

CITY OF AVON PARK, FLORIDA
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

**CITY OF AVON PARK, FLORIDA
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SEPTEMBER 30, 2013**

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of Avon Park, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Avon Park, Florida (City), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the pension trust funds, which represent 98 percent, 100 percent, and 78 percent, respectively, of the assets, net position and fund balance, and revenues of the aggregate remaining fund information. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the pension trust funds, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the pension trust funds were not audited in accordance with *Government Auditing Standards*.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Honorable Mayor and
Members of the City Council
City of Avon Park, Florida

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows and budgetary comparisons for the general fund, infrastructure fund, and CRA fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding a Change in Accounting Principle

As described in Note 18 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to that matter.

Emphasis of Matter Regarding a Correction of an Error

As described in Note 17 to the financial statements, the City restated opening balance of the governmental activities to correct the balances of capital assets. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-15 and schedules of pension and OPEB funding progress and contributions from employer and other contributing entities on pages 66-67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining financial statements and schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

Honorable Mayor and
Members of the City Council
City of Avon Park, Florida

Other Matters (Continued)

Other Information (Continued)

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Sebring, Florida
May 19, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Avon Park (the City) offers this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2013.

FINANCIAL HIGHLIGHTS

- The City's assets exceeded its liabilities at the close of the fiscal year by \$37.7 million (net position). Of this amount, \$28.7 million represented the City's net investment in capital assets, and \$3.5 million was restricted by laws, debt covenants, or for capital projects. The remaining \$5.5 million (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net position increased \$2.5 million from its current year activity, of which \$300,000 was an increase from governmental activities, and \$2.2 million was an increase from business-type activities. In addition, net position for governmental activities decreased \$147,421 as the result of a prior period adjustment, and beginning net position for business-type activities decreased \$53,146 as the result of the adoption of a new accounting principle.
- As of September 30, 2013, the City reported combined governmental ending fund balances of \$4,857,861 an increase of \$650,904 in comparison with the prior year. In addition, the City reported combined proprietary fund net position of \$24,215,183, an increase of \$2,182,801 in comparison with the prior year (after restatement).
- At September 30, 2013, unassigned fund balance (the City's Reserves) for the general fund was \$2,049,408 or 41 percent of total general fund expenditures. By policy, the City is only required to keep reserves of 20 percent.
- The City's non-current liabilities decreased by \$407,276, or 14 percent, during the current year. The reason for this decrease is primarily because of principal payments that were made during the year. In addition, the City incurred additional debt for governmental activities in the amount of \$150,746 to finance the purchase of radios for the Fire and Police departments.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) Government-wide Financial Statements; 2) Fund Financial Statements; and 3) Notes to Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to the private-sector business.

The statement of net position presents information on all the City's assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, transportation, culture and recreation, and economic environment. The business-type activities of the City include water and sewer, airport, and solid waste activities.

The government-wide financial statements can be found on pages 17 - 18 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: Governmental Funds, Proprietary Funds and Fiduciary Funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of *governmental funds* is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, infrastructure fund, CRA fund (Main Street, South Side and Airport), and Community Development Block Grant fund. The general fund, infrastructure fund, and CRA fund are considered to be major funds.

The City adopts an annual appropriated budget for its general fund, infrastructure fund, and CRA funds. A budgetary comparison statement has been provided for the general fund, infrastructure fund, and CRA funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 19 - 27 of this report.

Proprietary Funds. The City of Avon Park maintains three proprietary funds. Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City used enterprise funds to account for its water and sewer, airport and solid waste operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations, airport operations and solid waste operations, which are all considered to be major funds of the City. The basic proprietary fund financial statements can be found on pages 28 - 31 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 32 - 33 of this report.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 34 - 64 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 66 - 67 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$37,745,054 at the close of the most recent fiscal year.

The largest portion of the City's net position \$28,741,088 (76 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position \$3,563,563 (9 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is \$5,440,403 (15 percent).

CITY OF AVON PARK'S NET POSITION

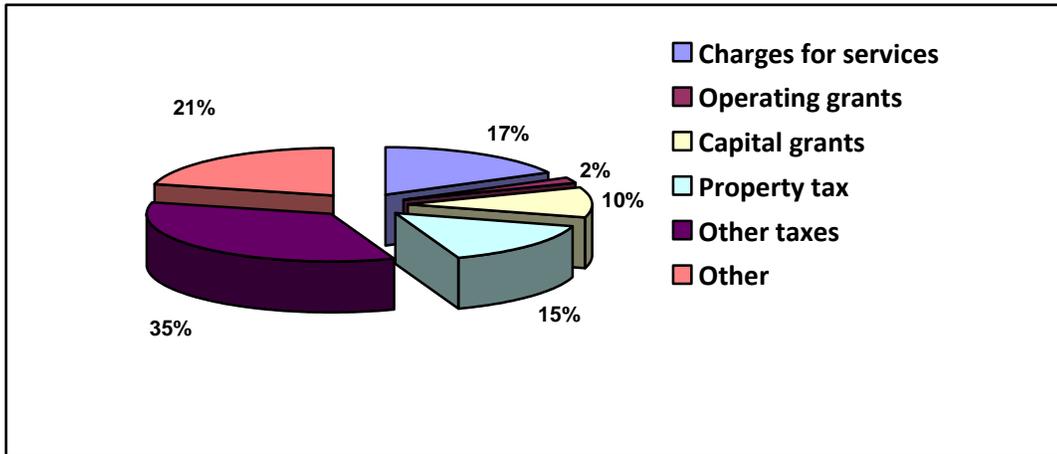
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
Current and other assets	\$4,664,872	\$5,514,461	\$5,811,514	\$6,908,048	\$10,476,386	\$12,422,509
Capital assets	<u>9,430,453</u>	<u>9,054,686</u>	<u>20,415,726</u>	<u>21,663,251</u>	<u>29,846,179</u>	<u>30,717,937</u>
Total assets	<u>14,095,325</u>	<u>14,569,147</u>	<u>26,227,240</u>	<u>28,571,299</u>	<u>40,322,565</u>	<u>43,140,446</u>
Noncurrent liabilities	405,984	523,068	2,468,899	1,944,539	2,874,883	2,467,607
Other liabilities	<u>310,044</u>	<u>516,208</u>	<u>1,672,813</u>	<u>2,411,577</u>	<u>1,982,857</u>	<u>2,927,785</u>
Total liabilities	<u>716,028</u>	<u>1,039,276</u>	<u>4,141,712</u>	<u>4,356,116</u>	<u>4,857,740</u>	<u>5,395,392</u>
Net position:						
Net investment in capital assets	9,430,453	8,903,940	18,121,677	19,837,148	27,552,130	28,741,088
Restricted	2,142,245	2,301,063	1,531,720	1,262,500	3,673,965	3,563,563
Unrestricted	<u>1,806,599</u>	<u>2,324,868</u>	<u>2,432,131</u>	<u>3,115,535</u>	<u>4,238,730</u>	<u>5,440,403</u>
Total net position	<u>\$13,379,297</u>	<u>\$13,529,871</u>	<u>\$22,085,528</u>	<u>\$24,215,183</u>	<u>\$35,464,825</u>	<u>\$37,745,054</u>

CITY OF AVON PARK'S CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2012	2013	2012	2013	2012	2013
Revenues:						
Program revenues:						
Charges for services	\$1,114,232	\$1,067,570	\$6,184,453	\$6,433,961	\$ 7,928,685	\$7,501,531
Operating grants and contributions	179,863	111,470	109,191	113,350	289,054	224,820
Capital grants and contributions	279,190	641,341	244,246	1,045,716	523,436	1,687,057
General revenues:						
Property taxes	1,473,309	931,342	-	-	1,473,309	931,342
Other taxes	2,103,247	2,127,582	-	-	2,103,247	2,127,582
Other	<u>1,221,578</u>	<u>1,292,440</u>	<u>15,583</u>	<u>230</u>	<u>1,237,161</u>	<u>1,292,670</u>
Total revenues	<u>6,371,419</u>	<u>6,171,745</u>	<u>6,553,473</u>	<u>7,593,257</u>	<u>12,924,892</u>	<u>13,765,002</u>
Expenses:						
General government	765,713	807,544	-	-	765,713	807,544
Public safety	3,813,504	3,582,206	-	-	3,813,504	3,582,206
Transportation	554,905	527,259	-	-	554,905	527,259
Culture and recreation	581,287	601,585	-	-	581,287	601,585
Economic environment	223,249	737,902	-	-	223,249	737,902
Water and Sewer	-	-	2,890,744	3,074,399	2,890,744	3,074,399
Airport	-	-	697,007	644,472	697,007	644,472
Solid waste	-	-	<u>1,309,423</u>	<u>1,308,839</u>	<u>1,309,423</u>	<u>1,308,839</u>
Total expenses	<u>5,938,658</u>	<u>6,256,496</u>	<u>4,897,174</u>	<u>5,027,710</u>	<u>10,835,832</u>	<u>11,284,206</u>
Excess (deficiency) before transfers	432,761	(84,751)	1,656,299	2,565,547	2,089,060	2,480,796
Transfers	<u>45,267</u>	<u>382,746</u>	<u>(45,267)</u>	<u>(382,746)</u>	-	-
Change in net position	478,028	297,995	1,611,032	2,182,801	2,089,060	2,480,796
Net position, beginning	12,843,148	13,379,297	20,542,787	22,085,528	33,385,935	35,464,825
Implementation of new accounting principle	-	-	-	(53,146)	-	(53,146)
Prior period adjustment	<u>58,121</u>	<u>(147,421)</u>	<u>(68,291)</u>	<u>-</u>	<u>(10,170)</u>	<u>(147,421)</u>
Net position, beginning, as restated	<u>12,901,269</u>	<u>13,231,876</u>	<u>20,474,496</u>	<u>22,032,382</u>	<u>33,375,765</u>	<u>35,264,258</u>
Net position, ending	<u>\$13,379,297</u>	<u>\$13,529,871</u>	<u>\$22,085,528</u>	<u>\$24,215,183</u>	<u>\$35,464,825</u>	<u>\$37,745,054</u>

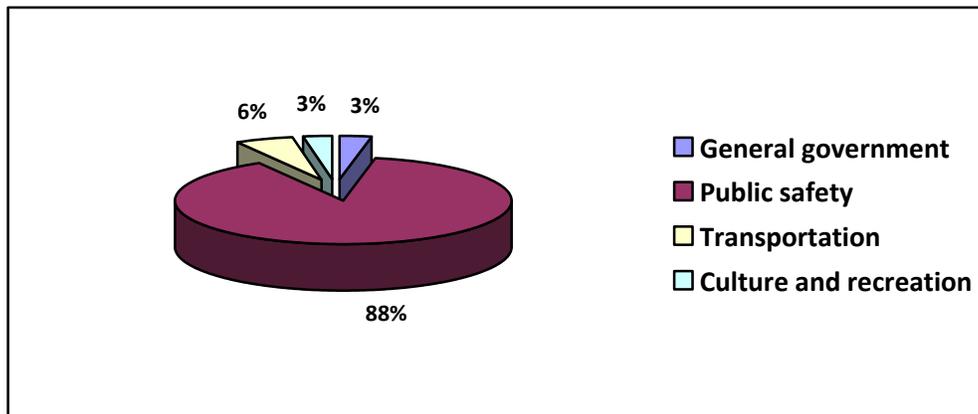
Governmental Activities. For the current year, the City's governmental activities had a net expense of \$4,436,115, an increase of \$70,742 in comparison with the prior year. A net expense for governmental activities is expected because these services are intended to be primarily funded by taxes, as opposed to charges for services and grants.

**REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES
2012-13 Fiscal Year**



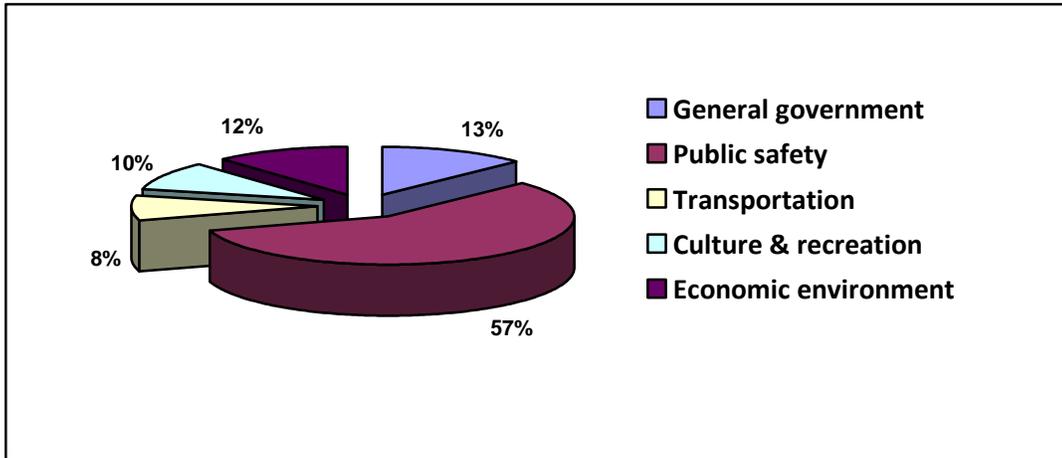
In total, governmental activities revenues decreased \$199,674. Significant changes in revenues include a decrease in property taxes of \$541,967 (37 percent) due to a reduction in the City’s millage rate from 5.8745 mils in 2012, to 3.60 mils in 2013, a decrease in charges for services of \$46,662, a decrease in operating grants and contributions of \$68,393, due to a reduction in public safety operating grants and an increase in capital grants and contributions of \$362,151, primarily due to a rehabilitative housing grant in the current year.

**PROGRAM REVENUES/CHARGES FOR SERVICES – GOVERNMENTAL ACTIVITIES
2012-13 Fiscal Year**



Total program revenues/charges for services for governmental activities decreased \$46,662 when compared to the prior year. The decrease is primarily due to a decrease of \$25,479 in rental income for general government and a decrease of \$32,392 in public safety charges as a result of the outsourcing of law enforcement services to Highlands County. The most significant source of program revenue/charges for services is the special assessment for fire protection in the amount of \$922,292.

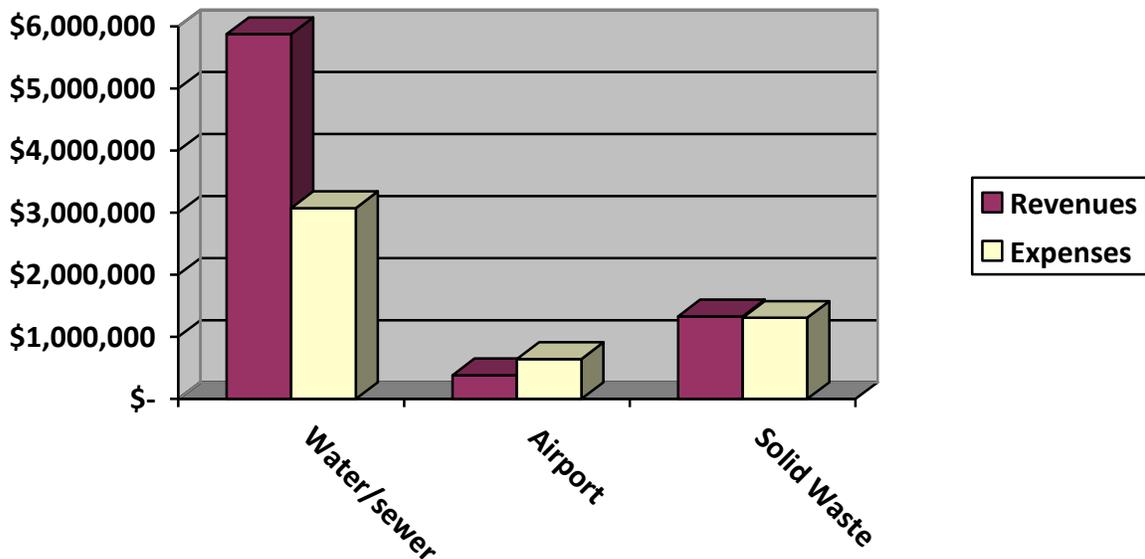
**PROGRAM EXPENSES – GOVERNMENTAL ACTIVITIES
2012-13 Fiscal Year**



Total program expenses for governmental activities increased \$317,838 when compared to the prior year, due primarily to a decrease in public safety expenses of \$231,298 related to the outsourcing of law enforcement services to Highlands County and an increase in economic environment expenses of \$514,653, from the grant-funded housing rehabilitation program.

Business-type Activities. Business-type activities account for 64 percent of the City’s net position. The City maintains three enterprise funds: water and sewer, airport and solid waste. The water and sewer fund and solid waste fund derive income from service fees. The airport revenues are derived from rental of the facilities.

**PROGRAM REVENUES AND EXPENSES – BUSINESS-TYPE ACTIVITIES
2012-13 Fiscal Year**



The City's business-type activities had excess revenue of \$2,565,547, an increase of \$909,248 in comparison to the prior year. After transfers, business-type activities increased the net position by \$2,182,801. Key elements of this change from the prior year were as follows:

The Water and Sewer Fund has a net revenue of \$2,802,233, which is an increase of \$887,310 compared to the prior year. The City had a net increase in charges for services of \$218,069, which was primarily due to the City's acquisition of Lake Damon Utilities water and sewer systems. In addition, overall expenses increased \$183,655.

The Airport Fund has net expenses of \$260,354, an increase from the prior year of \$13,751. The Airport Fund is showing an operating loss of \$366,079, an improvement of \$54,877 compared to the prior year. Charges for services were not enough to cover the operating expenses. The main contributor to the net expense is depreciation expense on airport improvements, hangars, and the industrial building that were financed with grants and developer contributions.

The Solid Waste Fund has a net revenue of \$23,438, which is an increase of \$23,540 compared to the prior year, as a result of an increase in charges for services.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending balances of \$4,857,861, an increase of \$650,904 in comparison to the prior year. The unassigned fund balance of \$2,049,408, or 42 percent, is available for spending at the City's discretion. Also \$281,614 is committed to payment of compensated absences. The City's infrastructure fund and CRA Fund balances are restricted in their use.

The general fund is the main operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,049,408 while total fund balance reached \$2,571,459. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 41 percent of total general fund expenditures. The City's fund balance in the general fund increased by \$492,075 during the current fiscal year.

The fund balance of the City's infrastructure fund increased by \$252,779 during the current fiscal year due to the City spending less than it received in revenues.

Proprietary Funds. The City of Avon Park's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water and Sewer fund at the end of the year was \$2,663,975. The Airport fund and Solid Waste funds unrestricted net position were (\$1,272,164) and \$1,723,724, respectively. Other factors concerning the finances of these three funds have already been addressed in the discussion of the City's business-type activities.

GOVERNMENTAL FUND BUDGETARY HIGHLIGHTS

Changes between the original budget and the final amended budget for the general fund were a \$304,980 net increase in expenditures and transfers out. These changes were as follows:

- Revenues from taxes increased \$96,980, primarily due to State pension contributions being omitted from the original budget. The additional revenue was offset by additional expenses related to pension contributions.
- Issuance of long-term debt increased \$150,750, due to the acquisition of radios for the Fire and Police departments by issuance of a capital lease. The additional revenue was offset by additional capital outlay costs.
- Intergovernmental revenue increased \$32,015, as a result of recreation funding from the County. The additional revenue was offset by additional expenses in the parks department.
- Miscellaneous revenues increased \$20,485, and charges for services was increased \$1,000. These increases were offset by additional expenses in all departments.
- The balance of the increase, \$3,750, was funded by an increase in fund balance carryforward.

Changes between the original budget and the final amended budget for the infrastructure fund was a \$87,500 net increase in capital outlay expenditures related to the Water and Sewer systems. The additional costs were financed by fund balance carryforward.

Changes between the original budget and the final amended budget for the CRA funds was a reclassification of \$30,370 from expenditures to transfers out, and an additional \$600 of transfers out that was financed by an increase in miscellaneous revenues.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2013 amounts to \$30,717,938 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, and curbs and sidewalks. The total increase in the City's investment in capital assets for the current fiscal year was 3 percent, because capital additions for the year exceeded current year depreciation.

Major capital asset events during the current fiscal year included the following:

- General fund improvements and equipment acquisitions comprised of:
 - Street and park improvements, \$271,652
 - Fire and Police Department radios and equipment, \$199,558
 - Vehicles, \$53,062
 - Fire Station improvements, \$21,402

- Water and sewer improvements and equipment acquisitions comprised of:
 - Acquisition of Lake Damon Utilities and related improvements, \$446,971
 - Improvements to Crystal Lake Water Plant, \$49,233
 - Lake Byrd Water Main purchase, \$64,500
 - Lake Lotela Water Main Extension, \$46,176
 - Avon Park Parkway Extension, \$206,379
 - Avon Park Water Main Improvements, \$1,340,683
 - WWTP Effluent Ponds, \$187,611
 - Vehicles and Equipment, \$84,944

- Airport property easements related to the drainage project, \$15,000 and signage \$12,270.

**CITY OF AVON PARK'S CHANGES IN CAPITAL ASSETS
(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Total	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
Land	\$ 316,174	\$ 316,174	\$ 868,360	\$ 883,360	\$ 1,184,534	\$ 1,199,534
Buildings & system	5,011,758	5,622,420	33,737,752	34,482,109	38,749,510	40,104,529
Machinery & Equipment	5,213,066	3,965,490	5,048,321	5,209,081	10,261,387	9,174,571
Infrastructure	5,849,424	6,068,560	-	-	5,849,424	6,068,560
Construction in progress	4,792	38,199	411,210	1,943,692	416,002	1,981,891
Less: Accumulated Depreciation	<u>6,964,761</u>	<u>6,956,157</u>	<u>19,649,917</u>	<u>20,854,990</u>	<u>26,614,678</u>	<u>27,811,147</u>
	<u>\$9,430,453</u>	<u>\$9,054,686</u>	<u>\$20,415,726</u>	<u>\$21,663,252</u>	<u>\$29,846,179</u>	<u>\$30,717,938</u>

Additional information on the City's capital assets can be found on Note 4 on pages 48 - 49 of this report.

Long-term debt. At the end of the current fiscal year, the City had total long-term debt outstanding of \$2,467,607. Of this amount, \$1,635,000 comprises debt secured by specific revenue sources (revenue bonds), less bond discount of \$21,479, and \$212,583 is for notes payable, \$150,746 relates to the capital lease obligation, \$357,908 for compensated absences and \$132,849 for Other Post-Employment Benefit Obligations.

CITY OF AVON PARK'S OUTSTANDING DEBT

	Governmental Activities		Business-type Activities		Total	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
Loans payable and other obligations	\$405,984	\$523,068	\$ 323,899	\$ 331,018	\$ 729,883	\$ 854,086
Revenue bonds	-----	-----	<u>2,113,607</u>	<u>1,613,521</u>	<u>2,113,607</u>	<u>1,613,521</u>
Total	<u>\$405,984</u>	<u>\$523,068</u>	<u>\$2,437,506</u>	<u>\$1,944,539</u>	<u>\$2,843,490</u>	<u>\$2,467,607</u>

The City's total debt decreased \$375,883 (13 percent) during the current fiscal year. New debt incurred during the year included a capital lease of \$150,746 for governmental activities and loans payable of \$234,083 for water system improvements.

Business-type debt includes Water and Sewer Refunding Revenue Bonds, Series 2003 due in annual installments of \$585,314 to \$589,720.

Additional information on the City's long-term debt can be found in Note 6 on pages 50 - 52 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Economic growth in the local economy is influenced by local and national economic factors. Negative economic recovery is correlated with decreased or flat revenues from property taxes, sales taxes, and charges for services as well as state and federal grants. The economic slowdown in the local economy may be measured by a variety of indicators such as unemployment, new construction, and assessed valuation.

In an effort to stimulate local growth, and attract businesses, the City drastically reduced its ad-valorem tax rate from a millage rate of 3.60 to 0.30 per \$1,000 of valuation. Other actions the City Council has taken to stimulate local growth and attract businesses were extending by resolution a policy that allows new businesses which utilize vacant and existing buildings to receive an impact fee credit up to \$20,000, and adopting by ordinance a policy for financing of new utility system connections to facilitate for new customers desiring utility services.

The City acquired a major Utility system and interconnected this system to Avon Park's distribution and sanitary utility network grid. By the end of 2013, the City initiated the acquisition of two smaller utilities known as Brentwood Mobile Home Park Sanitary system and Banyan Woods Sanitary system.

- The unemployment rate for the County was 7.0 percent for the month of December 2013, which is higher than the State of Florida rate of 5.9 percent and greater than the national rate of 6.5 percent.
- The assessed property taxable value of real property in Highlands County decreased 2.59 percent below last year.

The City's population increased to an estimated 9,300 by the close of fiscal year 2013.

For the 2014/2015 budget cycle, the City has added another 600 dwelling units. These newly annexed service areas should increase General Fund revenues. In developing the planned budget, staff will account for these parameters and plan accordingly.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information in this report or requests for additional financial information should be addressed to the Office of the City Manager, 110 E. Main St., Avon Park, FL 33825.

BASIC FINANCIAL STATEMENTS

CITY OF AVON PARK, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Equity in pooled cash, cash equivalents and investments	\$ 4,441,390	\$ 4,560,289	\$ 9,001,679
Receivables, net	110,860	544,890	655,750
Internal balances	194,029	(194,029)	-
Due from other governments	556,942	610,653	1,167,595
Prepaid items	70,848	-	70,848
Inventory	-	103,566	103,566
Restricted cash and cash equivalents	-	1,282,678	1,282,678
Net pension assets	140,392	-	140,392
Capital assets:			
Land	316,174	883,360	1,199,534
Buildings and system	5,622,420	34,482,109	40,104,529
Equipment	3,965,490	5,209,081	9,174,571
Infrastructure	6,068,560	-	6,068,560
Construction in progress	38,199	1,943,692	1,981,891
Accumulated depreciation	(6,956,157)	(20,854,990)	(27,811,147)
Total Assets	<u>14,569,147</u>	<u>28,571,299</u>	<u>43,140,446</u>
Liabilities			
Accounts payable and accrued liabilities	493,393	1,014,100	1,507,493
Payable from restricted assets:			
Interest payable	-	20,178	20,178
Deposits	-	808,142	808,142
Unearned revenue	22,815	569,157	591,972
Noncurrent liabilities:			
Due within one year	291,308	611,300	902,608
Due in more than one year	231,760	1,333,239	1,564,999
Total Liabilities	<u>1,039,276</u>	<u>4,356,116</u>	<u>5,395,392</u>
Net Position			
Net investment in capital assets	8,903,940	19,837,148	28,741,088
Restricted for:			
Infrastructure	1,869,640	-	1,869,640
Community redevelopment	416,762	-	416,762
Other	14,661	-	14,661
Debt service	-	1,012,500	1,012,500
Renewal and replacement	-	250,000	250,000
Unrestricted	2,324,868	3,115,535	5,440,403
Total Net Position	<u>\$ 13,529,871</u>	<u>\$ 24,215,183</u>	<u>\$ 37,745,054</u>

See accompanying Notes to Financial Statements.

**CITY OF AVON PARK, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Functions/Programs							
Governmental activities							
General government	\$ 807,544	\$ 32,069	\$ -	\$ -	\$ (775,475)	\$ -	\$ (775,475)
Public safety	3,582,206	943,979	1,470	-	(2,636,757)	-	(2,636,757)
Transportation	527,259	59,897	-	84,253	(383,109)	-	(383,109)
Culture and recreation	601,585	30,845	110,000	39,073	(421,667)	-	(421,667)
Economic environment	737,902	780	-	518,015	(219,107)	-	(219,107)
Total governmental activities	<u>6,256,496</u>	<u>1,067,570</u>	<u>111,470</u>	<u>641,341</u>	<u>(4,436,115)</u>	<u>-</u>	<u>(4,436,115)</u>
Business-type activities							
Water and sewer	3,074,399	4,825,814	28,500	1,022,318	-	2,802,233	2,802,233
Airport	644,472	275,870	84,850	23,398	-	(260,354)	(260,354)
Solid waste	1,308,839	1,332,277	-	-	-	23,438	23,438
Total business-type activities	<u>5,027,710</u>	<u>6,433,961</u>	<u>113,350</u>	<u>1,045,716</u>	<u>-</u>	<u>2,565,317</u>	<u>2,565,317</u>
Total primary government	<u>\$ 11,284,206</u>	<u>\$ 7,501,531</u>	<u>\$ 224,820</u>	<u>\$ 1,687,057</u>	<u>(4,436,115)</u>	<u>2,565,317</u>	<u>(1,870,798)</u>
General revenues:							
Taxes							
Property					931,342	-	931,342
Fuel					311,433	-	311,433
Infrastructure surtax					749,067	-	749,067
Utility and communication services					974,987	-	974,987
Other					92,095	-	92,095
Franchise fees					507,036	-	507,036
Unrestricted intergovernmental revenue					685,480	-	685,480
Investment earnings (loss)					(1,141)	230	(911)
Miscellaneous					101,065	-	101,065
Transfers					382,746	(382,746)	-
Total general revenues and transfers					<u>4,734,110</u>	<u>(382,516)</u>	<u>4,351,594</u>
Change in net position					<u>297,995</u>	<u>2,182,801</u>	<u>2,480,796</u>
Net position , beginning of year, restated - Note 18					13,379,297	22,032,382	35,411,679
Prior period adjustment - Note 17					(147,421)	-	(147,421)
Net position - beginning of year, as adjusted					<u>13,231,876</u>	<u>22,032,382</u>	<u>35,264,258</u>
Net position , end of year					<u>\$ 13,529,871</u>	<u>\$ 24,215,183</u>	<u>\$ 37,745,054</u>

See accompanying Notes to Financial Statements.

**CITY OF AVON PARK, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013**

	General	Infrastructure
Assets		
Equity in pooled cash, cash equivalents and investments	\$ 2,250,762	\$ 1,750,828
Receivables, net	110,246	614
Due from other governments	208,419	121,919
Due from other funds	214,960	39,101
Prepaid items	70,848	-
Advance to other fund	154,928	-
Total Assets	\$ 3,010,163	\$ 1,912,462
Liabilities and Fund Balances		
Liabilities:		
Accounts payable and accrued liabilities	\$ 382,288	\$ 42,822
Due to other funds	-	-
Due to fiduciary funds	33,601	-
Unearned revenue	22,815	-
Total liabilities	438,704	42,822
Fund balances:		
Nonspendable:		
Prepaid items	70,848	-
Advance to other fund	154,928	-
Restricted for:		
Law enforcement	8,179	-
Bouis Fountain	6,482	-
Infrastructure	-	1,869,640
Community redevelopment	-	-
Committed for compensated absences	281,614	-
Unassigned	2,049,408	-
Total fund balances	2,571,459	1,869,640
Total Liabilities and Fund Balances	\$ 3,010,163	\$ 1,912,462

See accompanying Notes to Financial Statements.

<u>CRA</u>	<u>(Non-major) CDBG</u>	<u>Total Governmental Funds</u>
\$ 439,800	\$ -	\$ 4,441,390
-	-	110,860
-	226,604	556,942
-	-	254,061
-	-	70,848
-	-	154,928
<u>\$ 439,800</u>	<u>\$ 226,604</u>	<u>\$ 5,589,029</u>
\$ 23,038	\$ 11,644	\$ 459,792
-	214,960	214,960
-	-	33,601
-	-	22,815
<u>23,038</u>	<u>226,604</u>	<u>731,168</u>
-	-	70,848
-	-	154,928
-	-	8,179
-	-	6,482
-	-	1,869,640
416,762	-	416,762
-	-	281,614
-	-	2,049,408
<u>416,762</u>	<u>-</u>	<u>4,857,861</u>
<u>\$ 439,800</u>	<u>\$ 226,604</u>	<u>\$ 5,589,029</u>

**CITY OF AVON PARK, FLORIDA
RECONCILIATION OF THE BALANCE SHEET TO THE
STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013**

Fund Balances - Total Governmental Funds		\$ 4,857,861
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>The cumulative effect of overfunding the actuarial required contributions to a pension fund does not represent a financial asset in the governmental funds. In the statement of net position, which is presented on the accrual basis, an asset is reported since the adjustment to expense is fully recognized in the statement of activities.</p>		
	140,392	
<p>Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.</p>		
Governmental capital assets	16,010,843	
Accumulated depreciation	<u>(6,956,157)</u>	
		9,054,686
<p>Long-term liabilities, are not due and payable in the current period and therefore, are not reported in the funds.</p>		
OPEB liability	(90,708)	
Compensated absences	(281,614)	
Capital lease payable	<u>(150,746)</u>	
		(523,068)
Net Position of Governmental Activities		<u><u>\$ 13,529,871</u></u>

See accompanying Notes to Financial Statements.

CITY OF AVON PARK, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>General</u>	<u>Infrastructure</u>
Revenues		
Taxes	\$ 2,228,811	\$ 749,067
Charges for services	20,728	-
Permits, fees, and special assessments	1,412,963	-
Intergovernmental	936,271	-
Fines and forfeitures	34,811	-
Investment earnings (loss)	(763)	(378)
Miscellaneous	151,573	4,824
Total revenues	<u>4,784,394</u>	<u>753,513</u>
Expenditures		
Current:		
General government	704,486	-
Public safety	3,275,083	-
Transportation	314,249	-
Culture and recreation	458,882	-
Economic environment	-	-
Capital outlay	222,862	500,734
Total expenditures	<u>4,975,562</u>	<u>500,734</u>
Excess (deficiency) of revenues over expenditures	<u>(191,168)</u>	<u>252,779</u>
Other financing sources (uses)		
Issuance of long-term debt	150,746	-
Transfers in	595,850	-
Transfers out	(63,353)	-
Total other financing sources (uses)	<u>683,243</u>	<u>-</u>
Net change in fund balances	<u>492,075</u>	<u>252,779</u>
Fund balances, beginning of year	2,079,384	1,616,861
Fund balances, end of year	<u>\$ 2,571,459</u>	<u>\$ 1,869,640</u>

See accompanying Notes to Financial Statements.

<u>CRA</u>	<u>(Non-major) CDBG</u>	<u>Total Governmental Funds</u>
\$ 124,948	\$ -	\$ 3,102,826
-	-	20,728
-	-	1,412,963
-	518,015	1,454,286
-	-	34,811
-	-	(1,141)
2,825	-	159,222
<u>127,773</u>	<u>518,015</u>	<u>6,183,695</u>
-	-	704,486
-	-	3,275,083
-	-	314,249
-	-	458,882
214,182	518,015	732,197
70,894	-	794,490
<u>285,076</u>	<u>518,015</u>	<u>6,279,387</u>
<u>(157,303)</u>	<u>-</u>	<u>(95,692)</u>
-	-	150,746
63,353	-	659,203
-	-	(63,353)
<u>63,353</u>	<u>-</u>	<u>746,596</u>
<u>(93,950)</u>	<u>-</u>	<u>650,904</u>
510,712	-	4,206,957
<u>\$ 416,762</u>	<u>\$ -</u>	<u>\$ 4,857,861</u>

**CITY OF AVON PARK, 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, 2013**

Net Change in Fund Balances - Total Governmental Funds		\$ 650,904
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>In the governmental funds, contributions made to a pension fund in excess of the actuarial required contribution amount are reported as an expenditure. In the statement of net position, the amount is reported as an asset. Thus the change in net position differs from the change in fund balance by the amount contributed in excess (deficiency) of the actuary's requirement.</p>		
	(7,479)	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, some of these expenditures are capitalized and depreciated over their estimated useful lives.</p>		
Expenditures for capital assets that were capitalized	554,225	
Less: Current year depreciation	(620,600)	
Less: net book value of disposed assets	(161,971)	
	(228,346)	
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds such as:</p>		
OPEB liability	(8,950)	
Compensated absences	42,612	
	33,662	
<p>Long-term liabilities are reported in the statement of net position but not in the governmental funds because they are not due and payable in the current period.</p>		
Issuance of long-term debt		(150,746)
Change in Net Position of Governmental Activities		\$ 297,995

See accompanying Notes to Financial Statements.

CITY OF AVON PARK, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Budgeted Amounts</u>			Variance with Final budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$ 2,143,273	\$ 2,240,253	\$ 2,228,811	\$ (11,442)
Charges for services	26,850	27,850	20,728	(7,122)
Permits, fees, and special assessments	1,467,633	1,467,633	1,412,963	(54,670)
Intergovernmental	871,465	903,480	936,271	32,791
Fines and forfeitures	30,250	30,250	34,811	4,561
Investment earnings (loss)	24	24	(763)	(787)
Miscellaneous	73,948	94,433	151,573	57,140
Total revenues	<u>4,613,443</u>	<u>4,763,923</u>	<u>4,784,394</u>	<u>20,471</u>
Expenditures				
General government:				
City council	26,886	28,611	27,160	1,451
City manager	193,996	208,623	208,616	7
Finance	110,933	120,627	116,318	4,309
Legal counsel	155,000	194,580	194,573	7
Other government services	149,553	210,812	185,658	25,154
Public safety:				
Police	1,747,245	1,784,625	1,753,967	30,658
Fire	1,246,251	1,568,708	1,449,236	119,472
Code enforcement	217,044	222,894	174,461	48,433
Planning and zoning	50,000	50,250	49,942	308
Transportation				
Street	429,416	418,680	321,024	97,656
Culture/recreation:				
Parks	326,754	368,573	304,712	63,861
Recreation	192,947	179,421	150,484	28,937
Community center	43,818	43,818	39,411	4,407
Total expenditures	<u>4,889,843</u>	<u>5,400,222</u>	<u>4,975,562</u>	<u>424,660</u>
Excess (deficiency) of revenues over expenditures	<u>(276,400)</u>	<u>(636,299)</u>	<u>(191,168)</u>	<u>445,131</u>
Other financing sources (uses)				
Issuance of long-term debt	-	150,750	150,746	(4)
Transfers in	610,922	610,922	595,850	(15,072)
Transfers out	(504,522)	(299,123)	(63,353)	235,770
Total other financing sources (uses)	<u>106,400</u>	<u>462,549</u>	<u>683,243</u>	<u>220,694</u>
Net change in fund balances	<u>(170,000)</u>	<u>(173,750)</u>	<u>492,075</u>	<u>665,825</u>
Fund balances, beginning of year	2,079,384	2,079,384	2,079,384	-
Fund balances, end of year	<u>\$ 1,909,384</u>	<u>\$ 1,905,634</u>	<u>\$ 2,571,459</u>	<u>\$ 665,825</u>

See accompanying Notes to Financial Statements.

**CITY OF AVON PARK, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
INFRASTRUCTURE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>Budgeted Amounts</u>			Variance with Final budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$ 722,812	\$ 722,812	\$ 749,067	\$ 26,255
Investment earnings (loss)	1,500	1,500	(378)	(1,878)
Miscellaneous	-	-	4,824	4,824
Total revenues	<u>724,312</u>	<u>724,312</u>	<u>753,513</u>	<u>29,201</u>
Expenditures				
Current:				
General government				
Other government services	42,871	42,871	25,146	17,725
Public Safety				
Police	32,163	39,663	39,623	40
Fire	42,854	88,854	58,356	30,498
Transportation				
Streets	416,000	302,500	137,968	164,532
Culture and recreation				
Parks	66,500	63,000	18,298	44,702
Water and sewer	123,924	274,924	221,343	53,581
Total expenditures	<u>724,312</u>	<u>811,812</u>	<u>500,734</u>	<u>311,078</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(87,500)</u>	<u>252,779</u>	<u>340,279</u>
Fund balances, beginning of year	1,616,861	1,616,861	1,616,861	-
Fund balances, end of year	<u>\$ 1,616,861</u>	<u>\$ 1,529,361</u>	<u>\$ 1,869,640</u>	<u>\$ 340,279</u>

See accompanying Notes to Financial Statements.

CITY OF AVON PARK, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CRA FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 204,710	\$ 204,710	\$ 124,948	\$ (79,762)
Miscellaneous	-	600	2,825	2,225
Total revenues	<u>204,710</u>	<u>205,310</u>	<u>127,773</u>	<u>(77,537)</u>
Expenditures				
Economic environment	682,252	621,952	214,182	407,770
Capital outlay	50,129	80,059	70,894	9,165
Total expenditures	<u>732,381</u>	<u>702,011</u>	<u>285,076</u>	<u>416,935</u>
Excess (deficiency) of revenues over expenditures	<u>(527,671)</u>	<u>(496,701)</u>	<u>(157,303)</u>	<u>339,398</u>
Other financing sources (uses)				
Transfers in	-	-	63,353	63,353
Transfers out	-	(30,970)	-	30,970
Total other financing sources (uses)	<u>-</u>	<u>(30,970)</u>	<u>63,353</u>	<u>94,323</u>
Net change in fund balances	<u>(527,671)</u>	<u>(527,671)</u>	<u>(93,950)</u>	<u>433,721</u>
Fund balances, beginning of year	527,671	527,671	510,712	(16,959)
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 416,762</u>	<u>\$ 416,762</u>

See accompanying Notes to Financial Statements.

CITY OF AVON PARK, FLORIDA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2013

	Business-type Activities - Enterprise Funds			
	Water and Sewer Fund	Airport Fund	Solid Waste Fund	Total
Assets				
Current assets:				
Equity in pooled cash, cash equivalents and investments	\$ 3,359,372	\$ 100	\$ 1,200,817	\$ 4,560,289
Restricted equity in pooled cash, cash equivalents and investments for debt service	457,678	-	-	457,678
Receivable, net	469,413	1,198	74,279	544,890
Due from other governments	520,440	90,213	-	610,653
Inventories	103,566	-	-	103,566
Total current assets	4,910,469	91,511	1,275,096	6,277,076
Noncurrent assets:				
Restricted equity in cash, cash equivalents and investments:				
Debt service	575,000	-	-	575,000
Renewal and replacement	250,000	-	-	250,000
Advance to other fund	-	-	553,798	553,798
Capital assets:				
Land	182,893	700,467	-	883,360
Building and system	24,055,917	10,424,337	1,855	34,482,109
Equipment	3,696,421	12,410	1,500,250	5,209,081
Construction in progress	1,702,952	240,740	-	1,943,692
Accumulated depreciation	(15,579,689)	(4,043,823)	(1,231,478)	(20,854,990)
Capital assets, net of accumulated depreciation	14,058,494	7,334,131	270,627	21,663,252
Total noncurrent assets	14,883,494	7,334,131	824,425	23,042,050
Total Assets	19,793,963	7,425,642	2,099,521	29,319,126
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	893,544	53,129	67,427	1,014,100
Due to other funds	39,101	-	-	39,101
Compensated absences	42,800	-	22,000	64,800
Deposits	770,477	37,665	-	808,142
Unearned revenue - current	-	45,000	-	45,000
Current portion of notes payable	21,500	-	-	21,500
Current liabilities payable from restricted assets:				
Interest payable	20,178	-	-	20,178
Current portion of bonds payable	525,000	-	-	525,000
Total current liabilities	2,312,600	135,794	89,427	2,537,821
Noncurrent liabilities:				
Advance from other fund	-	708,726	-	708,726
Compensated absences	7,578	-	3,916	11,494
Other post-employment benefits	30,314	-	11,827	42,141
Unearned revenue	5,002	519,155	-	524,157
Bonds payable, net of current portion	1,088,521	-	-	1,088,521
Notes payable, net of current portion	191,083	-	-	191,083
Total non-current liabilities	1,322,498	1,227,881	15,743	2,566,122
Total Liabilities	3,635,098	1,363,675	105,170	5,103,943
Net Position				
Net investment in capital assets	12,232,390	7,334,131	270,627	19,837,148
Restricted for:				
Debt service	1,012,500	-	-	1,012,500
Renewal and replacement	250,000	-	-	250,000
Unrestricted	2,663,975	(1,272,164)	1,723,724	3,115,535
Total Net Position	\$ 16,158,865	\$ 6,061,967	\$ 1,994,351	\$ 24,215,183

See accompanying Notes to Financial Statements.

CITY OF AVON PARK, FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business-type Activities - Enterprise Funds			Total
	Water and Sewer Fund	Airport Fund	Solid Waste Fund	
Operating revenues				
Charges for services	\$ 4,778,022	\$ 256,790	\$ 1,332,102	\$ 6,366,914
Miscellaneous	47,792	19,080	175	67,047
Total operating revenues	<u>4,825,814</u>	<u>275,870</u>	<u>1,332,277</u>	<u>6,433,961</u>
Operating expenses				
Personal services	1,009,552	-	403,909	1,413,461
Materials, supplies, services, and other operating expenses	1,218,581	312,711	789,156	2,320,448
Depreciation	760,061	329,238	115,774	1,205,073
Total operating expenses	<u>2,988,194</u>	<u>641,949</u>	<u>1,308,839</u>	<u>4,938,982</u>
Operating income (loss)	<u>1,837,620</u>	<u>(366,079)</u>	<u>23,438</u>	<u>1,494,979</u>
Nonoperating revenues (expenses)				
Operating grant	28,500	84,850	-	113,350
Investment earnings (loss)	(4,168)	-	4,398	230
Interest/amortization expense	(86,205)	(2,523)	-	(88,728)
Total nonoperating revenues (expenses)	<u>(61,873)</u>	<u>82,327</u>	<u>4,398</u>	<u>24,852</u>
Income (loss) before transfers and capital contributions	<u>1,775,747</u>	<u>(283,752)</u>	<u>27,836</u>	<u>1,519,831</u>
Capital contributions - capital grants	986,270	23,398	-	1,009,668
Capital contributions - impact fees and capital contributions	249,152	-	-	249,152
Transfers out	<u>(500,000)</u>	<u>(20,850)</u>	<u>(75,000)</u>	<u>(595,850)</u>
Changes in net position	2,511,169	(281,204)	(47,164)	2,182,801
Total net position, beginning of year, as restated - Note 18	13,647,696	6,343,171	2,041,515	22,032,382
Total net position, end of year	<u>\$ 16,158,865</u>	<u>\$ 6,061,967</u>	<u>\$ 1,994,351</u>	<u>\$ 24,215,183</u>

See accompanying Notes to Financial Statements.

**CITY OF AVON PARK, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	Water and Sewer Fund	Airport Fund	Solid Waste Fund	Total
Cash flows from operating activities				
Cash received from customers	\$ 4,833,122	\$ 238,877	\$ 1,335,069	\$ 6,407,068
Cash paid to suppliers	(461,915)	(352,690)	(778,243)	(1,592,848)
Cash paid to employees	(992,200)	-	(416,420)	(1,408,620)
Net cash provided by (used in) operating activities	<u>3,379,007</u>	<u>(113,813)</u>	<u>140,406</u>	<u>3,405,600</u>
Cash flows from noncapital financing activities				
Transfers from (to) other funds	(549,843)	124,809	(118,224)	(543,258)
Proceeds from operating grants	28,500	126,134	-	154,634
Net cash provided by (used in) noncapital financing activities	<u>(521,343)</u>	<u>250,943</u>	<u>(118,224)</u>	<u>(388,624)</u>
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	(2,144,919)	(30,076)	-	(2,174,995)
Principal payments on notes payable	(59,697)	(163,672)	-	(223,369)
Principal payments on bonds payable	(510,000)	-	-	(510,000)
Interest paid	(82,241)	(2,523)	-	(84,764)
Proceeds from impact fees and capital contributions	41,050	-	-	41,050
Proceeds from capital grants	541,580	59,241	-	600,821
Proceeds from loans payable	169,583	-	-	169,583
Net cash (used in) capital and related financing activities	<u>(2,044,644)</u>	<u>(137,030)</u>	<u>-</u>	<u>(2,181,674)</u>
Cash flows from investing activities				
Investment earnings	(4,168)	-	4,398	230
Net increase in cash and cash equivalents	<u>808,852</u>	<u>100</u>	<u>26,580</u>	<u>835,532</u>
Cash and cash equivalents, beginning of year	3,833,198	-	1,174,237	5,007,435
Cash and cash equivalents, end of year	<u>\$ 4,642,050</u>	<u>\$ 100</u>	<u>\$ 1,200,817</u>	<u>\$ 5,842,967</u>
Noncash capital and related financing activity:				
Contribution of capital assets from Infrastructure Fund	\$ 213,104	\$ -	\$ -	\$ 213,104
Acquisition of capital assets by issuance of note payable	64,500	-	-	64,500

See accompanying Notes to Financial Statements.

CITY OF AVON PARK, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(Continued)

	<u>Water and Sewer Fund</u>	<u>Airport Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
Reconciliation of cash and cash equivalents to statement of net position				
Equity in pooled cash, cash equivalents and investments	\$ 3,359,372	\$ 100	\$ 1,200,817	\$ 4,560,289
Restricted equity in pooled cash, cash equivalents and investments for debt service	457,678	-	-	457,678
Restricted equity in cash, cash equivalents and investments:				
Debt service	575,000	-	-	575,000
Renewal and replacement	250,000	-	-	250,000
Total cash and cash equivalents	<u>\$ 4,642,050</u>	<u>\$ 100</u>	<u>\$ 1,200,817</u>	<u>\$ 5,842,967</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 1,837,620	\$ (366,079)	\$ 23,438	\$ 1,494,979
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	760,061	329,238	115,774	1,205,073
Changes in certain assets and liabilities:				
Accounts receivable	(33,769)	1,872	2,792	(29,105)
Inventories	(1,464)	-	-	(1,464)
Accounts payable and accrued liabilities	764,800	(39,979)	12,679	737,500
Compensated absences	5,886	-	(16,195)	(10,309)
Other post-employment benefits	4,796	-	1,918	6,714
Unearned revenue - current	-	(45,000)	-	(45,000)
Deposits	41,077	6,135	-	47,212
Net cash provided by (used in) operating activities	<u>\$ 3,379,007</u>	<u>\$ (113,813)</u>	<u>\$ 140,406</u>	<u>\$ 3,405,600</u>

See accompanying Notes to Financial Statements.

**CITY OF AVON PARK, FLORIDA
STATEMENT OF PLAN NET POSITION
PENSION TRUST FUNDS
SEPTEMBER 30, 2013**

	Pension Trust Funds
Assets	
Receivables:	
Contribution receivables:	
Plan members	\$ 1,221
State of Florida	53,069
Accrued income	27,656
Total receivables	81,946
Due from other funds	33,601
Investments, at fair market value:	
Short-term money market funds	449,638
U.S. government securities	147,650
U.S. government and agencies	464,625
U.S. government agencies - mortgage backed securities	123,356
Corporate bonds	1,627,645
Corporate and foreign bonds	798,770
Municipal bonds	28,820
Corporate stocks	3,595,374
Common equity securities	2,618,443
Total investments	9,854,321
Total assets	9,969,868
Liabilities	-
Net position restricted for pension benefits	\$ 9,969,868

See accompanying Notes to Financial Statements.

**CITY OF AVON PARK, FLORIDA
STATEMENT OF CHANGES IN PLAN NET POSITION
PENSION TRUST FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>Pension Trust Funds</u>
Additions	
Contributions	
City	\$ 572,478
Plan members	44,671
State of Florida	96,971
Total contributions	<u>714,120</u>
Investment income	<u>1,132,391</u>
Less investment expenses:	
Investment management fees	43,914
Custodial fees	4,662
Performance evaluation fees	31,000
Total investment expenses	<u>79,576</u>
Net investment income	1,052,815
Total additions	<u>1,766,935</u>
Deductions	
Administrative expenses	132,821
Payments to retirees and participants	580,555
Benefit payments and contribution returns	198,271
Total deductions	<u>911,647</u>
Net increase	855,288
Net position restricted for pension benefits:	
Beginning of year	9,114,580
End of year	<u><u>\$ 9,969,868</u></u>

See accompanying Notes to Financial Statements.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

(1) **Summary of Significant Accounting Policies:**

(a) **Reporting entity**—The City, a municipality under the laws of the State of Florida, is located in Highlands County and is approximately 8.1 square miles in area. It was first incorporated in 1926 when Florida Law Chapter 12512 approved its original charter. In 1931, it was re-established as a municipal government when its present charter was approved by the voters at a general referendum and by the Laws of Florida 14622 and the Act of 1929. The City Council is comprised of the Mayor and four City Council persons. The City provides public safety, public works, recreation, and general government services to its approximately 9,300 residents. The City also operates water and wastewater, airport, and solid waste enterprises.

The accompanying financial statements include all those separately administered departments and funds for which the City has financial accountability. In evaluating the City as a reporting entity, management has addressed all potential component units (legally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City's financial statements. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the City. Organizations for which the City is not financially accountable are also included when doing so is necessary in order to prevent the City's financial statements from being misleading.

The component unit discussed in the following paragraph is included in the City's reporting entity because of the significance of its operational and financial relationship with the City.

The Community Redevelopment Agency of the City of Avon Park (the "CRA") was created on April 8, 1996, pursuant to Florida Statute 163.356, by the passage of City Ordinance No. 7-96 and is responsible for the redevelopment of defined areas within the city limits. The City Council serves as the board of commissioners for the CRA. Although the CRA is legally separate, it meets the criteria for blending and is presented as a governmental fund of the primary government. Separate financial statements for the CRA are not issued. The City and County are obligated to pay the CRA any tax revenues relating to an increase in the assessed value of the property within the redevelopment areas. The City's payment to the CRA is reported as a transfer between funds.

Related Organizations

The City Council is responsible for appointing the board members of the Avon Park Housing Authority (the "Authority"), but the City's accountability for this organization does not extend beyond making the appointments. The Authority is a related organization of the City and not a component unit.

(b) **Measurement Focus and Basis of Accounting**—The basic financial statements of the City are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

(1) **Summary of Significant Accounting Policies:** (Continued)

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type 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.

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Under the accrual basis of accounting, revenues, expenses, gain, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from nonexchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 33 —Accounting and Financial Reporting for Nonexchange Transactions.

Program revenues are derived directly from the program itself or from parties outside the reporting government's taxpayers or citizenry, and as a whole they reduce the cost of the function to be financed from the government's general revenues. Program revenues include charges for services, program specific operating grants and contributions, and program specific capital grants and contributions. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are payments-in-lieu of taxes and other charges between the government's water and sewer, airport, and solid waste functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The City's pension trust funds are presented in the fund financial statements by type (fiduciary). Since these assets are being held for the benefit of others (plan members) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

(1) **Summary of Significant Accounting Policies:** (Continued)

Fund Financial Statements

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government, which are comprised of governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental and proprietary funds. The fiduciary statement includes financial information for the pension trust funds.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources and then from unrestricted resources.

Governmental Funds

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 collected 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 sixty days of the end of the current fiscal period. Property taxes, intergovernmental revenues and interest earned 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. When grant terms provide that the expenditure or resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. All other revenue items are considered to be measurable only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Under the current financial resources measurement focus, only current assets, current liabilities, and deferred inflows of resources are generally included on the balance sheet. The reported fund balance is considered to be a measure of "available spendable resources". Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

(1) **Summary of Significant Accounting Policies:** (Continued)

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an other financing source rather than as a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Proprietary Funds

The City's enterprise funds are proprietary funds. In the fund financial statements, proprietary funds are presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as grants, investment earnings and miscellaneous other revenues result from nonexchange transactions or ancillary activities. Operating expenses for proprietary funds include personal services, materials, supplies, other services, and depreciation on capital assets. All expenses not meeting this definition are reported as non-operating expenses.

Amounts paid to acquire capital assets are capitalized as assets in the fund financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the fund financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness are reported as a reduction of the related liabilities, rather than as an expense.

Basis of Presentation

GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category and the governmental and enterprise combined) for the determination of major funds. The City has used GASB Statement No. 34 minimum criteria for major fund determination. Major governmental funds are reported as separate columns in the fund financial statements.

The City considers the CRA Fund important to financial statement users because of the requirement in Section 163.387(8), Florida Statutes, for the CRA district to have an audit. Therefore, the CRA Fund is reported as major even though the quantitative criteria has not been met.

The following is a brief description of the funds used by the City.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

(1) **Summary of Significant Accounting Policies:** (Continued)

Governmental Major Funds

General Fund—This fund is the City’s primary operating fund and accounts for all financial resources except those required to be accounted for in another fund. Resources are generated primarily from local property and utilities service taxes, franchise fees, licenses and permits, intergovernmental revenue, and charges for services. Expenditures are incurred to provide public safety, general government, physical environment, and recreational services.

Infrastructure Fund—This special revenue fund accounts for the one cent local option sales tax. The proceeds for this surtax may only be expended on assets specified by statutes.

CRA Fund—This special revenue fund is used to account for additional ad valorem taxes resulting from an increase in the assessed value above a designated base year of property within the Main Street, South Side and Airport redevelopment areas.

Non-Major Governmental Fund

Community Development Block Grant (CDBG) Fund – This special revenue fund is used to account for the proceeds of certain revenue sources that are legally restricted for expenditure of specific purposes. The City has established the Community Development Block Grant Fund, which is used to account for a federal grant passed through the State of Florida used for housing rehabilitation.

Proprietary Major Funds

Water and Sewer Fund—This fund accounts for the facilities and administration relating to residential and commercial water and sewer services provided to customers inside and outside of city limits. This fund includes long-term debt related to these utilities.

Airport Fund—This fund accounts for the operations and facilities at the City owned airport. This fund includes rental properties and debt for the related buildings and facilities.

Solid Waste Fund—This fund accounts for the facilities and operations relating to the sanitary disposal of solid waste including outstanding related debt.

Other Fund Types

Pension Trust Funds—These funds account for financial activity of the pension plans for policemen and firemen of the City. The City's Pension Trust Funds are the Police Officers' Retirement System and the Firefighters' Retirement System. Each plan is administered by a board of trustees.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

(1) **Summary of Significant Accounting Policies:** (Continued)

Non-current Governmental Assets/Liabilities

GASB Statement No. 34 requires non-current governmental assets, such as land and buildings, and non-current governmental liabilities, such as general obligation bonds and capital leases, be reported in the governmental activities column in the government-wide statement of net position.

(a) **Budgets and Budgetary Accounting**—Budgets are prepared for General, Infrastructure, CDBG, and CRA Funds on a basis consistent with the basis of accounting utilized for the respective funds, the modified accrual basis of accounting.

The City also adopts operating budgets for the Enterprise Funds on a modified accrual basis, which is not the same basis of accounting as that used to account for actual results of operation (accrual basis). The primary differences between the budgetary basis and the basis used to account for the results of operations are that the City budgets, capital outlays and debt service payments, which include principal payments.

Budgets are not prepared for the Pension Trust Funds.

The legal level of budgetary control is at the department level.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in all funds except the Pension Trust Funds. Encumbrances are not the equivalent of expenditures and lapse at year end.

Reconciliation of government-wide and fund financial statements—Explanation of Differences Between the Governmental Fund Balance Sheet and the Government Wide Statement of Net Position:

"Total" fund balances of the City's governmental funds of \$4,857,861 differs from "net position" of governmental activities, \$13,529,871, reported in the statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheet.

Explanation of Differences Between the Governmental Fund Operating Fund Operating Statement and the Statement of Activities:

The "net change in fund balances" for governmental funds, an increase of \$650,904, differs from the "change in net position" for governmental activities, an increase of \$297,995, reported in the statement of activities. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds.

Reclassification and Eliminations

Transfers in and transfers out in the amount of \$63,353 and due to and due from funds in the amount of \$214,960 between governmental activities were eliminated. Advances to and advances from in the amount of \$553,798 between business-type activities were also eliminated.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

(1) **Summary of Significant Accounting Policies:** (Continued)

(b) **Cash and cash equivalents**—The City considers cash and cash equivalents to be cash on hand, cash in banks, and short-term investments with maturities less than three months when acquired, including restricted assets.

Cash balances from the majority of funds are pooled for investment purposes. Earnings from such investments are allocated to the respective funds based on applicable cash participation by each fund. The investment pools are managed such that all participating funds have the ability to deposit and withdraw cash as if they were demand deposit accounts and, therefore, all balances representing participant's equity in the investment pools are classified as cash equivalents for purposes of these financial statements.

For purposes of the Statement of Cash Flows, each fund's equity in the investment pool is considered to be a cash equivalent since deposits and withdrawals can be made at anytime without prior notice or penalty.

(c) **Investments**—Investments are stated at fair value, except for short-term investments, which are stated at amortized cost. Fair value is based on quoted market price or the best available estimate.

(d) **Receivables**—Receivables are shown at their net realizable value and reduced by an allowance for those uncollectible accounts, where determined by management. Uncollectible accounts are those 120 days old and greater.

(e) **Inventories**—Inventories are stated at cost, which is not in excess of market. Cost is determined on a weighted average method.

(f) **Restricted assets**—Certain proceeds of Enterprise Fund debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited to applicable bond covenants or city ordinance.

(g) **Prepaid Items**—Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid items.

(h) **Interfund transactions**—Interfund transactions are accounted for in the following manner:

Transactions for services rendered are recorded as revenues in the receiving fund and as expenditures in or expenses (as appropriate) in the disbursing fund.

Transactions to reimburse a fund for expenditures made by it for the benefit of another fund are recorded as expenditures or expenses (as appropriate) in the disbursing fund and as a reduction of expenditures or expenses (as appropriate) in the receiving fund; and transactions to shift revenues from the fund budgeted to receive them to the fund budgeted to expend them are recorded as operating transfers in and out, respectively.

Transfers are reported in the "Other Financing Sources (Uses)" section in the Statement of Revenues, Expenditures, and Changes in Fund Balances and in the "Operating Transfers" section in the Statement of Revenues, Expenses, and Changes in Fund Net Position. As of fiscal year end, any unpaid amounts related to these transactions are reported as due to/from other funds on the balance sheet. Long-term interfund loans are classified as advances to/from other funds.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

(1) **Summary of Significant Accounting Policies:** (Continued)

(i) **Capital assets**—Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, rights-of-way, water and sewer distribution systems and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Only the infrastructure assets acquired or constructed beginning in the fiscal year 2004 are reported and depreciated. Retroactive reporting of infrastructure assets prior to the fiscal year 2004 will not be implemented in accordance with the provisions of GASB Statement No. 34.

Capital assets are defined by the City as assets with an initial, individual cost of \$1,000 or more and an estimated useful life in excess of one year. Capital assets are valued at historical cost or estimated historical cost if actual is not available. Donated capital assets are recorded at estimated fair value at the date of donation. Prior to 1985, land, building improvements, and equipment were recorded on either a cost basis where known, or on an estimated cost basis based on discounted independent appraisals.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life and are not capitalized.

Capital assets acquired by lease/purchase agreements or multiple year installment purchase contracts are recorded in the governmental funds in the year acquired as capital outlay expenditures and as other financing sources in the amount of the discounted present value of the total stipulated payments.

Property, plant and equipment of the primary government are depreciated using the straight-line method over the estimated useful lives of the assets which are as follows:

Infrastructure	30 years
Buildings	10 to 30 years
Plant and Improvements Other than Buildings	5 to 40 years
Equipment	3 to 20 years

(j) **Unearned Revenues**—Unearned revenue arises only when the City receives resources before it has legal claim to them. Governmental Funds report unearned revenue in connection with resources that have been received, but not yet earned.

Revenues in the Proprietary Funds which have not been earned are reported in accordance with the accrual basis of accounting as unearned revenue. The unearned revenue will be recognized as revenues in the fiscal year as they are earned.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

(1) **Summary of Significant Accounting Policies:** (Continued)

(k) **Compensated absences**—Upon separation of service, regular full-time employees receive payment for vacation time earned but not used at their last rate of pay as follows:

- General government employees will be paid up to a maximum of twice the employee's annual accrual.
- Police officers will be paid up to a maximum of 240 hours.
- Firefighters will be paid up to a maximum of 480 hours.
- City manager and department heads are not limited and will be paid in full unless under a contractual agreement. Currently, the City manager and three department heads are under contractual agreement. The maximum paid at separation of service in accordance with those contracts ranges from 500 to 700 hours.

Upon separation of service, regular full-time employees receive payment for sick leave earned but not used at their last rate of pay as follows:

- General government employees shall be paid for one-half of the accumulated unused sick leave up to a maximum of 480 hours after ten years of service or death.
- Police officers and firefighters shall be paid for one-half of the accumulated unused sick leave up to a maximum of 480 hours at retirement or death.
- Employees under contractual agreements shall be paid in accordance with their agreement. Current agreements stipulate one-half to one-hundred (100) percent of accumulated unused sick leave up to a maximum range of 300 to 600 hours.

Compensated absences are reported in governmental funds only if the absences have matured (i.e. unused reimbursable leave still outstanding following an employee's resignation or retirement). As accumulated sick and annual leave would not be liquidated with expendable available resources, a long-term liability of accrued sick and annual leave has been recorded in the government-wide statement of net position at September 30, 2013, representing the City's commitment to fund such costs from future operations. The liability for compensated absences is liquidated in the fund in which an employee's payroll expense is normally recorded. The general fund has been used in prior years to liquidate the liability for compensated absences in governmental funds.

(l) **Pension plans**—The City has pension plans covering substantially all of its full-time employees. It is the policy of the City to fund pension costs accrued, which includes amortization of prior service costs.

(m) **Retiree health insurance**—Health insurance is available to retired employees at the retirees' cost. No life insurance is provided for retired employees. The general fund has been used in prior years to liquidate the liability for retiree health insurance in governmental funds.

(n) **Long-term obligations**—In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

(1) **Summary of Significant Accounting Policies:** (Continued)

In the fund financial statements, governmental funds recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses.

(o) **Fund equity policy**—The City’s policy for fund balance/net position of the general fund and enterprise funds is to maintain a minimum fund balance equal to 20% of the current fiscal year operating expenditure and transfers out budgeted for each fund, exclusive of depreciation. If prior committed or assigned fund balance causes the unassigned fund balance to fall below 20%, the City shall take action necessary to restore the unassigned fund balance to acceptable levels within two years.

(p) **Property tax revenues**—Ad valorem taxes for the current fiscal year (beginning October 1, 2012) are assessed on July 1, 2012 based on property values of January 1, 2012. The taxes are billed in the month of November 2012 by the Highlands County Tax Collector who remits collected taxes to the City monthly. Taxes are due November 1, 2012 (levy date) and become delinquent April 1, 2013. Tax certificates are issued for delinquent taxes by June 1, 2013 (lien date). Generally, the City collects substantially all of its current year property taxes during the year in which they are due.

(q) **Use of estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States, as applicable to governmental entities, requires management to make use of estimates that affect the reported amounts in the financial statements. Actual results could differ from estimates.

(r) **Government-wide and Proprietary Fund Net Position**—Government-wide and proprietary fund net position is divided into three categories:

- *Net investment in capital assets* – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding and was used to finance those assets.
- *Restricted net position* – consist of amounts constrained to specific purposes by their providers (such as grantors, bondholders, higher levels of government, and contributors), through constitutional provisions, by enabling legislation, or contributor restrictions.
- *Unrestricted* – all other net position are reported in this category.

(s) **Governmental Fund Balances**—In the governmental fund financial statements, fund balances are classified as follows:

- *Nonspendable* — amounts that are not in spendable form (such as inventory or prepaid items) or are required to be maintained intact.
- *Restricted* — amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- *Committed* — amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority, the City Council. To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- *Assigned* — amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.

**CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

(1) **Summary of Significant Accounting Policies:** (Continued)

- *Unassigned* — amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Disbursements of fund balance will first be made from restricted amounts when both restricted and unrestricted fund balance is available. Additionally, the City will first use committed fund balance, followed by assigned fund balance, and then unassigned fund balance when expenditures are incurred for purposes which amounts in any of the unrestricted fund balance classifications could be used.

(2) **Deposits and Investments:**

Deposits—At September 30, 2013, the carrying amount of the City's deposits was \$6,938,226 and the bank balance was \$7,011,384. The difference between these two balances is created by timing differences due to the float on disbursements which have not cleared the bank. The City also had \$1,671 cash on hand at September 30, 2013.

Investments—As of September 30, 2013, the City's investments were \$13,198,781. Reconciliation of deposits and investments to amount shown on the statement of net position and statement of plan net position:

Deposits	\$ 6,938,226
Cash on hand	1,671
Investments	<u>13,198,781</u>
Total	<u><u>\$ 20,138,678</u></u>
Statement of Net Position:	
Equity in pooled cash, cash equivalents and investments	\$ 9,001,679
Restricted cash and equivalents	1,282,678
Statement of Plan Net Position:	
Investments	<u>9,854,321</u>
Total	<u><u>\$ 20,138,678</u></u>

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

(2) **Deposits and Investments:** (Continued)

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits investments of current operating funds to have maturities of no longer than 18 months. Investments of bond reserves, construction funds, and other non-operating funds shall have a term appropriate to the need for funds and in accordance with debt covenants, but in no event shall exceed ten years. As of September 30, 2013, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Remaining Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Governmental and Business-Type Activities:					
U.S. Government Agencies Securities	\$ 1,218,589	\$ 75,034	\$ 1,143,555	\$ -	\$ -
U.S. Government Agencies					
Mortgage-backed securities	215,211	-	-	175,095	40,116
Money Market Mutual Funds	63,777	63,777	-	-	-
SBA Florida PRIME	1,820,631	1,820,631	-	-	-
SBA Fund B	26,252	-	26,252	-	-
Fiduciary:					
Short-term money market funds	449,638	449,638	-	-	-
U.S. Government securities	147,650	-	119,976	27,674	-
U.S. Government Agencies -					
Mortgage-backed securities	123,356	-	17,932	13,281	92,143
U.S. Government and agencies	464,625	-	151,694	96,330	216,601
Corporate and foreign bonds	798,770	-	288,504	501,852	8,414
Corporate bonds	1,627,645	20,288	924,002	585,696	97,659
Municipal bonds	28,820	-	-	-	28,820
Total fair value	<u>\$ 6,984,964</u>	<u>\$ 2,429,368</u>	<u>\$ 2,671,915</u>	<u>\$ 1,399,928</u>	<u>\$ 483,753</u>

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

(2) **Deposits and Investments:** (Continued)

Credit Risk. Credit risk is the risk that an insurer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's investment policy minimizes credit risk by limiting the maximum percentage that may be invested in any one entity or instrument at any one time. Presented below is the actual rating as of September 30, 2013 for each type of investment in debt securities.

<u>Investment Type</u>	<u>S&P Rating</u>	<u>Market Value</u>
Governmental and Business-Type Activities:		
U.S. Government Agencies Securities	AA+	\$ 1,218,589
U.S. Government Agencies		
Mortgage-backed securities	Not rated	215,211
Money Market Mutual Funds	AAAm	63,777
SBA Florida PRIME	AAAm	1,820,631
SBA Fund B	Not rated	26,252
Fiduciary:		
Short-term money market funds	AAAm	265,411
Short-term money market funds	Not rated	184,227
U.S. Government securities	AA+ to AAA	147,650
U.S. Government Agencies -		
Mortgage-backed securities	AA+ to AAA	123,356
U.S. Government and agencies	AA+ to AAA	464,625
Corporate and foreign bonds	AA+ to BBB+	798,770
Corporate bonds	AAA to BBB	1,627,645
Municipal bonds	AAA	28,820
Corporate stocks	Not rated	3,595,374
Common equity securities	Not rated	2,618,443
Total		<u>\$ 13,198,781</u>

The City follows the guidelines of Florida Statute 218.415, which allows certain types of investments. The City's investment policy allows investment in government sponsored agencies such as investment pools, tax-exempt municipal bonds, direct obligations and bonds guaranteed by the U.S. government, with a minimum AA rating by Standard and Poor's.

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.

All bank accounts of the City are placed in banks that qualify as a public depository, as required by law (Florida Security For Public Deposits Act, Chapter 280, Florida Statutes). Chapter 280 of the Florida Statutes provides that qualified public depositories must maintain eligible collateral having a market value equal to 25% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held by the depository during the twelve months immediately preceding the date of any computation of the balance. As such, the depository is not required to hold collateral in the City's name, nor specify which collateral is held for the City's benefit.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

(2) **Deposits and Investments:** (Continued)

The Public Deposit Security Trust Fund, as created under the laws of the State of Florida, would be required to pay the City for any deposits not covered by depository insurance or collateral pledged by the depository as previously described. Florida Statutes and the City's investment policy authorize the City to use interest bearing time deposit savings accounts and money market accounts in qualified public depositories. All deposits are entirely insured.

The City invests funds throughout the year with Florida PRIME, an investment pool administered by the State Board of Administration of Florida (SBA) under the regulatory oversight of the State of Florida. At September 30, 2013, the carrying amount of the City's investment was \$1,820,631. Florida PRIME is considered to be a SEC 2a-7 like fund and is reported, at amortized cost, as a cash equivalent. The weighted average days to maturity (WAM) of the Florida PRIME as of September 30, 2013 was 44 days.

The City also has funds invested in the Fund B Surplus Trust Fund (Fund B), an investment fund administered by the SBA. The SBA's interpretation in regard to Fund B is that it does not meet the requirements of a SEC 2a-7 like fund; therefore, SBA provided the Fair Value factor of 113.3%. At September 30, 2013, the principle amount of the City's investment was \$23,178 and the fair value was \$26,252. The weighted average life (WAL) of Fund B at September 30, 2013 was 4.04 years.

Concentration of Credit Risk. Assets are to be diversified to control the risk of loss resulting from concentration of assets in a specific maturity, issue, instruments, deals, or bank through which the investments are bought and sold.

Foreign Currency Risk. The City is not exposed to any foreign currency risk.

(3) **Receivables:**

Receivables as of September 30, 2013 for the City's individual major funds and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>			<u>Total</u>
	<u>General</u>	<u>Infra-structure</u>	<u>Water and Sewer</u>	<u>Airport</u>	<u>Solid Waste</u>	
Utility and franchise taxes	\$ 105,883	\$ -	\$ -	\$ -	\$ -	105,883
Code enforcement	23,839	-	-	-	-	23,839
Customer charges	-	-	659,185	-	161,182	820,367
Interest	407	614	2,030	-	-	3,051
Miscellaneous	3,344	-	-	9,196	-	12,540
Gross receivables	133,473	614	661,215	9,196	161,182	965,680
Allowance for doubtful accounts	(23,227)	-	(191,802)	(7,998)	(86,903)	(309,930)
	<u>\$ 110,246</u>	<u>\$ 614</u>	<u>\$ 469,413</u>	<u>\$ 1,198</u>	<u>\$ 74,279</u>	<u>\$ 655,750</u>

**CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

(4) **Capital Assets:**

Capital asset activity for the year ended September 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 316,174	\$ -	\$ -	\$ 316,174
Construction in progress	-	38,199	-	38,199
Total capital assets not being depreciated	<u>316,174</u>	<u>38,199</u>	<u>-</u>	<u>354,373</u>
Capital assets, being depreciated:				
Buildings	5,532,525	89,895	-	5,622,420
Equipment	4,494,443	261,172	790,125	3,965,490
Infrastructure	5,903,601	164,959	-	6,068,560
Total capital assets being depreciated	<u>15,930,569</u>	<u>516,026</u>	<u>790,125</u>	<u>15,656,470</u>
Less accumulated depreciation for:				
Buildings	(2,533,206)	(191,907)	-	(2,725,113)
Equipment	(3,390,560)	(223,443)	(628,154)	(2,985,849)
Infrastructure	(1,039,945)	(205,250)	-	(1,245,195)
Total accumulated depreciation	<u>(6,963,711)</u>	<u>(620,600)</u>	<u>(628,154)</u>	<u>(6,956,157)</u>
Total capital assets being depreciated, net	<u>8,966,858</u>	<u>(104,574)</u>	<u>161,971</u>	<u>8,700,313</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 9,283,032</u></u>	<u><u>\$ (66,375)</u></u>	<u><u>\$ 161,971</u></u>	<u><u>\$ 9,054,686</u></u>

During the current year the Infrastructure fund paid for \$213,104 of water system improvements on behalf of the Water and Sewer enterprise fund. In statement of revenues, expenditures, and changes in fund balances the \$213,104 is shown as capital outlay; however, in the statement activities this is shown as a transfer out. For the Water and Sewer enterprise fund, the \$213,104 is shown as a capital contribution in the statement of revenues, expenses, and changes in fund net position; however, in the statement of activities it is shown as a transfer in.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

(4) **Capital Assets:** (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital assets not being depreciated:				
Land	\$ 868,360	\$ 15,000	\$ -	\$ 883,360
Construction in progress	411,210	1,640,068	107,586	1,943,692
Total capital assets not being depreciated	<u>1,279,570</u>	<u>1,655,068</u>	<u>107,586</u>	<u>2,827,052</u>
Capital assets, being depreciated:				
Buildings and system	33,737,752	744,357	-	34,482,109
Equipment	5,048,321	160,760	-	5,209,081
Total capital assets being depreciated	<u>38,786,073</u>	<u>905,117</u>	<u>-</u>	<u>39,691,190</u>
Less accumulated depreciation for:				
Buildings	(16,527,965)	(900,881)	-	(17,428,846)
Equipment	(3,121,952)	(304,192)	-	(3,426,144)
Total accumulated depreciation	<u>(19,649,917)</u>	<u>(1,205,073)</u>	<u>-</u>	<u>(20,854,990)</u>
Total capital assets being depreciated, net	<u>19,136,156</u>	<u>(299,956)</u>	<u>-</u>	<u>18,836,200</u>
Business-type Activities Capital Assets, Net	<u><u>\$20,415,726</u></u>	<u><u>\$1,355,112</u></u>	<u><u>\$ 107,586</u></u>	<u><u>\$ 21,663,252</u></u>

Depreciation and amortization expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 75,987
Public safety	182,785
Transportation	227,905
Culture and recreation	133,923
Total depreciation expense - governmental activities	<u><u>\$ 620,600</u></u>

Business-type activities:

Water and sewer	\$ 760,061
Airport	329,238
Solid waste	115,774
Total depreciation & amortization expense – business-type activities	<u><u>\$ 1,205,073</u></u>

**CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

(5) **Commitments**

- (a) **Construction Commitments** - At September 30, 2013 the City had \$46,234 related to the Avon Park Water Main Areas 1 to 5 Bidding and Construction Services.
- (b) **Encumbrances** – Other significant commitments include encumbrances outstanding as shown below:

Infrastructure Fund	\$	160,097
Water and Sewer Fund		17,500
Total	\$	177,597

(6) **Long-Term Liabilities:**

The summary of changes in long-term liabilities for the fiscal year ended September 30, 2013, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Capital lease obligation	\$ -	\$ 150,746	\$ -	\$ 150,746	\$ 51,908
Compensated absences	324,226	154,324	196,936	281,614	239,400
Other post-employment benefits	81,758	8,950	-	90,708	-
Total Governmental Activities					
Long-Term Liabilities	\$ 405,984	\$ 314,020	\$ 196,936	\$ 523,068	\$ 291,308
Business-type Activities:					
Notes payable	\$ 201,869	\$ 234,083	\$ 223,369	\$ 212,583	\$ 21,500
Revenue bond payable	2,145,000	-	510,000	1,635,000	525,000
Bond discount	(31,393)	-	9,914	(21,479)	-
Compensated absences	86,603	98,625	108,934	76,294	64,800
Other post-employment benefits	35,427	6,714	-	42,141	-
Total Business-type Activities					
Long-Term Liabilities	\$ 2,437,506	\$ 339,422	\$ 852,217	\$ 1,944,539	\$ 611,300

**CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

(6) **Long-Term Liabilities:** (Continued)

The following notes payable and revenue bonds payable were outstanding at September 30, 2013:

Business-type Activities Notes Payable:

\$169,583 with a fixed interest rate of 1.99% dated December 18, 2012. The current balance of this State Revolving Fund loan was used for construction of distribution lines. Potential draws total \$588,325. Repayment of note is semiannual for 30 years beginning October 15, 2014, secured by a subordinated pledge of net revenues of the water and wastewater system.	<u>\$ 169,583</u>
\$64,500 due in three equal payments of \$21,500, the initial payment within 15 days of the execution of the contract (August 31, 2013), the second payment due October 15, 2013 and a third payment due on October 15, 2014. The payments do not accrue interest.	<u>43,000</u>
Total Business-type Activities Notes Payable	<u><u>\$ 212,583</u></u>

Business-type Activities Revenue Bond:

\$5,750,000 in Water and Sewer Refunding Revenue Bonds, Series 2003 due in annual installments ranging from \$585,314 to \$589,720, including interest, through December 1, 2015; interest rate ranges from 1.05% to 3.8%; collateralized by a pledge of water and sewer revenue.	<u><u>\$ 1,635,000</u></u>
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The annual debt service requirements to maturity for notes and bonds payable are as follows:

Year Ending September 30,	Business-type Activities	
	Principal	Interest
2014	\$ 546,500	\$ 51,085
2015	590,255	34,810
2016	589,230	13,517
2017	24,715	2,297
2018	25,209	1,803
2019 – 2021	71,674	2,344
	<u>\$ 1,847,583</u>	<u>\$ 105,856</u>

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

(6) **Long-Term Liabilities:** (Continued)

Loan Covenants for Business Type Activities - Water and Sewer Refunding Revenue Bond

Revenues shall be deposited in the Sinking Fund as necessary to pay 1/6 of the interest becoming due on the bonds on the next semiannual interest payment date and 1/12 of the principal maturing on serial bonds on the next maturity date, plus prior deficiencies, and the fees of the bond registrar. Revenues shall then be used to maintain a reserve account in the Sinking Fund for the lesser of (a) the maximum annual debt service requirements for the bonds, (b) 125% of the average annual debt service requirements for the bonds, or (c) 10 percent of the proceeds of the sale of the bonds. The City shall pay into the Renewal, Replacement and Improvements fund an amount equal to 6 percent of the revenues for the preceding fiscal year until \$250,000 is on deposit.

The City must set rates to provide revenues in each year sufficient to pay the cost of operation and maintenance plus 125% of the debt service requirement due in such year, and 100% of all other payments required by resolution.

During the year the City met the sinking fund and rate covenant requirements described in the preceding paragraphs.

Capital Lease Obligation

The City entered into a lease agreement with Motorola, Inc. as for the purchase of radios for its Police and Fire Department. The lease is dated April 1, 2013 for \$150,746 at a 0% interest rate for the term April 1, 2013 to November 1, 2013, and a rate of 3.34% for the remaining term, due in three annual installments of \$51,908. The agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The assets acquired through the capital leases are as follows:

	Business-type Activities
Radios	\$ 150,746
Less accumulated depreciation	(5,025)
Net	\$ 145,721

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2013, were as follows:

<u>Year Ending September 30</u>	Governmental Activities
2013	\$ 51,908
2014	51,908
2015	51,908
Total minimum lease payments	155,724
Less: amount representing interest	(4,978)
Present value of minimum lease payments	\$ 150,746

**CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

(7) Other Post Employment Benefits:

The City of Avon Park does not offer a postemployment benefit plan to its employees. However, Florida State 112.0801 requires that public employers offer health insurance benefits at the current group rates to retirees (at their own expense) from the date of retirement. This requirement creates an implicit rate subsidy that falls under the requirements of GASB 43 and 45.

Plan Description—The City of Avon Park administers a single-employer defined benefit healthcare plan (the “Retiree Benefit Plan”). The plan provides postemployment healthcare benefits through the City’s group health insurance plan, which covers both active and retired members. Benefit provisions are established through City policy as approved by City Council. The Retiree Benefit Plan does not issue a publicly available financial report. As of October 1, 2012, the most recent actuarial valuation date, the Plan had approximately 58 active participants and 5 retiree/spouses receiving benefits.

Eligibility for the plan requires only that the participant retire at the normal or early retirement age as defined by the pension plans discussed further at Note 12.

Funding Policy—Contribution requirements are set by City policy as approved by City Council. The City has not advance funded or established a funding methodology for the Other Postemployment Benefit (OPEB) costs or the net OPEB obligation, and the Retiree Benefit Plan is financed on a pay-as-you-go basis. Retired participants pay 100% of the active premium. In fiscal year 2013, the City made no contributions to the plan, however the City’s implied subsidy towards other postemployment benefit obligations is \$20,004.

Annual OPEB Cost and Net OPEB Obligation—The City’s annual other postemployment benefit (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 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation.

Annual required contribution (ARC)	\$	37,667
Interest on net OPEB obligation		5,273
Adjustment to the ARC		(7,273)
Annual OPEB Cost		35,667
Estimated contributions made		(20,003)
Increase in net OPEB obligation		15,664
Net OPEB obligation, beginning of year		117,185
Net OPEB obligation, end of year	\$	132,849

**CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

(7) **Other Post Employment Benefits:** (Continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the three most recent years are as follows:

Year Ending September 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 35,667	56.1 %	\$ 132,849
2012	55,897	28.0	117,185
2011	53,561	26.9	76,921

Funded Status and Funding Progress—As of October 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$284,853, all of which was unfunded (or 0% funded). Covered payroll is not applicable and therefore unfunded actuarial accrued liability as a percentage of covered payroll is not applicable as well.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions of the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the program and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, 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.

Methods and Assumptions—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. 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, consistent with the long-term perspective of the calculations. In the October 1, 2012 actuarial valuation, the Entry Age Normal (level % of pay) actuarial cost method was used.

The actuarial assumptions included a 4.5 percent investment rate of return (discount rate) and an annual health care cost trend rate of 8.5 percent initially (2013), reduced by increments of 1 percent per year until reaching an ultimate trend rate of 4.5 percent in 2017. The unfunded actuarial liability is being amortized over a closed 30 year period using a level percentage of payroll with an assumption of no payroll increases. The remaining amortization period of the initial unfunded actuarial liability is 27 years.

**CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

(8) Risk Management:

Risk Pool

The City entered into an agreement with other political subdivisions to create a local government risk management pool called Public Risk Management of Florida (PRM). PRM was organized to develop and administer a Protected Self-Insured Retention Program of property and casualty coverage for its member organizations. PRM provides the City with coverage from risks in the areas of property, automobile, general liability, workmen's, compensation, and public officials' liability. PRM is a total risk and cost sharing pool for its members. PRM uses specific excess insurance to cover losses above predetermined self-insured retention levels and aggregate excess insurance to protect the loss fund in the event it becomes exhausted. Premiums are paid by the General Fund and are reimbursed from other funds for their share. The City does not have any claim liability in addition to premiums paid to PRM.

PRM issues a separate financial report that includes financial statements and required supplementary information.

(9) Interfund Receivables and Payables:

Individual interfund receivable and payable balances at September 30, 2013 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from Other Funds:		
General Fund	(Non-major) CDBG Fund	<u>\$ 214,960</u>
Infrastructure Fund	Water and Sewer Fund	<u>\$ 39,101</u>
Due to/from Fiduciary Funds:		
Pension Trust Funds	General Fund	<u>\$ 33,601</u>
Advance to/from Other Funds:		
General Fund	Airport Fund	\$ 154,928
Solid Waste Fund	Airport Fund	553,798
	Total Airport Fund	<u>\$ 708,726</u>

Amounts due to and from other funds arise from timing differences in the affected funds due to timing of expenditures and related reimbursements and due to cash shortages at year-end. Advances between funds represent interfund loans that are not expected to be repaid within one year. The loan from the General Fund to the Airport Fund of \$154,928 was to pay off a note payable in order to reduce the City's overall borrowing costs. The loan from the Solid Waste Fund to the Airport Fund of \$553,798 is a result of prior and current operating losses.

**CITY OF AVON PARK, FLORIDA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2013**

(10) **Transfers:**

Transfers during the year ended September 30, 2013 consisted of the following:

	Transfers In:	
	General Fund	CRA Funds
Transfers Out:		
General Fund	\$ -	\$ 63,353
Water and Sewer	500,000	-
Solid Waste Fund	75,000	-
Airport Fund	20,850	-
	\$ 595,850	\$ 63,353

Transfers are used to 1) move revenues from the fund that state law required to collect them to the fund that state law requires to expend them; 2) use unrestricted fund revenues to finance activities which must be accounted for in another fund; 3) City’s portion of ad valorem taxes to the CRA funds; 4) provide funds from restricted resources for capital outlay. Also, see Note 4 for details on transfer of capital assets between funds.

(11) **Fund Balance Restrictions:**

Restrictions of fund balances for governmental funds at September 30, 2013 are summarized below:

Law Enforcement—The restriction for law enforcement was created to restrict the use of resources deposited into the Law Enforcement Trust Fund. State statutes require that the resources be restricted.

Bouis Fountain—The restriction for Bouis Fountain was created to restrict the use of resources contributed to the maintenance of this fountain located on Main Street. The restriction was mandated by donor agreement.

Infrastructure—The restriction for infrastructure was created to restrict the use of resources from the proceeds of the one cent local option sales tax. State statutes require that the resources be restricted.

Community Redevelopment—The restriction for community redevelopment was created to restrict the use of resources deposited into the CRA Funds. State statutes require that the resources be restricted.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

(12) **Employee Retirement Systems and Pension Plans:**

Substantially all full-time employees of the City of Avon Park are covered by one of four pension plans:

Police Officers' Retirement System (PORS)

Plan Description

All full-time police officers who are certified as a police officer as a condition of employment, excluding civilian, clerical and other employees of the City's police department, participate in the PORS, a single-employer, defined benefit pension plan that was established by City Ordinance 406 on August 24, 1959 in accordance with Chapter 185, Florida Statutes, and is currently governed by city ordinance as amended from time to time and administered by the PORS Board of Trustees. PORS provides retirement, disability and death benefits to plan members and their beneficiaries. The City Council by ordinance maintains the authority to establish new and amend existing benefit provisions of the plan. The PORS is reported as a Pension Trust Fund in the City's financial statements.

Firefighters' Retirement System (FFRS)

Plan Description

All full-time officers and firefighters of the City's fire department participate in the FFRS, a single-employer, defined benefit pension plan that was established by City Ordinance 363 on September 14, 1953 in accordance with Chapter 175, Florida Statutes and is currently governed by city ordinance as amended from time to time and administered by the FFRS Board of Trustees. FFRS provides retirement, disability, and death benefits to plan members and their beneficiaries. The City Council by ordinance maintains the authority to establish new and amend existing benefit provisions of the plan. The FFRS is reported as a Pension Trust Fund in the City's financial statements.

Funding Policy and Annual Pension Cost

The City Council establishes and may amend the contribution requirements of plan members. The City, taking into account the state contribution, is required by city ordinance and state statutes to make additional contributions to fund the pension plans on an actuarially sound basis and at a minimum must contribute 5 percent of employee compensation. The amounts contributed by the State to the PORS represents the City's portion of an .85 percent tax on all premiums collected on casualty insurance policies on property within the City and for the FFRS is a 1.85 percent tax on all premiums collected on property insurance policies covering property within the City. The City, for 2013 funding purposes, is limited by state statutes on the amount of the state contribution that can be credited toward the annual required contribution. Administrative costs for each plan are financed through investment earnings. Information related to annual required contributions and actuarial assumptions used for those contributions for the year ended September 30, 2013 is as follows:

**CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

(12) **Employee Retirement Systems and Pension Plans:** (Continued)

	Police Officers' Retirement System	Firefighters' Retirement System
Contribution rates for year ended 9/30/2013:		
City and State	\$349,429 ⁽¹⁾	45.26%
Plan members	5.00%	5.00%
Actuarial valuation date	10/1/2011	10/1/2011
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar, closed	Level % of pay, closed
	19 years as of	27 years as of
Remaining amortization period	10/1/2011	10/1/2011
	4 Year Smoothed	4 Year Smoothed
Asset valuation method	Market	Market
Actuarial assumptions:		
Investment rate of return	8.0%	7.75%
Projected salary increases *	6.0%	6.0%
* Includes inflation at	3.0%	3.0%
Payroll growth	0.0%	4.2%
Post retirement cost of living adjustments	1.46%	3.0%**

**The COLA is payable at age 58 for five years.

⁽¹⁾ Flat dollar requirement for City and State

	Year Ended September 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
Police Officers' Retirement System	2013	\$ 354,599	98.5 %	\$ (83,984)
	2012	327,175	98.3	(89,154)
	2011	265,819	98.3	(94,642)
Firefighters' Retirement System	2013	\$ 315,523	99.3%	\$ (56,408)
	2012	292,453	99.3	(58,717)
	2011	211,295	99.6	(60,818)

Funding Policy and Annual Pension Cost

The funded status of each plan as of the most recent actuarial valuation date, October 1, 2012, is as follows:

	Actuarial Value of Assets (a)	Actuarial Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b – a)/c)
Police	\$ 5,483,504	\$ 5,924,414	\$ 440,910	92.6%	\$ 205,197	214.9%
Fire	3,594,103	5,475,749	1,881,646	65.6	732,830	256.8

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

(12) **Employee Retirement Systems and Pension Plans:** (Continued)

Significant Accounting Policies

(a) **Basis of Accounting**—City of Avon Park’s financial statements for both pension funds are prepared using the accrual basis of accounting for Trust Funds. Employer and plan member contributions are recognized in the period that contributions are due and payable in accordance with the terms of the plan. Benefits and refunds are recognized when due and payable in accordance with terms of each plan.

(b) **Method Used to Value Investments**—Investments in both plan funds are reported at fair value according to the independent custodian for each plan using various third party pricing sources. Short-term investments are reported at cost, which approximates fair value.

(c) **Contribution Requirements and Contributions Made**—Florida Legislature, City Council and each Pension Board govern the City and employee contribution requirements for both plans. The City’s contribution to the plans is an actuarially determined periodic amount that increases gradually over time so that sufficient assets will be available to pay benefits when due. The employees’ contributions to the Firefighters’ Retirement Trust Fund and Police Officers’ Retirement Trust Fund were each 5.0% for the fiscal year 2013.

(d) **Administrative costs**—The costs of administering the pension plans are funded by the respective plan through investment earnings of each plan.

The City receives contributions from the state for the Police Officers’ and Firefighters’ Retirement plans. The City recognized \$96,971 in revenue and related expense in the general fund.

GASB Statement No. 27 requires the computation of a net pension obligation (NPO) or asset which would result if the City’s contributions to the pension funds did not equal the annual pension cost as computed by the plan actuaries. There was no NPO or asset for the cumulative 10 year period prior to implementation or at the transition date for adopting this Statement for any of the City’s plans.

The actuarially determined net pension obligation (NPO) (asset) for the plans at the end of 2013 are approximately as follows:

	Police Officers’ Retirement System	Firefighters’ Retirement System
Actuarially Required	\$ 349,429	\$ 321,425
Interest on NPO	(7,132)	(4,551)
Adjustments to ARC	12,302	(1,351)
Annual Pension Cost	354,599	315,523
Contributions Made	349,429	313,214
Increase in NPO	5,170	2,309
NPO (Asset) Beginning of	(89,154)	(58,717)
NPO (Asset) End of Year	\$ (83,984)	\$ (56,408)

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

(12) **Employee Retirement Systems and Pension Plans:** (Continued)

The Police and Fire Pension Fund issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to The City of Avon Park, Finance Department, 110 E. Main Street, Avon Park, FL 33825 or calling 863-452-4400.

Florida Retirement System (FRS)

Plan Description—All of the City's full-time and part-time employees working in a regularly established position and not covered by the Police Officers' Retirement System or the Firefighters Retirement System and hired before January 1, 1996 are participants in the FRS, a cost-sharing multiple-employer public retirement system which is controlled by the Florida Legislature and administered by the State of Florida, Department of Management Services, Division of Retirement. FRS provides retirement and disability benefits, assistance in paying health insurance costs, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Statutes of the State of Florida established the plan and its benefit provisions. The benefits can be amended legislatively by the Florida Legislature. Participants can choose from two options: the FRS Pension Plan or the FRS Investment Plan.

The Division of Retirement issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. That report may be obtained by writing to Florida Division of Retirement, 1317 Winewood Blvd., Building 8, Tallahassee, FL 32399-1560, or by calling 1-850-488-6491.

The Pension Plan provides vesting of benefits after six years of creditable service. Regular members are eligible for normal retirement after six years of service and attaining age 62, or 30 years of service regardless of age. Early retirement may be taken any time after completing six years of service, however, there is a 5% benefit reduction for each year prior to normal retirement.

The Deferred Retirement Option Program (DROP) is a program that allows the employee to retire without terminating employment for up to five years while retirement benefits accumulate and earn interest compounded monthly at an effective annual rate of 6.5% if participation began prior to July 1, 2011 or 1.3% if participation began on or after July 1, 2011. This program is available to eligible members of the Florida Retirement System who are in the FRS Pension Plan. Employee participation in DROP does not change the employee's condition of employment. When the DROP period ends, the employee must terminate employment. At that time, the employee will receive the accumulated DROP benefits and begin receiving monthly retirement benefits. Eligible members may participate in DROP when they are vested (six years) and have reached the normal retirement date, which is at age 62, or 30 years of service. If an employee completes 30 years of service before the age of 57, the employee may elect to defer the DROP election until age 57.

As of June 1, 2003, the FRS offered members the option of participating in the Florida Retirement System Investment Plan (Investment Plan), a defined contribution plan qualified under Section 401(a) of the Internal Revenue Code. The Investment Plan is administered by the state of Florida Department of Administration, Division of Retirement to provide retirement and survivor benefits to participating public employees. Chapter 121, F.S., establishes the authority for participant eligibility, contribution requirements, vesting eligibility and benefit provisions. The Investment Plan provides vesting of benefits after one year of creditable service. Employees were eligible to make an election to participate in the Investment Plan instead of the Pension Plan. Existing employees may make the election beginning December 1, 2003. New employees may make the election within five months of their month of hire. Participants in the Investment Plan also have a one-time opportunity to switch back to the Pension Plan at any time by "buying back" into the Pension Plan. Retirement coverage is employee noncontributory. The employer pays all contributions. The rates for the Investment Plan are essentially the same as the Pension Plan.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

(12) **Employee Retirement Systems and Pension Plans:** (Continued)

Funding Policy: The City is required to contribute 6.95% of their salary for regular members, 19.06% of their salary for special risk members, 18.31% of their salary for senior management and 12.84% of their salary for employees in the DROP. As of July 1, 2011, employees not in the DROP are required to contribute 3% of their salary. The contribution requirements of the City may be changed by the Florida Retirement System. The City's contributions to the Florida Retirement System for the years ended September 30, 2013, 2012, and 2011, were \$12,811, \$15,941, and \$36,190, respectively, equal to the actuarially determined contribution requirements for each year. The employees' contributions to the Florida Retirement System for the years ended September 30, 2013 were \$2,781, equal to the actuarially determined contribution requirements for the year. The City has determined, in accordance with GASB Statement No. 27, that there was no pension liability before or at transition.

Defined Contribution Plan

Plan Description and Contribution Requirements—The City provides pension benefits through a defined contribution plan for all full-time employees hired on or after January 1, 1996 who are not covered by either the Police Officer's Retirement System or the Firefighters' Retirement System. This plan is administered by the Florida Municipal Pension Trust Fund. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees who are at least 18 years of age and have six months of service are eligible to participate in the plan. The resolution adopting the plan requires that the City contribute an amount equal to 10.77 percent of the employee's salary each month. The City Council by ordinance maintains the authority to establish new and amend existing benefit provisions of the plan and contribution requirements.

The plan also provides for voluntary employee contributions not to exceed 5 percent of salary. The City's contribution for each employee (and interest allocated to the employee's account) is fully vested after ten years of continuous service. City contributions for, and interest forfeited by, employees who leave employment before ten years of service are used to fund the City's current period contribution requirement.

The City's payroll for the year ended September 30, 2013 for eligible employees participating in the plan was \$1,118,156. The City's total payroll for all employees was \$2,639,916.

As of September 30, 2013, the City's contributions to the plan were \$120,091 on behalf of the 33 employees participating. The total voluntary employee contributions to the plan amounted to \$40,546.

(13) **Deficits:**

The Airport Fund has an unrestricted net position deficit of \$1,272,164 as of September 30, 2013. This deficit is primarily due to investment by the City in the airport's capital assets, and operating expenses exceeding operating revenues.

**CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

(14) **Leases:**

The City is the lessor of various types of industrial buildings and hangars at the airport over periods ranging from month to month to ten years. All of the City's leases are classified as operating leases. For the year ended September 30, 2013 the City received rent revenue from operating leases of \$232,178.

The following is a schedule for the next five years of minimum future rent revenues from non-cancelable operating leases as of September 30, 2013:

Year Ending	Amount
<u>September 30</u>	<u> </u>
2014	\$ 97,567
2015	86,800
2016	76,000
2017	76,000
2018	76,000

At September 30, 2013 the value of buildings and hangars held for leasing was as follows:

Cost	\$ 3,661,047
Accumulated depreciation	<u>(1,542,753)</u>
Net book value	<u><u>\$ 2,118,294</u></u>

The City has entered into a lease with a tenant on October 1, 2003 which expires on September 30, 2023, unless extended. The City has granted two options to renew for additional terms of 10 years each. The City also agreed to allow tenant to offset against rent due by 100% of the general improvements and 65% of the tenant use specific improvements made to the premises during the first ten (10) year lease term, including cost of engineering and financing. Said improvements, engineering and financing shall be prorated over the initial ten year term of the lease, but shall offset not more than \$45,000 of the rent per year. If tenant is unable to recoup its investments during the initial term, this offset shall continue into successive option terms, if said options are exercised. Any rental reduction for tenant specific improvements will not begin until the second term. At September 30, 2013, \$413,615, \$150,540, and \$67,247 of general improvements, tenant specific improvements, and financing costs, respectively, were available for rental offsets in the future. At September 30, 2013, \$564,155 is reported in the Airport fund as unearned revenue in connection with the rental offsets available to use in the future by the tenant.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

(15) **Contingencies:**

During the ordinary course of its operations, the City is a party to various claims, legal actions, and complaints. The City intends to vigorously defend itself, and in the opinion of the City's management, legal counsel, and special legal counsel these matters are not anticipated to have a material financial impact on the City.

(16) **Related Party Transactions:**

During the year the City had the following related party transactions:

The Avanti Company, a business owned by Councilman Heston's brother-in-law, that sells water meters to the City. The meters were procured in compliance with the City's purchasing policies and payments for the year amounted to \$79,236. The Avanti Corporation is the sole provider of the Amco Automated Meter Radio System (AMR Technology). This system has been the standard utilized the City's water system for well over a decade.

Sherco Inc, a business solely owned by Mayor Schuler's spouse, that provides land surveying services to the City. The services were procured in compliance with the City's purchasing policies and payments for the year amounted to \$10,600. Mr. Schuler has been and continues to be the only State licensed surveying firm within the City limits of Avon Park.

(17) **Prior Period Adjustment:**

During the current year, the City discovered that its fixed asset detail records for governmental activities did not agree to its general ledger. The City determined that its general ledger was incorrect. To correct this difference, beginning net position for governmental activities has been decreased by \$147,421.

(18) **Adoption of New Accounting Principles**

During the year the City implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, supersedes GASBS 20*. GASB Statement No. 20 gave governments the choice to elect to follow only GASB's authoritative literature, or to follow FASB and AICPA pronouncements that did not conflict with GASB pronouncements. Upon adoption of GASB Statement No. 62, all governmental accounting guidance is codified into the GASB literature.

During the year the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This action resulted in the establishment of categories outside of assets and liabilities, titled deferred outflows of resources and deferred inflows of resources. In addition, the Statement renames residual amounts from "net assets" to "net position."

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

(18) **Adoption of New Accounting Principles:** (Continued)

During the year the City early implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The total cumulative effect of implementing GASB Statement No. 65 was reported as a decrease to beginning net position to both business-type activities and the Water and Sewer Fund. Under GASB No. 65, bond issuance costs are no longer required to be capitalized, which resulted in the following adjustment:

	Water and Sewer Fund	Business-type Activities
Net position, beginning of year	\$ 13,700,842	\$ 22,085,528
Effect of change in accounting principle	(53,146)	(53,146)
Net position, beginning of year, as restated	\$ 13,647,696	\$ 22,032,382

(19) **Subsequent Event:**

On December 1, 2013 the City paid the \$1,635,000 outstanding balance of the Water and Sewer Refunding Revenue Bonds, Series 2003. This payment was comprised of the scheduled principal payment of \$525,000 and an advance refunding of the remaining two annual principal payments totaling \$1,110,000.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF AVON PARK, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PENSION AND OPEB FUNDING PROGRESS
SEPTEMBER 30, 2013**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age Normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ration (a/b)	Covered Payroll (c)	UAAL as a % of covered payroll ((b-a)/c))
Police Officers' Retirement Trust						
10/01/12	\$ 5,483,504	\$ 5,924,414	\$ 440,910	92.6 %	\$ 205,197	214.9 %
10/01/11	5,173,266	5,689,461	516,195	90.9	955,150	54.0
10/01/10	5,268,362	5,555,052	286,690	94.8	1,025,823	27.9
10/01/09	5,172,660	5,147,485	(25,175)	100.5	967,184	-2.6
10/01/08	5,101,456	4,939,141	(162,315)	103.3	1,041,764	-15.6
10/01/07	4,939,711	4,519,021	(420,689)	109.3	1,051,409	-40.0
Firefighters' Retirement Trust						
10/01/12	\$ 3,594,103	\$ 5,475,749	\$ 1,881,646	65.6 %	\$ 732,830	256.8 %
10/01/11	3,329,417	4,967,713	1,638,296	67.0	703,667	232.8
10/01/10	3,449,783	4,651,658	1,201,875	74.2	680,087	176.7
10/01/09	3,254,690	4,322,855	1,068,165	75.3	738,380	144.7
10/01/08	3,370,070	4,129,874	759,804	81.6	738,078	102.9
10/01/07	3,131,140	3,784,277	653,137	82.7	690,352	94.6
Other Post Employment Benefit Plan						
10/01/12	\$ -	\$ 284,853	\$ 284,853	- %	\$ 2,384,563	12 %
10/01/09	-	369,847	369,847	-	N/A	N/A

**CITY OF AVON PARK, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER AND
OTHER CONTRIBUTING ENTITIES
SEPTEMBER 30, 2013**

Police Officers' Retirement System:

Year Ended September 30,	Annual Required Contribution	City Contribution	State Contribution*	Percentage Contributed
2013	\$ 349,429	\$ 296,360	\$ 53,069	100.0%
2012	321,686	270,945	50,741	100.0%
2011	261,175	208,761	52,414	100.0%
2010	223,024	166,953	56,072	100.0%
2009	201,391	143,489	57,903	100.0%
2008	244,097	216,425	59,657	113.1%

* Frozen at \$59,657 pursuant to the provisions of Chapter 185, Florida Statutes, and any excess state contribution above the frozen amount can only be used for future benefit enhancements.

Firefighters' Retirement System:

Year Ended September 30,	Annual Required Contribution	City Contribution	State Contribution**	Percentage Contributed
2013	\$ 321,425	\$ 276,118	\$ 37,096	97.4%
2012	290,352	253,256	37,096	100.0%
2011	208,773	173,380	37,096	100.8%
2010	176,439	139,343	37,096	100.0%
2009	153,932	117,402	37,674	100.7%
2008	151,089	140,668	37,674	118.0%

** Frozen at \$37,096 pursuant to the provisions of Chapter 175, Florida Statutes, and any excess state contribution above the frozen amount can only be used for future benefit enhancements.

**CITY OF AVON PARK, FLORIDA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CRA FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	Community Redevelopment Agency - Main Street Fund	Community Redevelopment Agency - South Side Fund	Community Redevelopment Agency - Airport Fund	Total CRA Funds
Revenues				
Tax increment revenues:				
Avon Park transfer	\$ 41,655	\$ 9,564	\$ 12,134	\$ 63,353
Highlands County	82,153	18,863	23,932	124,948
Miscellaneous	780	2,045	-	2,825
Total revenues	<u>124,588</u>	<u>30,472</u>	<u>36,066</u>	<u>191,126</u>
Expenditures				
Personal services	24,910	9,259	6,456	40,625
Professional services	22,403	3,332	1,074	26,809
Miscellaneous	4,881	2,662	594	8,137
Repairs and maintenance	24,545	-	-	24,545
Grants and subsidies	89,183	24,883	-	114,066
Capital projects	70,894	-	-	70,894
Total expenditures	<u>236,816</u>	<u>40,136</u>	<u>8,124</u>	<u>285,076</u>
Net change in fund balances	(112,228)	(9,664)	27,942	(93,950)
Fund balances, beginning of year	279,713	122,616	108,383	510,712
Fund balances, end of year	<u>\$ 167,485</u>	<u>\$ 112,952</u>	<u>\$ 136,325</u>	<u>\$ 416,762</u>

CITY OF AVON PARK, FLORIDA
COMBINING STATEMENT OF PLAN NET POSITION
PENSION TRUST FUNDS
SEPTEMBER 30, 2013

	Police Officers' Retirement System	Firefighters' Retirement System	Total Pension Trust Funds
Assets			
Receivables:			
Contribution receivables:			
Plan members	\$ -	\$ 1,221	\$ 1,221
State of Florida	53,069	-	53,069
Accrued income	18,451	9,205	27,656
Total receivables	71,520	10,426	81,946
Due from other funds	21,971	11,630	33,601
Investments, at fair market value:			
Short-term money market funds	265,411	184,227	449,638
U.S. government securities	147,650	-	147,650
U.S. government and agencies	-	464,625	464,625
U.S. government agencies - mortgage backed securities	123,356	-	123,356
Corporate bonds	1,627,645	-	1,627,645
Corporate and foreign bonds	-	798,770	798,770
Municipal bonds	28,820	-	28,820
Corporate stocks	3,595,374	-	3,595,374
Common equity securities	-	2,618,443	2,618,443
Total investments	5,788,256	4,066,065	9,854,321
Total assets	5,881,747	4,088,121	9,969,868
Liabilities	-	-	-
Net position restricted for pension benefits	\$ 5,881,747	\$ 4,088,121	\$ 9,969,868

CITY OF AVON PARK, FLORIDA
COMBINING STATEMENT OF CHANGES IN PLAN NET POSITION
PENSION TRUST FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Police Officers' Retirement System</u>	<u>Firefighters' Retirement System</u>	<u>Total Pension Trust Funds</u>
Additions			
Contributions			
City	\$ 296,360	\$ 276,118	\$ 572,478
Plan members	9,162	35,509	44,671
State of Florida	53,069	43,902	96,971
Total contributions	<u>358,591</u>	<u>355,529</u>	<u>714,120</u>
Investment income	<u>771,772</u>	<u>360,619</u>	<u>1,132,391</u>
Less investment expenses:			
Investment management fees	27,881	16,033	43,914
Custodial fees	2,162	2,500	4,662
Performance evaluation fees	15,500	15,500	31,000
Total investment expenses	<u>45,543</u>	<u>34,033</u>	<u>79,576</u>
Net investment income	726,229	326,586	1,052,815
Total additions	<u>1,084,820</u>	<u>682,115</u>	<u>1,766,935</u>
Deductions			
Administrative expenses	75,818	57,003	132,821
Payments to retirees and participants	580,555	-	580,555
Benefit payments and contribution returns	-	198,271	198,271
Total deductions	<u>656,373</u>	<u>255,274</u>	<u>911,647</u>
Net increase	428,447	426,841	855,288
Net position restricted for pension benefits:			
Beginning of year	5,453,300	3,661,280	9,114,580
End of year	<u>\$ 5,881,747</u>	<u>\$ 4,088,121</u>	<u>\$ 9,969,868</u>

**CITY OF AVON PARK, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

<u>Federal / State Agency / Pass-Through Entity / Federal Program</u>	<u>CFDA Number</u>	<u>Contract / Grant Number</u>	<u>Grant Award Amount</u>	<u>Expenditures</u>
FEDERAL AWARDS				
<u>U.S. Department of Housing and Urban Development</u>				
Indirect Programs:				
Pass-through from Florida Dept. of Economic Opportunity Community Development Block Grant	14.228	11DB-C5-07-38-02-H19	\$ 750,000	\$ 518,015
<u>U.S. Department of Transportation</u>				
Direct Programs:				
Airport Improvement Program:				
Taxiway Lighting and Electrical Improvements	20.106	3-12-0004-016-2010	262,589	11,714
Airport Master Plan Update	20.106	3-12-0004-017-2011	153,725	41,500
Total U.S. Department of Transportation				<u>53,214</u>
<u>Environmental Protection Agency</u>				
Indirect Programs:				
Pass-through from Florida Dept. of Environmental Protection Capitalization Grants for Drinking Water State Revolving Funds	66.468	DW280400	2,448,187	1,368,139
<u>U.S. Department of Homeland Security</u>				
Indirect Programs:				
Pass-through from Florida Division of Emergency Management Hazard Mitigation Grant - Airport Drainage Phase 1	97.039	07HM-6@-07-38-06-062	252,103	52,751
Total Expenditures of Federal Awards				<u><u>\$ 1,992,119</u></u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

CITY OF AVON PARK, FLORIDA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2013

(1) Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Avon Park, Florida, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(2) Subrecipients:

The City provided no federal awards to subrecipients for the fiscal year ended September 30, 2013.

(3) Contingency:

Project expenditures are subject to audit and adjustment. If any expenditure were to be disallowed by the grantor agency as a result of such an audit, any claim for reimbursement to the grantor agency would become a liability of the City. In the opinion of management, all project expenditures included on the accompanying schedule are in compliance with the terms of the project agreements and applicable state laws and regulations.

(4) Loans:

As of September 30, 2013, the City had debt outstanding due to the State of Florida's State Revolving Fund in the amount of \$169,583. These revolving funds are funded through the Federal Capitalization Grants for Drinking Water State Revolving Funds (CFDA 66.468) program.



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**INDEPENDENT AUDITORS' 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
Members of the City Council
City of Avon Park, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Avon Park, Florida (City), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 19, 2014. Our report includes a reference to other auditors who audited the financial statements of the pension trust funds, as described in our report on the City's financial statements. The financial statements of the pension trust funds were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2013-001, 2013-002 and 2013-003 to be material weaknesses.

Honorable Mayor and
Members of the City Council
City of Avon Park, Florida

Compliance and Other Matters

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

City of Avon Park's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



CliftonLarsonAllen LLP

Sebring, Florida
May 19, 2014



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and
Members of the City Council
City of Avon Park, Florida

Report on Compliance for Each Major Federal Program

We have audited the City of Avon Park, Florida's (City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2013. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of 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, 2013.

Honorable Mayor and
Members of the City Council
City of Avon Park, Florida

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Sebring, Florida
May 19, 2014

**CITY OF AVON PARK, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
FEDERAL PROGRAMS
YEAR ENDED SEPTEMBER 30, 2013**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

1. The type of report issued on the financial statements:	Unmodified opinion
2. Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified that are not considered to be material weaknesses	None reported
3. Noncompliance material to the financial statements noted:	None reported
4. Internal control over major programs:	
Material weaknesses identified	No
Significant deficiencies identified that are not considered to be material weaknesses	No
5. Type of auditor’s report issued on compliance for major programs:	Unmodified opinion
6. Any audit findings which are required to be reported under Section 510(a) of Circular A-133:	No
7. Major Federal programs:	
Community Development Block Grant	<u>CFDA #</u> 14.228
Capitalization Grants for Drinking Water State Revolving Funds	66.468
9. Dollar threshold used to distinguish between Type A and Type B programs for Federal programs and state projects:	\$300,000
10. Auditee qualified as low-risk auditee under OMB Circular A-133?	No

**CITY OF AVON PARK, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
FEDERAL PROGRAMS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2013**

SECTION II – FINANCIAL STATEMENT FINDINGS

2013-001 Review of Journal Entries

Criteria:

All journal entries should include supporting documentation to verify the accuracy of the entry as well as evidence that clearly identified the preparer and the reviewer.

Condition:

Many journal entries lacked essential supporting documentation and did not identify the preparer and reviewer.

Effect:

Erroneous or fraudulent journal entries may be entered into the accounting system.

Cause:

An adequate system of internal controls over journal entry processing and approval was not in place.

Status of Finding:

During fiscal year 2012, the City implemented procedures for all journal entries that include maintaining supporting documentation, separating the entry and approval functions, and documenting the personnel performing the entry and approval functions.

Our audit procedures included testing entries posted during the current year. Many of the journal entries tested lacked essential supporting documentation or a reference to supporting documentation. Also, two journal entries to record the wire transfer for capital asset purchases and debt payments were made approximately two and a half and three and a half months after the respective transaction dates, resulting in an overstated cash balance until the date the entries were posted.

Recommendation:

We recommend all journal entries be maintained and organized in a logical manner with sufficient supporting documentation attached to all journal entries to demonstrate the accuracy of the transaction. Furthermore, entries should be identified and posted in a timely manner, when possible, so that management and governance can make informed decisions with the most accurate financial information available.

Management Response:

Management agrees with the finding and will add a more detailed description of the transaction posted and attached or explain where the supporting documentation is located.

**CITY OF AVON PARK, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
FEDERAL PROGRAMS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2013**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2013-002 Controls over Payroll Processing

Criteria:

Internal control frameworks recommend that documentation exist to evidence that payroll processing controls were being performed prior to payroll processing.

Condition:

The balancing of total hours for the pay period from the population of approved employee time cards to a report generated from the payroll system and the system generated payroll register for the time period did not contain any indication of review.

Effect:

The risk of error and fraud is increased when controls are not operating in an effective manner and documented.

Cause:

Two key controls were not properly documented to evidence that they occurred.

Status of Finding:

In July 2013, the City revised its payroll processing procedures so that the City Manager reviews and approves the payroll register. However, the timing of that review is not being documented. Furthermore, the following deficiencies in the City's payroll procedures were identified during the current audit:

- Two of thirty-eight Payroll/Status Change Notice forms, which document initial pay rates and changes to pay rates, were not approved by the City Manager and three could not be located by the City.
- Two of thirty-eight employee timesheets were missing documentation of approval by a supervisor or department head.
- The vacation and sick hours accrued for three employees were overstated due to data entry errors of the annual hours accrued in the payroll system. Those employees received their annual allotment of vacation and sick hours twice, once on January 1 and again on their contract anniversary dates. Those errors, plus calculation errors, resulted in an overstatement of the accrual of compensated absences at September 30, 2013, prior to an audit adjustment.

Recommendation:

To strengthen internal control over payroll, we recommend:

- Payroll register review and approval by the City Manager should include the date on which the review was performed to document that the review was performed timely.
- Payroll/Status Change Notice forms should be prepared and maintained for all payroll related changes. All payroll status changes should be approved by the City Manager.
- Timesheets should be reviewed and approved in accordance with the City's policies.
- Vacation and sick hours in the system should be reviewed by a position independent of the data entry process to ensure that amounts are accurate and in compliance with the City's policies and employment agreements.

Management Response:

Management agrees with the finding. Adequate policies are in place, but due to staffing changes which required training during fiscal year 2013 mistakes were made. Moving forward, the issues have been identified and corrections have been implemented.

**CITY OF AVON PARK, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
FEDERAL PROGRAMS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2013**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2013-003 – Capital Assets Subsidiary Ledger and Physical Inventory

Criteria:

Management is responsible for establishing and maintaining internal controls for the proper recording of all of the City's capital assets and to safeguard those assets.

Condition:

A deficiency in internal control existed because the City was unable to reconcile beginning governmental activities balances per the subsidiary ledger to the amounts reported in the prior year audited financial statements. The City has not taken a complete physical inventory of all capitalized assets in several years; identifying tags are not consistently used for machinery, equipment, and similar items; and detailed records of acquisitions and disposals are not maintained in an organized manner.

Effect:

Omissions and inaccuracies could occur in the capital assets due to error or fraud as a result of not having adequate controls to account for and safeguard assets.

Cause:

The City's capital assets subsidiary ledger for governmental activities was not updated for changes as a result of prior year's audits.

Status of Finding:

During the current year, the City investigated and resolved differences that existed between the reported balances and the subsidiary ledger for governmental activities. The City determined that the reported balances for capital assets and net position were overstated, resulting in current year corrections to the opening balances for governmental activities. The City also implemented procedures to maintain adequate asset documentation. However, the City has not completed a physical inventory of all capitalized assets, which would also ensure that all items have identifying tags.

Recommendation:

We recommend that the City implement the following procedures for capital assets:

- Complete either an annual inventory or perform periodic department inventories of all capitalized assets to ensure that only active assets are included in the City's financial statements.
- Place identifying tags on each asset with numbers that correspond to the items recorded in the detail property records to improve the tracking of assets for inventory, disposal, and impairment and make the process more efficient.

Management Response:

Management agrees with the finding and will begin to inventory capitalized assets in June 2014.

**CITY OF AVON PARK, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
FEDERAL PROGRAMS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2013**

SECTION III – FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL PROGRAMS

There were no such instances required to be reported.



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MANAGEMENT LETTER

Honorable Mayor and
Members of the City Council
City of Avon Park, Florida

We have audited the financial statements of the City of Avon Park, Florida (City), as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated May 19, 2014.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, Rules of the Florida Auditor General. We have issued our Independent Auditors' 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*, Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated May 19, 2014, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial report except as disclosed in the accompanying Schedule of Findings and Responses.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415., Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City was not in compliance with Section 218.415, Florida Statutes. Our recommendation is included in the Accompanying Schedule of Findings and Responses as 2013-007.
- Section 10.554(1)(i)3., Rules of Auditor General, requires that we address in the management letter any recommendations to improve financial management. Our recommendation is included in the accompanying schedule of findings and responses as 2013-010.

Honorable Mayor and
Members of the City Council
City of Avon Park, Florida

- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. Our recommendations are included in the accompanying schedule of findings and responses as 2013-008 and 2013-009.
- Section 10.554(1)(i)5., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. See Note 1 in the Notes to Financial Statements.
- Section 10.554(1)(i)6.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)6.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2013, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2013. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)6.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Sebring, Florida
May 19, 2014

**CITY OF AVON PARK
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2013**

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

		Current Year Status		
		Cleared	Partially Cleared	Not Cleared
2011-1 Financial Statement Adjustments and Preparation (Reported in 2012, 2011, 2010, 2009, and 2008. Preparation component only reported in 2011.)	Material Weakness	X		
2011-2 Grant Administration (Reported in 2012 and 2011.)	Material Weakness	X		
2011-3 - Timeliness of Bank Reconciliations (Reported in 2012, 2011, and 2010.)	Material Weakness	X		
2011-4 - Service Rates	Significant Deficiency	X		
2011-5 Review of Journal Entries (See current year 2013-001)	Material Weakness		X	
2011-10 Community Redevelopment Districts (Reported in 2012, 2011, 2010, and 2009. See current year 2013-004.)	Control Deficiency			X
2011-12 Billing Adjustments	Control Deficiency	X		
2011-13 Utility Deposits	Control Deficiency	X		
2011-15 Controls over Payroll Processing (Reported in 2011 and 2012. See current year 2013-002.)	Material Weakness			X
2012-1 - Prior Period Adjustments and Timeliness of Financial Reporting (See current year 2013-003.)	Material Weakness	X		
2012-2 - Petty Cash (See current year 2013-005.)	Control Deficiency			X
2012-3 - Purchasing Cards (See current year 2013-006.)	Control Deficiency			X
2012-4 - Capital Assets Subsidiary Ledger and Physical Inventory (See current year 2013-003.)	Material Weakness		X	

**CITY OF AVON PARK
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2013**

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2013-004 Community Redevelopment Districts

Criteria:

Sections 163.360, 163.361, and 163.362, Florida Statutes, sets for the requirements for community redevelopment plans, modification of community redevelopment plans and contents of community redevelopment plans, respectively.

Condition:

The City's community redevelopment district plans are in certain circumstances ambiguous with the types of expenditures allowed under the plan. In other circumstances, the plans are outdated as it relates to management's current plans with utilization of community redevelopment funds.

Effect:

Certain expenditures could be interpreted as unallowable.

Cause:

The plans have not been amended or modified since their respective adoption dates.

Status of Finding:

In May 2013, the CRA Board authorized a planning and management resource firm to update all three CRA plans, and funding was allocated for the purpose. The plans were not complete as of September 30, 2013.

Recommendation:

We recommend a comprehensive analysis of all current and future plans. Based on those plans, we recommend the City modify the plans to include more specific reference to the types of expenditures expected to occur within the community redevelopment districts now and in the future.

Management Response:

The City hired a consultant and the plans have been drafted. Management is working on a schedule to ensure the plans are adopted before the end of the fiscal year.

2013-005 – Petty Cash

Criteria:

The limit on amounts that may be disbursed from petty cash should be consistent in all City policies and procedures.

Condition:

The City's Purchasing Manual contains inconsistencies as to the maximum petty cash purchase limit. Within the table of contents, petty cash subsection heading and glossary, the maximum amount is defined as \$25.00; while in the summary of procurement categories section and within the petty cash subsection details, the maximum amount is defined as \$50.00.

Effect:

Inconsistent application of the City's purchasing procedures may occur.

**CITY OF AVON PARK
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2013**

CURRENT YEAR FINDINGS AND RECOMMENDATIONS (CONTINUED)

2013-005 – Petty Cash (Continued)

Cause:

Review of the Purchasing Manual did not identify the variations.

Status of Finding:

No changes to the Purchasing Manual were made during the current fiscal year.

Recommendation:

We recommend that the City consider amending the applicable sections of the Purchasing Manual to ensure consistency in the petty cash purchase thresholds.

Management Response:

This finding has been corrected subsequent to year-end. The purchasing manual was updated on December 23, 2013, Resolution 13-22 to remove any inconsistencies related to the City's petty cash policies and procedures.

2013-006 – Purchasing Cards

Criteria:

Per the City's Purchasing Card Policy, initial spending limits and purposes for departments and designated positions are established and subject to change as deemed necessary by the City Manager.

Condition:

A deficiency in internal control existed because selected transactions that contained purchases outside of the initial spending limits, specifically the purpose, did not contain documented evidence of either prior approval or that the initial spending limits were amended.

Effect:

Inconsistent application of the City's purchasing procedures may occur.

Cause:

The City did not follow procedures outlined in their Purchasing Card Policy.

Status of Finding:

No changes to the Purchasing Card Policy were made during the current fiscal year.

Recommendation:

We recommend that the City review and adhere to procedures established in the Purchasing Card Policy. Employees should be required to obtain prior approval for purchases outside the established spending limits. Management should also consider updating the initial spending limit for designated employees, as deemed necessary per the policy, and documenting those changes in the form of a finance department memorandum.

Management Response:

This finding has been corrected subsequent to year-end. The purchasing manual was updated on December 23, 2013, Resolution 13-22 to reflect how purchasing cards are currently being utilized.

**CITY OF AVON PARK
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2013**

CURRENT YEAR FINDINGS AND RECOMMENDATIONS (CONTINUED)

2013-007 – Continuing Education for Investments

Criteria:

Section 218.415(14), Florida Statutes and the City's Investment Policy state that personnel must annually complete 8 hours of continuing education in subjects or courses of study related to investment practices and products.

Condition:

City personnel responsible for making investments decisions did not complete the required continuing education courses during the fiscal year ending September 30, 2013.

Cause:

Continuing education for investments was not obtained.

Effect:

Management's decisions may be affected by information obtained while participating in courses related to investment practices and products.

Recommendation:

The required continuing education should be obtained on an annual basis.

Management Response

The City agrees with the finding and its Accounting Specialist will attend the necessary continuing education in accordance with Florida Statutes.

2013-008 – Community Development Block Grant – Reporting

Criteria:

Data reported in performance reports should be accumulated and summarized in accordance with the required or stated criteria and methodology.

Condition:

One semi-annual Contractual Obligation and MBE Report reported an incorrect vendor contract amount.

Cause:

Inaccurate completion of the report resulted in the error.

Effect:

One amount reported in the Contractual Obligation and MBE Report for total vendor contracts was greater than actual.

Recommendation:

Grant reporting should be reconciled to the accounting data, grant records, and other relevant information to ensure complete and accurate reporting.

Management Response:

Management agrees with the finding and will reconcile grant reporting to the underlying information.

**CITY OF AVON PARK
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2013**

CURRENT YEAR FINDINGS AND RECOMMENDATIONS (CONTINUED)

2013-009 – Interfund Loans

Criteria:

Accounting principles generally accepted in the United States of America (GAAP) requires that interfund loans, for which repayment is not expected within a reasonable time, be recorded or reclassified as a transfer between the funds.

Condition:

The balance reported as an interfund advance from the Solid Waste Fund to the Airport Fund as of September 30, 2013 has not been formally authorized and there are no repayment provisions.

Cause:

The City does not have policy that addresses interfund balances.

Effect:

If amounts are not repaid within a reasonable time and the balance is reclassified as a transfer between the funds, the Solid Waste Fund net position will decrease and the Airport Fund net position will increase as a result.

Recommendation:

The City should consider adopting a policy for interfund balances, including short-term receivables and payables, loans and transfers that addresses proper authorization, collectability, and classification. The loan from the Solid Waste Fund to the Airport Fund should be analyzed for collectability. Then, the City should consider adopting a formal repayment plan or writing off of all or part of the outstanding balance.

Management Response

Management agrees with the finding and will update the accounting manual to include a policy that addresses interfund balances. In addition, the Airport debt will be approved through a Council Resolution with a repayment schedule.

2013-010 – GASB 67 and 68: Reporting of Pension Liabilities

The Governmental Accounting Standards Board (GASB) issued Statement No. 67, *Financial Reporting for Pension plans, an amendment of GASB Statement, No. 25*, which is required to be implemented in fiscal year 2014; and Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015. These two pronouncements will substantially change the reporting for pension liability and expense. Change in the pension liability will be immediately recognized as a pension expense or reported as deferred outflows/inflows of resources depending on the nature of the changes. Since actuarial plan information will be crucial in the new reporting requirements, the City should coordinate with the pension plans board and administrator to establish the timeline when information is needed for the City's financial statements. The City should also maintain contact with the plans board and administrator to ensure that information will be available when needed.