

**CITY OF AVON PARK, FLORIDA**  
**FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

**CITY OF AVON PARK, FLORIDA  
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SEPTEMBER 30, 2012**

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## INDEPENDENT AUDITORS' REPORT

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

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 (the City), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the pension trust funds. Those financial statements were audited by other auditors whose reports thereon have 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 reports 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our 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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund, infrastructure fund, and CRA fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 17 to the financial statements, the 2011 financial statements have been restated to correct a misstatement.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of pension and OPEB fund progress, and schedules of contributions from employer and other contributing entities 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 and the other auditors 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.

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 schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the 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.



**CliftonLarsonAllen LLP**

Sebring, Florida  
July 24, 2013

## 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, 2012.

### FINANCIAL HIGHLIGHTS

- The City's assets exceeded its liabilities at the close of the fiscal year by \$35.5 million (net assets). Of this amount, \$27.6 million was invested in capital assets, net of related debt, and \$3.7 million was restricted by laws, debt covenants, or for capital projects. The remaining \$4.2 million (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net assets increased \$2.1 million, of which \$.5 million was an increase from governmental activities, and \$1.6 million was an increase from business-type activities.
- As of September 30, 2012, the City reported combined governmental ending fund balances of \$4,206,957, an increase of \$678,392 in comparison with the prior year. In addition, the City reported combined proprietary fund net assets of \$22,085,825, an increase of \$1,611,032 in comparison with the prior year.
- At September 30, 2012, unassigned fund balance (the City's Reserves) for the general fund was \$1,494,935 or 29 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 (debt) decreased by \$516,028, or 15 percent, during the current year. The reason for this decrease is primarily because of principal payments that were made during the year.

### 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 assets presents information on all the City's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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, solid waste, and airport activities.

The government-wide financial statements can be found on pages 16 - 17 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 funds 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 18 - 26 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 27 - 30 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 31 - 32 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 33 - 62 of this report.

**Required Supplementary 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 64 - 65 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$35,519,458 at the close of the most recent fiscal year.

The largest portion of the City's net assets (78 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 assets (10 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is \$4,207,012 (12 percent).

## CITY OF AVON PARK'S NET ASSETS

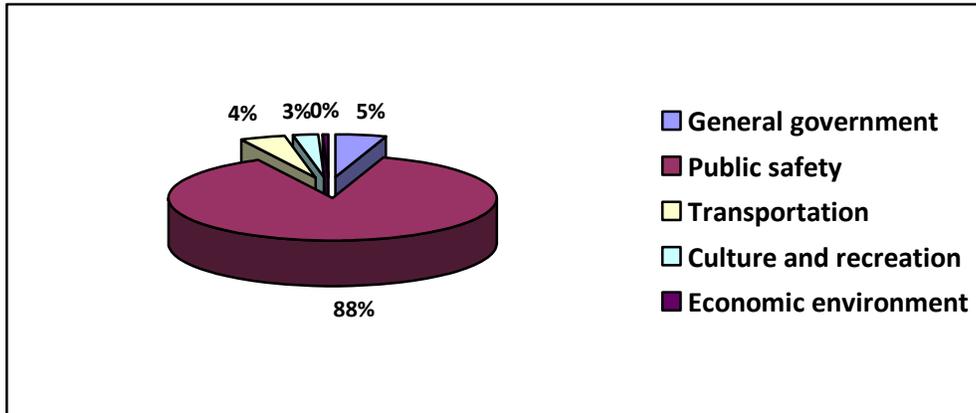
	Governmental Activities		Business-type Activities		Total	
	2011	2012	2011	2012	2011	2012
Current and other assets	\$4,025,042	\$4,664,872	\$4,982,937	\$5,811,514	\$ 9,007,979	\$10,476,386
Capital assets	<u>9,606,545</u>	<u>9,430,453</u>	<u>20,497,211</u>	<u>20,415,726</u>	<u>30,103,756</u>	<u>29,846,179</u>
Total assets	<u>13,631,587</u>	<u>14,095,325</u>	<u>25,480,148</u>	<u>26,227,240</u>	<u>39,111,735</u>	<u>40,322,565</u>
Long-term liabilities outstanding	394,765	405,984	3,597,762	2,468,899	3,992,527	2,874,883
Other liabilities	<u>393,674</u>	<u>310,044</u>	<u>1,339,599</u>	<u>1,672,813</u>	<u>1,733,273</u>	<u>1,982,857</u>
Total liabilities	<u>788,439</u>	<u>716,028</u>	<u>4,937,361</u>	<u>4,141,712</u>	<u>5,725,800</u>	<u>4,857,740</u>
Net assets:						
Invested in capital assets, net of related debt	9,606,545	9,430,453	17,736,626	18,121,677	27,343,171	27,552,130
Restricted	1,690,795	2,142,245	1,502,668	1,531,720	3,193,463	3,673,965
Unrestricted	<u>1,545,808</u>	<u>1,806,599</u>	<u>1,303,493</u>	<u>2,432,131</u>	<u>2,849,301</u>	<u>4,238,730</u>
Total net assets	<u>\$12,843,148</u>	<u>\$13,379,297</u>	<u>\$20,542,787</u>	<u>\$22,085,528</u>	<u>\$33,385,935</u>	<u>\$35,464,825</u>

**CITY OF AVON PARK'S CHANGES IN NET ASSETS**

	Governmental Activities		Business-type Activities		Total	
	2011	2012	2011	2012	2011	2012
Revenues:						
Program revenues:						
Charges for services	\$1,149,510	\$1,114,232	\$5,949,592	\$6,184,453	\$ 7,099,102	\$7,298,685
Operating grants and contributions	685,009	179,863	791,517	109,191	1,476,526	289,054
Capital grants and contributions	90,375	279,190	279,674	244,246	370,049	523,436
General revenues:						
Property taxes	1,389,384	1,473,309	-	-	1,389,384	1,473,309
Other taxes	2,214,336	2,103,247	-	-	2,214,336	2,103,247
Other	957,766	1,221,578	51,878	15,583	1,009,644	1,237,161
Total revenues	<u>6,486,380</u>	<u>6,371,419</u>	<u>7,072,661</u>	<u>6,553,473</u>	<u>13,559,041</u>	<u>12,924,892</u>
Expenses:						
General government	810,534	765,713	-	-	810,534	765,713
Public safety	3,815,300	3,813,504	-	-	3,815,300	3,813,504
Transportation	711,882	554,905	-	-	711,882	554,905
Culture and recreation	702,448	581,287	-	-	702,448	581,287
Economic environment	214,288	223,249	-	-	214,288	223,249
Interest on long-term debt	45,728	-	-	-	45,728	-
Water/Sewer	-	-	2,917,132	2,890,744	2,917,132	2,890,744
Airport	-	-	670,640	697,007	670,640	697,007
Solid waste	-	-	1,083,048	1,309,423	1,083,048	1,309,423
Total expenses	<u>6,300,180</u>	<u>5,938,658</u>	<u>4,670,820</u>	<u>4,897,174</u>	<u>10,971,000</u>	<u>10,835,832</u>
Increase in net assets before transfers	186,200	432,761	2,401,841	1,656,299	2,588,041	2,089,060
Transfers	(41,433)	45,267	41,433	(45,267)	-	-
Increase in net assets	144,767	478,028	2,443,274	1,611,032	2,588,041	2,089,060
Prior period adjustment	-	58,121	-	(68,291)	-	(10,170)
Net assets, beginning	<u>12,698,381</u>	<u>12,843,148</u>	<u>18,099,513</u>	<u>20,542,787</u>	<u>30,797,894</u>	<u>33,385,935</u>
Net assets, ending	<u>\$12,843,148</u>	<u>\$13,379,297</u>	<u>\$20,542,787</u>	<u>\$22,085,528</u>	<u>\$33,385,935</u>	<u>\$35,464,825</u>

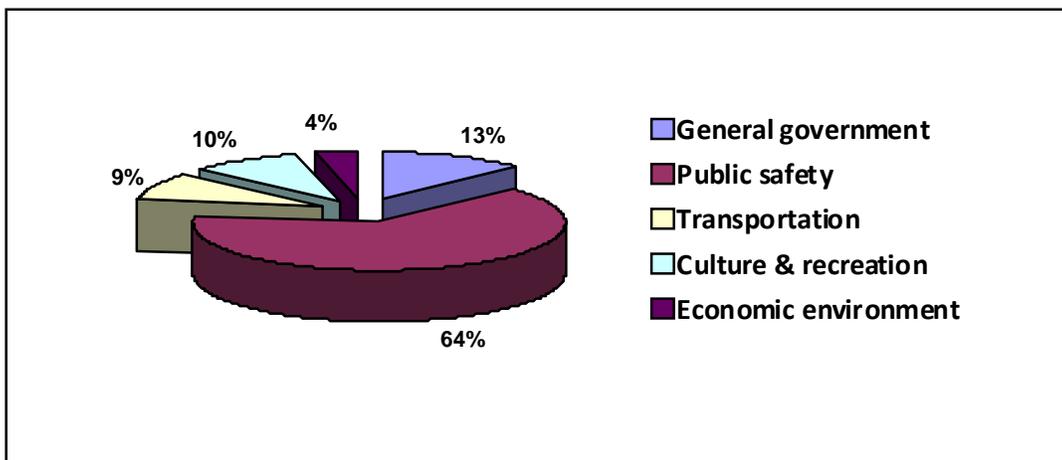
**Governmental Activities.** For the current year, the City's governmental activities had a net expense of \$4,365,373, a decrease of \$9,913 in comparison with the prior year. These services are intended to be primarily funded by taxes, as opposed to charges for services and grants.

**PROGRAM REVENUES/CHARGES FOR SERVICES – GOVERNMENTAL ACTIVITIES  
2011-12 Fiscal Year**



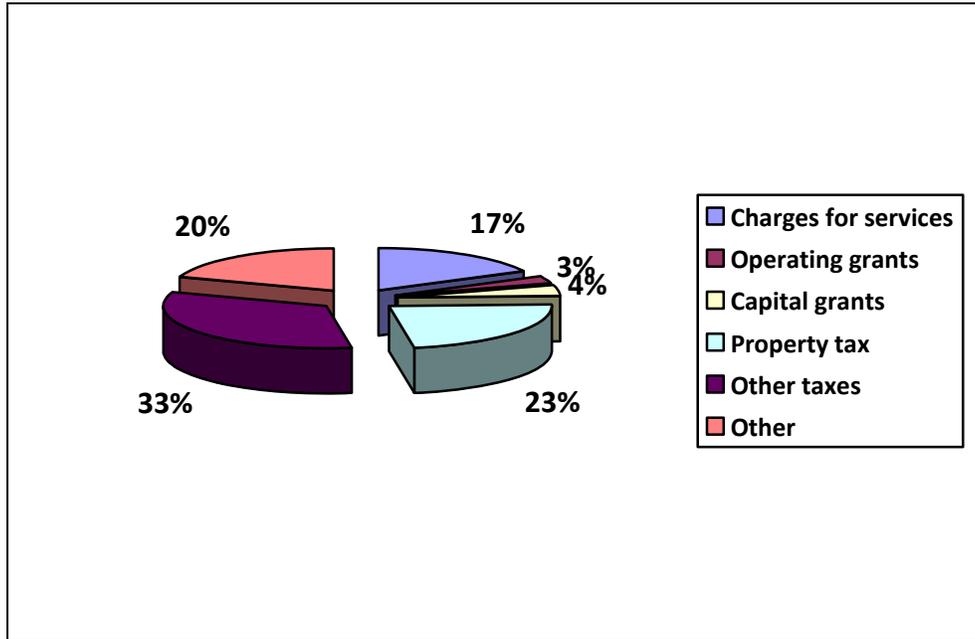
Total program revenues/charges for services for governmental activities decreased \$35,278 when compared to the prior year. The decrease is primarily due to revenue decreases of \$22,611 and \$27,393 in special assessments for fire protection and court fines, respectively. Total program revenues/charges for services by function on a percentage basis, as shown above, show no significant changes. The most significant source of program revenue/charges for services is the special assessment for fire protection in the amount of \$894,901.

**PROGRAM EXPENSES – GOVERNMENTAL ACTIVITIES  
2011-12 Fiscal Year**



Total program expenses for governmental activities decreased \$361,522 when compared to the prior year, due primarily to decreases in transportation and culture and recreation expenses of \$156,977 and \$121,161, respectively. These decreases were due to a reduction in salaries and other expenses.

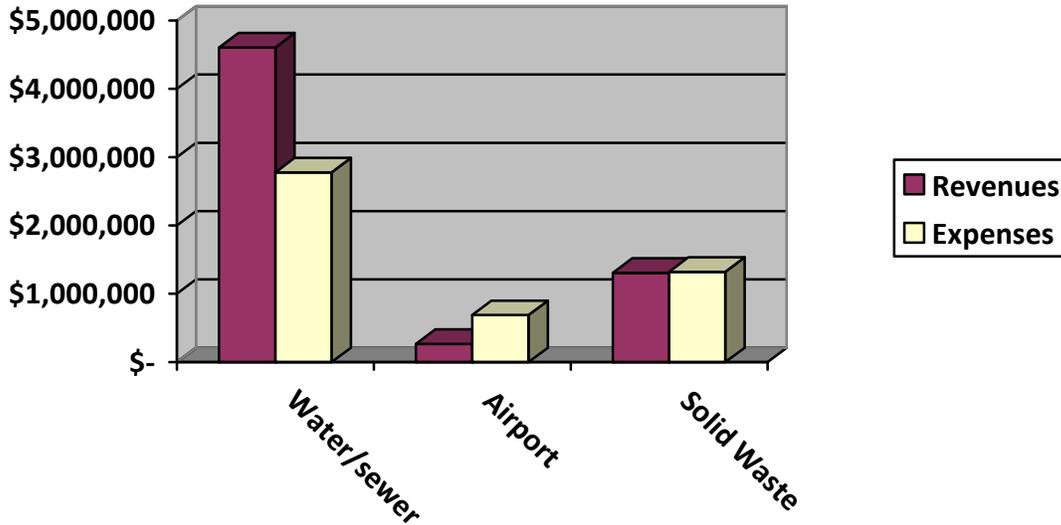
**REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES  
2011-12 Fiscal Year**



In total, governmental activities revenues decreased \$114,961. Significant changes in revenues include an increase in miscellaneous revenues, a decrease in charges for services of \$35,278, previously discussed, a decrease in property taxes of \$54,465 (4 percent), and a decrease in operating grants and contributions, due to a reduction of \$187,210 in County funding for operations and for a project completed in the prior year. Also, capital grants and contributions increased \$188,815, primarily due to a grant of \$132,479 in the current year that was used to purchase electric vehicles.

**Business-type Activities.** Business-type activities account for 62 percent of the City’s net assets. 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 and interest. The airport revenues are derived from rental of the facilities.

**PROGRAM REVENUES AND EXPENSES- BUSINESS-TYPE ACTIVITIES  
2010-12 Fiscal Year**



The City's business-type activities had net revenue of \$1,640,716, a decrease of \$709,247 in comparison to the prior year. After investment earnings and transfers, business-type activities increased the net assets by \$1,611,032. Key elements of this change from the prior year were as follows:

The Water and Sewer Fund has an operating income of \$1,828,364, which is an increase of \$237,535 compared to the prior year. The City had a net increase in operating revenues of \$225,000, that was primarily due to the City's acquisition of Crystal Lake water and sewer systems. In addition, overall operating expenses decreased \$12,000.

The Airport Fund has a deficit of unrestricted net assets in the amount of \$1,126,450, a decrease in its deficit from the prior year of \$37,004. The Airport Fund is showing an operating loss of \$420,956, an increase of \$10,268 compared to the prior year. Operating revenues received were not enough to cover the operating expenses. The main contributor to the loss is depreciation expense on airport improvements, hangars, and the industrial building that were financed with grants and developer contributions.

The Solid Waste Fund has an operating loss of \$102. This net loss is due to revenues decreasing \$67,500 compared to the prior year and the one-time purchase of garbage carts in the amount of \$200,000.

## 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 \$4,206,957, an increase of \$678,392 in comparison to the prior year. \$1,494,935 or 36 percent is in unassigned fund balance, which is available for spending at the City's discretion. Also \$324,226 is committed to payment of compensated absences and \$173,750 is committed for the subsequent year's budget. The City's infrastructure fund and CRA Fund balances are restricted in their use.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,494,935 while total fund balance reached \$2,079,384. 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 29 percent of total general fund expenditures. The City's fund balance in the general fund increased by \$219,445 during the current fiscal year, combined with a prior period adjustment which also increased fund balance by \$58,121.

The fund balance of the City's infrastructure fund increased by \$473,974 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 assets of the water and sewer fund at the end of the year were \$1,871,748. The airport fund and solid waste funds unrestricted net assets were (\$1,126,450) and \$1,655,114, 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

Differences between the original budget and the final amended budget for the general fund were as follows:

- Revenues from taxes increased \$97,727, primarily due to State pension contributions being omitted from the original budget. The additional revenue was offset by additional expenses related to pension contributions.
- Miscellaneous revenues increased \$24,850. This increase was offset by additional expenses in all departments.

Differences between the final amended budget and the actual for the general fund were a \$246,012 decrease in revenues and a \$365,926 decrease in expenditures. These differences were as follows:

- Intergovernmental Revenues had a negative budget variance of \$237,756, due primarily to a FRDAP Grant of \$200,000 that was budgeted but not received. Parks expenditures also showed a positive variance in expenditures of \$265,926, due primarily to capital outlay expenditures budgeted for the grant, but not incurred.
- Actual tax revenues exceeded budget by \$18,471, due to property tax revenue collected being \$54,226 more than budgeted. However, utility and communications service taxes were \$29,555 less than budgeted.
- The Police department reported a \$23,587 negative budget variance in expenditures, due to accrual leave payouts not budgeted. The Fire department reported a negative budget variance in expenditures of \$36,676, due to a shortfall for retirement contributions discovered more than 60 days after year end. The Street department had a positive budget variance in expenditures of \$38,690, due to a reduction in salaries resulting from workforce reduction.

### **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, 2012 amounts to \$29,900,811 (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 decrease in the City's investment in capital assets for the current fiscal year was 1 percent, because current year depreciation exceeded capital additions for the year.

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

- General fund improvements and equipment acquisitions comprised of:
  - Street improvements, \$238,082
  - Fire Department building improvements, \$33,381
  - Vehicles, \$209,877, including \$132,481 of electric vehicles financed with grant proceeds
- Water and sewer improvements and equipment acquisitions comprised of:
  - Bell Street Generator, \$183,626
  - Highway 27 Water Main Relocation Project, \$268,200
  - Crystal Lake Water and Sewer Improvements, \$112,932
  - Vehicles and trailers, \$55,218
- Airport preliminary engineering expenses related to drainage, \$24,849
- Solid waste garbage truck, \$171,136

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

	Governmental Activities		Business-type Activities		Total	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Land	\$ 316,174	\$ 316,174	\$ 868,360	\$ 868,360	\$ 1,184,534	\$ 1,184,534
Buildings and system Machinery and Equipment	4,963,699	5,011,758	33,148,457	33,737,752	38,112,156	38,749,510
Infrastructure	5,043,471	5,213,066	4,696,481	5,048,321	9,739,952	10,261,387
Construction in progress	5,611,342	5,849,424	-	-	5,611,342	5,849,424
Less: Accumulated depreciation	4,792	4,792	272,173	411,210	276,965	416,002
	<u>6,332,933</u>	<u>6,964,761</u>	<u>18,566,550</u>	<u>19,649,917</u>	<u>24,899,483</u>	<u>26,614,678</u>
	<u>\$9,606,545</u>	<u>\$9,430,453</u>	<u>\$20,418,921</u>	<u>\$20,415,726</u>	<u>\$30,025,566</u>	<u>\$29,846,179</u>

Additional information on the City's capital assets can be found on Note 4 on pages 47 - 48 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total long-term debt outstanding of \$2,874,883. Of this amount, \$2,145,000 comprises debt secured by specific revenue sources (revenue bonds) and \$201,869 is for notes payable, \$410,829 for compensated absences and \$117,185 for Other Post-Employment Benefit Obligations.

**CITY OF AVON PARK'S OUTSTANDING DEBT**

	Governmental Activities		Business-type Activities		Total	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Loans payable and other obligations	\$394,765	\$405,984	\$356,146	\$ 323,899	\$ 750,911	\$ 729,883
Revenue bonds	-	-	<u>2,640,000</u>	<u>2,145,000</u>	<u>2,640,000</u>	<u>2,145,000</u>
Total	<u>\$394,765</u>	<u>\$405,984</u>	<u>\$2,996,146</u>	<u>\$2,468,899</u>	<u>\$3,390,911</u>	<u>\$2,874,883</u>

The City's total debt decreased \$516,028 (15 percent) during the current fiscal year.

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 page 49 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.

- The unemployment rate for the County was 7.8 percent for the month of December 2012, which is higher than the State of Florida rate of 7.6 percent and greater than the national rate of 7.6 percent.
- The assessed property taxable value of real property in the City decreased 9 percent over last year. Estimates for 2012-2013 expect a 10 to 12 percent decrease in property values.

All of the factors were considered in preparing the City's budget for the 2013 fiscal year.

### **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 ASSETS**  
**SEPTEMBER 30, 2012**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Assets</b>			
Equity in pooled cash, cash equivalents and investments	\$ 3,753,410	\$ 3,449,587	\$ 7,202,997
Receivables, net	108,464	515,785	624,249
Internal balances	141,437	(141,437)	-
Due from other governments	441,889	243,090	684,979
Prepaid items	71,801	-	71,801
Inventory	-	102,102	102,102
Restricted cash and cash equivalents	-	1,557,848	1,557,848
Net pension assets	147,871	-	147,871
Deferred charges	-	84,539	84,539
Capital assets:			
Land	316,174	868,360	1,184,534
Buildings and system	5,011,758	33,737,752	38,749,510
Equipment	5,213,066	5,048,321	10,261,387
Infrastructure	5,849,424	-	5,849,424
Construction in progress	4,792	411,210	416,002
Accumulated depreciation and amortization	(6,964,761)	(19,649,917)	(26,614,678)
<b>Total Assets</b>	<u>14,095,325</u>	<u>26,227,240</u>	<u>40,322,565</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	280,033	276,600	556,633
Payable from restricted assets:			
Interest payable	-	26,128	26,128
Deposits	-	760,930	760,930
Deferred revenue	30,011	609,155	639,166
Noncurrent liabilities:			
Due within one year	282,500	614,434	896,934
Due in more than one year	123,484	1,854,465	1,977,949
<b>Total Liabilities</b>	<u>716,028</u>	<u>4,141,712</u>	<u>4,857,740</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	9,430,453	18,121,677	27,552,130
Restricted for:			
Infrastructure	1,616,861	-	1,616,861
Community redevelopment	510,712	-	510,712
Other	14,672	-	14,672
System improvements	-	281,720	281,720
Debt service	-	1,000,000	1,000,000
Renewal and replacement	-	250,000	250,000
Unrestricted	1,806,599	2,432,131	4,238,730
<b>Total Net Assets</b>	<u>\$ 13,379,297</u>	<u>\$ 22,085,528</u>	<u>\$ 35,464,825</u>

*See accompanying Notes to Financial Statements.*

**CITY OF AVON PARK, FLORIDA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Functions/Programs</b>							
<b>Governmental activities</b>							
General government	\$ 765,713	\$ 54,198	\$ -	\$ 132,479	\$ (579,036)	\$ -	\$ (579,036)
Public safety	3,813,504	976,371	69,863	4,181	(2,763,089)	-	(2,763,089)
Transportation	554,905	49,504	-	86,176	(419,225)	-	(419,225)
Culture and recreation	581,287	28,791	110,000	2,000	(440,496)	-	(440,496)
Economic environment	223,249	5,368	-	54,354	(163,527)	-	(163,527)
<b>Total governmental activities</b>	<u>5,938,658</u>	<u>1,114,232</u>	<u>179,863</u>	<u>279,190</u>	<u>(4,365,373)</u>	<u>-</u>	<u>(4,365,373)</u>
<b>Business-type activities</b>							
Water and sewer	2,890,744	4,607,745	-	197,922	-	1,914,923	1,914,923
Airport	697,007	267,387	109,191	46,324	-	(274,105)	(274,105)
Solid waste	1,309,423	1,309,321	-	-	-	(102)	(102)
Total business-type activities	<u>4,897,174</u>	<u>6,184,453</u>	<u>109,191</u>	<u>244,246</u>	<u>-</u>	<u>1,640,716</u>	<u>1,640,716</u>
<b>Total primary government</b>	<u>\$ 10,835,832</u>	<u>\$ 7,298,685</u>	<u>\$ 289,054</u>	<u>\$ 523,436</u>	<u>(4,365,373)</u>	<u>1,640,716</u>	<u>(2,724,657)</u>
<b>General revenues</b>							
Taxes							
Property					1,473,309	-	1,473,309
Fuel					316,623	-	316,623
Infrastructure surtax					716,204	-	716,204
Utility and communication services					953,053	-	953,053
Other					117,367	-	117,367
Franchise fees					528,487	-	528,487
Unrestricted intergovernmental revenue					642,702	-	642,702
Investment earnings					5,176	15,583	20,759
Miscellaneous					45,213	-	45,213
Transfers					45,267	(45,267)	-
<b>Total general revenues and transfers</b>					<u>4,843,401</u>	<u>(29,684)</u>	<u>4,813,717</u>
<b>Change in net assets</b>					<u>478,028</u>	<u>1,611,032</u>	<u>2,089,060</u>
<b>Net assets, beginning of year, as previously stated</b>					12,843,148	20,542,787	33,385,935
<b>Prior period adjustment</b>					58,121	(68,291)	(10,170)
<b>Net assets, beginning of year, as restated</b>					<u>12,901,269</u>	<u>20,474,496</u>	<u>33,375,765</u>
<b>Net assets, end of year</b>					<u>\$ 13,379,297</u>	<u>\$ 22,085,528</u>	<u>\$ 35,464,825</u>

See accompanying Notes to Financial Statements.

**CITY OF AVON PARK, FLORIDA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2012**

	<b>General</b>	<b>Infrastructure</b>
<b>Assets</b>		
Equity in pooled cash, cash equivalents and investments	\$ 1,719,922	\$ 1,502,931
Receivables, net	107,887	577
Due from other governments	291,475	113,353
Due from other funds	175,080	-
Prepaid items	71,801	-
<b>Total Assets</b>	<b>\$ 2,366,165</b>	<b>\$ 1,616,861</b>
<b>Liabilities and Fund Balances</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 210,194	\$ -
Due to other funds	-	-
Due to fiduciary funds	46,576	-
Deferred revenue	30,011	-
Total liabilities	286,781	-
Fund balances:		
Nonspendable - prepaid items	71,801	-
Restricted for:		
Law enforcement	8,190	-
Bouis Fountain	6,482	-
Infrastructure	-	1,616,861
Community redevelopment	-	-
Committed for compensated absences	324,226	-
Assigned to subsequent year's budget	173,750	-
Unassigned	1,494,935	-
Total fund balances	2,079,384	1,616,861
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,366,165</b>	<b>\$ 1,616,861</b>

*See accompanying Notes to Financial Statements.*

<u>CRA</u>	<u>(Non-major) CDBG</u>	<u>Total Governmental Funds</u>
\$ 530,557	\$ -	\$ 3,753,410
-	-	108,464
-	37,061	441,889
-	-	175,080
-	-	71,801
<u>\$ 530,557</u>	<u>\$ 37,061</u>	<u>\$ 4,550,644</u>
\$ 19,845	\$ 3,418	\$ 233,457
-	33,643	33,643
-	-	46,576
-	-	30,011
<u>19,845</u>	<u>37,061</u>	<u>343,687</u>
-	-	71,801
-	-	8,190
-	-	6,482
-	-	1,616,861
510,712	-	510,712
-	-	324,226
-	-	173,750
-	-	1,494,935
<u>510,712</u>	<u>-</u>	<u>4,206,957</u>
<u>\$ 530,557</u>	<u>\$ 37,061</u>	<u>\$ 4,550,644</u>

**CITY OF AVON PARK, FLORIDA  
RECONCILIATION OF THE BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2012**

**Fund Balances - Total Governmental Funds** \$ 4,206,957

Amounts reported for governmental activities in the statement of net assets are different because:

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 assets, which is presented on the accrual basis, an asset is reported since the adjustment to expense is fully recognized in the statement of activities. 147,871

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

Governmental capital assets	16,395,214	
Accumulated depreciation	<u>(6,964,761)</u>	
		9,430,453

Long-term liabilities, are not due and payable in the current period and therefore, are not reported in the funds.

OPEB liability	(81,758)	
Compensated absences	<u>(324,226)</u>	
		(405,984)

**Net Assets of Governmental Activities** \$ 13,379,297

*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, 2012**

	<u>General</u>	<u>Infrastructure</u>
<b>Revenues</b>		
Taxes	\$ 2,721,962	\$ 716,204
Charges for services	37,926	-
Permits, fees, and special assessments	1,443,280	-
Intergovernmental	1,096,905	-
Fines and forfeitures	35,692	-
Investment earnings	1,683	3,492
Miscellaneous	114,815	2,360
Total revenues	<u>5,452,263</u>	<u>722,056</u>
<b>Expenditures</b>		
Current:		
General government	653,199	-
Public safety	3,530,670	-
Transportation	333,614	-
Culture and recreation	454,721	-
Economic environment	-	-
Capital outlay	196,111	248,082
Total expenditures	<u>5,168,315</u>	<u>248,082</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>283,948</u>	<u>473,974</u>
<b>Other financing sources (uses)</b>		
Transfers in	50,000	-
Transfers out	(114,503)	-
Total other financing sources (uses)	<u>(64,503)</u>	<u>-</u>
<b>Net change in fund balances</b>	219,445	473,974
<b>Fund balances, beginning of year, as previously stated</b>	1,801,818	1,142,887
Prior period adjustment	58,121	-
<b>Fund balances, beginning of year, as restated</b>	<u>1,859,939</u>	<u>1,142,887</u>
<b>Fund balances, end of year</b>	<u>\$ 2,079,384</u>	<u>\$ 1,616,861</u>

*See accompanying Notes to Financial Statements.*

<u>CRA</u>	<u>(Non-major ) CDBG</u>	<u>Total Governmental Funds</u>
\$ 138,390	\$ -	\$ 3,576,556
-	-	37,926
-	-	1,443,280
-	54,354	1,151,259
-	-	35,692
-	-	5,175
6,268	-	123,443
<u>144,658</u>	<u>54,354</u>	<u>6,373,331</u>
-	-	653,199
-	-	3,530,670
-	-	333,614
-	-	454,721
168,895	54,354	223,249
105,293	-	549,486
<u>274,188</u>	<u>54,354</u>	<u>5,744,939</u>
<u>(129,530)</u>	<u>-</u>	<u>628,392</u>
114,503	-	164,503
-	-	(114,503)
<u>114,503</u>	<u>-</u>	<u>50,000</u>
<u>(15,027)</u>	<u>-</u>	<u>678,392</u>
525,739	-	3,470,444
-	-	58,121
<u>525,739</u>	<u>-</u>	<u>3,528,565</u>
<u>\$ 510,712</u>	<u>\$ -</u>	<u>\$ 4,206,957</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, 2012**

**Net Change in Fund Balances - Total Governmental Funds** \$ 678,392

Amounts reported for governmental activities in the statement of net assets are different because:

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 assets, the amount is reported as an asset. Thus the change in net assets differs from the change in fund balance by the amount contributed in excess (deficiency) of the actuary's requirement. (13,053)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is depreciated over their estimated useful lives.

Expenditures for capital assets	543,119	
Less: Current year depreciation	717,298	
Net book value of disposed assets	1,913	
		(176,092)

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:

Change in OPEB liability	(27,013)	
Compensated absences	15,794	
		(11,219)

**Change in Net Assets of Governmental Activities** \$ 478,028

*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, 2012**

	<u>Budgeted Amounts</u>			<b>Variance with Final budget - Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Taxes	\$ 2,609,945	\$ 2,703,491	\$ 2,721,962	\$ 18,471
Charges for services	31,350	32,575	37,926	5,351
Permits, fees, and special assessments	1,481,228	1,481,228	1,443,280	(37,948)
Intergovernmental	1,330,480	1,334,661	1,096,905	(237,756)
Fines and forfeitures	51,798	51,798	35,692	(16,106)
Investment earnings	3,024	3,024	1,683	(1,341)
Miscellaneous	66,648	91,498	114,815	23,317
Total revenues	<u>5,574,473</u>	<u>5,698,275</u>	<u>5,452,263</u>	<u>(246,012)</u>
<b>Expenditures</b>				
General government:				
City council	23,273	25,233	24,996	237
City manager	208,352	227,147	221,918	5,229
Finance	120,665	103,909	90,766	13,143
Legal counsel	112,059	188,159	176,539	11,620
Other government services	293,247	319,969	276,609	43,360
Public safety:				
Police	1,911,096	1,999,389	2,022,976	(23,587)
Fire	1,238,058	1,294,321	1,330,997	(36,676)
Code enforcement	157,604	145,408	127,960	17,448
Planning and zoning	63,655	63,655	53,676	9,979
Transportation				
Street	446,917	409,624	370,934	38,690
Culture/recreation:				
Parks	508,458	509,321	243,334	265,987
Recreation	190,377	195,879	181,733	14,146
Community center	52,227	52,227	45,877	6,350
Total expenditures	<u>5,325,988</u>	<u>5,534,241</u>	<u>5,168,315</u>	<u>365,926</u>
<b>Excess (deficiency) of revenues over expenditures</b>				
	<u>248,485</u>	<u>164,034</u>	<u>283,948</u>	<u>119,914</u>
<b>Other financing sources (uses)</b>				
Transfers in	86,125	88,025	50,000	(38,025)
Transfers out	(334,610)	(252,059)	(114,503)	137,556
Total other financing sources (uses)	<u>(248,485)</u>	<u>(164,034)</u>	<u>(64,503)</u>	<u>99,531</u>
<b>Net change in fund balances</b>				
	-	-	219,445	219,445
<b>Fund balances, beginning of year,</b>				
as previously stated	1,801,818	1,801,818	1,801,818	-
Prior period adjustment	-	-	58,121	58,121
<b>Fund balances, beginning of year, as restated</b>	<u>1,801,818</u>	<u>1,801,818</u>	<u>1,859,939</u>	<u>58,121</u>
<b>Fund balances, end of year</b>				
	<u>\$ 1,801,818</u>	<u>\$ 1,801,818</u>	<u>\$ 2,079,384</u>	<u>\$ 277,566</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, 2012**

	<u>Budgeted Amounts</u>			<b>Variance with Final budget - Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Taxes	\$ 696,036	\$ 696,036	\$ 716,204	\$ 20,168
Intergovernmental	720,000	720,000	-	(720,000)
Investment earnings	1,500	1,500	3,492	1,992
Miscellaneous	-	-	2,360	2,360
Total revenues	<u>1,417,536</u>	<u>1,417,536</u>	<u>722,056</u>	<u>(695,480)</u>
<b>Expenditures</b>				
Current:				
General government				
Other government services	77,217	77,217	25,359	51,858
Public Safety				
Police	30,000	30,000	38,848	(8,848)
Fire	56,344	56,344	49,713	6,631
Transportation				
Streets	1,165,938	1,165,938	118,022	1,047,916
Culture and recreation				
Parks	16,000	16,000	16,140	(140)
Debt service	187,975	187,975	-	187,975
Total expenditures	<u>1,533,474</u>	<u>1,533,474</u>	<u>248,082</u>	<u>1,285,392</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(115,938)</u>	<u>(115,938)</u>	<u>473,974</u>	<u>589,912</u>
<b>Fund balances, beginning of year</b>	1,142,887	1,142,887	1,142,887	-
<b>Fund balances, end of year</b>	<u>\$ 1,026,949</u>	<u>\$ 1,026,949</u>	<u>\$ 1,616,861</u>	<u>\$ 589,912</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, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 252,893	\$ 252,893	\$ 138,390	\$ (114,503)
Miscellaneous	-	-	6,268	6,268
Total revenues	<u>252,893</u>	<u>252,893</u>	<u>144,658</u>	<u>(108,235)</u>
<b>Expenditures</b>				
Operating	383,072	333,072	168,895	164,177
Capital outlay	241,604	291,604	105,293	186,311
Total expenditures	<u>624,676</u>	<u>624,676</u>	<u>274,188</u>	<u>350,488</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(371,783)</u>	<u>(371,783)</u>	<u>(129,530)</u>	<u>242,253</u>
<b>Other financing sources (uses)</b>				
Transfers in	-	-	114,503	114,503
<b>Net change in fund balances</b>	<u>(371,783)</u>	<u>(371,783)</u>	<u>(15,027)</u>	<u>356,756</u>
<b>Fund balances, beginning of year</b>	525,739	525,739	525,739	-
<b>Fund balances, end of year</b>	<u>\$ 153,956</u>	<u>\$ 153,956</u>	<u>\$ 510,712</u>	<u>\$ 356,756</u>

*See accompanying Notes to Financial Statements.*

**CITY OF AVON PARK, FLORIDA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2012**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Water and Sewer Fund</b>	<b>Airport Fund</b>	<b>Solid Waste Fund</b>	
<b>Assets</b>				
Current assets:				
Equity in pooled cash, cash equivalents and investments	\$ 2,275,350	\$ -	\$ 1,174,237	\$ 3,449,587
Restricted equity in pooled cash, cash equivalents and investments for debt service	451,128	-	-	451,128
Receivable, net	435,644	3,070	77,071	515,785
Due from other governments	75,750	167,340	-	243,090
Inventories	102,102	-	-	102,102
Total current assets	<u>3,339,974</u>	<u>170,410</u>	<u>1,251,308</u>	<u>4,761,692</u>
Noncurrent assets:				
Restricted equity in cash, cash equivalents and investments:				
Debt service	575,000	-	-	575,000
Renewal and replacement	250,000	-	-	250,000
Impact fees	281,720	-	-	281,720
Deferred charges	84,539	-	-	84,539
Advance to other fund	-	-	558,434	558,434
Capital assets:				
Land	182,893	685,467	-	868,360
Building and system	23,323,831	10,412,066	1,855	33,737,752
Equipment	3,538,466	9,605	1,500,250	5,048,321
Construction in progress	170,470	240,740	-	411,210
Accumulated depreciation and amortization	<u>(14,819,628)</u>	<u>(3,714,585)</u>	<u>(1,115,704)</u>	<u>(19,649,917)</u>
Capital assets, net of accumulated depreciation and amortization	12,396,032	7,633,293	386,401	20,415,726
Total noncurrent assets	<u>13,587,291</u>	<u>7,633,293</u>	<u>944,835</u>	<u>22,165,419</u>
<b>Total Assets</b>	<u>16,927,265</u>	<u>7,803,703</u>	<u>2,196,143</u>	<u>26,927,111</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accrued liabilities	128,744	93,108	54,748	276,600
Due to other funds	88,944	4,633	47,860	141,437
Compensated absences	37,800	-	35,800	73,600
Deposits	729,400	31,530	-	760,930
Deferred revenue - current	-	45,000	-	45,000
Current portion of notes payable	18,902	11,932	-	30,834
Current liabilities payable from restricted assets:				
Interest payable	26,128	-	-	26,128
Current portion of bonds payable	510,000	-	-	510,000
Total current liabilities	<u>1,539,918</u>	<u>186,203</u>	<u>138,408</u>	<u>1,864,529</u>
Noncurrent liabilities:				
Advance from other fund	-	558,434	-	558,434
Compensated absences	6,692	-	6,311	13,003
Other post-employment benefits	25,518	-	9,909	35,427
Deferred revenue	-	564,155	-	564,155
Bonds payable, net of current portion	1,635,000	-	-	1,635,000
Notes payable, net of current portion	19,295	151,740	-	171,035
Total noncurrent liabilities	<u>1,686,505</u>	<u>1,274,329</u>	<u>16,220</u>	<u>2,977,054</u>
<b>Total Liabilities</b>	<u>3,226,423</u>	<u>1,460,532</u>	<u>154,628</u>	<u>4,841,583</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	10,265,655	7,469,621	386,401	18,121,677
Restricted for:				
System improvement	281,720	-	-	281,720
Debt service	1,000,000	-	-	1,000,000
Renewal and replacement	250,000	-	-	250,000
Unrestricted	1,903,467	(1,126,450)	1,655,114	2,432,131
<b>Total Net Assets</b>	<u>\$ 13,700,842</u>	<u>\$ 6,343,171</u>	<u>\$ 2,041,515</u>	<u>\$ 22,085,528</u>

See accompanying Notes to Financial Statements.

**CITY OF AVON PARK, FLORIDA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Water and Sewer Fund</b>	<b>Airport Fund</b>	<b>Solid Waste Fund</b>	<b>Total</b>
<b>Operating revenues</b>				
Charges for services	\$ 4,548,278	\$ 242,360	\$ 1,309,321	\$ 6,099,959
Miscellaneous	59,467	25,027	-	84,494
Total operating revenues	<u>4,607,745</u>	<u>267,387</u>	<u>1,309,321</u>	<u>6,184,453</u>
<b>Operating expenses</b>				
Personal services	964,684	-	412,641	1,377,325
Materials, supplies, services, and other operating expenses	1,095,431	353,306	795,583	2,244,320
Depreciation and amortization	719,266	335,037	101,199	1,155,502
Total operating expenses	<u>2,779,381</u>	<u>688,343</u>	<u>1,309,423</u>	<u>4,777,147</u>
<b>Operating income (loss)</b>	<u>1,828,364</u>	<u>(420,956)</u>	<u>(102)</u>	<u>1,407,306</u>
<b>Nonoperating revenues (expenses)</b>				
Operating grant	-	109,191	-	109,191
Investment earnings	7,075	-	8,508	15,583
Interest/amortization expense	(104,083)	(8,664)	-	(112,747)
Loss on disposition of assets	(7,280)	-	-	(7,280)
Total nonoperating revenues (expenses)	<u>(104,288)</u>	<u>100,527</u>	<u>8,508</u>	<u>4,747</u>
Income (loss) before transfers and capital contributions	<u>1,724,076</u>	<u>(320,429)</u>	<u>8,406</u>	<u>1,412,053</u>
<b>Capital contributions - capital grants</b>	186,170	46,324	-	232,494
<b>Capital contributions - impact fees and capital contributions</b>	11,752	4,733	-	16,485
<b>Transfers out</b>	-	-	(50,000)	(50,000)
<b>Changes in net assets</b>	<u>1,921,998</u>	<u>(269,372)</u>	<u>(41,594)</u>	<u>1,611,032</u>
<b>Total net assets, beginning of year, as previously stated</b>	11,778,844	6,612,543	2,151,400	20,542,787
Prior Period Adjustment	-	-	(68,291)	(68,291)
<b>Total net assets, beginning of year, as restated</b>	<u>11,778,844</u>	<u>6,612,543</u>	<u>2,083,109</u>	<u>20,474,496</u>
<b>Total net assets, end of year</b>	<u>\$ 13,700,842</u>	<u>\$ 6,343,171</u>	<u>\$ 2,041,515</u>	<u>\$ 22,085,528</u>

See accompanying Notes to Financial Statements.

**CITY OF AVON PARK, FLORIDA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Water and Sewer Fund</u>	<u>Airport Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
<b>Cash flows from operating activities</b>				
Cash received from customers	\$ 4,636,452	\$ 230,222	\$ 1,314,346	\$ 6,181,020
Cash paid to suppliers	(1,308,085)	(346,830)	(812,245)	(2,467,160)
Cash paid to employees	(977,227)	-	(400,852)	(1,378,079)
Net cash provided by (used in) operating activities	<u>2,351,140</u>	<u>(116,608)</u>	<u>101,249</u>	<u>2,335,781</u>
<b>Cash flows from noncapital financing activities</b>				
Transfers from (to) other funds	<u>(970)</u>	<u>(59,135)</u>	<u>9,382</u>	<u>(50,723)</u>
<b>Cash flows from capital and related financing activities</b>				
Acquisition and construction of capital assets	(942,747)	(27,563)	(203,804)	(1,174,114)
Principal payments on loans payable	(18,516)	(11,435)	-	(29,951)
Principal payments on bonds payable	(495,000)	-	-	(495,000)
Interest paid	(87,632)	(8,664)	-	(96,296)
Proceeds from impact fees and capital contributions	11,752	-	-	11,752
Proceeds from capital grants	110,420	223,405	-	333,825
Proceeds from sale of capital asset	14,190	-	-	14,190
Net cash provided by (used in) capital and related financing activities	<u>(1,407,533)</u>	<u>175,743</u>	<u>(203,804)</u>	<u>(1,435,594)</u>
<b>Cash flows from investing activities</b>				
Investment earnings	5,165	-	8,508	13,673
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>947,802</u>	<u>-</u>	<u>(84,665)</u>	<u>863,137</u>
<b>Equity in restricted cash, cash equivalents and investments, beginning of year</b>	2,885,396	-	1,258,902	4,144,298
<b>Equity in restricted cash, cash equivalents and investments, end of year</b>	<u>\$ 3,833,198</u>	<u>\$ -</u>	<u>\$ 1,174,237</u>	<u>\$ 5,007,435</u>
<b>Noncash capital activities</b>				
Contribution of land and equipment from Airport CRA	<u>\$ -</u>	<u>\$ 4,733</u>	<u>\$ -</u>	<u>\$ 4,733</u>

*See accompanying Notes to Financial Statements.*

**CITY OF AVON PARK, FLORIDA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**  
(Continued)

	<u>Water and Sewer Fund</u>	<u>Airport Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
<b>Reconciliation of cash and cash equivalents to statement of net assets</b>				
Equity in pooled cash, cash equivalents and investments	\$ 2,275,350	\$ -	\$ 1,174,237	\$3,449,587
Restricted equity in pooled cash, cash equivalents and investments for debt service	451,128	-	-	451,128
Restricted equity in cash, cash equivalents and investments:				
Debt service	575,000	-	-	575,000
Renewal and replacement	250,000	-	-	250,000
Impact fees	281,720	-	-	281,720
Total cash and cash equivalents	<u>\$ 3,833,198</u>	<u>\$ -</u>	<u>\$ 1,174,237</u>	<u>\$5,007,435</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>				
Operating income (loss)	\$ 1,828,364	\$ (420,956)	\$ (102)	\$ 1,407,306
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	719,266	335,037	101,199	1,155,502
Changes in certain assets and liabilities:				
Accounts receivable	(19,106)	(327)	5,025	(14,408)
Inventories	32,764	-	-	32,764
Compensated absences	(22,877)	-	7,330	(15,547)
Other post-employment benefits	9,683	-	3,568	13,251
Accounts payable and accrued liabilities	(244,767)	6,476	(15,771)	(254,062)
Deferred revenue - current	-	(37,461)	-	(37,461)
Deposits	47,813	623	-	48,436
Net cash provided by (used in) operating activities	<u>\$ 2,351,140</u>	<u>\$ (116,608)</u>	<u>\$ 101,249</u>	<u>\$2,335,781</u>

*See accompanying Notes to Financial Statements.*

**CITY OF AVON PARK, FLORIDA  
STATEMENT OF PLAN NET ASSETS  
PENSION TRUST FUNDS  
SEPTEMBER 30, 2012**

	<b>Pension Trust Funds</b>
<b>Assets</b>	
Interest and dividend receivable	\$ 32,632
Due from other funds	46,576
Due from custodian	6,702
Other receivable	1,509
Investments:	
Short-term money market funds	495,642
U.S. Govt. agencies securities	921,550
U.S. Govt. agencies mortgage backed securities	208,550
Corporate, municipal, and foreign bonds	2,297,145
Corporate equity securities	5,104,274
Total investments	9,027,161
 Total assets	 9,114,580
 <b>Liabilities</b>	 -
 <b>Net assets held in trust for pension benefits</b>	 \$ 9,114,580

*See accompanying Notes to Financial Statements.*

**CITY OF AVON PARK, FLORIDA  
STATEMENT OF CHANGES IN PLAN NET ASSETS  
PENSION TRUST FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u><b>Pension Trust Funds</b></u>
<b>Additions</b>	
Contributions	
Plan members	\$ 88,900
City	524,201
State	92,226
Total contributions	<u>705,327</u>
Investment earnings	
Net increase in investments	1,307,485
Investment expenses	(71,472)
Net investment earnings	<u>1,236,013</u>
Total additions	<u>1,941,340</u>
<b>Deductions</b>	
Benefits	479,935
Administrative expenses	109,346
Total deductions	<u>589,281</u>
<b>Change in net assets</b>	<u>1,352,059</u>
<b>Net assets held in trust for pension benefits, beginning of year</b>	7,762,521
<b>Net assets held in trust for pension benefits, end of year</b>	<u><u>\$ 9,114,580</u></u>

*See accompanying Notes to Financial Statements.*

**CITY OF AVON PARK, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

(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 7.1 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 9,000 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, 2012**

(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, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 — Accounting and Financial Reporting for Nonexchange Transactions.

Program revenues derived directly from the program itself or from parties outside the reporting government's taxpayers or citizenry, 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 (which have been redefined and narrowed in scope) 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, 2012**

(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, liabilities, 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 and current liabilities 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, 2012**

(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 another 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 assets. The City applies all private sector standards of accounting and financial reporting issued on or before November 30, 1989, except those that conflict with or contradict Statements of Government Accounting Standards. The City has elected not to apply Financial Accounting Standards Board Pronouncements issued after November 30, 1989.

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. Nonoperating 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 nonoperating 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 another 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 districts 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, 2012**

(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, franchises, 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 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.

**Nonmajor Governmental Funds**

Community Development Block Grant (CDBG) Fund – This 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, 2012**

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

**Noncurrent Governmental Assets/Liabilities**

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

(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. At the end of each year, all budget appropriations lapse along with outstanding encumbrances in most cases. Large projects can be carried over to the next budget year.

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

"Total" fund balances of the City's governmental funds of \$4,206,957 differs from "net assets" of governmental activities, \$13,379,297, reported in the statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets 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 \$678,392, differs from the "change in net assets" for governmental activities, an increase of \$478,028, 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 \$114,503 between governmental activities were eliminated. Advances to and advances from in the amount of \$558,434 between business-type activities were also eliminated.

**CITY OF AVON PARK, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

(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) **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 Assets. 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.

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

**CITY OF AVON PARK, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

(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) **Deferred Revenue**—Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to incurring qualified expenditures.

Deferred revenue is reported as a liability on the balance sheets. In subsequent periods, when both revenue recognition criteria are met or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheets and revenue is recognized.

**CITY OF AVON PARK, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

(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.

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.

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 assets at September 30, 2012, 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 assets. Bond premiums and discounts, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**CITY OF AVON PARK, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(o) **Fund equity policy**—The City’s policy for fund balance/net assets 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, 2011) are assessed on July 1, 2011 based on property values of January 1, 2011. The taxes are billed in the month of November 2011 by the Highlands County Tax Collector who remits collected taxes to the City monthly. Taxes are due November 1, 2011 (levy date) and become delinquent April 1, 2012. Tax certificates are issued for delinquent taxes by June 1, 2012 (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 Assets** - Government-wide and proprietary fund net assets are divided into three categories:

- *Invested in capital assets, net of related debt* — 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 assets* — 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 assets 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.

**CITY OF AVON PARK, FLORIDA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012**

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

- *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.
- *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, 2012, the carrying amount of the City's deposits was \$5,411,696 and the bank balance was \$5,628,259. 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 \$1,368 cash on hand at September 30, 2012.

**Investments** – At September 30, 2012, the City's investments were \$12,374,942.

Reconciliation of deposits and investments to amounts shown on the statement of net assets and statement of plan net assets:

Deposits	\$ 5,411,696
Cash on hand	1,368
Investments	12,374,942
Total	\$ 17,788,006

Statement of Net Assets:

Equity in pooled cash, cash equivalents and investments	\$ 7,202,997
Restricted cash and cash equivalents	1,557,848

Statement of Plan Net Assets:

Investments	9,027,161
Total	\$ 17,788,006

*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 nonoperating 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, 2012, the City had the following investments and maturities:

**CITY OF AVON PARK, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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

<b><u>Investment Type</u></b>	<b><u>Fair Value</u></b>	<b><u>Remaining Maturities (in Years)</u></b>			
		<b><u>Less Than 1</u></b>	<b><u>1-5</u></b>	<b><u>6-10</u></b>	<b><u>More Than 10</u></b>
Governmental and Business-Type Activities:					
U.S. Government Agencies	\$ 1,270,125	\$ 292,005	\$ 978,120	\$ -	\$ -
U.S. Government Agencies mortgage pools	240,391	-	-	180,021	60,370
SBA Florida PRIME	1,789,220	1,789,220	-	-	-
SBA Fund B	48,045	-	48,045	-	-
Fiduciary:					
Short-term money market funds	306,388	306,388	-	-	-
U.S. Government securities	224,877	-	29,958	94,461	100,458
U.S. Government agencies- mortgage backed securities	208,550	-	12,057	39,591	156,902
Corporate bonds	1,650,629	41,528	743,341	788,963	76,797
Municipal bonds	33,299	-	-	-	33,299
Short-term money market funds	189,254	189,254	-	-	-
U.S. Government and agencies	696,673	-	271,459	160,790	264,424
Corporate and foreign bonds	613,217	20,264	195,922	283,809	113,222
<b>Total</b>	<b>\$ 7,270,668</b>	<b>\$ 2,638,659</b>	<b>\$ 2,278,902</b>	<b>\$ 1,547,635</b>	<b>\$ 805,472</b>

*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, 2012 for each type of investment.

**CITY OF AVON PARK, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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

<u>Investment Type</u>	<u>S&amp;P Rating</u>	<u>Market Value</u>
Governmental and Business-Type Activities:		
U.S. Government Agencies	AA+	\$ 1,270,125
U.S. Government Agencies mortgage pools	Not rated	240,391
SBA Florida PRIME	AAM	1,789,220
SBA Fund B	Not rated	48,045
Fiduciary:		
Short-term money market funds	AAM	306,388
U.S. Government securities	AA+	224,877
U.S. Government agencies-mortgage backed securities	AA+	208,550
Corporate bonds	AAA to BBB	1,650,629
Municipal bonds	AAA	33,299
Corporate stocks	Not rated	2,988,554
Short-term money market funds	Not rated	189,254
U.S. Government and agencies	AA+ to BBB	696,673
Corporate and foreign bonds	A+ to BBB	613,217
Common equity securities	Not rated	2,115,720
Total		<u>\$ 12,374,942</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 part.

**CITY OF AVON PARK, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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

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. 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, 2012, the carrying amount of the City's investment was \$1,789,220. 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, 2012 was 39 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 94.9%. At September 30, 2012, the principle amount of the City's investment was \$50,628 and the fair value was \$48,045. The weighted average life (WAL) of Fund B at September 30, 2012 was 4.08 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, 2012 for the City's individual major funds and nonmajor 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	\$ 102,033	\$ -	\$ -	\$ -	\$ -	\$ 102,033
Code enforcement	23,839	-	-	-	-	23,839
Customer charges	-	-	549,974	-	161,114	711,088
Interest	383	577	1,910	-	-	2,870
Miscellaneous	4,859	-	-	3,433	-	8,292
Gross receivables	131,114	577	551,884	3,433	161,114	848,122
Allowance for doubtful accounts	(23,227)	-	(116,240)	(363)	(84,043)	(223,873)
	<u>\$ 107,887</u>	<u>\$ 577</u>	<u>\$ 435,644</u>	<u>\$ 3,070</u>	<u>\$ 77,071</u>	<u>\$ 624,249</u>

**CITY OF AVON PARK, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

(4) **Capital Assets:**

Capital asset activity for the year ended September 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 316,174	\$ -	\$ -	\$ -	\$ 316,174
Construction in process	4,792	4,733	-	(4,733)	4,792
Total capital assets, not being depreciated	<u>320,966</u>	<u>4,733</u>	<u>-</u>	<u>(4,733)</u>	<u>320,966</u>
Capital assets, being depreciated:					
Buildings	4,963,699	48,059	-	-	5,011,758
Equipment	5,043,471	256,978	(87,383)	-	5,213,066
Infrastructure	5,611,342	238,082	-	-	5,849,424
Total capital assets, being depreciated:	<u>15,618,512</u>	<u>543,119</u>	<u>(87,383)</u>	<u>-</u>	<u>16,074,248</u>
Less accumulated depreciation for:					
Buildings	(2,192,159)	(165,772)	-	-	(2,357,931)
Equipment	(3,570,533)	(368,975)	85,470	-	(3,854,038)
Infrastructure	(570,241)	(182,551)	-	-	(752,792)
Total accumulated depreciation	<u>(6,332,933)</u>	<u>(717,298)</u>	<u>85,470</u>	<u>-</u>	<u>(6,964,761)</u>
Total capital assets, being depreciated, net	<u>9,285,579</u>	<u>(174,179)</u>	<u>(1,913)</u>	<u>-</u>	<u>9,109,487</u>
Governmental activities capital assets, net	<u>\$ 9,606,545</u>	<u>\$ (169,446)</u>	<u>\$ (1,913)</u>	<u>\$ (4,733)</u>	<u>\$ 9,430,453</u>

During the current year the Airport CRA fund purchased \$4,733 of signage and transferred it to the Airport enterprise fund. In statement of revenues, expenditures, and changes in fund balances the \$4,733 is shown as capital outlay; however, in the statement activities this is shown as a transfer out. For the Airport enterprise fund, the \$4,733 is shown as a capital contribution in the statement of revenues, expenses, and changes in fund net assets; however, in the statement of activities it is shown as a transfer in.

**CITY OF AVON PARK, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
<b>Business-type activities</b>					
Capital assets, not being depreciated:					
Land	\$ 868,360	\$ -	\$ -	\$ -	\$ 868,360
Construction in process	272,173	162,809	(15,070)	(8,702)	411,210
Total capital assets, not being depreciated	<u>1,140,533</u>	<u>162,809</u>	<u>(15,070)</u>	<u>(8,702)</u>	<u>1,279,570</u>
Capital assets, being depreciated & amortized:					
Buildings and system	33,148,457	575,860	-	13,435	33,737,752
Machinery and equipment	4,696,481	435,445	(83,605)	-	5,048,321
Total capital assets, being depreciated & amortized:	<u>37,844,938</u>	<u>1,011,305</u>	<u>(83,605)</u>	<u>13,435</u>	<u>38,786,073</u>
Less accumulated depreciation & amortization for:					
Buildings and system	(15,658,818)	(869,147)	-	-	(16,527,965)
Machinery and equipment	(2,897,732)	(286,355)	62,135	-	(3,121,952)
Total accumulated depreciation & amortization	<u>(18,566,550)</u>	<u>(1,155,502)</u>	<u>62,135</u>	<u>-</u>	<u>(19,649,917)</u>
Total capital assets, being depreciated & amortized, net	<u>19,356,678</u>	<u>(144,197)</u>	<u>(21,470)</u>	<u>13,435</u>	<u>19,136,156</u>
Business-type activities capital assets, net	<u>\$ 20,418,921</u>	<u>\$ 18,612</u>	<u>\$ (36,540)</u>	<u>\$ 4,733</u>	<u>\$ 20,415,726</u>

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

**Governmental activities:**

General government	\$ 78,004
Public safety	281,653
Transportation	218,443
Culture and recreation	139,198
Total depreciation expense - governmental activities	<u>\$ 717,298</u>

**Business-type activities:**

Water and sewer	\$ 719,266
Airport	335,037
Solid waste	101,199
Total depreciation & amortization expense – business-type activities	<u>\$ 1,155,502</u>

**CITY OF AVON PARK, FLORIDA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012**

(5) **Commitments**

- (a) **Construction Commitments** - At September 30, 2012 the City had no construction commitments outstanding. However, the Solid Waste Fund had a commitment to purchase recycling carts, in the amount of \$180,707.
- (b) **Encumbrances** – Other significant commitments include encumbrances outstanding as shown below:

General Fund	\$ 3,750
Infrastructure Fund	87,500
Water and Sewer Fund	47,210
Solid Waste Fund	1,147
<b>Total</b>	<b><u><u>\$ 139,607</u></u></b>

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

The summary of changes in long-term liabilities for the fiscal year ended September 30, 2012, is as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b><u>Governmental activities</u></b>					
Compensated absences	\$ 340,020	\$ 277,341	\$ 293,135	\$ 324,226	\$ 282,500
Other post-employment benefits	54,745	27,013	-	81,758	-
Governmental activity long-term liabilities	<u>\$ 394,765</u>	<u>\$ 304,354</u>	<u>\$ 293,135</u>	<u>\$ 405,984</u>	<u>\$ 282,500</u>
<b><u>Business-type activities</u></b>					
Notes payable	\$ 231,820	\$ -	\$ 29,951	\$ 201,869	\$ 30,834
Revenue bond	2,640,000	-	495,000	2,145,000	510,000
Compensated absences	102,150	86,631	102,178	86,603	73,600
Other post-employment benefits	22,176	13,251	-	35,427	-
Business-type activity long-term liabilities	<u>\$ 2,996,146</u>	<u>\$ 99,882</u>	<u>\$ 627,129</u>	<u>\$ 2,468,899</u>	<u>\$ 614,434</u>

**CITY OF AVON PARK, FLORIDA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012**

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

The following notes payable and revenue bonds payable were outstanding at September 30, 2012:

**Business-type Activities Notes Payable:**

\$250,000 with a fixed interest rate of 5.18%, dated March 25, 2003, with final payment due March 25, 2023. Beginning April 25, 2003 payments are due in monthly installments of \$1,675, including interest, until maturity date. Proceeds were used for construction of corporate hangars at the airport and are secured by revenue derived from the corporate hangars and T-hangars. \$ 163,672

\$104,424 with a fixed interest rate of 2.07% dated November 6, 2006. The current balance of this State Revolving Fund loan was used to perform a study to determine the feasibility of expanding and upgrading the wastewater treatment plant. Potential draws total \$802,837; however, the City has made the decision not to expand the plant at this time. Repayment of note is semiannual for 20 years beginning March 15, 2010. 38,197

Total Business-type Activities Notes Payable \$ 201,869

**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. \$ 2,145,000

The annual debt service requirements to maturity for notes and bonds payable are as follows:

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	\$ -	\$ -	\$ 540,834	\$ 78,319
2014	-	-	556,858	58,920
2015	-	-	558,227	38,424
2016	-	-	578,925	16,908
2017	-	-	14,661	5,437
2018 – 2022	-	-	85,777	14,713
2023	-	-	11,587	200
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,346,869</u>	<u>\$ 212,921</u>

**CITY OF AVON PARK, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

(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 percent 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.

(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, 2009, the most recent actuarial valuation date, the Plan had approximately 87 active participants and 1 retiree 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 2012, the City made no contributions to the plan, however the City's implied subsidy towards other postemployment benefit obligations is \$15,633.

**CITY OF AVON PARK, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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

*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)	\$	56,763
Interest on net OPEB obligation		3,461
Adjustment to the ARC		(4,327)
Annual OPEB Cost		55,897
Estimated contributions made		(15,633)
Increase in net OPEB obligation		40,264
Net OPEB obligation, beginning of year		76,921
Net OPEB obligation, end of year	\$	117,185

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:

<b>Year Ending September 30,</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
2012	\$55,897	28.0 %	\$117,185
2011	53,561	26.9	76,921
2010	55,659	32.2	37,758

*Funded Status and Funding Progress*—As of October 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$439,545, 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 (only one year is presented).

**CITY OF AVON PARK, FLORIDA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012**

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

*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, 2009 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 7 percent initially (2010), reduced by increments of 1 percent per year until reaching an ultimate trend rate of 5 percent in 2013. The unfunded actuarial liability is being amortized over a closed 30-year period using a level percentage of payroll with an assumption that payroll increases by 5 percent per year for Fire Employees and no increases for Police and General Employees. The remaining amortization period of the initial unfunded actuarial liability is 28 years.

(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, 2012 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Due to/from Other Funds:</b>		
General Fund	Solid Waste Fund	\$ 47,860
General Fund	Airport Fund	4,633
General Fund	(Non-major) CDBG Fund	33,643
General Fund	Water and Sewer Fund	88,944
Total		<u>\$ 175,080</u>
<b>Due to/from Fiduciary Funds:</b>		
Pension Trust Funds	General Fund	<u>\$ 46,576</u>
<b>Advance to/from Other Funds:</b>		
Solid Waste Fund	Airport Fund	<u>\$ 558,434</u>

**CITY OF AVON PARK, FLORIDA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012**

(9) **Interfund Receivables and Payables:** (Continued)

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 Solid Waste Fund to the Airport Fund of \$558,434 is a result of prior and current operating losses.

(10) **Transfers:**

Transfers during the year ended September 30, 2012 consisted of the following:

	<u>Transfers In:</u>	
	<u>General Fund</u>	<u>CRA Funds</u>
<b>Transfers Out:</b>		
General Fund	\$ -	\$ 114,503
Solid Waste Fund	50,000	-
	<u>\$ 50,000</u>	<u>\$ 114,503</u>

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, 2012 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, 2012**

(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 2012 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, 2012 is as follows:

**CITY OF AVON PARK, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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

	<b>Police Officers' Retirement System</b>	<b>Firefighters' Retirement System</b>
Contribution rates for year ended 9/30/2012:		
City and State	30.04%	39.62%
Plan members	5.00%	5.00%
Actuarial valuation date	10/1/2010	10/1/2010
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar, closed 20 years as of	Level % of pay, closed 28 years as of
Remaining amortization period	10/1/2010 4 Year Smoothed	10/1/2010 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%
Post retirement cost of living adjustments	1.46%	3.0%**

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

	<b>Year Ended September 30</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation (Asset)</b>
Police Officers' Retirement System	2012	\$ 327,175	98.3%	\$ (89,154)
	2011	265,819	98.3	(94,642)
	2010	226,923	98.3	(99,287)
Firefighters' Retirement System	2012	\$ 292,453	99.3%	\$ (58,717)
	2011	211,295	99.6	(60,818)
	2010	178,739	98.7	(61,637)

**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:

	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) – Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b – a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b – a)/c)</b>
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, 2012**

(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 2012.
- (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 \$92,226 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 2012 are approximately as follows:

	<b>Police Officers’ Retirement System</b>	<b>Firefighters’ Retirement System</b>
Actuarially Required Contribution (ARC)	\$ 321,686	\$ 290,352
Interest on NPO	(7,571)	(4,713)
Adjustments to ARC	17,704	7,633
Annual Pension Cost	331,819	293,272
Contributions Made	321,686	290,352
Increase in NPO	10,133	2,920
NPO (Asset) Beginning of Year	(99,287)	(61,637)
NPO (Asset) End of Year	\$ (89,154)	\$ (58,717)

**CITY OF AVON PARK, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

(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 Division of Retirement, Cedars Executive Center, 2639 N. Monroe Street, Tallahassee, Florida 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, 2012**

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

*Funding Policy:* The City is required to contribute 5.18% of their salary for regular members, 14.90% of their salary for special risk members, 6.30% of their salary for senior management and 5.44% 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, 2012, 2011, and 2010, were \$15,941, \$36,190, and \$37,855, 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, 2012 were \$5,663, 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, 2012 for eligible employees participating in the plan was \$1,314,376. The City's total payroll for all employees was \$3,545,549.

As of September 30, 2012, the City's contributions to the plan were \$136,188 on behalf of the 37 employees participating. The total voluntary employee contributions to the plan amounted to \$38,660.

(13) **Deficits:**

The Airport Fund has an unrestricted net assets deficit of \$1,126,450 at September 30, 2012. 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, 2012**

(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, 2012 the City received rent revenue from operating leases of \$216,954.

The following is a schedule for the next five years of minimum future rent revenues from non-cancelable operating leases as of September 30, 2012:

<b>Year Ending</b>	<b>Amount</b>
<b>September 30</b>	
2013	\$ 94,074
2014	97,567
2015	86,800
2016	76,000
2017	76,000

At September 30, 2012 the value of buildings and hangars held for leasing was as follows:

Cost	\$ 3,668,497
Accumulated depreciation	<u>(1,380,414)</u>
Net book value	<u><u>\$ 2,288,083</u></u>

The City has entered into a lease with a tenant on October 1, 2003 which expires on September 30, 2013, unless extended. The City has granted three 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 10-year lease term, including cost of engineering and financing. Said improvements, engineering and financing shall be prorated over the initial 10-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, 2012, \$458,615, \$150,540, and \$62,096 of general improvements, tenant specific improvements, and financing costs, respectively, were available for rental offsets in the future. At September 30, 2012, there were \$671,251 of rent credits. Of this amount, \$609,155 is reported in the Airport Fund as deferred 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, 2012**

(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, 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 \$45,385. 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, 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 \$10,343. Mr. Schuler has been and continues to be the only State licensed surveying firm within the City limits of Avon Park.

Earth Massage Landscape, a business owned by Mayor Schuler's granddaughter, provides landscaping services to the City. The services were procured in compliance with the City's purchasing policies and payments for the year amounted to \$15,400. The contract for this service ended March, 2012.

(17) **Prior Period Adjustments:**

Certain employee pension plan forfeitures of the plan administered by the Florida Municipal Pension Trust Fund totaling \$58,121 were not recorded in the General Fund as of September 30, 2011. To correct this error, beginning fund balance of the General Fund of \$1,801,818, as originally reported, has been increased by \$58,121 to \$1,859,939. In addition, beginning net assets for governmental activities \$12,843,148, as originally reported, has been increased by \$58,121 to \$12,901,269.

The Solid Waste Fund previously recorded an intangible asset for the excess of liabilities over the cost of assets. As of September 30, 2011, the cost was \$273,161 and accumulated amortization was \$204,870, for a net balance of \$68,291. To correct this error, beginning net assets of the Solid Waste Fund \$2,151,400, as originally reported, has been decreased by \$68,291 to \$2,083,109. In addition, beginning net assets for business-type activities of \$20,542,787, as originally reported, has been decreased by \$68,291 to \$20,474,496.

**CITY OF AVON PARK, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

(18) **Subsequent Event:**

On August 6, 2012, the City entered into an interlocal agreement for administrative and management law enforcement assistance with the Highlands County Sheriff's Office. The agreement provided for a 90-day transitional period, during which the Sheriff is providing supervisory assistance to the City. Also during this transitional period, the Sheriff has the option to hire any current City police officer.

As per the agreement, at the conclusion of the 90-day transitional period, the City agreed to pay the Sheriff a maximum annual sum of \$983,280, payable monthly, for law enforcement services, with an additional \$75,000 per year budgeted as a reserve for contingency. Also as part of the agreement, the City agreed to lease the building and office equipment presently used by the City for its police department to the Sheriff, at an annual rate of ten dollars. The City also agreed to provide each officer hired by the Sheriff under the terms of the agreement a fully equipped police vehicle and all related law enforcement equipment.

On October 1, 2012, the majority of all police officers were terminated by the City. As outlined in the agreement with the Sheriff, the City transferred police vehicles and related equipment to the Sheriff for each officer hired on that date. As part of a termination agreement between the City and its police officers, the terminated officers received their accrued compensated absences totaling \$133,748 and severance payments amounting to \$122,971 (including associated payroll and benefits costs).

Related to the PORS, six terminated police officers left employment with over 10 years of credited service and therefore were 100% vested in benefits of the Plan. The remaining police officers that terminated employment have the ability to request a refund of their total contributions to the plan which was approximately \$97,000 as of September 30, 2012, exclusive of interest earned on the contributions.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF AVON PARK, FLORIDA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF PENSION AND OPEB FUNDING PROGRESS  
SEPTEMBER 30, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll ( c )	UAAL as a % of covered payroll ((b-a)/c))
<b>Police Officers' Retirement Trust</b>						
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%
<b>Firefighters' Retirement Trust</b>						
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%
<b>Other Post Employment Benefit Plan</b>						
10/01/09	\$ -	\$ 369,847	\$ 369,847	0.0 %	N/A	N/A

**CITY OF AVON PARK, FLORIDA  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER AND  
 OTHER CONTRIBUTING ENTITIES  
 SEPTEMBER 30, 2012**

Police Officers' Retirement System:

Year Ended September 30,	Annual Required Contribution	City Contribution	State Contribution*	Percentage Contributed
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%
2007	186,668	183,301	59,657	130.2%

\* 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
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%
2007	134,224	103,553	37,674	105.2%

\*\* 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, 2012**

	<b>Community Redevelopment Agency - Main Street Fund</b>	<b>Community Redevelopment Agency - South Side Fund</b>	<b>Community Redevelopment Agency - Airport Fund</b>	<b>Total CRA Funds</b>
<b>Revenues</b>				
Tax increment revenues:				
Avon Park transfer	\$ 74,019	\$ 20,846	\$ 19,638	\$ 114,503
Highlands County	89,460	25,195	23,735	138,390
Miscellaneous	5,368	900	-	6,268
Total revenues	<u>168,847</u>	<u>46,941</u>	<u>43,373</u>	<u>259,161</u>
<b>Expenditures</b>				
Personal services	740	650	649	2,039
Professional services	24,829	8,621	8,752	42,202
Miscellaneous	2,185	601	2,621	5,407
Repairs and maintenance	23,294	-	-	23,294
Grants and subsidies	90,449	5,504	-	95,953
Capital projects	100,560	-	4,733	105,293
Total expenditures	<u>242,057</u>	<u>15,376</u>	<u>16,755</u>	<u>274,188</u>
<b>Net change in fund balances</b>	<u>(73,210)</u>	<u>31,565</u>	<u>26,618</u>	<u>(15,027)</u>
<b>Fund balances, beginning of year</b>	352,923	91,051	81,765	525,739
<b>Fund balances, end of year</b>	<u>\$ 279,713</u>	<u>\$ 122,616</u>	<u>\$ 108,383</u>	<u>\$ 510,712</u>

**CITY OF AVON PARK, FLORIDA  
COMBINING STATEMENT OF PLAN NET ASSETS  
PENSION TRUST FUNDS  
SEPTEMBER 30, 2012**

	<b>Police Officers' Retirement System</b>	<b>Firefighters' Retirement System</b>	<b>Total Pension Trust Funds</b>
<b>Assets</b>			
Interest and dividend receivable	\$ 23,305	\$ 9,327	\$ 32,632
Due from other funds	10,996	35,580	46,576
Due from custodian	6,702	-	6,702
Other receivable	-	1,509	1,509
Investments:			
Short-term money market funds	306,388	189,254	495,642
U.S. Govt. agencies securities	224,877	696,673	921,550
U.S. Govt. agencies mortgage backed securities	208,550	-	208,550
Corporate, municipal, and foreign bonds	1,683,928	613,217	2,297,145
Corporate equity securities	2,988,554	2,115,720	5,104,274
 Total assets	 <u>5,453,300</u>	 <u>3,661,280</u>	 <u>9,114,580</u>
 <b>Liabilities</b>	 -	 -	 -
 <b>Net assets held in trust for pension benefits</b>	 <u>\$ 5,453,300</u>	 <u>\$ 3,661,280</u>	 <u>\$ 9,114,580</u>

**CITY OF AVON PARK, FLORIDA**  
**COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS**  
**PENSION TRUST FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Police Officers' Retirement System</u>	<u>Firefighters' Retirement System</u>	<u>Total Pension Trust Funds</u>
<b>Additions</b>			
Contributions			
Plan members	\$ 53,543	\$ 35,357	\$ 88,900
City	270,945	253,256	524,201
State	50,741	41,485	92,226
Total contributions	<u>375,229</u>	<u>330,098</u>	<u>705,327</u>
Investment earnings			
Net increase in investments	769,142	538,343	1,307,485
Investment expenses	(40,804)	(30,668)	(71,472)
Net investment earnings	<u>728,338</u>	<u>507,675</u>	<u>1,236,013</u>
Total additions	<u>1,103,567</u>	<u>837,773</u>	<u>1,941,340</u>
<b>Deductions</b>			
Benefits	285,577	194,358	479,935
Administrative expenses	70,839	38,507	109,346
Total deductions	<u>356,416</u>	<u>232,865</u>	<u>589,281</u>
<b>Change in net assets</b>	<u>747,151</u>	<u>604,908</u>	<u>1,352,059</u>
<b>Net assets held in trust for pension benefits,</b> beginning of year	4,706,149	3,056,372	7,762,521
<b>Net assets held in trust for pension benefits,</b> end of year	<u>\$ 5,453,300</u>	<u>\$ 3,661,280</u>	<u>\$ 9,114,580</u>



**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 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 (the City), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 24, 2013. Our report includes a reference to 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. Other auditors audited the financial statements of the pension trust funds, as described in our report on 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, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 responses as 2011-3, 2011-5, 2011-15, 2012-1, and 2012-4 to be material weaknesses.

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency 2011-4 described in the accompany schedule of findings and responses to be a significant deficiency.

**Compliance and Other Matters**

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

We also noted certain other matters that we reported to management of the City in a separate letter dated July 24, 2013.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's responses and, accordingly, we express no opinion on them.

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



**CliftonLarsonAllen LLP**

Sebring, Florida  
July 24, 2013



CliftonLarsonAllen

CliftonLarsonAllen LLP  
www.cliftonlarsonallen.com

## 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 (the City), as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated July 24, 2013.

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; and Chapter 10.550, Rules of the Florida Auditor General. We have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements in Accordance with *Government Auditing Standards*, and Schedule of Findings and Responses. Disclosures in that report and schedule, which are dated July 24, 2013, 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 for those 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 complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., Rules of Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.
- Section 10.554(1)(i)4., Rules of Auditor General, requires that we address violations of provisions of contracts or grant agreements, fraud, illegal acts 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 more than inconsequential. In connection with our audit, we did not have any such findings.

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

- Section 10.554(1)(i)5., Rules of Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts or abuse, and (2) deficiencies in internal control that are not significant deficiencies. Current year recommendations are reported in the accompanying Schedule of Findings and Responses as 2012-2 and 2012-3.
- Section 10.554(1)(i)6., 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. For the legal authority of the City, see Note 1 in the notes to financial statements of the basic financial statements.
- Section 10.554(1)(i)7.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 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)7.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, 2012, 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, 2012. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)7.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  
July 24, 2013

**CITY OF AVON PARK  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED SEPTEMBER 30, 2012**

**PRIOR YEAR FINDINGS AND RECOMMENDATIONS**

Prior Year Findings		Current Year Status		
		Cleared	Partially Cleared	Not Cleared
2011-1 Financial Statement Adjustments with Preparation (Reported in 2011, 2010, 2009, and 2008. "Preparation" component only reported in 2011)	Material Weakness		X	
2011-2 Grant Administration	Material Weakness		X	
2011-3 Timeliness of Bank Reconciliations (Reported in 2011 and 2010)	Material Weakness			X
2011-4 Service Rates	Significant Deficiency		X	
2011-5 Review of Journal Entries	Significant Deficiency		X	
2011-6 Employee Benefit Withholdings	Significant Deficiency	X		
2011-7 Approval of Budget Amendments	Financial Management	X		
2011-8 Annual Purchases from Vendors	Financial Management	X		
2011-9 Check Signers	Financial Management	X		
2011-10 Community Redevelopment Districts (Reported in 2011, 2010, and 2009)	Control Deficiency			X
2011-11 Severance Pay Limits	Control Deficiency	X		
2011-12 Billing Adjustments	Control Deficiency		X	
2011-13 Utility Deposits	Control Deficiency		X	
2011-14 Cash Receipts from Recreation Events	Control Deficiency	X		
2011-15 Controls over Payroll Processing	Control Deficiency			X
2011-16 Inventory Counts (Reported in 2011 and 2010)	Control Deficiency	X		

**CITY OF AVON PARK  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2012**

**2011-1 Financial Statement Adjustments and Preparation**

**Criteria:**

Internal control over financial reporting should be in place to ensure the City is preparing complete and accurate financial statements in accordance with accounting principles generally accepted in the United States (GAAP).

**Condition:**

While auditors can assist with the preparation of the City's financial statements and related footnotes, the financial statements are the responsibility of management. A material weakness existed because the City does not have the expertise necessary to prepare financial statements, including all required footnote disclosures, in accordance with GAAP. Also, a material weakness in internal control over financial reporting existed because material adjusting journal entries to the financial statements were required to ensure the financial statements were presented fairly in accordance with GAAP.

**Context:**

An understanding of the financial reporting and close process, including evaluation of the City's financial reporting expertise noted the weakness. Substantive testing of the account balances, analytical procedures, and review of the City's trial balance noted the differences and adjustments necessary.

**Effect:**

This weakness resulted in material understatements and overstatements in various account balances and funds of the City. Also, the City's was not able to prepare financial statements and related footnotes in accordance with GAAP.

**Cause:**

The City staff's knowledge and expertise did not allow them to perform all of the functions necessary to prepare the financial statements and note disclosures in accordance with GAAP. A thorough review, analysis and reconciliation of each account was not performed during the year-end closing process to identify differences.

**Status of Finding:**

During the current year, the City contracted with a certified public accounting (CPA) firm to assist with the year-end closing process and prepare the financial statements and the notes to the financial statements. As a result, the City was able to prepare their financial statements and related footnotes in accordance with GAAP.

A related current year finding has been identified as 2012-1 in the Current Year section.

**CITY OF AVON PARK  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2012**

**2011-2 Grant Administration**

**Criteria:**

Internal control over financial reporting should be in place to ensure the City is preparing complete and accurate financial statements in accordance with accounting principles generally accepted in the United States (GAAP). This includes the entity level information and communication controls necessary for complete and proper recording of all of the City's grant receipts and disbursements, including accrual entries for receivables and revenues.

**Condition:**

Grant receivables, revenues and receipts were not initially recorded or posted to the appropriate accounts.

**Context:**

Substantive testing of the account balances disclosed the deficiency.

**Effect:**

Errors or misstatements may not be recognized in a timely manner. Furthermore, if the grant schedule is incomplete, the City may fail to receive an audit in accordance with OMB Circular A-133 in the event actual expenditures exceed the threshold for a given year.

**Cause:**

Grants are administered by the relevant department head or by an independent contractor resulting in decentralized grant administration. Also, there was a lack of communication between those responsible for administering grants and the finance department.

**Status of Finding:**

During the current year, the City contracted with a CPA firm to provide controller services. As a result, there was increased communications between those responsible for grants and the finance department. No material misstatements related to grants were noted during our audit procedures.

A related current year finding has been identified as 2012-1 in the Current Year section.

**CITY OF AVON PARK  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2012**

**2011-3 Timeliness of Bank Reconciliations**

**Criteria:**

Bank reconciliations for all accounts should be performed in a timely manner after receiving the month's bank statements.

**Condition:**

Bank statements in some instances were accumulated for several months before they were reconciled to the appropriate general ledger accounts. Additionally, large reconciling differences were noted in the pooled cash bank reconciliations that were not resolved in a timely manner.

**Context:**

Review of the City's internal control procedures and inspections of several months of bank reconciliations disclosed the deficiency.

**Effect:**

Errors, misstatements, or fraud may not be recognized in a timely manner.

**Cause:**

The City has experienced several changes in the finance department which has affected their ability to reconcile bank accounts accurately and timely.

**Status of Finding:**

Four of the twelve monthly bank reconciliations for the 2012 fiscal year did not contain evidence that they were prepared and reviewed in a timely manner. As part of the fiscal year end-close, bank reconciliations were reviewed by a CPA firm to resolve reconciling differences. However, that review was performed well after the fiscal-year end.

**Recommendation:**

We recommend that all bank reconciliations are prepared by an accountant and reviewed by the Budget/Accounting Supervisor. Furthermore, all reconciliation forms should indicate the preparer, reviewer, and dates that each was completed. If revisions are necessary, the first version of the reconciliation should be maintained to document the original completion dates.

**Management Response:**

Throughout 2012, the reconciliations were indeed completed in a timely manner. However, the new City Auditors are recommending a chain of custody log to document when the reconciliation was actually performed. For 2013, we will continue to perform timely reconciliations; however as recommended by the auditor, we will implement a tracking form which documents the date and names of employees performing and reviewing the bank reconciliations. Moving forward starting with July of 2013, the City's Budget/Accounting Supervisor whom prepares the bank reconciliation, will initials and date the reconciliation to reflect the date of completion, which will then be reviewed and dated by the City's CPA/Comptroller.

**CITY OF AVON PARK  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2012**

**2011-4 Service Rates**

**Criteria:**

Rates charged for septage services should be those rates and/or rate structures approved by Council. Routinely, a reconciliation of septage accounts receivable and related revenue to the general ledger should be performed.

**Condition:**

Septage services were being charged to customers at a rate different than that approved by the City Council. Also, there was no evidence of a periodic reconciliation of accounts receivable and related revenues for those services from the manual subsidiary ledger (spreadsheet maintained by Public Works) to the general ledger.

**Context:**

Review of the rates charged, documentation of the approved rates, and procedures for reconciling the activity noted the deficiencies.

**Effect:**

Customers were being charged a rate lower than the rate approved by Council. In addition, errors, misstatements, or fraud may not be recognized in a timely manner due to the lack of reconciliations.

**Cause:**

Reconciliation procedures were not in place for this relatively new revenue source.

**Status of Finding:**

During the current year, the City implemented procedures including the use of the utility billing system accounts receivable module to bill and account for septage services. In addition, the subsidiary ledger from the utility billing system is reconciled to the general ledger at fiscal year-end. However, the septage rate clarification and ratification by Council did not occur as of the fiscal year-end.

**Recommendation:**

We recommend City management take appropriate action to charge services at the rates approved by Council. This may include asking the Council to ratify the previous rate which was below the rate approved by Council, charge for services moving forward at a rate within a range approved by Council, obtaining approval from Council to change the current rate and/or obtain approval from Council for management's discretion to determine the rate to charge for septage services.

We recommend the City periodically reconcile both revenue and accounts receivable per the septage subsidiary ledger to the general ledger. This reconciliation should also be signed by the preparer and reviewer. Furthermore, we recommend the septage receivable balance, along with all receivables, be evaluated at year-end for collectability and to record any necessary allowance.

**Management Response:**

Management has satisfied this finding during fiscal year 2013. Ordinance 13-13 was approved by the City Council on March 25, 2013. Rates have been in effect as of the date of the approval of the resolution through an invoice which is signed and provided at the facility, and a residuals processing agreement.

**CITY OF AVON PARK  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2012**

**2011-5 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.

**Context:**

Review of the City's internal control procedures and inspection of sampled journal entries identified the deficiency.

**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:**

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 a sample of entries posted during the year. Two journal entries included in the sample did not contain appropriate supporting documentation.

**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, we recommend each journal entry be prepared and reviewed by separate accounting personnel with the requisite knowledge to make the entry as well as retaining evidence identify the individuals preparing and reviewing the journal entry.

**Management Response:**

Management does not entirely agree with this finding. Staff creates journal entries for bank reconciliations where supporting documentation can be found in each period's respective folder. To attach supporting documents to these types of entries can create significant replication.

During fiscal year 2013 management has implemented procedures for journal entries to be prepared by the Budget/Accounting Supervisor and approved by the City's CPA Comptroller.

**CITY OF AVON PARK  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2012**

**2011-10 Community Redevelopment Districts**

**Criteria:**

Sections 163.360, 163.361, and 16.362, 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.

**Context:**

Review of the City's community redevelopment plans disclosed the issue.

**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:**

No changes were made to the plans during the current fiscal year.

**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:**

In May 2013, the CRA Board authorized a planning and management resource firm to update all three CRA plans, and funding has been allocated for this purpose. We expect the work to be completed by December of 2013.

**CITY OF AVON PARK  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2012**

**2011-12 Billing Adjustments**

**Criteria:**

All billing adjustments must be approved by the Utility Billing Supervisor or the Finance Director depending on the amount of the adjustments.

**Condition:**

No review is performed to ensure all adjustments are approved.

**Context:**

Review of the City's internal control procedures identified the deficiency.

**Effect:**

Errors or fraud may not be recognized in a timely manner.

**Cause:**

Once the written billing adjustment amount is presented to the cashier, the cashier enters the billing adjustment to the billing system. No review is performed subsequent to that process to ensure that all adjustments entered into the system are approved.

**Status of Finding:**

During the current year the City implemented new controls. Early in the fiscal year, the ability to post utility billing adjustments in the utility billing module was limited to the Utility Billing Supervisor. In July 2012, the City began performing a review of each billing cycle's cut-off listing to charges posted.

**Recommendation:**

We recommend the Billing Supervisor compare all utility billing adjustments, including work orders, to additional fees billed each day to ensure no billing adjustments were processed without a corresponding fee being posted to a customer's account.

**Management Response:**

Management has remedied this finding during fiscal year 2012. Billing adjustments are prepared by clerical staff and reviewed by Utility Billing Supervisor. The Finance/Accounting staff enters the billing adjustments into the financial software therefore providing another review of the adjustment for accuracy. This work practice will continue into fiscal year 2013.

**CITY OF AVON PARK  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2012**

**2011-13 Utility Deposits**

**Criteria:**

The utility deposit account should be reconciled to a list of proper customer deposits.

**Condition:**

A report from the utility billing module of new accounts established during the period and the deposit amount was not reviewed to ensure that all new customers have a utility deposit recorded to their name. In addition, deposits recorded in the utility billing module were not reconciled to the general ledger.

**Context:**

Review of the City's internal control procedures and substantive testing identified the deficiencies.

**Effect:**

Errors, misstatements, or fraud may not be recognized in a timely manner.

**Cause:**

Reconciliations of customer deposits were not performed periodically or as part of the fiscal year-end close.

**Status of Finding:**

In May 2012, the City implemented controls including the use of manual receipts provided to each customer in setting up new accounts. Those receipts are included in the daily deposit report to mitigate the risk that an employee could misappropriate cash from a deposit. Periodically, a report of new accounts is generated and reviewed by the Utility Billing Supervisor. Fiscal year-end close procedures were also implemented to include a reconciliation of customer deposits per the utility billing system to the general ledger.

**Recommendation:**

We recommend the City periodically review a report generated from the utility billing module that lists new accounts established during the period and the deposit amount to ensure that all new customers have a utility deposit recorded to their account. Furthermore, we recommend the City reconcile the deposits recorded in the utility billing module to the general ledger.

**Management Response:**

Management has remedied this finding during fiscal year 2012. The Utility Billing Supervisor reviews a monthly generated deposit report and balances the reports to newly opened customer accounts to ensure each account has a recorded deposit. The Finance/Accounting department reconciles the utility deposits to the general on a monthly basis. This work practice will continue into fiscal year 2013.

**CITY OF AVON PARK  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2012**

**2011-15 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.

**Context:**

Review of the City's internal control procedures identified the deficiencies.

**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:**

During the current year, the City revised its payroll processing procedures so that Budget/Accounting Supervisor reviews and approves the payroll register. However, the review and reconciliation of time card hours to payroll system hours is not being documented. Furthermore, the Budget/Accounting Supervisor also has responsibilities to edit the payroll master file for pay rate, deduction and other changes. This results in a lack of segregation of duties where one position is responsible for processing and authorization.

**Recommendation:**

To strengthen internal control over payroll, we recommend:

- Consulting with the contracted CPA firm to develop adequate segregation of duties with limited accounting staff. The following responsibilities should be specifically addressed:
  - The Budget/Accounting Supervisor should not have access to edit the payroll master file if this individual is given responsibility to review and approve the payroll register and related reports and reconciliations.
  - A position not performing the review and approval function of payroll processing should be responsible for editing the payroll master file based on the payroll status changes approved by the City Manager.
- Documenting evidence that control activities for payroll processing have been performed, either in a checklist form or on the supporting documents themselves, along with a sign-off by the individual performing the procedure.

**Management Response:**

Management revised processing procedures in fiscal year 2012 and does not entirely agree with this finding. Although, we concur with some suggested improvements which will be implemented in fiscal year 2013. The Budget/Accounting Supervisor does not process the payroll; the payroll is processed by the Human Resources employee who does not have access to editing employee's master file or hours entries. In fiscal year 2013, management has also implemented one additional step to the process where the City Manager approves the payroll register in order to finalize the payroll process.

**CITY OF AVON PARK  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2012**

**CURRENT YEAR FINDINGS AND RECOMMENDATIONS**

**2012-1 Prior Period Adjustments and Timeliness of Financial Reporting**

**Criteria:**

The City's management is responsible for establishing and maintaining internal controls for the proper recording of transactions and reporting of financial statements in accordance with accounting principles generally accepted in the United States (GAAP). Those internal controls should also consider the timeliness of financial statements for the City's compliance with Section 218.39(7), Florida Statute, operational needs, and future budgeting.

**Condition:**

The City's financial statements include prior period adjustments to the General Fund, governmental activities, Solid Waste fund, and business-type activities. In addition, the City's audited financial statements were not filed with the Auditor General within nine months after the end of the City's fiscal year.

**Context:**

The City's fiscal year-end closing procedures identified the prior period adjustment. During the current year, the City contracted with a CPA firm to provide controller services.

**Effect:**

This weakness resulted in material misstatements of the City's beginning General Fund fund balance, governmental activities net assets, Solid Waste Fund net assets, and business-type activities net assets. Because various September 30, 2012 fund financial statement account balances, as reported in the financial statements, are materially different than those previously used by Council and management, financial decision making could be impacted. Also, the City was also not able to comply with Section 218.39(7) Florida Statute.

**Cause:**

The majority of the City's fiscal year-end closing and reporting process occurred in the eighth and ninth months following year-end. Various account balances were not reconciled on a regular basis resulting in significant adjustments for fiscal year-end reporting.

**Recommendation:**

It is important for the Council and management to have timely and accurate financial information as they make financial decisions. In order to increase the timeliness and efficiency of the reporting process, we recommend that the City:

- Continue to supplement staff knowledge and expertise with external consultants and CPAs.
- Consider additional training for City staff to increase their knowledge and ability to analyze, reconcile, and adjust significant account balances throughout the fiscal year.
- Consider forming an audit committee as suggested in guidelines published by the State of Florida Auditor General.

**Management Response:**

Management agrees with this finding. The City contracted with a CPA/ Comptroller during fiscal year 2012. The City staff and CPA thoroughly reviewed all city finance functions which found discrepancies that accumulated from several previous fiscal years of unresolved differences and errors; consequently causing a large delay in the timely closing of the year end process. For 2013, we expect to have all items resolved prior to the June, 2014 deadline.

**CITY OF AVON PARK  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2012**

**2012-2 – 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.

**Context:**

Review of the City's Purchasing Manual identified the differences.

**Effect:**

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

**Cause:**

Review of the Purchasing Manual did not identify the variations.

**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:**

Management agrees with this finding. The City will implement and amend the procedures in the accounting manual to reflect the accurate amount of maximum expenditures from petty cash.

**CITY OF AVON PARK  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2012**

**2012-3 – 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.

**Context:**

Review of the City's Purchasing Card Policy and inspection of three sampled employee purchases for one selected month identified the deficiency.

**Effect:**

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

**Cause:**

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

**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:**

Management will revise the Purchasing Procedures Manual to reflect the approval levels of initial spending limits and purpose of purchases for those employees who are assigned City purchasing cards.

**CITY OF AVON PARK  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2012**

**2012-4 – 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.

**Context:**

Substantive and analytical testing of the account balances along with review of the City's internal control procedures over capital assets disclosed the deficiencies.

**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.

**Recommendation:**

We recommend that the City investigate and resolve the differences that exist between the reported balances and the subsidiary ledger for governmental activities. Procedures for capital assets should include:

- Either a complete annual inventory or periodic department inventories of all capitalized assets to ensure that only active assets are included in the City's financial statements.
- Identifying tags should be placed on each asset with numbers that correspond to the items recorded in the detail property records to help improve the tracking of assets for inventory, disposal, and impairment and make the process more efficient.
- Inventory records including additions, disposals, detail property records and physical inventory documentation should be maintained and well organized to provide adequate documentation of the City's most significant assets.

**Management Response:**

Municipalities are not required to complete an annual inventory of capitalized assets; however the City will implement this procedure within fiscal year 2013. The Budget/Accounting Supervisor and CPA Controller are working diligently in researching the deficiency in balances carried over for previous fiscal years.