

CITY OF DUNNELLON, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2010

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, 2010, 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.

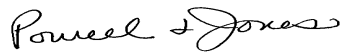
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2010, 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 March 22, 2011, 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis and as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* is not a required part of the basic financial statements of the City of Dunnellon, Florida. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



POWELL & JONES
Certified Public Accountants
March 22, 2011

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, 2010. Please read it in conjunction with the City's basic financial statements, which begin on page 13.

USING THIS ANNUAL REPORT

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

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

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

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

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

- Governmental activities -Most of the City's basic services are reported here, including the police, fire, general administration, streets and parks, property taxes, franchise fees, gas taxes, fines, and state and county-shared revenues.
- Business-type activities -The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water 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 24. The Fiduciary Fund Financial Statement is not presented as part of the Government-wide Financial Statements because the resources of these funds are not available to support the City's programs. Fiduciary (Trust and Agency) Funds represent trust responsibilities of the government. However, these assets are restricted in purpose and do not represent discretionary assets of the government.

THE CITY AS A WHOLE

	Governmental		Business-Type		Total	
	2009	2010	2009	2010	2009	2010
Revenues	\$ 2,948,048	\$ 2,885,442	\$ 1,481,486	\$ 1,444,066	\$ 4,429,534	\$ 4,329,508
Expenses	\$ 2,746,179	\$ 3,106,349	\$ 1,246,025	\$ 1,304,645	\$ 3,992,204	\$ 4,410,994

To aid in the understanding of the Statement of Activities some additional explanation is given. Expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative

financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. Some of the individual line item revenues reported for each function are:

General Government	Building permits, occupational licenses, and plumbing/electric inspections
Public Safety	Fire inspections, accident responses, police fines for traffic and parking violations, Department of Justice grants
Physical Environment	Grave opening and closing, burial lot purchases, sanitation activities - trash removal
Transportation	Gasoline Tax
Culture and Recreation	City beach user fees

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

Governmental Activities

Total Governmental revenues decreased 2 percent.

Business-type Activities

The Water, Sewer and Communications Utilities show a combined operating loss of \$292,104 and combined non-operating revenues of \$431,525 for a net increase of \$139,421 for fiscal year 2010. The net increase is primarily due to proceeds received from a Disadvantaged Small Community Grant through Florida Department of Environmental Services for Phase II and III of the City's sewer project.

Net Assets

For the years ended September 30, 2010 and 2009, net assets changed as follows:

	Governmental Activities		Business-Type Activities		Total	
	2009	2010	2009	2010	2009	2010
Beginning net assets	\$8,149,201	\$8,351,070	\$ 9,533,034	\$ 9,768,495	\$ 17,682,235	\$ 18,119,565
Increase (decrease) in net assets	201,869	(220,907)	235,461	139,421	437,330	(81,486)
	<u>\$8,351,070</u>	<u>\$8,130,163</u>	<u>\$ 9,768,495</u>	<u>\$ 9,907,916</u>	<u>\$ 18,119,565</u>	<u>\$ 18,038,079</u>

This reflects a decrease of 3 percent for governmental activities and a 1 percent increase for business-type activities over prior year.

THE CITY'S FUNDS

The following schedule of Assets and Liabilities presents a summary of the City's Assets and Liabilities for the fiscal year ended September 30, 2010 and 2009.

Assets

	Governmental Activities		Business-Type Activities	
	2009	2010	2009	2010
Current Assets	\$ 4,123,821	\$ 3,978,161	\$ 2,679,430	\$ 2,263,706
Capital Assets, Net of Accumulated Depreciation	4,506,233	4,460,026	12,231,913	15,042,181
Unamortized Bond Issue Costs	-	-	60,281	59,383
Total Assets	<u>\$ 8,630,054</u>	<u>\$ 8,438,187</u>	<u>\$ 14,971,624</u>	<u>\$ 17,365,270</u>

Capital assets for governmental activities have decreased 1 percent over the prior year. Business-type activities reflect an increase of 16 percent primarily due to completion of Phase II of the sewer project.

Liabilities

	Governmental Activities		Business-Type Activities	
	2009	2010	2009	2010
Current Liabilities	\$ 60,761	\$ 175,568	\$ 783,367	\$ 297,438
Payable from Restricted Assets	-	-	124,729	132,393
Deferred Revenue	34,235	29,528	-	-
Long-term Liabilities	183,988	102,928	4,295,033	7,027,523
Total Liabilities	<u>\$ 278,984</u>	<u>\$ 308,024</u>	<u>\$ 5,203,129</u>	<u>\$ 7,457,354</u>

Current liabilities for governmental activities increased 189% over the prior year primarily due to legal expenses associated with sidewalk repair and Rainbow River Ranch litigation. Long-term liabilities decreased 44% primarily due to final payments on capital lease agreements for Public Safety equipment. Current liabilities for business-type activities have decreased 62% from prior year, primarily due to less construction activities.

The following schedule presents a summary of general, special revenue, capital project, debt service, and enterprise fund revenues and expenses for the fiscal year ended September 30, 2010 and 2009.

	Business-Type							
	Governmental		Water Utility		Sewer Utility		Communications Utility	
	2009	2010	2009	2010	2009	2010	2009	2010
Program Revenues								
Charges for Services	\$ 320,746	\$ 301,956	\$ 334,296	\$ 337,552	\$ 569,394	\$ 584,108	\$ -	\$ -
Operating Grants and Contributions	7,277	1,080	-	-	-	-	-	-
Capital Grants and Contributions	441,218	74,386	4,300	1,000	510,295	468,169	-	-
General Revenues								
Taxes	1,883,316	2,182,814	-	-	-	-	-	-
State-shared	203,320	199,247	-	-	-	-	-	-
Investment income	75,636	99,914	29,713	39,536	33,385	12,980	-	-
Miscellaneous	16,535	26,045	103	579	-	142	-	-
	<u>\$ 2,948,048</u>	<u>\$ 2,885,442</u>	<u>\$ 368,412</u>	<u>\$ 378,667</u>	<u>\$ 1,113,074</u>	<u>\$ 1,065,399</u>	<u>\$ -</u>	<u>\$ -</u>

Governmental revenue decreased 2 percent over prior year. Charges for Services decreased 6 percent. Taxes increased 16 percent primarily as a result of the additional five-cent local option gas tax. Decreases in State-shared Revenue 2 percent, was primarily due to continued downward pressure on the economy. Investment income increased 32 percent. Business-type revenues decreased 3 percent primarily due to the restructuring of water and sewer rates to encourage continued conservation. Capital Grants and Contributions decreased 9 percent from prior year primarily due to the completion of Phase II of the City's sewer project.

Expenses

Governmental		Water Utility		Sewer Utility		Communication Utility	
2009	2010	2009	2010	2009	2010	2009	2010
\$ 2,746,179	\$ 3,106,349	\$ 302,090	\$ 333,835	\$ 943,935	\$ 946,749	\$ -	\$ 24,061

Expenses increased in the governmental fund and combined utility fund by 10 percent for the year ended September 30, 2010 primarily due to legal expenses associated with Rainbow River Ranch litigation.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total revenue for the year shows 4 percent over budget.

On the expense-side, total General Government is over budget 29 percent or \$239,572. This is primarily a result of litigation expenses associated with the development of the Preserve at Blue Run. Total Public Safety is under budget 6 percent primarily due to debt payments. Transportation is under budget 41 percent primarily associated with the delay of the City's road resurfacing project \$255,378.

CAPITAL ASSETS

As of September 30, 2010, the City had \$19.5 million invested in capital assets including police and fire equipment, buildings, park facilities, roads, and water and sewer lines. (See table below) This represents a net increase of \$2,764,061 or 17 percent, over the prior year.

	Governmental		Business-Type		Total	
	Activities		Activities			
	2009	2010	2009	2010	2009	2010
Capital Assets	\$ 6,604,736	\$ 6,713,678	\$ 13,438,235	\$ 13,462,595	\$ 20,042,971	\$ 20,176,273
Construction in Progress	31,222	53,880	2,315,012	5,495,917	2,346,234	5,549,797
Less Accumulated						
Depreciation	(2,129,725)	(2,307,532)	(3,521,334)	(3,916,331)	(5,651,059)	(6,223,863)
Total	<u>\$ 4,506,233</u>	<u>\$ 4,460,026</u>	<u>\$ 12,231,913</u>	<u>\$ 15,042,181</u>	<u>\$ 16,738,146</u>	<u>\$ 19,502,207</u>

This year's major addition was expansion of the City's wastewater treatment plant during 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.

Lisa Algieri

Lisa Algieri
City Manager

Jan Smith

Jan Smith
Finance Officer

BASIC FINANCIAL STATEMENTS

CITY OF DUNNELLON, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

Assets	Governmental Activities	Business- Type Activities	Total
Cash and Investments	\$ 3,799,518	\$ 2,068,826	\$ 5,868,344
Receivables, Net	62,228	105,550	167,778
Due from Other Governments	116,315	89,330	205,645
Other Assets	100	-	100
Capital Assets, Not Being Depreciated	3,232,323	5,753,889	8,986,212
Capital Assets, Being Depreciated	3,535,235	13,204,622	16,739,857
Less Accumulated Depreciation	(2,307,532)	(3,916,330)	(6,223,862)
Unamortized Bond Issuance Costs	-	59,383	59,383
Total Assets	8,438,187	17,365,270	25,803,457
Liabilities			
Accounts Payable	175,568	297,438	473,006
Payable from Restricted Assets:			
Customer Deposits	-	122,381	122,381
Accrued Interest	-	10,012	10,012
Deferred Revenue	29,528	-	29,528
Long-term Liabilities:			
Due Within One Year	59,753	182,069	241,822
Due in More Than One Year	43,175	6,845,454	6,888,629
Total Liabilities	308,024	7,457,354	7,765,378
Net Assets			
Invested in Capital Assets, Net of related debt	4,460,026	8,114,033	12,574,059
Restricted for:			
Debt Service	-	33,333	33,333
Capital Projects	-	541,448	541,448
Infrastructure	56,247	-	56,247
Roads and Streets	1,580,223	-	1,580,223
Police Expenditures	59,199	-	59,199
Cemetery Perpetual Care	43,452	-	43,452
Unrestricted	1,931,016	1,219,102	3,150,118
Total Net Assets	\$ 8,130,163	\$ 9,907,916	\$ 18,038,079

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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	\$ 1,204,598	\$ 59,850	\$ -	\$ -	\$ (1,144,748)	\$ -	\$ (1,144,748)
Public Safety	1,211,424	38,110	1,080	50,655	(1,121,579)	-	(1,121,579)
Physical Environment	171,717	167,699	-	23,731	19,713	-	19,713
Transportation	386,668	28,985	-	-	(357,683)	-	(357,683)
Culture and Recreation	34,370	7,312	-	-	(27,058)	-	(27,058)
Human Services	91,951	-	-	-	(91,951)	-	(91,951)
Interest on Long-term Debt	5,621	-	-	-	(5,621)	-	(5,621)
Total Governmental Activities	3,106,349	301,956	1,080	74,386	(2,728,927)	-	(2,728,927)
Business-type Activities							
Water Utility	333,835	337,552	-	1,000	-	4,717	4,717
Sewer Utility	946,749	584,108	-	468,169	-	105,528	105,528
Communications Utility	24,061	-	-	-	-	(24,061)	(24,061)
Total Business-type Activities	1,304,645	921,660	-	469,169	-	86,184	86,184
Total Primary Government	\$ 4,410,994	\$ 1,223,616	\$ 1,080	\$ 543,555	(2,728,927)	86,184	(2,642,743)
General Revenues							
Taxes:							
Property Taxes					1,064,350	-	1,064,350
Franchise Taxes					230,817	-	230,817
Public Service Taxes					384,291	-	384,291
Other Taxes					503,356	-	503,356
State-shared Revenues					199,247	-	199,247
Investment Income					99,914	52,516	152,430
Miscellaneous					26,045	721	26,766
Total General Revenues					2,508,020	53,237	2,561,257
Change in Net Assets					(220,907)	139,421	(81,486)
Net Assets, Beginning of Year					8,351,070	9,768,495	18,119,565
Net Assets, End of Year					\$ 8,130,163	\$ 9,907,916	\$ 18,038,079

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
 GOVERNMENTAL FUNDS
 BALANCE SHEET
 SEPTEMBER 30, 2010

	<u>General Fund</u>	<u>Tax Increment Financing District Fund</u>	<u>Total Governmental Funds</u>
Assets			
Cash and Investments	\$ 3,136,967	\$ 662,551	\$ 3,799,518
Accounts Receivable	62,228	-	62,228
Due from Other Governments	116,315	-	116,315
Other Assets	100	-	100
	<u>3,315,610</u>	<u>662,551</u>	<u>3,978,161</u>
Total Assets			
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ 154,975	\$ 20,593	\$ 175,568
Deferred Revenue	29,528	-	29,528
	<u>184,503</u>	<u>20,593</u>	<u>205,096</u>
Total Liabilities			
Fund Balances			
Reserved for:			
Roads and Streets	1,580,223	-	1,580,223
Public Safety	59,199	-	59,199
Infrastructure	56,247	-	56,247
Cemetery Perpetual Care	43,452	-	43,452
Unreserved:			
Designated			
for Capital Improvements	1,257,209	-	1,257,209
Undesignated	134,777	641,958	776,735
	<u>3,131,107</u>	<u>641,958</u>	<u>3,773,065</u>
Total Fund Balances			
Total Liabilities and Fund Balances			
	<u>\$ 3,315,610</u>	<u>\$ 662,551</u>	<u>\$ 3,978,161</u>

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2010

Fund Balances - Total Governmental Funds	\$ 3,773,065
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Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:

<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$6,767,558 and the accumulated depreciation is \$2,307,532</p>	4,460,026
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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:

OPEB payable	(11,000)
Compensated Absences	(91,928)
	(102,928)

Total Net Assets of Governmental Activities	\$ 8,130,163
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See accompanying notes.

CITY OF DUNNELLON, FLORIDA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	General Fund	Tax Increment Financing District Fund	Total Governmental Funds
Revenues			
Taxes	\$ 1,979,120	\$ 203,694	\$ 2,182,814
Licenses and Permits	58,328	-	58,328
Intergovernmental Revenues	274,713	-	274,713
Charges for Service	208,561	-	208,561
Fines and Forfeitures	35,067	-	35,067
Miscellaneous Revenue	109,388	16,571	125,959
Total Revenues	<u>2,665,177</u>	<u>220,265</u>	<u>2,885,442</u>
Expenditures			
Current:			
General Government	1,033,225	123,383	1,156,608
Public Safety	1,093,786	-	1,093,786
Physical Environment	171,610	-	171,610
Transportation	373,876	-	373,876
Human Services	34,370	-	34,370
Culture and Recreation	76,891	-	76,891
Capital Outlay			
General Government	43,970	13,569	57,539
Public Safety	70,091	-	70,091
Culture and Recreation	3,970	-	3,970
Debt Service:			
Principal Payments	96,840	-	96,840
Interest	5,621	-	5,621
Total Expenditures	<u>3,004,250</u>	<u>136,952</u>	<u>3,141,202</u>
Excess of Revenues Over (Under) Expenditures	(339,073)	83,313	(255,760)
Fund Balances, Beginning of Year	<u>3,470,180</u>	<u>558,645</u>	<u>4,028,825</u>
Fund Balances, End of Year	<u>\$ 3,131,107</u>	<u>\$ 641,958</u>	<u>\$ 3,773,065</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, 2010

Net Change in Fund Balances - Total Governmental Funds \$ (255,760)

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:

Expenditures for Capital Assets	\$ 131,600	
(Current Year Depreciation)	<u>(177,807)</u>	(46,207)

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	96,840

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

Increase in OPEB payable	(11,000)
Increase in Compensated Absences	<u>(4,780)</u>

Change in Net Assets of Governmental Activities	<u><u>\$ (220,907)</u></u>
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See accompanying notes.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2010

	Business-Type Activities			Total
	Water Fund	Sewer Fund	Communications Fund	
Assets				
Current Assets				
Cash and Investments	\$ 973,771	\$ 362,248	\$ 35,645	\$ 1,371,664
Accounts Receivable (Net of Allowance for Uncollectible Accounts)	19,406	34,073	-	53,479
Notes Receivable	50,000	2,071	-	52,071
Due From Other Governments	-	89,330	-	89,330
Total Current Assets	<u>1,043,177</u>	<u>487,722</u>	<u>35,645</u>	<u>1,566,544</u>
Restricted Assets				
Cash:				
Utility Deposit Cash	122,381	-	-	122,381
User Fee Cash	493,481	-	-	493,481
Debt Service - State Revolving Loan	-	33,333	-	33,333
Debt Service - Revenue Bonds	-	47,967	-	47,967
Total Restricted Assets	<u>615,862</u>	<u>81,300</u>	<u>-</u>	<u>697,162</u>
Utility Plant in Service				
Cost	1,548,183	11,910,180	4,231	13,462,594
(Accumulated Depreciation)	(1,088,083)	(2,828,106)	(141)	(3,916,330)
Construction in Progress	-	5,495,917	-	5,495,917
Total Utility Plant in Service - Cost	<u>-</u>	<u>5,495,917</u>	<u>-</u>	<u>5,495,917</u>
Less Depreciation	460,100	14,577,991	4,090	15,042,181
Long-term Assets				
Bond Issuance Costs (Net of Amortization)	-	59,383	-	59,383
Total Assets	<u>\$ 2,119,139</u>	<u>\$ 15,206,396</u>	<u>\$ 39,735</u>	<u>\$ 17,365,270</u>

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2010

	Business-Type Activities			Total
	Water Fund	Sewer Fund	Communications Fund	
Liabilities and Net Assets				
Current Liabilities, Unrestricted				
Payable from Current Assets:				
Accounts, Wages and Retainage Payable	\$ 3,206	\$ 236,315	\$ 57,917	\$ 297,438
Compensated Absences - Due Within One Year	8,151	12,722	3,821	24,694
Total Current Liabilities, Unrestricted	<u>11,357</u>	<u>249,037</u>	<u>61,738</u>	<u>322,132</u>
Current Liabilities, Restricted				
Payable from Restricted Assets:				
Accrued Revenue Bond and SRF Loan Interest	-	10,012	-	10,012
Customer Deposits	122,381	-	-	122,381
Revenue Bonds Payable - Due Within One Year	-	21,300	-	21,300
State Revolving Loan - Due Within One Year	-	136,075	-	136,075
Total Current Liabilities, Restricted	<u>122,381</u>	<u>167,387</u>	<u>-</u>	<u>289,768</u>
Total Current Liabilities	<u>133,738</u>	<u>416,424</u>	<u>61,738</u>	<u>611,900</u>
Long-term Liabilities				
Revenue Bonds - Noncurrent Portion	-	538,600	-	538,600
State Revolving Loan	-	6,291,556	-	6,291,556
OPEB payable	1,167	833	-	2,000
Compensated Absences - Noncurrent Portion	4,389	6,851	2,058	13,298
Total Long-term Liabilities	<u>5,556</u>	<u>6,837,840</u>	<u>2,058</u>	<u>6,845,454</u>
Total Liabilities	<u>139,294</u>	<u>7,254,264</u>	<u>63,796</u>	<u>7,457,354</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt				
Restricted for Debt Service	-	33,333	-	33,333
Restricted for Capital Projects	493,481	47,967	-	541,448
Unrestricted	1,026,264	220,989	(28,151)	1,219,102
Total Net Assets	<u>1,979,845</u>	<u>7,952,132</u>	<u>(24,061)</u>	<u>9,907,916</u>
Total Liabilities and Net Assets	<u>\$ 2,119,139</u>	<u>\$ 15,206,396</u>	<u>\$ 39,735</u>	<u>\$ 17,365,270</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, 2010

	Business-Type Activities			Total
	Water Fund	Sewer Fund	Communications Fund	
Operating Revenues				
Charges for Services	\$ 337,552	\$ 584,108	\$ -	\$ 921,660
Total Operating Revenues	<u>337,552</u>	<u>584,108</u>	<u>-</u>	<u>921,660</u>
Operating Expenses				
Personal Services	171,465	241,233	5,879	418,577
Operating Expenses	108,045	217,844	13,993	339,882
Professional Services	21,434	33,927	4,048	59,409
Depreciation and Amortization	32,891	362,864	141	395,896
Total Operating Expenses	<u>333,835</u>	<u>855,868</u>	<u>24,061</u>	<u>1,213,764</u>
Operating Income (Loss)	<u>3,717</u>	<u>(271,760)</u>	<u>(24,061)</u>	<u>(292,104)</u>
Nonoperating Revenues (Expenses)				
Interest Income	39,536	12,980	-	52,516
Interest Expense	-	(90,881)	-	(90,881)
Capital Contributions	1,000	8,255	-	9,255
Miscellaneous	579	142	-	721
Department of Environmental Protection Grant	-	43,991	-	43,991
Department of Community Affairs Grant	-	415,923	-	415,923
Total Nonoperating Revenues	<u>41,115</u>	<u>390,410</u>	<u>-</u>	<u>431,525</u>
Net Income (Loss)	44,832	118,650	(24,061)	139,421
Net Assets, Beginning of Year	<u>1,935,013</u>	<u>7,833,482</u>	<u>-</u>	<u>9,768,495</u>
Net Assets, End of Year	<u>\$ 1,979,845</u>	<u>\$ 7,952,132</u>	<u>\$ (24,061)</u>	<u>\$ 9,907,916</u>

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Water Fund	Sewer Fund	Communications Fund	Total
Cash Flows from Operating Activities				
Cash Received from Customers, Including Cash Deposits	\$ 293,947	\$ 966,104	\$ -	\$ 1,260,051
Cash Paid to Suppliers	(130,308)	(792,789)	39,876	(883,221)
Cash Paid to Employees	(171,374)	(243,327)	-	(414,701)
Net Cash Provided by (Used in) Operating Activities	(7,735)	(70,012)	39,876	(37,871)
Cash Flow from Noncapital Financing Activities				
Federal Grant Receipts	-	459,914	-	459,914
Net Cash Flow Provided by Noncapital Financing Activities	-	459,914	-	459,914
Cash Flows from Capital and Related Financing Activities				
Acquisition and Construction of Capital Assets	(11,113)	(3,189,920)	(4,231)	(3,205,264)
Capital Contributions	1,000	8,255	-	9,255
Loan Proceeds	-	2,883,289	-	2,883,289
Principal Payments on Debt	-	(156,674)	-	(156,674)
Interest Paid	-	(91,287)	-	(91,287)
Miscellaneous Nonoperating	579	142	-	721
Net Cash Used in Capital and Related Financing Activities	(9,534)	(546,195)	(4,231)	(559,960)
Cash Flows from Investing Activities				
Interest Income	39,536	12,980	-	52,516
Net Increase (Decrease) in Cash and Cash Equivalents	22,267	(143,313)	35,645	(85,401)
Cash and Cash Equivalents, Beginning of Year	1,567,366	586,861	-	2,154,227
Cash and Cash Equivalents, End of Year	\$ 1,589,633	\$ 443,548	\$ 35,645	\$ 2,068,826
<u>Shown in the Financial Statements as:</u>				
Current Assets				
Cash and Cash Equivalents	\$ 973,771	\$ 362,248	\$ 35,645	\$ 1,371,664
Restricted Cash	615,862	81,300	-	697,162
Totals	\$ 1,589,633	\$ 443,548	\$ 35,645	\$ 2,068,826

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Communications Fund</u>	<u>Total</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>				
<u>Provided by Operating Activities</u>				
Operating Income (Loss)	\$ 3,717	\$ (271,760)	\$ (24,061)	\$ (292,104)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	32,891	362,864	141	395,896
Changes in Assets Decrease (Increase) and Liabilities Increase (Decrease):				
Accounts Receivable, Net	(51,673)	381,996	-	330,323
Accounts Payable	(829)	(541,018)	57,917	(483,930)
Accrued Expenses	91	(2,094)	5,879	3,876
Customer Deposits	8,068	-	-	8,068
Total Adjustments	<u>(11,452)</u>	<u>201,748</u>	<u>63,937</u>	<u>254,233</u>
Net Cash Provided by Operating Activities	<u>\$ (7,735)</u>	<u>\$ (70,012)</u>	<u>\$ 39,876</u>	<u>\$ (37,871)</u>

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
SEPTEMBER 30, 2010

	Pension Trust Funds
Assets	
Cash and Investments	\$ 1,909,949
Due from Other Governments	6,223
Total Assets	\$ 1,916,172
 Net Assets	
Reserved for:	
Employees' Pension Benefits	\$ 1,916,172
Total Net Assets	\$ 1,916,172

See accompanying notes.

CITY OF DUNNELLON, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Pension Trust Funds
Additions	
Contributions	
Employer	\$ 3,766
Forfeitures Applied	25,204
Net Employer Contributions	28,970
State	89,145
Employee	43,948
Total Contributions	162,063
Investment Income Increase	141,575
Less: Investment Management Fees	(7,774)
Net Investment Income	133,801
Total Additions	295,864
 Deductions	
Pension Benefit Payments and Refunds	(22,103)
General and Administrative	(4,302)
Total Deductions	(26,405)
 Increase in Fiduciary Net Assets	269,459
 Net Assets Reserved for Employees' Pension Benefits:	
Beginning of Year	1,646,713
End of Year	\$ 1,916,172

See accompanying notes.

CITY OF DUNNELLON, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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

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

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

1. Government-wide and Fund Financial Statements

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

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

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

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

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

2. Fund Financial Statements

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

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

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

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

Special Revenue Fund

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

Proprietary Funds

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

- Sewer Fund
- Water Fund
- Communications Fund

Fiduciary Funds

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

Summary of Significant Accounting Policies

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

Proprietary Funds

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

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

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

Budgeting

The annual operating budget serves as legal authorization for expenditures and the proposed means of financing them. The 2010 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 \$15,366 for 2010. Other receivables in the General Fund consist primarily of franchise fees and receivables from miscellaneous services.

Payables

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

Due from Other Governments

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

Capital Assets

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

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

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

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

Transfers

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

Compensated Absences

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

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

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

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, 2010 was 6.4469 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, 2010, 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, 2010, were held by qualified public depositories within the state of Florida and are considered to be fully insured. Total deposits as of September 30, 2010, are \$5,755,100.

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, 2010, the City had the following investments and maturities:

Investment	Fair Value
State Board of Administration (SBA)	
Local Government Surplus Funds Trust Fund	\$ 51,360
Fund B Surplus Funds Trust Fund	61,884
Pension Funds	
Florida Municipal Pension Trust Fund - Firefighters and Police Officers (FMIvT)	1,278,077
Florida Municipal Pension Trust Fund - General Employees (CitiStreet)	631,872
Total	<u>2,023,193</u>
Cash deposits	<u>5,755,100</u>
Total Cash and Investments	<u><u>\$ 7,778,293</u></u>

As shown on the accompanying financial statements as:

Cash and investments - entity-wide	\$ 5,868,344
Cash and investments - fiduciary funds	<u>1,909,949</u>
Total cash and investments	<u><u>\$ 7,778,293</u></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, 2010, 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 0.7070578 at September 30, 2010. 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

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

Florida Municipal Pension Trust Fund – General Employees' Pension Fund

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

Custodial Credit Risk

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

Interest Rate Risk

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

Florida Municipal Pension Trust Fund – Police and Firefighters Pension Fund

<i>Fixed Income Funds:</i>	<u>Fitch Rating</u>
FMIvT Broad Market High Quality Bond Portfolio	5.75 years

Florida Municipal Pension Trust Fund – General Employees’ Pension Fund

<i>Fixed Income Funds:</i>	<u>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, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land and improvements	\$ 3,178,443	\$ -	\$ -	\$ 3,178,443
Construction in progress	31,222	22,658	-	53,880
Total capital assets not being depreciated	<u>3,209,665</u>	<u>22,658</u>	<u>-</u>	<u>3,232,323</u>
Capital assets being depreciated:				
Buildings	951,904	9,998	-	961,902
Improvements other than buildings	519,432	-	-	519,432
Furniture, equipment and machinery	1,954,957	98,944	-	2,053,901
Total capital assets being depreciated	<u>3,426,293</u>	<u>108,942</u>	<u>-</u>	<u>3,535,235</u>
Less accumulated depreciation:				
Buildings	(325,822)	(23,378)	-	(349,200)
Improvements other than buildings	(208,942)	(23,422)	-	(232,364)
Furniture, equipment and machinery	(1,594,961)	(131,007)	-	(1,725,968)
Total accumulated depreciation	<u>(2,129,725)</u>	<u>(177,807)</u>	<u>-</u>	<u>(2,307,532)</u>
Total capital assets being depreciated, net	<u>1,296,568</u>	<u>(68,865)</u>	<u>-</u>	<u>1,227,703</u>
Governmental activities capital assets, net	<u>\$ 4,506,233</u>	<u>\$ (46,207)</u>	<u>\$ -</u>	<u>\$ 4,460,026</u>
Business-type activities:				
Capital assets not being depreciated:				
Land and improvements	\$ 257,973	\$ -	\$ -	\$ 257,973
Construction in progress	2,315,012	3,180,905	-	5,495,917
Total capital assets not being depreciated	<u>2,572,985</u>	<u>3,180,905</u>	<u>-</u>	<u>5,753,890</u>
Capital assets being depreciated:				
Buildings and improvements	779,520	-	-	779,520
Improvements other than building	11,864,476	-	-	11,864,476
Machinery and equipment	536,266	24,360	-	560,626
Total capital assets being depreciated	<u>13,180,262</u>	<u>24,360</u>	<u>-</u>	<u>13,204,622</u>
Less accumulated depreciation:				
Buildings and improvements	(947,531)	(22,942)	-	(970,473)
Improvements other than building	(2,137,573)	(354,697)	-	(2,492,270)
Equipment	(436,230)	(17,358)	-	(453,588)
Total accumulated depreciation	<u>(3,521,334)</u>	<u>(394,997)</u>	<u>-</u>	<u>(3,916,331)</u>
Total capital assets being depreciated, net	<u>9,658,928</u>	<u>(370,637)</u>	<u>-</u>	<u>9,288,291</u>
Business-type activities capital assets, net	<u>\$ 12,231,913</u>	<u>\$ 2,810,268</u>	<u>\$ -</u>	<u>\$ 15,042,181</u>
Depreciation expense:				
Governmental activities				
General government and administration				\$ 36,877
Public safety				112,971
Physical environment				107
Transportation				12,792
Culture and recreation				15,060
Total depreciation expense - governmental activities				<u>\$ 177,807</u>
Business-type activities				
Water				\$ 32,891
Sewer				361,965
Communications				141
Total depreciation expense - business-type activities				<u>\$ 394,997</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.

These lease agreements were paid in full during the current fiscal year.

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 (107,247)
Total	<u>\$ 83,945</u>	<u>\$ 34,487</u>

NOTE 5. LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
Capital lease - radios	\$ 63,666	\$ 1	\$ (63,667)	\$ -	\$ -
Capital lease - 6 patrol units	33,173	1	(33,174)	-	-
Compensated absences	87,149	69,908	(65,129)	91,928	59,753
OPEB payable	-	11,000	-	11,000	-
Total Governmental Activities	<u>\$ 183,988</u>	<u>\$ 80,910</u>	<u>\$ (161,970)</u>	<u>\$ 102,928</u>	<u>\$ 59,753</u>
Business-type Activities					
State revolving loan	\$ 3,442,383	\$ -	\$ (136,074)	\$ 3,306,309	\$ 136,075
SRF loan - ARRA	238,033	2,883,289	-	3,121,322	-
Revenue bonds payable	580,500	-	(20,600)	559,900	21,300
Compensated absences	34,116	27,683	(23,807)	37,992	24,695
OPEB payable	-	2,000	-	2,000	-
Total business-type activities	<u>\$ 4,295,032</u>	<u>\$ 2,912,972</u>	<u>\$ (180,481)</u>	<u>\$ 7,027,523</u>	<u>\$ 182,070</u>

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, 2010.

State Revolving Loan (SRL)

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

ARRA Funded Loan

In June, 2009, the City obtained an additional construction loan from the Florida Department of Environmental Protection for the sewer project in the initial amount of \$2,870,636, which was funded by the Federal American Recovery and Reinvestment Act (ARRA). Under the terms of this program, there is no interest payable on the loan and the principal drawn will be forgiven and not required to be repaid. \$2,883,289 was drawn on this loan during the year. The balance at year end is \$3,121,322 with the terms remaining the same.

Annual Requirements to Retire Long-term Debt

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

Year	Business-type Activities		Total Interest	Total Debt Service
	Principal			
	Bonds	SRL		
2011	\$ 21,300	\$ 139,626	\$ 86,744	\$ 247,670
2012	22,900	142,215	83,130	248,245
2013	23,600	144,852	79,393	247,845
2014	25,400	147,539	75,571	248,510
2015	26,100	150,275	71,615	247,990
2016-2020	149,600	794,225	306,235	1,250,060
2021-2025	140,000	870,653	180,262	1,190,915
2026-2030	89,000	916,924	71,889	1,077,813
2031-2033	62,000	-	5,625	67,625
Total	<u>\$ 559,900</u>	<u>\$ 3,306,309</u>	<u>\$ 960,464</u>	<u>\$ 4,826,673</u>

NOTE 6. LEGAL COMPLIANCE AND ACCOUNTABILITY

There were no fund balance deficits of individual funds as of September 30, 2010.

NOTE 7. DEFINED BENEFIT/DEFINED CONTRIBUTION PENSION PLANS

Florida State Retirement System

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

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

The funding methods and the determination of benefits payable are provided in various acts of the Florida Legislature. These acts require that employers, such as the City, contribute the following percentages of eligible compensation to the plan: 10.77% for regular members, 12.25% for DROP members, and 23.25% for special risk members beginning July 2006. The City's contributions to the System for the years ended September 30, 2010, 2009, and 2008, were as follows, equal to the required contributions for each year:

<u>Year</u>	<u>General</u>	<u>Special Risk</u>	<u>DROP</u>	<u>Total</u>
2010	\$ 20,197	\$ 11,899	\$ -	\$ 32,096
2009	22,552	11,546	-	34,098
2008	21,163	22,701	1,833	45,697

Florida State Retirement System Opt-Out

In December 1995, the City Council approved opting out of the Florida State Retirement System effective with all new employees hired after January 1, 1996. City employees covered under the System at December 31, 1995, will continue to participate in the System and the City will continue to make contributions on their behalf.

Florida Municipal Pension Trust Fund (Defined Contribution Plan)

In January 1996, the City adopted the Florida Municipal Pension Trust Fund Pension Plan administered by the Florida League of Cities. The plan is available to all general employees hired beginning January 1, 1996, and who have remained employed for at least six months. The City will contribute 6% of the eligible employee's salary. Additionally, the City will contribute 1% for each 1% the employee contributes for a maximum of 12% of employer contribution.

Employee contributions are voluntary and have certain contribution limits. Vesting in the plan is determined by the number of years of service. Employees vest at 25% at two years of service increasing incrementally by 25% each year thereafter. Vesting of 100% occurs at five years.

At September 30, 2010, there were seventeen active members in the plan.

Florida Municipal Pension Trust Fund (Defined Benefit Plan)

Plan Description

In January 1996, the City adopted the Florida Municipal Pension Trust Fund Pension Plan administered by the Florida League of Cities. The plan is available to all full-time police officers and full-time firefighters hired by the City beginning January 1, 1996. Eligibility becomes immediate after hire date.

The firefighters' and police officers' pension plan covers all full-time officers and firefighters. Members of the firefighters' and police officers' pension plan do not vest in their pension benefits until they have completed ten years of service. Firefighters and police officers that retire at the earlier age of fifty-five and have completed ten years of service, or age fifty-two and twenty-five years of credited service are entitled to a monthly retirement benefit, payable for life or a minimum of ten years, in an amount equal to 2% of their final monthly compensation. The plan also provides for death and disability benefits. Administrative costs are financed through investment earnings.

Contributions

Firefighters and police officers were required to contribute 1% of their annual salary to the plan for the year ended September 30, 2010. 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, 2009, the plan had the following number of participants:

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

Annual Pension Costs and Net Pension 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, 2009) was as follows:

Annual required contribution (ARC)	\$ 96,380
Interest on net pension obligation	-
Adjustment to ARC	-
Annual pension costs	96,380
Contributions made	<u>(96,380)</u>
Increase (decrease) in net pension obligation (NPO)	-
Net pension obligation (asset), beginning of year	-
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, 2009, actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions include the following:

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

The actuarial value of assets was determined using market value.

Three-year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2010	\$ 96,380	100%	\$ -
September 30, 2009	77,117	100%	-
September 30, 2008	74,849	100%	-

Schedule of Changes in Pension Plan Net Assets as of September 30, 2010

	Pension Trust Funds		Total
	General Employees	Special Risk	
Assets			
Cash and investments	\$ 631,872	\$ 1,278,077	\$ 1,909,949
Due from other governments	-	6,223	6,223
Total assets	<u>631,872</u>	<u>1,284,300</u>	<u>1,916,172</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net assets			
Reserved for:			
Employees' pension benefits	<u>631,872</u>	<u>1,284,300</u>	<u>1,916,172</u>
Total liabilities and net assets	<u>631,872</u>	<u>1,284,300</u>	<u>1,916,172</u>
Additions			
Contributions:			
Net employer contributions	28,970	-	28,970
State	-	89,145	89,145
Employee	<u>39,637</u>	<u>4,311</u>	<u>43,948</u>
Total contributions	<u>68,607</u>	<u>93,456</u>	<u>162,063</u>
Investment income increase	36,298	105,277	141,575
Investment management fees	<u>(2,203)</u>	<u>(5,571)</u>	<u>(7,774)</u>
Net investment income	<u>34,095</u>	<u>99,706</u>	<u>133,801</u>
Total additions	<u>102,702</u>	<u>193,162</u>	<u>295,864</u>
Deductions			
Pension benefit payment and refunds	-	22,103	22,103
General and administrative	-	<u>4,302</u>	<u>4,302</u>
(Total deductions)	<u>-</u>	<u>(26,405)</u>	<u>(26,405)</u>
Increase in fiduciary net assets	<u>102,702</u>	<u>166,757</u>	<u>269,459</u>
Net assets reserved for employees pension benefit			
Beginning of year	<u>529,170</u>	<u>1,117,543</u>	<u>1,646,713</u>
End of year	<u>\$ 631,872</u>	<u>\$ 1,284,300</u>	<u>\$ 1,916,172</u>

Other Post-Employment Benefits (OPEB)

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

Based on Governmental Accounting Standards Board (GASB) approval of Statement Nos. 43 and 45 which set for the guidelines and a future implementation timetable for reporting and disclosure of Other Post-Employment Benefits (OPEB), the City had an actuary calculate future funding requirements using an appropriate actuarial cost method. The valuation was

performed as of October 1, 2009 and covers the subsidies for medical and life insurance benefits. The City has elected to implement the provisions of GASB Statement No. 45 prospectively. The City's annual OPEB cost for the Plan is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The projected unit credit cost method was used to determine all liabilities, with the liability for each active employee assumed to accrue over the working lifetime based on elapsed time from the date of hire until retirement.

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

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

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

Currently, the City's subsidy to OPEB benefits is unfunded. There are no separate Trust Funds or equivalent arrangements into which the City makes contributions to advance-fund the OPEB obligations, as it does for its retiree pension plans. The City's cost of the OPEB benefits, funded on a pay-as-you-go basis, was \$13,000 for the year ended September 30, 2010.

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

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

- Valuation date..... October 1, 2009
- Actuarial cost method..... Projected Unit Credit Cost Method
- Amortization method..... Level Dollar Payment
- Amortization period..... 10-Year Open Period
- Assumes rate of return on investments..... 4.00% per annum

Assumed healthcare cost trend rates:

Fiscal Year Ending	Percent Increase
2010	8.00%
2011	10.00%
2012	9.50%
2013-thereafter	9.00%

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

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

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

The City's annual OPEB cost and the net OPEB obligation for the fiscal year ended September 30, 2010 is as follows:

Annual required contribution (ARC).....	\$ 18,000
Interest on the net OPEB obligation.....	-
Adjustment to the ARC.....	-
	<u>18,000</u>
Employee contributions.....	(5,000)
Interest on employer contributions.....	-
	<u>13,000</u>
Net OPEB obligation - beginning of year.....	<u>-</u>
Net OPEB obligation - end of year.....	<u><u>\$ 13,000</u></u>

The City's percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ended September 30, 2010 is as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2010	\$ 18,000	27.8%	\$ 13,000

The 2010 contribution represented 27.8% of the annual required contribution. The actuarial valuation for the Plan was done as of October 1, 2009. Thereafter, actuarial valuations will be done bi-annually.

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

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

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

NOTE 8. COMMITMENTS AND CONTINGENCIES

Grants and Loans

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

Small Community Wastewater Construction Grant Program

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

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.

NOTE 12. SUBSEQUENT EVENTS

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

On November 18, 2010, subsequent to year end, the City closed on bond issues from Regions Bank in the amounts of \$5,500,000, \$3,300,000 and \$2,200,000 with terms ranging to 15 years. These proceeds are being utilized to construct the City's telecommunications utility. Although certain general revenues are pledged on this debt, the City anticipates full repayment to be made from future telecommunications revenues.

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, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Taxes				
Ad Valorem	\$ 898,236	\$ 898,236	\$ 860,656	\$ (37,580)
Ninth-cent Gas Tax	54,858	54,858	55,859	1,001
Local Option Gas Tax	205,193	205,193	447,497	242,304
Franchise Tax:				
Electricity	190,000	190,000	230,817	40,817
Communication Service Tax	128,630	128,630	118,489	(10,141)
Utility Tax :				
Electricity	185,000	185,000	252,176	67,176
Propane	12,237	12,237	13,626	1,389
Total Taxes	<u>1,674,154</u>	<u>1,674,154</u>	<u>1,979,120</u>	<u>304,966</u>
Licenses and Permits				
Professional and Occupational	30,766	30,766	28,864	(1,902)
Building Permits	37,500	37,500	20,449	(17,051)
Other Licenses and Permits	12,050	12,050	9,015	(3,035)
Total Licenses and Permits	<u>80,316</u>	<u>80,316</u>	<u>58,328</u>	<u>(21,988)</u>
Intergovernmental Revenue				
State, Federal and Local Grants	246,009	246,009	75,466	(170,543)
State Shared Revenues:				
State Revenue Sharing	77,787	77,787	79,182	1,395
Mobile Home Licenses	10,836	10,836	8,394	(2,442)
Alcoholic Beverage Licenses	5,000	5,000	5,585	585
Local Government One-Half Cent Sales Tax	105,071	105,071	104,312	(759)
Motor Fuel Tax Rebate	1,800	1,800	1,774	(26)
Total Intergovernmental Revenue	<u>446,503</u>	<u>446,503</u>	<u>274,713</u>	<u>(171,790)</u>
Charges for Services				
Zoning and Development	-	-	250	250
Copying and Records Search	1,000	1,000	753	(247)
Garbage and Solid Waste	161,120	161,120	167,699	6,579
Cemetery Fees	2,600	2,600	330	(2,270)
City Beach User Fees	3,300	3,300	7,312	4,012
Other Miscellaneous Charges	21,419	21,419	32,217	10,798
Total Charges for Services	<u>189,439</u>	<u>189,439</u>	<u>208,561</u>	<u>19,122</u>
Fines and Forfeitures				
Court Fines	23,000	23,000	28,307	5,307
Other Fines	36,350	36,350	6,760	(29,590)
Total Fines and Forfeitures	<u>59,350</u>	<u>59,350</u>	<u>35,067</u>	<u>(24,283)</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, 2010
(Continued)

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Miscellaneous Revenue				
Investment Earnings	\$ 65,535	\$ 65,535	\$ 83,343	\$ 17,808
Cemetery Lots	19,445	19,445	9,240	(10,205)
Other Miscellaneous	30,100	30,100	16,805	(13,295)
Total Miscellaneous Revenue	<u>115,080</u>	<u>115,080</u>	<u>109,388</u>	<u>(5,692)</u>
Total Revenues	<u>\$ 2,564,842</u>	<u>\$ 2,564,842</u>	<u>\$ 2,665,177</u>	<u>\$ 100,335</u>
Expenditures				
General Government				
Legislative:				
Personal Services	\$ 16,282	\$ 16,282	\$ 10,918	\$ 5,364
Operating Expenses	26,207	26,207	25,884	323
Total Legislative	<u>42,489</u>	<u>42,489</u>	<u>36,802</u>	<u>5,687</u>
City Clerk and General Administrative:				
Personal Services	141,561	141,561	142,525	(964)
Operating Expenses	54,788	54,788	54,058	730
Capital Outlay	11,709	11,709	14,008	(2,299)
Total City Clerk and General Administrative	<u>208,058</u>	<u>208,058</u>	<u>210,591</u>	<u>(2,533)</u>
City Manager:				
Personal Services	31,014	31,014	47,083	(16,069)
Operating Expenses	8,736	8,736	71,500	(62,764)
Capital Outlay	-	-	1,577	(1,577)
Total City Manager	<u>39,750</u>	<u>39,750</u>	<u>120,160</u>	<u>(80,410)</u>
Legal Counsel:				
Operating Expenses	<u>67,200</u>	<u>67,200</u>	<u>397,275</u>	<u>(330,075)</u>
Comprehensive Planning:				
Personal Services	54,715	54,715	52,324	2,391
Operating Expenses	55,735	55,735	33,153	22,582
Capital Outlay	155,000	155,000	24,235	130,765
Total Comprehensive Planning	<u>265,450</u>	<u>265,450</u>	<u>109,712</u>	<u>155,738</u>
Finance:				
Personal Services	57,998	57,998	58,872	(874)
Operating Expenses	25,500	25,500	17,388	8,112
Total Finance	<u>83,498</u>	<u>83,498</u>	<u>76,260</u>	<u>7,238</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, 2010
(Continued)

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures (Continued)				
Building Maintenance:				
Personal Services	\$ 38,692	\$ 38,692	\$ 34,865	\$ 3,827
Operating Expenses	21,562	21,562	34,422	(12,860)
Capital Outlay	-	-	4,150	(4,150)
Total Building Maintenance	<u>60,254</u>	<u>60,254</u>	<u>73,437</u>	<u>(13,183)</u>
Garage Department:				
Personal Services	59,003	59,003	44,045	14,958
Operating Expenses	11,921	11,921	8,913	3,008
Total Garage Department	<u>70,924</u>	<u>70,924</u>	<u>52,958</u>	<u>17,966</u>
Total General Government	<u>837,623</u>	<u>837,623</u>	<u>1,077,195</u>	<u>(239,572)</u>
Public Safety				
Law Enforcement:				
Personal Services	565,038	565,038	493,226	71,812
Operating Expenses	181,015	181,015	172,161	8,854
Capital Outlay	175,726	175,726	70,091	105,635
Debt Service:				
Principal	-	-	68,827	(68,827)
Interest	4,039	4,039	4,038	1
Total Law Enforcement	<u>925,818</u>	<u>925,818</u>	<u>808,343</u>	<u>117,475</u>
Fire Control:				
Personal Services	298,683	298,683	300,129	(1,446)
Operating Expenses	70,868	70,868	94,992	(24,124)
Debt Service:				
Principal	-	-	28,013	(28,013)
Interest	1,583	1,583	1,583	-
Total Fire Control	<u>371,134</u>	<u>371,134</u>	<u>424,717</u>	<u>(53,583)</u>
Protective Inspections:				
Personal Services	20,577	20,577	20,106	471
Operating Expenses	23,162	23,162	13,172	9,990
Total Protective Inspections	<u>43,739</u>	<u>43,739</u>	<u>33,278</u>	<u>10,461</u>
Total Public Safety	<u>1,340,691</u>	<u>1,340,691</u>	<u>1,266,338</u>	<u>74,353</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, 2010
(Concluded)

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures (Concluded)				
Physical Environment				
Cemetery:				
Personal Services	\$ 24,542	\$ 24,542	\$ 20,780	\$ 3,762
Operating Expenses	8,571	8,571	1,648	6,923
Total Cemetery	<u>33,113</u>	<u>33,113</u>	<u>22,428</u>	<u>10,685</u>
Garbage and Solid Waste:				
Personal Services	9,033	9,033	8,925	108
Operating Expenses	144,160	144,160	140,257	3,903
Total Garbage and Solid Waste	<u>153,193</u>	<u>153,193</u>	<u>149,182</u>	<u>4,011</u>
Total Physical Environment	<u>186,306</u>	<u>186,306</u>	<u>171,610</u>	<u>14,696</u>
Transportation				
Roads and Streets:				
Personal Services	115,730	115,730	117,449	(1,719)
Operating Expenses	513,524	513,524	256,427	257,097
Total Transportation	<u>629,254</u>	<u>629,254</u>	<u>373,876</u>	<u>255,378</u>
Human Services				
Animal Control:				
Personal Services	11,276	11,276	11,278	(2)
Operating Expenses	3,974	3,974	2,016	1,958
Total Animal Control	<u>15,250</u>	<u>15,250</u>	<u>13,294</u>	<u>1,956</u>
Mosquito Control:				
Operating Expenses	23,000	23,000	21,076	1,924
Total Human Services	<u>38,250</u>	<u>38,250</u>	<u>34,370</u>	<u>3,880</u>
Culture and Recreation				
Parks and Recreation:				
Personal Services	64,628	64,628	57,330	7,298
Operating Expenses	25,747	25,747	19,561	6,186
Capital Outlay	-	-	3,970	(3,970)
Total Culture and Recreation	<u>90,375</u>	<u>90,375</u>	<u>80,861</u>	<u>9,514</u>
Total Expenditures	<u>3,122,499</u>	<u>3,122,499</u>	<u>3,004,250</u>	<u>118,249</u>
Excess of Revenues Over Expenditures	(557,657)	(557,657)	(339,073)	218,584
Fund Balance, Beginning of Year	<u>557,657</u>	<u>557,657</u>	<u>3,470,180</u>	<u>2,912,523</u>
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,131,107</u>	<u>\$ 3,131,107</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, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	Variance With Final Budget Positive (Negative)
Revenues				
Taxes:				
Ad Valorem	\$ 75,670	\$ 75,670	\$ 75,664	\$ (6)
Intergovernmental Revenue	128,041	128,041	128,030	(11)
Miscellaneous Revenue:				
Investment Earnings	<u>14,340</u>	<u>14,340</u>	<u>16,571</u>	<u>2,231</u>
Total Revenues	<u>218,051</u>	<u>218,051</u>	<u>220,265</u>	<u>2,214</u>
Expenditures				
General Government:				
Industry Development:				
Personal Services	43,817	43,817	37,105	6,712
Operating Expenses	136,481	136,481	86,278	50,203
Capital Outlay	<u>155,000</u>	<u>155,000</u>	<u>13,569</u>	<u>141,431</u>
Total Expenditures	<u>335,298</u>	<u>335,298</u>	<u>136,952</u>	<u>198,346</u>
Excess of Revenues Over Expenditures	<u>(117,247)</u>	<u>(117,247)</u>	<u>83,313</u>	<u>200,560</u>
Fund Balances, Beginning of Year	<u>202,468</u>	<u>202,468</u>	<u>558,645</u>	<u>356,177</u>
Fund Balances, End of Year	<u>\$ 85,221</u>	<u>\$ 85,221</u>	<u>\$ 641,958</u>	<u>\$ 556,737</u>

REQUIRED SUPPLEMENTARY INFORMATION
SPECIAL RISK PENSION TRUST FUND
SEPTEMBER 30, 2010
CITY OF DUNNELLON, FLORIDA

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

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER AND OTHERS

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

(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, 2009
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, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 22, 2011. 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.

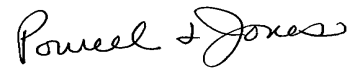
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the City Council, and 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
March 22, 2011

City of Dunnellon, Florida
Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended September 30, 2010

Grantor /Program Title	Federal CFDA Number	State CFSA Number	Pass-Through Grant Number	Program or Loan Amount	Required Match	Deferred (Receivable) Balance @ 9/30/09	Receipts	Expenditures	(Deferred) or Receivable Balance @ 9/30/10
Federal Awards									
U.S. Department of Housing & Urban Development Department of Community Affairs									
Community Development Block Grant	14.228	n/a	09-DB-20-05-52-02-N01	\$ 650,000	\$ -	\$ 142,577	\$ 484,856	\$ 415,923	\$ 73,644
U.S. Department of Law Enforcement Justice Assistance Grant									
Dunnellon Police Department -AR15 Rifle	16.738	n/a	2010-JAGD-MARI-2-4Y-099	1,171	-	-	-	1,171	1,171
U. S. Department of Justice									
Bulletproof Vest Program FY2007	16.607	n/a	7039407	1,400	-	58	58	-	-
Bulletproof Vest Program FY2009	16.607	n/a	7039407	1,342	-	212	901	1,130	441
						<u>270</u>	<u>959</u>	<u>1,130</u>	<u>441</u>
Edward Byrne Memorial Justice Assistance Grant (ARRA) Dunnellon Police Department - Mobile Data Terminals									
	16.803	n/a	2010-ARRC-182	15,000	-	-	-	14,950	14,950
Edward Byrne Memorial Justice Assistance Grant (ARRA) Dunnellon Police Department - Vehicle Emergency Lights									
	16.803	n/a	2010-ARRD-MARI-2-W8-054	4,122	-	-	4,122	4,122	-
COPS-Hiring Recovery Program (ARRA)									
	16.71	n/a	2009RKWX0232	144,043	-	-	18,095	30,412	12,317
Environmental Protection Agency Department of Environmental Protection									
Clean Water State Revolving Fund (Const. Loan)	66.458	n/a	WW51108S	5,348,642	-	-	-	-	-
Clean Water State Revolving Fund (ARRA Const. Loan)	66.458	n/a	WW511080	3,105,636	-	-	2,867,603	2,883,289	15,686
Total Federal Financial Assistance						<u>\$ 142,847</u>	<u>\$ 3,375,635</u>	<u>\$ 3,350,997</u>	<u>\$ 118,209</u>
State Financial Assistance									
Department of Environmental Protection									
Small Community Wastewater Construction Grant	n/a	37.039	SG511070	8,100,894	-	\$ 327,454	\$ 371,445	\$ 43,991	\$ -
Dunnellon Stormwater Projects Relating to Blue Cove Lake	n/a	37.039	LP6715	367,000	-	12,742	34,153	23,731	2,320
Total State Financial Assistance						<u>\$ 340,196</u>	<u>\$ 405,598</u>	<u>\$ 67,722</u>	<u>\$ 2,320</u>

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

CITY OF DUNNELLON, FLORIDA

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

For the Year Ended September 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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.

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and City Council
City of Dunnellon, Florida

Compliance

We have audited the compliance of the City of Dunnellon, Florida with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. The City of Dunnellon, Florida's major federal programs 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 programs 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; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 program 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

Internal Control Over Compliance

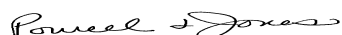
The management of the City of Dunnellon, Florida is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Dunnellon, Florida's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the 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, but for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Dunnellon, Florida's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing

their assigned functions, to prevent or detect, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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



POWELL & JONES
Certified Public Accountants
March 22, 2011

CITY OF DUNNELLON, FLORIDA

SCHEDULE OF FINDINGS

For the Fiscal Year Ended September 30, 2010

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:

CFDA Number
66.458

Name of Federal Programs
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
Federal Award Findings and Questioned Costs	None

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

Honorable Mayor and City Council
City of Dunnellon
Dunnellon, Florida

We have audited the basic financial statements of the City of Dunnellon, Florida (the City) as of and for the year ended September 30, 2010, and have issued our report thereon dated March 22, 2011.

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 March 22, 2011. 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 were substantially corrected or addressed during the current year.

CURRENT YEAR FINDINGS

There were no additional reportable findings in the current year.

FINANCIAL COMPLIANCE MATTERS

Annual Local Government Financial Report - The Financial Report filed with the Department of Financial Services pursuant to Section 218.32(1)(a), *Florida Statutes*, is in agreement with the accompanying financial statements of the City, for the fiscal year ended September 30, 2010.

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, 2010.

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

Financial Condition Assessment Procedures - Pursuant to Chapter 10.556(7), *Rules of the Auditor General*, we applied financial condition assessment procedures to the City's financial statements. It is management's responsibility to monitor the entity's financial condition, and our financial

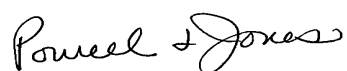
condition assessment was based in part on representations made by management and the review of financial information they provided.

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

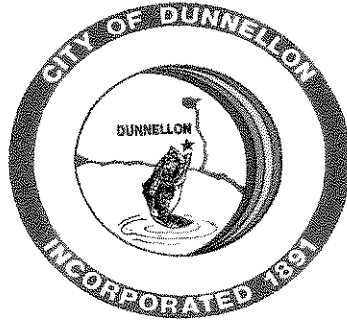
Our audit did not disclose any further items that would be required to be reported under the *Rules of the Auditor General*, Chapter 10.550.

CONCLUSION

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

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

POWELL & JONES
Certified Public Accountants
March 22, 2011



**City of Dunnellon Management Response To
Auditors' Management Letter Comment
Annual Audit FYE 9/30/10**

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

We have reviewed the audit report for fiscal year ending September 30, 2010 including the management letter and are pleased all prior year findings were corrected in the current year and there were no additional reportable findings. We believe the audit, as prepared and presented by Powell & Jones, CPA's, to be an accurate representation of the City's current financial status.

A handwritten signature in black ink, appearing to read "Lisa Algieri".

**Lisa Algieri
City Manager**