT Broad Market High Quality Bond Portfolio	5.75 years

Florida Municipal Pension Trust Fund – General Employees' Pension Fund

<i>Fixed Income Funds:</i>	<u>Fitch Rating</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

State Board of Administration Investments

Surplus Funds Trust Fund Investment Pool	8.5 day average
Fund B Surplus Funds Trust Fund	9.36 years average

Concentration Risk

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

NOTE 3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land and improvements	\$ 155,297	\$ 2,916,646	\$ -	\$ 3,071,943
Construction in progress	70,649	45,161	-	115,810
Total capital assets not being depreciated	<u>225,946</u>	<u>2,961,807</u>	<u>-</u>	<u>3,187,753</u>
Capital assets being depreciated:				
Buildings	696,096	-	-	696,096
Improvements other than buildings	376,514	-	-	376,514
Furniture, equipment and machinery	1,865,824	23,734	-	1,889,558
Total capital assets being depreciated	<u>2,938,434</u>	<u>23,734</u>	<u>-</u>	<u>2,962,168</u>
Less accumulated depreciation:				
Buildings	(295,755)	(18,383)	-	(314,138)
Improvements other than buildings	(156,618)	(22,622)	-	(179,240)
Furniture, equipment and machinery	(1,314,588)	(144,448)	-	(1,459,036)
Total accumulated depreciation	<u>(1,766,961)</u>	<u>(185,453)</u>	<u>-</u>	<u>(1,952,414)</u>
Total capital assets being depreciated, net	<u>1,171,473</u>	<u>(161,719)</u>	<u>-</u>	<u>1,009,754</u>
Governmental activities capital assets, net	<u>\$ 1,397,419</u>	<u>\$ 2,800,088</u>	<u>\$ -</u>	<u>\$ 4,197,507</u>
Business-type activities:				
Capital assets not being depreciated:				
Land and improvements	\$ 257,971	\$ -	\$ -	\$ 257,971
Construction in progress	2,489,697	2,273,316	(4,053,294)	709,719
Total capital assets not being depreciated	<u>2,747,668</u>	<u>2,273,316</u>	<u>(4,053,294)</u>	<u>967,690</u>
Capital assets being depreciated:				
Buildings and improvements	779,520	-	-	779,520
Improvements other than building	7,811,181	4,053,294	-	11,864,476
Machinery and equipment	513,353	9,826	-	523,179
Total capital assets being depreciated	<u>9,104,054</u>	<u>4,063,120</u>	<u>-</u>	<u>13,167,175</u>
Less accumulated depreciation:				
Buildings and improvements	(901,647)	(22,942)	-	(924,589)
Improvements other than building	(1,537,988)	(245,153)	-	(1,783,141)
Equipment	(384,594)	(25,539)	-	(410,133)
Total accumulated depreciation	<u>(2,824,229)</u>	<u>(293,634)</u>	<u>-</u>	<u>(3,117,863)</u>
Total capital assets being depreciated, net	<u>6,279,825</u>	<u>3,769,486</u>	<u>-</u>	<u>10,049,312</u>
Business-type activities capital assets, net	<u>\$ 9,027,493</u>	<u>\$ 6,042,802</u>	<u>\$(4,053,294)</u>	<u>\$ 11,017,002</u>
Depreciation expense:				
Governmental activities				
General government and administration				\$ 30,467
Public safety				124,810
Physical environment				107
Transportation				15,766
Culture and recreation				14,303
Total depreciation expense - governmental activities				<u>\$ 185,453</u>
Business-type activities				
Water and sewer system				\$ 293,634
Total depreciation expense - business-type activities				<u>\$ 293,634</u>

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 began 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:

Asset	Governmental Activities	
	Radio Communication Equipment	Police Patrol Vehicles
	Machinery and equipment (Accumulated depreciation)	\$ 191,192 (56,633)
Total	<u>\$ 134,559</u>	<u>\$ 72,379</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2008, were as follows:

Year Ending September 30,	Governmental Activities	
	Radio Communication Equipment	Police Patrol Vehicles
2009	\$ 60,262	\$ 31,266
2010	63,666	33,173
Total minimum lease payments	123,928	64,439
(Amount representing interest)	(10,599)	(5,955)
Present value of minimum lease payments	<u>\$ 113,329</u>	<u>\$ 58,484</u>

NOTE 5. LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
Note payable	\$ 2,824	\$ -	\$ (2,824)	\$ -	\$ -
Capital lease - radios	191,192	-	(67,264)	123,928	60,262
Capital lease - 6 patrol units	93,907	-	(29,468)	64,439	31,266
Compensated absences	87,366	87,228	(95,490)	79,104	51,418
Total Governmental Activities	\$ 375,289	\$ 87,228	\$ (195,046)	\$ 267,471	\$ 142,946
Business-type Activities					
State revolving loan	\$ 2,340,934	\$ 1,380,049	\$ (145,040)	\$ 3,575,943	\$ 145,040
Revenue bonds payable	618,900	-	(18,400)	600,500	20,000
Compensated absences	34,580	24,541	(22,773)	36,348	23,626
Total business-type activities	\$ 2,994,414	\$ 1,404,590	\$ (186,213)	\$ 4,212,791	\$ 188,666

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 was 5% and the City made monthly payments of \$483 until the balance was paid in full during the current year.

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 loans are in the form of fully registered bonds and are collateralized by a pledge of the net revenues of the utilities system. The bond ordinances provide for a current sinking fund, debt service reserve, bond amortization account and renewal and replacement account. The bonds are callable at various rates from 100% to 102% of face value.

The City was in compliance with all material provisions of the Sewer Bond Ordinances for the year ended September 30, 2008.

State Revolving Loan (SRL)

In 2005, the City obtained a construction loan from the Florida Department of Environmental Protection for \$3,056,000. The proceeds were used for Phase 1 of a large sewer project to upgrade the system. In 2007, the loan was amended to include the construction cost of Phase 2 in the amount of \$2,292,642. The loan is collateralized by net revenues of the sewer utility fund. A reserve in the amount of \$33,333 has been established as required by the loan agreement. In February 2007, the City began making semiannual loan repayments with interest of 1.91% for Phase 1 and 1.77% for Phase 2 over the next twenty years.

Annual Requirements to Retire Long-term Debt

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

Year	Business-type Activities		Total Interest	Total Debt Service
	Bonds	Principal		
2009	\$ 20,000	\$ 145,040	\$ 95,342	\$ 260,382
2010	20,600	135,530	91,830	247,960
2011	21,300	138,131	88,239	247,670
2012	22,900	140,781	84,564	248,245
2013	23,600	143,483	80,762	247,845
2014-2018	136,900	759,792	343,137	1,239,829
2019-2023	173,200	835,551	231,189	1,239,940
2024-2028	82,000	918,865	72,503	1,073,368
2029-2033	100,000	358,770	19,283	478,053
Total	<u>\$ 600,500</u>	<u>\$ 3,575,943</u>	<u>\$ 1,106,849</u>	<u>\$ 5,283,292</u>

NOTE 6. LEGAL COMPLIANCE AND ACCOUNTABILITY

There were no fund balance deficits of individual funds as of September 30, 2008.

NOTE 7. DEFINED BENEFIT/DEFINED CONTRIBUTION PENSION PLANS

Florida State Retirement System

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

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

The funding methods and the determination of benefits payable are provided in various acts of the Florida Legislature. These acts require that employers, such as the City, contribute the following percentages of eligible compensation to the plan: 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, 2008, 2007, and 2006, were as follows, equal to the required contributions for each year:

Year	General	Special Risk	DROP	Total
2008	\$ 21,163	\$ 22,701	\$ 1,833	\$ 45,697
2007	20,546	30,218	3,442	54,206
2006	16,202	24,959	2,947	44,108

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, 2008, 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.

Contributions

Firefighters and police officers were required to contribute 1% of their annual salary to the plan for the year ended September 30, 2008. 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 due October 1, 2007, the plan had the following number of participants:

Active	9
Retired, disabled, vested terminations and beneficiaries	<u>9</u>
Total number of participants	<u><u>18</u></u>

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 (ARC)	\$ 52,384
Interest on net pension obligation	-
Adjustment to ARC	-
Annual pension costs	52,384
Contributions made	<u>(52,384)</u>
Increase (decrease) in net pension obligation (NPO)	-
Net pension obligation (asset), beginning of year	<u>-</u>
Net pension obligation (asset), end of year	<u><u>\$ -</u></u>

Other Pension Plan Information

The annual required contribution for the current year was determined as part of the October 1, 2007, 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, 2007	\$ 52,384	100%	\$ -
September 30, 2006	45,568	100%	-
September 30, 2005	58,816	100%	-

Schedule of Changes in Pension Plan Net Assets as of September 30, 2008

	Pension Trust Funds		Total
	General Employees	Special Risk	
Assets			
Cash and investments	\$ 496,486	\$ 1,038,773	\$ 1,535,259
Due from other governments	-	14,880	14,880
Total assets	<u>496,486</u>	<u>1,053,653</u>	<u>1,550,139</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net assets			
Reserved for:			
Employees' pension benefits	<u>496,486</u>	<u>1,053,653</u>	<u>1,550,139</u>
Total liabilities and net assets	<u>496,486</u>	<u>1,053,653</u>	<u>1,550,139</u>
Additions			
Contributions:			
Net employer contributions	44,176	-	44,176
State	-	98,989	98,989
Employee	<u>31,908</u>	<u>4,029</u>	<u>35,937</u>
Total contributions	<u>76,084</u>	<u>103,018</u>	<u>179,102</u>
Investment income increase (decrease)	(64,298)	(145,393)	(209,691)
Investment management fees	<u>(2,146)</u>	<u>(2,159)</u>	<u>(4,305)</u>
Net investment income	<u>(66,444)</u>	<u>(147,552)</u>	<u>(213,996)</u>
Total additions	<u>9,640</u>	<u>(44,534)</u>	<u>(34,894)</u>
Deductions			
Pension benefit payment and refunds	4,151	19,746	23,897
General and administrative	-	6,264	6,264
(Total deductions)	<u>(4,151)</u>	<u>(26,010)</u>	<u>(30,161)</u>
Increase in fiduciary net assets	<u>5,489</u>	<u>(70,544)</u>	<u>(65,055)</u>
Net assets reserved for employees pension benefit			
Beginning of year	<u>490,997</u>	<u>1,124,197</u>	<u>1,615,194</u>
End of year	<u>\$ 496,486</u>	<u>\$ 1,053,653</u>	<u>\$ 1,550,139</u>

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.

NOTE 9. RISK MANAGEMENT

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

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

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

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

NOTE 10. SEGMENT INFORMATION FOR WATER AND SEWER ENTERPRISE FUNDS

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

NOTE 11. LITIGATION

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DUNNELLON, FLORIDA
MAJOR FUND - GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Taxes				
Ad Valorem	\$ 827,431	\$ 827,431	\$ 784,835	\$ (42,596)
Ninth-cent Gas Tax	61,304	61,304	57,686	(3,618)
Local Option Gas Tax	347,507	347,507	318,965	(28,542)
Franchise Tax:				
Electricity	318,500	318,500	394,537	76,037
Communication Service Tax	124,100	124,100	137,551	13,451
Utility Tax	10,681	10,681	15,133	4,452
Total Taxes	<u>1,689,523</u>	<u>1,689,523</u>	<u>1,708,707</u>	<u>19,184</u>
Licenses and Permits				
Professional and Occupational	31,586	31,586	31,803	217
Building Permits	65,000	65,000	24,305	(40,695)
Other Licenses and Permits	13,500	13,500	17,949	4,449
Total Licenses and Permits	<u>110,086</u>	<u>110,086</u>	<u>74,057</u>	<u>(36,029)</u>
Intergovernmental Revenue				
State, Federal and Local Grants	439,466	439,466	63,119	(376,347)
State Shared Revenues:				
State Revenue Sharing	83,062	83,062	81,328	(1,734)
Mobile Home Licenses	12,000	12,000	9,726	(2,274)
Alcoholic Beverage Licenses	5,000	5,000	1,511	(3,489)
Local Government One-half Cent Sales Tax	151,905	151,905	126,506	(25,399)
Motor Fuel Tax Rebate	2,000	2,000	1,857	(143)
Total Intergovernmental Revenue	<u>693,433</u>	<u>693,433</u>	<u>284,047</u>	<u>(409,386)</u>
Charges for Services				
Zoning and Development	4,200	4,200	-	(4,200)
Copying and Records Search	1,100	1,100	1,645	545
Garbage and Solid Waste	160,400	160,400	161,178	778
Cemetery Fees	2,425	2,425	4,470	2,045
City Beach User Fees	2,200	2,200	5,207	3,007
Other Miscellaneous Charges	21,976	21,976	20,980	(996)
Total Charges for Services	<u>192,301</u>	<u>192,301</u>	<u>193,480</u>	<u>1,179</u>
Fines and Forfeitures				
Court Fines	56,050	56,050	24,985	(31,065)
Other Fines	3,250	3,250	3,583	333
Total Fines and Forfeitures	<u>59,300</u>	<u>59,300</u>	<u>28,568</u>	<u>(30,732)</u>
Miscellaneous Revenue				
Investment Earnings	135,500	135,500	118,915	(16,585)
Cemetery Lots	18,000	18,000	16,563	(1,437)
Other Miscellaneous	25,100	25,100	14,874	(10,226)
Total Miscellaneous Revenue	<u>178,600</u>	<u>178,600</u>	<u>150,352</u>	<u>(28,248)</u>
Total Revenues	<u>\$ 2,923,243</u>	<u>\$ 2,923,243</u>	<u>\$ 2,439,211</u>	<u>\$ (484,032)</u>

CITY OF DUNNELLON, FLORIDA
MAJOR FUND - GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2008
(Continued)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Expenditures				
General Government				
Legislative:				
Personal Services	\$ 12,000	\$ 12,000	\$ 12,076	\$ (76)
Operating Expenses	<u>32,831</u>	<u>32,831</u>	<u>32,778</u>	<u>53</u>
Total Legislative	<u>44,831</u>	<u>44,831</u>	<u>44,854</u>	<u>(23)</u>
City Clerk and General Administrative:				
Personal Services	122,297	122,297	125,119	(2,822)
Operating Expenses	<u>49,317</u>	<u>49,317</u>	<u>49,480</u>	<u>(163)</u>
Total City Clerk and General Administrative	<u>171,614</u>	<u>171,614</u>	<u>174,599</u>	<u>(2,985)</u>
City Manager:				
Personal Services	30,555	30,555	33,761	(3,206)
Operating Expenses	5,460	5,460	3,927	1,533
Capital Outlay	-	-	1,432	(1,432)
Total City Manager	<u>36,015</u>	<u>36,015</u>	<u>39,120</u>	<u>(3,105)</u>
Legal Counsel:				
Operating Expenses	<u>60,800</u>	<u>60,800</u>	<u>138,531</u>	<u>(77,731)</u>
Comprehensive Planning:				
Personal Services	49,264	49,264	69,104	(19,840)
Operating Expenses	10,584	10,584	88,476	(77,892)
Capital Outlay	<u>408,456</u>	<u>408,456</u>	<u>45,161</u>	<u>363,295</u>
Total Comprehensive Planning	<u>468,304</u>	<u>468,304</u>	<u>202,741</u>	<u>265,563</u>
Finance:				
Personal Services	40,583	40,583	42,200	(1,617)
Operating Expenses	<u>16,303</u>	<u>16,303</u>	<u>17,378</u>	<u>(1,075)</u>
Total Finance	<u>56,886</u>	<u>56,886</u>	<u>59,578</u>	<u>(2,692)</u>
Grant Development:				
Personal Services	9,510	9,510	9,569	(59)
Operating Expenses	<u>450</u>	<u>450</u>	<u>356</u>	<u>94</u>
Total Grant Development	<u>9,960</u>	<u>9,960</u>	<u>9,925</u>	<u>35</u>
Building Maintenance:				
Personal Services	15,332	15,332	33,599	(18,267)
Operating Expenses	20,203	20,203	21,511	(1,308)
Capital Outlay	<u>63,045</u>	<u>63,045</u>	<u>-</u>	<u>63,045</u>
Total Building Maintenance	<u>98,580</u>	<u>98,580</u>	<u>55,110</u>	<u>43,470</u>

CITY OF DUNNELLON, FLORIDA
MAJOR FUND - GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2008
(Continued)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Expenditures (Continued)				
Garage Department:				
Personal Services	\$ 53,437	\$ 53,437	\$ 53,264	\$ 173
Operating Expenses	10,046	10,046	11,832	(1,786)
Total Garage Department	<u>63,483</u>	<u>63,483</u>	<u>65,096</u>	<u>(1,613)</u>
Total General Government	<u>1,010,473</u>	<u>1,010,473</u>	<u>789,554</u>	<u>220,919</u>
Public Safety				
Law Enforcement:				
Personal Services	649,454	649,454	553,568	95,886
Operating Expenses	91,852	91,852	118,205	(26,353)
Capital Outlay	-	-	2,251	(2,251)
Debt Service:				
Principal	120,975	120,975	70,633	50,342
Interest	5,788	5,788	5,769	19
Total Law Enforcement	<u>868,069</u>	<u>868,069</u>	<u>750,426</u>	<u>117,643</u>
Fire Control:				
Personal Services	282,027	282,027	292,928	(10,901)
Operating Expenses	60,501	60,501	69,062	(8,561)
Capital Outlay	-	-	2,124	(2,124)
Debt Service:				
Principal	69,287	69,287	28,923	40,364
Total Fire Control	<u>411,815</u>	<u>411,815</u>	<u>393,037</u>	<u>18,778</u>
Protective Inspections:				
Personal Services	27,961	27,961	19,520	8,441
Operating Expenses	45,367	45,367	26,664	18,703
Total Protective Inspections	<u>73,328</u>	<u>73,328</u>	<u>46,184</u>	<u>27,144</u>
Total Public Safety	<u>1,353,212</u>	<u>1,353,212</u>	<u>1,189,647</u>	<u>163,565</u>
Physical Environment				
Cemetery:				
Personal Services	12,346	12,346	21,974	(9,628)
Operating Expenses	4,341	4,341	3,547	794
Total Cemetery	<u>16,687</u>	<u>16,687</u>	<u>25,521</u>	<u>(8,834)</u>
Garbage and Solid Waste:				
Personal Services	23,848	23,848	23,438	410
Operating Expenses	124,697	124,697	133,399	(8,702)
Total Garbage and Solid Waste	<u>148,545</u>	<u>148,545</u>	<u>156,837</u>	<u>(8,292)</u>
Total Physical Environment	<u>165,232</u>	<u>165,232</u>	<u>182,358</u>	<u>(17,126)</u>

CITY OF DUNNELLON, FLORIDA
MAJOR FUND - GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2008
(Concluded)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
Expenditures (Concluded)				
Transportation				
Roads and Streets:				
Personal Services	\$ 140,413	\$ 140,413	\$ 90,533	\$ 49,880
Operating Expenses	118,804	118,804	250,266	(131,462)
Capital Outlay	404,000	404,000	1,447	402,553
Total Transportation	<u>663,217</u>	<u>663,217</u>	<u>342,246</u>	<u>320,971</u>
Human Services				
Animal Control:				
Personal Services	13,238	13,238	10,958	2,280
Operating Expenses	2,795	2,795	2,343	452
Total Animal Control	<u>16,033</u>	<u>16,033</u>	<u>13,301</u>	<u>2,732</u>
Mosquito Control:				
Operating Expenses	20,400	20,400	21,772	(1,372)
Total Human Services	<u>36,433</u>	<u>36,433</u>	<u>35,073</u>	<u>1,360</u>
Culture and Recreation				
Parks and Recreation:				
Personal Services	58,096	58,096	53,874	4,222
Operating Expenses	31,136	31,136	26,824	4,312
Capital Outlay	-	-	-	-
Total Culture and Recreation	<u>89,232</u>	<u>89,232</u>	<u>80,698</u>	<u>8,534</u>
(Total Expenditures)	<u>(3,317,799)</u>	<u>(3,317,799)</u>	<u>(2,619,576)</u>	<u>698,223</u>
Excess of Revenues Over Expenditures	(394,556)	(394,556)	(180,365)	214,191
Fund Balance, Beginning of Year	<u>394,556</u>	<u>394,556</u>	<u>3,994,262</u>	<u>3,599,706</u>
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,813,897</u>	<u>\$ 3,813,897</u>

CITY OF DUNNELLON, FLORIDA
MAJOR FUND - TAX INCREMENT FINANCING DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Taxes:				
Ad Valorem	\$ 55,077	\$ 55,077	\$ 175,440	\$ 120,363
Intergovernmental Revenue	82,537	82,537	2,926,346	2,843,809
Miscellaneous Revenue:				
Investment Earnings	7,500	7,500	7,910	410
Total Revenues	<u>145,114</u>	<u>145,114</u>	<u>3,109,696</u>	<u>2,964,582</u>
Expenditures				
General Government:				
Industry Development:				
Personal Services	19,537	19,537	18,485	1,052
Operating Expenses	125,577	125,577	30,846	94,731
Capital Outlay	-	-	2,933,126	(2,933,126)
(Total Expenditures)	<u>(145,114)</u>	<u>(145,114)</u>	<u>(2,982,457)</u>	<u>(2,837,343)</u>
Excess of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>127,239</u>	<u>127,239</u>
Fund Balances, Beginning of Year	<u>-</u>	<u>-</u>	<u>279,844</u>	<u>279,844</u>
Fund Balances, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 407,083</u>	<u>\$ 407,083</u>

REQUIRED SUPPLEMENTARY INFORMATION
SPECIAL RISK PENSION TRUST FUND
SEPTEMBER 30, 2008
CITY OF DUNNELLON, FLORIDA

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

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER AND OTHERS

Year Ended September 30,	Annual Required Contribution (ARC) (1)	Percentage Contributed
1997	\$ 62,336	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 actuarial valuation follows:

Valuation date	October 1, 2007
Actuarial cost method	Aggregate actuarial cost method
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.5%*
Projected salary increases	5.2%*
Cost-of-living adjustments	None

*Includes inflation at 3.75%

**SINGLE AUDIT AND
COMPLIANCE SECTION**

**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, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting 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 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.

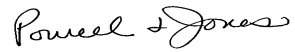
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any 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 misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the City in a separate letter dated February 16, 2009.

This report is intended solely for the information and use of the City Council, 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.

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

POWELL & JONES
Certified Public Accountants
February 16, 2009

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL
CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR
FEDERAL AWARDS PROGRAM AND STATE FINANCIAL ASSISTANCE PROJECT

Honorable Mayor and City Council
City of Dunnellon
Dunnellon, Florida

Compliance

We have audited the compliance of the City of Dunnellon, Florida with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, and the requirements described in the Executive Office of the Governor's State Projects Compliance Supplement, that are applicable to each of its major federal awards programs and state financial assistance projects for the year ended September 30, 2008. The City of Dunnellon, Florida's major federal awards programs and state financial assistance projects are identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal awards programs and state financial assistance projects is the responsibility of the City of Dunnellon, Florida's management. Our responsibility is to express an opinion on the City of Dunnellon, Florida's compliance based on our audit.

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

In our opinion, the City of Dunnellon, Florida complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal awards programs and state financial assistance projects for the year ended September 30, 2008.

Internal Control Over Compliance

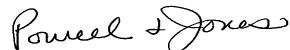
The management of the City of Dunnellon, Florida is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal awards programs and state financial assistance projects. In planning and performing our audit, we considered the City of Dunnellon, Florida's internal control over compliance with requirements that could have a direct and material effect on a major federal awards program or state financial assistance project to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal and control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal awards program or state financial assistance project being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards and State Financial Assistance

We have audited the basic financial statements of the City of Dunnellon, Florida as of and for the year ended September 30, 2008, and have issued our report thereon dated February 16, 2009. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General and is not a required part of the basic financial statements. 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 Council, management, and federal and state awarding agencies, pass-through entities, and the Auditor General of the State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.



POWELL & JONES
Certified Public Accountants
February 16, 2009

CITY OF DUNNELLON, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Grantor /Program Title	Federal CFDA Number	State CFSA Number	Pass-Through Grant Number	Program or Loan Amount	Required Match	Deferred (Receivable) Balance @ 9/30/07	Bonds Issued & Receipts	(Bonds Retired & Expenditures)	(Deferred) or Receivable Balance @ 9/30/08
Federal Awards									
Major Programs									
Environmental Protection Agency									
Department of Environmental Protection Clean Water State Revolving Fund (Const. Loan)	66.458	-	WW51108S	\$ 5,348,642	\$ -	\$ -	\$ 1,380,049	\$ 1,380,049	\$ -
Non-major Programs									
U.S. Department of Housing & Urban Development									
Department of Community Affairs Community Development Block Grant	14.228	-	07DB-3R-05- 52-2-PS3	55,120	-	1,682	47,000	48,682	-
U.S. Department of Law Enforcement									
Justice Assistance Grant Dunnellon Police Department Shotgun Racks	16.738	-	2008-JAGG-MARI- 2-Q0-057	1,000	-	-	1,000	1,000	-
U. S. Department of Justice									
Bulletproof Vest Program FY2007	16.607	-		1,400	1,400	-	1,342	1,342	-
Total Federal Awards						\$ 1,682	\$ 1,429,391	\$ 1,431,073	\$ -
State Financial Assistance									
Major Programs									
Department of Community Affairs									
Florida Forever Act - Florida Communities Trust	-	52.002	08-CT-C1-07-F7- A1-022	\$ 2,606,165	\$ 320,000	\$ -	\$ 2,606,165	\$ 2,606,165	\$ -
Non-major Programs									
Southwest Florida Water Management District									
Blue Cove Lake and East Blue Cove Drive Outfalls	-	37.039	06CS0000001	50,000	25,000	21,242	-	7,516	28,758
Department of Environmental Protection									
Small Community Wastewater Construction Grant	-	37.039	SG511070	8,100,894	-	2,158	742,615	1,063,384	318,611
Community Budget Issue Request	-	37.039	LP6747	500,000	-	-	23,235	23,235	-
Department of Community Planning									
Technical Assistance Grant	-	52.028	08-DR-94-05-52- 02-002	25,000	-	-	25,000	25,000	-
Total State Financial Assistance						\$ 23,400	\$ 3,397,015	\$ 3,725,300	\$ 347,369

CITY OF DUNNELLON, FLORIDA

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

For the Fiscal Year Ended September 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Basis of Accounting

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

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

CITY OF DUNNELLON, FLORIDA

SCHEDULE OF FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Programs</u>
66.458	Federal Environmental Protection Agency Capitalization Grant for Clean Water State Revolving Funds

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

Financial Statement Findings?	None
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Federal Award Findings and Questioned Costs	None
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CITY OF DUNNELLON, FLORIDA

SCHEDULE OF FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

State Financial Assistance

Internal control over major projects:

• Material weakness identified? No
• Reportable condition identified not considered to be material weaknesses? None reported

Type of auditor's report issued on compliance for major projects: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Rule 10.556, *Rules of the Auditor General*? No

CFDA Number
52.002

Name of State Programs
Department of Community Affairs
Florida Forever Act

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Financial Statement Findings None

State Financial Assistance Findings and Questioned Costs None

CITY OF DUNNELLON, FLORIDA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

PRIOR FINDINGS

2007-1 -- In this finding, the prior auditor noted the following deficiencies in internal control over financial reporting that required correction through adjustments to the general ledger:

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

CURRENT STATUS

During the current year, we found that proper corrective measures had been taken by the Finance Officer regarding these matters.

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

Honorable Mayor and City Council
City of Dunnellon
Dunnellon, Florida

We have audited the basic financial statements of the City of Dunnellon, Florida (the City) as of and for the year ended September 30, 2008, and have issued our report thereon dated February 16, 2009.

We have issued our 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 dated February 16, 2009. Disclosures in that report, should be considered in conjunction with this management letter.

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

PRIOR YEAR FINDINGS

All prior year findings of the prior auditor were substantially corrected or addressed during the current year.

CURRENT YEAR FINDINGS

Vehicle Fuel Logs - From our review of vehicle fuel expenditures we found the following deficiencies:

- a. Certain odometer readings were apparently not accurately entered into the computerized fuel dispensing system resulting in apparent erroneous reports of fuel usage of the City's vehicles.
- b. There was not a review procedure in place to verify that monthly fuel billing reports were accurate and reasonable.

For proper accountability of fuel purchases we recommend the following:

1. The computerized billing system should be accurately used by employees and the monthly billings and reports generally should be utilized as the basis for fuel accountability logs.
2. There should be a specific procedure whereby monthly fuel billings are thoroughly reviewed and any out-of-range fuel consumption calculations reconciled and explained prior to the billing being submitted to the Finance Officer for payment.

FINANCIAL COMPLIANCE MATTERS

Annual Local Government Financial Report - The Financial Report filed with the Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the accompanying financial statements of the City, for the fiscal year ended September 30, 2008.

Investment of Public Funds - The City complied with Section 218.415, Florida Statutes, regarding the investment of public funds during the fiscal year ended September 30, 2008.

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

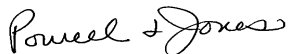
Financial Condition Assessment Procedures - Pursuant to Chapter 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures to the City's financial statements. It is management's responsibility to monitor the entity's financial condition, and our financial condition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

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

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

CONCLUSION

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



POWELL & JONES
Certified Public Accountants
February 16, 2009



**City of Dunnellon Management Response To
Auditors' Management Letter Comment
Annual Audit FYE 9/30/08**

**Honorable Mayor and City Council
City of Dunnellon
Dunnellon, Florida**

The following is in response to Powell & Jones CPAs management letter comment of February 16, 2009.

Vehicle Fuel Logs

The following procedure has been implemented to ensure the accuracy of the City's fuel log (monthly billing).

Fuel invoices are reviewed by a staff member of the Police Department who is the fuel purchase program administrator. If there is a discrepancy, the program administrator will initiate an investigation to determine the cause. The result of the investigation, along with any corrective action taken, will be documented on the fuel invoice. The invoice will then be forwarded to the Finance Department where the Finance Officer will review it to ensure all discrepancies have been addressed. The invoice will then be released for payment.

A handwritten signature in cursive script that reads "Jan Smith".

**Jan Smith
Finance Officer**