



**THE CITY OF ARCADIA
ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED
SEPTEMBER 30, 2012**

**ANNUAL FINANCIAL REPORT
OF THE
CITY OF ARCADIA, FLORIDA**

For the Fiscal Year Ended September 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, City Council
and City Administrator
City of Arcadia, 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 Arcadia, 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 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Arcadia, Florida, as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 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, 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 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.

Accounting principles generally accepted in the United States of America require the management's discussion and analysis, budgetary comparison information, and pension and other post-employment benefit schedules on pages 3–13, 59, and 60–62, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 and individual fund financial statements and schedules and Schedule of Expenditures of Federal Awards, as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly 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 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 financial statements as a whole.

Mauldin & Jenkins, LLC

Bradenton, Florida
August 6, 2013

CITY OF ARCADIA, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012
(UNAUDITED)

The City of Arcadia, Florida's (the "City") discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

Since Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, it should be read in conjunction with the City's financial statements (beginning on page 15).

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year presentation.

Financial Highlights

- The assets of the City of Arcadia exceeded its liabilities at September 30, 2012, by \$21,061,229 (net assets). Of this amount, \$1,768,208 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- As of September 30, 2012, the City of Arcadia's governmental funds reported combined ending fund balances of \$4,006,725, for a decrease of \$585,408 in comparison with the prior year. Of this amount, \$952,437 is available for spending at the City's discretion (unassigned fund balance).
- The City's total net assets increased \$1,868,965. Net assets for governmental activities decreased \$265,296, while net assets for business-type activities increased \$2,133,991.
- Total debt for the City increased \$1,236,967 or 35% during the current fiscal year as a result of the State Revolving Fund Loan for Water Treatment Plant construction.

USING THIS ANNUAL REPORT

The financial statement's focus is on both the City as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government), and enhance the City's accountability.

This discussion and analysis is intended to serve as an introduction to the City of Arcadia's basic financial statements, which are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report contains other supplementary information in addition to the basic financial statements themselves.

CITY OF ARCADIA, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012
(UNAUDITED)

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 a private-sector business. The focus is on "activities," rather than "fund types." The Statement of Net Assets and the Statement of Activities appear on pages 15 to 17 of the report.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. The focus of the Statement of Net Assets (the "unrestricted net assets") is designed to be similar to bottom line results for the City and its governmental and business-type activities. 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. This statement combines and consolidates governmental fund current resources (short-term spendable resources) with capital assets and long-term obligations.

The Statement of Activities presents information showing the City's net asset changes during the most recent fiscal year, focusing on both the gross and net costs of various activities, both governmental and business-type, that are supported by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of the cost of various governmental services and/or subsidy to various business-type activities.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes, licenses and permits, 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 reflect the City's basic service, including police, fire, highways and streets, sanitation, and parks and recreation. Property taxes, sales and use taxes, utility services, and gas taxes finance the majority of these services. The Business-type Activities reflect private sector type operations such as water and sewer services and the airport, where the fee for service typically covers all or most of the cost of operation including depreciation.

The government-wide financial statements include only the City of Arcadia (known as the primary government). There are no component units.

The government-wide financial statements can be found on pages 15 to 17 of this report.

Fund Financial Statements

A fund is a self-balancing set of accounts that is used to maintain control over the 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

CITY OF ARCADIA, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012
(UNAUDITED)

legal requirements. All of the funds of the City can be grouped into three (3) categories: governmental funds, proprietary funds and fiduciary funds. Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. The focus is now on major funds, rather than fund types.

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 balances of spendable resources available at the end of the fiscal year. Such information may be useful in the evaluation of the City'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 City's near-term financing decisions. Because of the different measurement focus (current financial resources versus total economic resources) a reconciliation of both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances is provided (see pages 19 and 21) to facilitate the comparison between governmental funds and governmental activities. The flow of current financial resources will reflect debt proceeds and interfund transfers as other financing sources, as well as capital outlays and debt principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligations (debt and others) into the Governmental Activities column (in the government-wide statements).

The City maintains eight (8) individual governmental funds, two (2) proprietary funds, and two (2) fiduciary 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 and McSwain Park Fund which are considered major funds. Data from the other six (6) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in this report, immediately following the required supplementary information.

The City adopts annual appropriated budgets for the General Fund, Infrastructure Fund, Street Reserve Fund, Community Development Block Grant Fund, Capital Improvement Fund, Fire Protection Services Fund, Water and Sewer Fund, and Airport Fund. Budgetary comparison schedules have been provided for the General Fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 18 and 20 of this report.

CITY OF ARCADIA, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012
(UNAUDITED)

Proprietary Funds. The City maintains only one (1) of the two (2) proprietary fund types. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City reports two (2) enterprise funds to account for its public utilities system and airport. Internal service funds are an accounting device used to accumulate and allocate costs internally among a government's various functions. The City does not utilize internal service funds.

The proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 22 to 26 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City (e.g., pension beneficiaries). The City uses fiduciary funds to account for the two (2) pension trust funds for the Police Officers' and Firefighters' Retirement System and Employee Retirement Plan. Fiduciary funds are not reflected in the government-wide financial statements 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 27 and 28 of this report.

Notes to the Basic 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 can be found on pages 29 to 58 of this report.

Infrastructure Assets. Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, under ground pipes not associated with a utility, etc.) had not been reported nor depreciated in governmental financial statements. Governmental Accounting Standards Board Statement No. 34 required that these assets be valued and reported within the governmental column of the government-wide statements. The City has elected to depreciate its infrastructure assets.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$21,061,229 at the close of the most recent fiscal year.

CITY OF ARCADIA, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012
(UNAUDITED)

Table 1
City of Arcadia's Net Assets

	Governmental		Business-type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 4,790,432	4,850,125	1,099,340	493,388	5,889,772	5,343,513
Capital assets	5,371,033	5,382,606	18,006,681	14,072,940	23,377,714	19,455,546
Total assets	<u>\$ 10,161,465</u>	<u>10,232,731</u>	<u>19,106,021</u>	<u>14,566,328</u>	<u>29,267,486</u>	<u>24,799,059</u>
Long-term liabilities outstanding	\$ 866,397	1,199,864	5,087,702	3,797,308	5,954,099	4,997,172
Other liabilities	754,753	227,256	1,497,405	382,097	2,252,158	609,353
Total liabilities	<u>\$ 1,621,150</u>	<u>1,427,120</u>	<u>6,585,107</u>	<u>4,179,405</u>	<u>8,206,257</u>	<u>5,606,525</u>
Invested in capital assets, net of related debt	\$ 5,371,033	5,382,606	13,181,516	10,484,742	18,552,549	15,867,348
Restricted	43,619	1,234,042	696,853	723,629	740,472	1,957,671
Unrestricted	<u>3,125,663</u>	<u>2,188,963</u>	<u>(1,357,455)</u>	<u>(821,448)</u>	<u>1,768,208</u>	<u>1,367,515</u>
Total net assets	<u>\$ 8,540,315</u>	<u>8,805,611</u>	<u>12,520,914</u>	<u>10,386,923</u>	<u>21,061,229</u>	<u>19,192,534</u>

By far, the largest portion of the City's net assets (88%) reflects its investment in capital assets (e.g., land, building, infrastructure and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in 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.

A portion of the City's net assets, \$740,472 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$1,768,208, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all categories of net assets for governmental activities.

For more detailed information see the Statement of Net Assets (page 15).

Normal Impacts

There are six (6) basic (normal) transactions that will affect the comparability of the Statement of Net Assets summary presentation.

CITY OF ARCADIA, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Net Results of Activities – will impact (increase/decrease) current assets and unrestricted net assets.

Borrowing for Capital – will increase current assets and long-term debt.

Spending Borrowed Proceeds on New Capital – will reduce current assets and increase capital assets. There is a second impact, an increase in capital assets and an increase in related net debt, which will not change the invested in capital assets, net of related debt.

Spending of Non-borrowed Current Assets on New Capital – will: (a) reduce current assets and increase capital assets and (b) reduce unrestricted net assets and increase invested in capital assets, net of related debt.

Principal Payment on Debt – will: (a) reduce current assets and reduce long-term debt and (b) reduce unrestricted net assets and increase invested in capital assets, net of related debt.

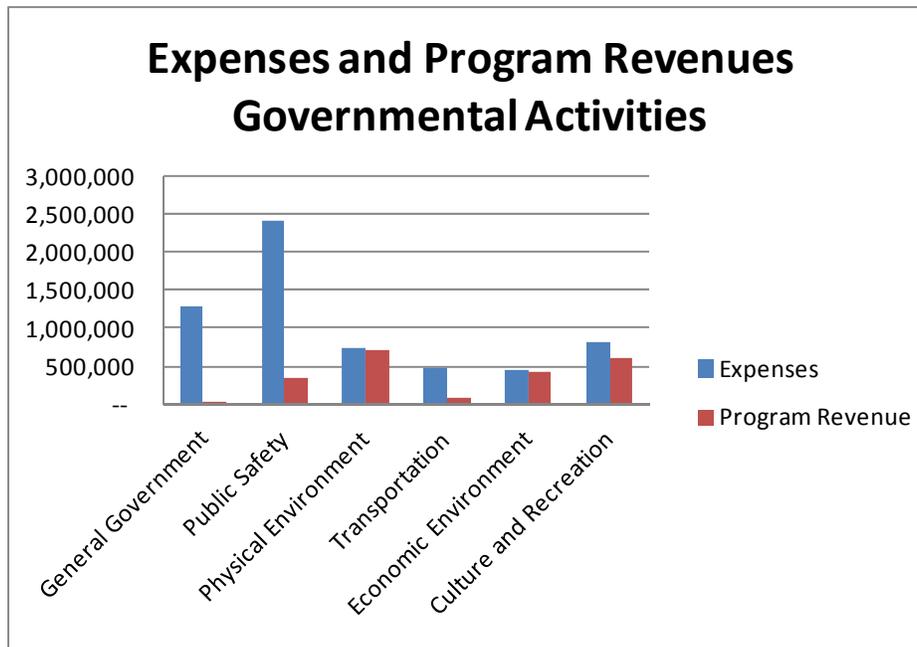
Reduction of Capital Assets through Depreciation – will reduce capital assets and invested in capital assets, net of related debt.

CITY OF ARCADIA, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012
(UNAUDITED)

Table 2
City of Arcadia's
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues						
Charges for services	\$ 1,349,968	1,360,391	3,157,819	3,025,010	4,507,787	4,385,401
Operating grants	788,747	711,700	-	-	788,747	711,700
Capital grants	24,600	-	1,805,321	308,014	1,829,921	308,014
General Revenues						
Property taxes	1,423,422	1,496,105	-	-	1,423,422	1,496,105
Other taxes	1,534,651	1,493,509	-	-	1,534,651	1,493,509
Franchise fees	389,506	418,752	-	-	389,506	418,752
Intergovernmental	490,195	435,732	-	-	490,195	435,732
Other	74,710	60,747	8,369	23,315	83,079	84,062
Total revenues	<u>6,075,799</u>	<u>5,976,936</u>	<u>4,971,509</u>	<u>3,356,339</u>	<u>11,047,308</u>	<u>9,333,275</u>
Expenses						
General government	1,279,713	1,288,912	-	-	1,279,713	1,288,912
Public safety	2,417,326	2,571,913	-	-	2,417,326	2,571,913
Physical environment	729,369	684,079	-	-	729,369	684,079
Transportation	467,666	515,162	-	-	467,666	515,162
Economic environment	459,114	292,874	-	-	459,114	292,874
Culture and recreation	824,671	1,014,532	-	-	824,671	1,014,532
Water and sewer	-	-	2,941,344	3,517,350	2,941,344	3,517,350
Airport	-	-	59,410	61,088	59,410	61,088
Total expenses	<u>6,177,859</u>	<u>6,367,472</u>	<u>3,000,754</u>	<u>3,578,438</u>	<u>9,178,613</u>	<u>9,945,910</u>
Increase (decrease) in net assets						
before transfers	(102,060)	(390,536)	1,970,755	(222,099)	1,868,695	(612,635)
Capital transfers	-	(1,198,035)	-	1,198,035	-	-
Transfers	(163,236)	(69,206)	163,236	69,206	-	-
Change in net assets	<u>(265,296)</u>	<u>(1,657,777)</u>	<u>2,133,991</u>	<u>1,045,142</u>	<u>1,868,695</u>	<u>(612,635)</u>
Net assets, beginning of year (restated)	<u>8,805,611</u>	<u>10,463,388</u>	<u>10,386,923</u>	<u>9,341,781</u>	<u>19,192,534</u>	<u>19,805,169</u>
Net assets, end of year	<u>\$ 8,540,315</u>	<u>8,805,611</u>	<u>12,520,914</u>	<u>10,386,923</u>	<u>21,061,229</u>	<u>19,192,534</u>

CITY OF ARCADIA, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012
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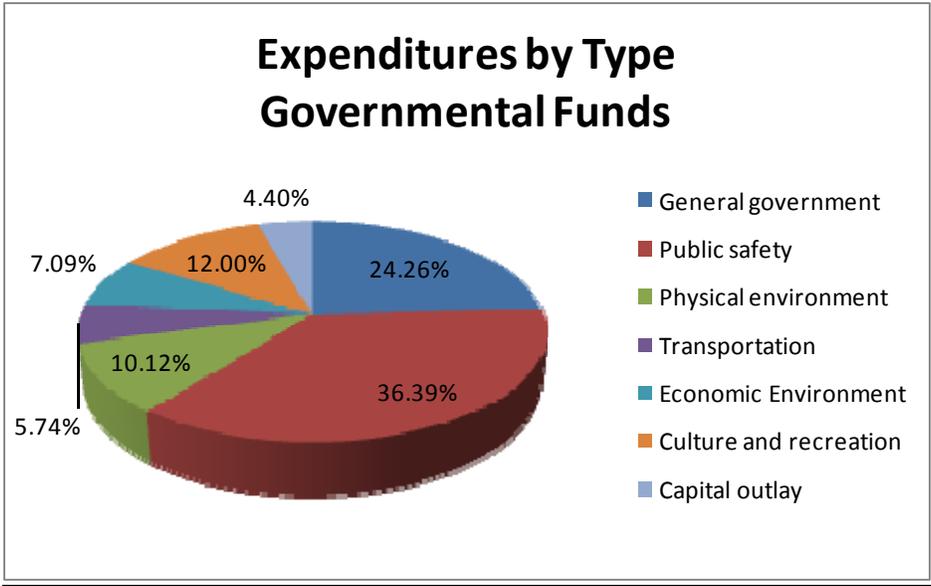
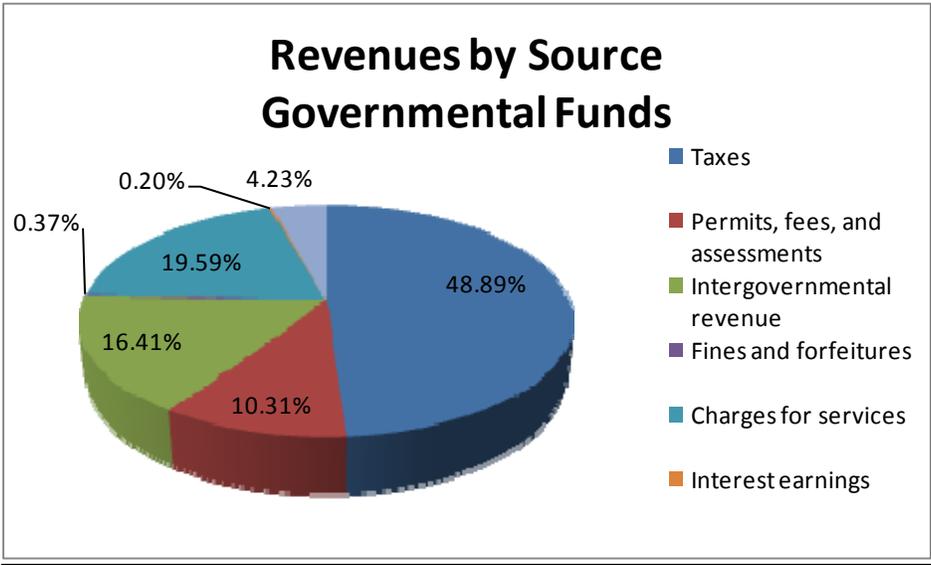


Financial Analysis of the City's Funds – As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of the City's governmental funds as noted 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, unassigned fund balance may serve as a useful measure of a City'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 fund balances of \$4,006,725, a decrease of \$585,408 in comparison with the prior year. Approximately 24% of this total amount, \$952,437, constitutes unassigned fund balance which is available for spending at the City's discretion. During the current fiscal year, the fund balance of the General Fund decreased by \$429,575. The key factor for the decrease is due to a legal settlement.

Nonmajor governmental funds consisting of special revenue funds and capital project funds have a combined fund balance of \$3,015,081 of which all of it is non-spendable, restricted or assigned.

CITY OF ARCADIA, FLORIDA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 SEPTEMBER 30, 2012
 (UNAUDITED)



CITY OF ARCADIA, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012
(UNAUDITED)

Proprietary Funds – The City'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 amounted to a negative \$1,435,523; and the increase in net assets was \$1,977,763. The City increased water utility rates and late fees in November 2012, in an effort to rebuild net assets in this fund.

General Fund Budgetary Highlights – Overall, General Fund actual expenditures exceeded budgeted appropriations by \$167,957. This deficit was due in part to a one-time settlement payment and the purchase of garbage truck that were not budgeted.

Capital Assets and Debt Administration

Capital Assets – The City's capital assets for its governmental and business-type activities as of September 30, 2012, amount to \$23,377,714 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements other than buildings, equipment, infrastructure, and construction in progress.

**City of Arcadia's Capital Assets
(Net of Depreciation)**

	Governmental		Business-type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Land	\$ 1,334,812	1,334,812	380,778	380,778	1,715,590	1,715,590
Construction in progress	-	-	5,143,415	491,267	5,143,415	491,267
Buildings	1,015,192	1,056,014	2,640,853	2,894,082	3,656,045	3,950,096
Improvements other than buildings	581,197	616,674	163,895	30,942	745,092	647,616
Infrastructure	2,159,281	2,200,687	9,437,779	10,028,116	11,597,060	12,228,803
Machinery and equipment	280,551	174,419	239,961	247,755	520,512	422,174
Total	<u>\$ 5,371,033</u>	<u>5,382,606</u>	<u>18,006,681</u>	<u>14,072,940</u>	<u>23,377,714</u>	<u>19,455,546</u>

Construction commenced on the water treatment plant improvements during the year. Additional information on the City's capital assets can be found in Note E of the notes to the basic financial statements.

CITY OF ARCADIA, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012
(UNAUDITED)

Long-term Debt – At the end of the 2012 fiscal year, the City had debt outstanding of \$4,825,165.

Table 4
City of Arcadia's Outstanding Debt

	Business-type Activities	
	<u>2012</u>	<u>2011</u>
Bonds payable	\$ 2,709,742	2,944,085
State Revolving Fund loan payable	1,587,180	-
Capital lease payable	<u>528,243</u>	<u>644,113</u>
Total	<u>\$ 4,825,165</u>	<u>3,588,198</u>

Debt balances increased due to the State Revolving Fund loan payable which is being used for construction of the new water treatment plant and related items.

Additional information on the City's long-term debt can be found in Note F of the notes to the basic financial statements.

Economic Factors and Next Year's Budget

For Fiscal Year 2012/2013, the City continued to see a reduction in ad valorem taxes, part of which was brought about by the Legislature's Tax Reform efforts and part due to the decline in property values. These issues have had a significant impact on the City's ability to increase fund balance in the General Fund. The increase in Police pension contributions have caused the City's expenditures to increase dramatically.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City of Arcadia's financial condition and to demonstrate the City's accountability. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Arcadia, Finance Director, P.O. Box 1000, Arcadia, Florida 34265.



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BASIC FINANCIAL STATEMENTS

CITY OF ARCADIA, FLORIDA
STATEMENT OF NET ASSETS
September 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 3,126,344	52,166	3,178,510
Accounts receivable, net of allowance	231,016	397,691	628,707
Prepaid items	39,207	-	39,207
Interest receivable	-	204	204
Internal balances	1,235,675	(1,235,675)	-
Due from other governments	129,236	749,602	878,838
Restricted assets:			
Cash and cash equivalents	-	982,015	982,015
Net pension asset	28,954	-	28,954
Deferred charges	-	153,337	153,337
Capital assets:			
Land	1,334,812	380,778	1,715,590
Buildings	1,826,959	9,489,325	11,316,284
Improvements other than buildings	1,710,147	1,103,320	2,813,467
Machinery and equipment	2,745,052	3,739,408	6,484,460
Infrastructure	3,872,094	16,956,064	20,828,158
Construction in process	-	5,143,415	5,143,415
Accumulated depreciation	(6,118,031)	(18,805,629)	(24,923,660)
TOTAL ASSETS	\$ 10,161,465	19,106,021	29,267,486
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 127,544	758,038	885,582
Accrued expenses	76,116	26,543	102,659
Retainage payable	-	427,662	427,662
Unearned revenue	551,093	-	551,093
Current liabilities payable from restricted assets:			
Accrued interest	-	42,782	42,782
Customer deposits	-	242,380	242,380
Bonds payable - current portion	-	258,333	258,333
Non-current liabilities:			
Due within one year	70,000	180,113	250,113
Due in more than one year	796,397	4,649,256	5,445,653
Total liabilities	1,621,150	6,585,107	8,206,257
NET ASSETS			
Invested in capital assets, net of related debt	5,371,033	13,181,516	18,552,549
Restricted for:			
Debt service	-	696,853	696,853
Housing rehabilitation	23,193	-	23,193
Law enforcement	53	-	53
Streets	20,373	-	20,373
Unrestricted	3,125,663	(1,357,455)	1,768,208
Total net assets	8,540,315	12,520,914	21,061,229
TOTAL LIABILITIES AND NET ASSETS	\$ 10,161,465	19,106,021	29,267,486

The notes to the financial statements are an integral part of this statement.

CITY OF ARCADIA, FLORIDA
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 1,279,713	17,625	-	-
Public safety	2,417,326	22,977	307,403	4,600
Physical environment	729,369	704,945	1,219	-
Transportation	467,666	-	62,257	20,000
Economic environment	459,114	-	417,868	-
Culture and recreation	824,671	604,421	-	-
	<u>6,177,859</u>	<u>1,349,968</u>	<u>788,747</u>	<u>24,600</u>
Business-type activities:				
Water and sewer	2,941,344	3,100,814	-	1,668,652
Airport	59,410	57,005	-	136,669
Total business-type activities	<u>3,000,754</u>	<u>3,157,819</u>	<u>-</u>	<u>1,805,321</u>
Total	<u>\$ 9,178,613</u>	<u>4,507,787</u>	<u>788,747</u>	<u>1,829,921</u>

General revenues:

Taxes

Property taxes

Local option gas tax

Insurance premium tax

Infrastructure tax

Public service taxes

Communications services taxes

Business license taxes

Franchise fees

Intergovernmental, unrestricted

Unrestricted investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Change in net assets

Net assets, beginning of year (restated)

Net assets, end of year

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Assets

Primary Government

Governmental Activities	Business-type Activities	Total
(1,262,088)	-	(1,262,088)
(2,082,346)	-	(2,082,346)
(23,205)	-	(23,205)
(385,409)	-	(385,409)
(41,246)	-	(41,246)
(220,250)	-	(220,250)
(4,014,544)	-	(4,014,544)
-	1,828,122	1,828,122
-	134,264	134,264
-	1,962,386	1,962,386
(4,014,544)	1,962,386	(2,052,158)
1,423,422	-	1,423,422
251,324	-	251,324
99,339	-	99,339
425,986	-	425,986
439,055	-	439,055
265,006	-	265,006
53,941	-	53,941
389,506	-	389,506
490,195	-	490,195
12,087	8,369	20,456
62,623	-	62,623
(163,236)	163,236	-
3,749,248	171,605	3,920,853
(265,296)	2,133,991	1,868,695
8,805,611	10,386,923	19,192,534
\$ 8,540,315	12,520,914	21,061,229

CITY OF ARCADIA, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2012

	General Fund	McSwain Park Fund
Assets:		
Pooled cash and cash equivalents	\$ 675,396	500,000
Non-pooled cash and cash equivalents	78,549	-
Accounts receivable, net of allowance	231,016	-
Prepaid items	39,207	-
Due from other funds	203,685	-
Due from other governments	68,452	-
Advances to other funds	-	-
Total assets	\$ 1,296,305	500,000
Liabilities:		
Accounts payable	\$ 91,922	-
Accrued expenses	76,116	-
Due to other funds	85,530	-
Deferred revenue	51,093	500,000
Total liabilities	304,661	500,000
Fund balances:		
Nonspendable		
Prepaid items	39,207	-
Advances to other funds	-	-
Restricted		
Housing rehabilitation	-	-
Law enforcement	-	-
Streets	-	-
Assigned		
Other	-	-
Capital projects	-	-
Unassigned	952,437	-
Total fund balances	991,644	-
Total liabilities and fund balances	\$ 1,296,305	500,000

The notes to the financial statements are an integral part of this statement.

CITY OF ARCADIA, FLORIDA
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
OF GOVERNMENTAL ACTIVITIES
September 30, 2012

Other Governmental Funds	Total		\$	
		Fund balance, total governmental funds		4,006,725
1,732,346	2,907,742	Amounts reported for governmental activities		
140,053	218,602	in the statement of net assets are different		
-	231,016	because:		
-	39,207	Capital assets used in governmental activities		
-	203,685	are not financial resources and, therefore,		
60,784	129,236	are not reported in the governmental funds.		
1,117,520	1,117,520			
<u>3,050,703</u>	<u>4,847,008</u>	Capital assets	11,489,064	
		Less accumulated depreciation	<u>(6,118,031)</u>	5,371,033
35,622	127,544	Certain non-current assets are not available		
-	76,116	to pay for current period expenditures and,		
-	85,530	therefore, are not recorded in the funds.		28,954
-	551,093			
<u>35,622</u>	<u>840,283</u>	Non-current liabilities are not due and payable		
		in the current period and, therefore, are not		
		reported in the governmental funds.		
-	39,207	Claims payable	(75,000)	
1,117,520	1,117,520	Compensated absences	(214,335)	
		Other post-employment benefits	(537,952)	
23,193	23,193	Net pension obligation	<u>(39,110)</u>	(866,397)
53	53			
20,373	20,373	Net assets, governmental activities		<u>\$ 8,540,315</u>
1,039,044	1,039,044			
814,898	814,898			
-	952,437			
<u>3,015,081</u>	<u>4,006,725</u>			
<u>3,050,703</u>	<u>4,847,008</u>			

CITY OF ARCADIA, FLORIDA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
For the Year Ended September 30, 2012

	General Fund	McSwain Park Fund
Revenues:		
Taxes	\$ 2,280,763	-
Permits, fees and assessments	400,488	-
Intergovernmental revenue	575,177	-
Fines and forfeitures	22,407	-
Charges for services	1,185,267	-
Interest earnings	11,108	-
Miscellaneous revenue	256,192	-
Total revenues	<u>4,731,402</u>	<u>-</u>
Expenditures:		
Current:		
General government	1,570,478	-
Public safety	2,116,355	-
Physical environment	654,882	-
Transportation	371,422	-
Economic environment	-	-
Culture and recreation	776,865	-
Capital outlay	254,858	-
Total expenditures	<u>5,744,860</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,013,458)</u>	<u>-</u>
Other financing sources (uses):		
Transfers in	647,093	-
Transfers out	(63,210)	-
Total other financing sources (uses)	<u>583,883</u>	<u>-</u>
Net change in fund balances	(429,575)	-
Fund balances, beginning of year	<u>1,421,219</u>	<u>-</u>
Fund balances, end of year	<u>\$ 991,644</u>	<u>-</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ARCADIA, 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

Other Governmental Funds	Total		
		Net change in fund balances, total governmental funds	\$ (585,408)
		Amounts reported in the Statement of Activities are different because:	
677,310	2,958,073		
223,640	624,128		
417,868	993,045		
-	22,407		
-	1,185,267		
979	12,087		
-	256,192		
1,319,797	6,051,199		
		Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.	
		Capital outlay expenditures	284,915
		Less current year depreciation	(321,021)
-	1,570,478		(36,106)
239,340	2,355,695		
-	654,882		
-	371,422		
459,114	459,114	The net effect of various miscellaneous transactions involving capital assets (i.e. sales, dispositions, and capital transfers) is to decrease net assets.	24,533
-	776,865		
30,057	284,915		
		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.	
728,511	6,473,371		
		Change in claims payable	500,000
591,286	(422,172)	Change in net pension asset/obligation	(9,115)
		Change in compensated absences	22,089
		Change in post-employment benefits	(181,289)
41,246	688,339		331,685
(788,365)	(851,575)	Change in net assets of governmental activities	\$ (265,296)
(747,119)	(163,236)		
(155,833)	(585,408)		
3,170,914	4,592,133		
3,015,081	4,006,725		

CITY OF ARCADIA, FLORIDA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2012

	Business-type Activities		
	Water and Sewer Fund	Airport Fund (Nonmajor)	Total
ASSETS			
Current assets:			
Unrestricted cash and cash equivalents:	\$ -	52,166	52,166
Restricted cash and cash equivalents:			
2003 refunding bonds, sinking fund	301,115	-	301,115
Customer deposits	242,380	-	242,380
Accounts receivable, net of allowance	392,693	4,998	397,691
Interest receivable	204	-	204
Due from other governments	727,611	21,991	749,602
Due from other funds	85,530	-	85,530
Total current assets	1,749,533	79,155	1,828,688
Non-current assets:			
Restricted cash and cash equivalents:			
2003 refunding bonds, reserve funds	438,520	-	438,520
Deferred charges	153,337	-	153,337
Total non-current assets	591,857	-	591,857
Capital assets:			
Land	147,123	233,655	380,778
Buildings	8,194,420	1,294,905	9,489,325
Improvements other than buildings	-	1,103,320	1,103,320
Infrastructure	16,956,064	-	16,956,064
Machinery and equipment	3,715,000	24,408	3,739,408
Construction in progress	5,143,415	-	5,143,415
	34,156,022	2,656,288	36,812,310
Less accumulated depreciation	17,416,494	1,389,135	18,805,629
Net capital assets	16,739,528	1,267,153	18,006,681
TOTAL ASSETS	\$ 19,080,918	1,346,308	20,427,226

The notes to the financial statements are an integral part of this statement.

	Business-type Activities		
	Water and Sewer Fund	Airport Fund (Nonmajor)	Total
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable	\$ 756,951	1,087	758,038
Accrued payroll	25,421	-	25,421
Other accrued liabilities	1,122	-	1,122
Due to other funds	203,685	-	203,685
Retainage payable	427,662	-	427,662
Advances from other funds	1,117,520	-	1,117,520
Current liabilities payable from restricted assets:			
Accrued interest	42,782	-	42,782
Customer deposits	242,380	-	242,380
Bonds payable, current portion	258,333	-	258,333
Compensated absences, current portion	7,500	-	7,500
Capital lease payable, current portion	120,946	-	120,946
Bonds payable, current portion	51,667	-	51,667
Total current liabilities	<u>3,255,969</u>	<u>1,087</u>	<u>3,257,056</u>
Non-current liabilities:			
Compensated absences	88,086	-	88,086
Other post-employment benefits	166,951	-	166,951
Capital lease payable	407,297	-	407,297
Loan payable	1,587,180	-	1,587,180
Bonds payable	2,399,742	-	2,399,742
Total non-current liabilities	<u>4,649,256</u>	<u>-</u>	<u>4,649,256</u>
Total liabilities	<u>7,905,225</u>	<u>1,087</u>	<u>7,906,312</u>
Net assets:			
Invested in capital assets, net of related debt	11,914,363	1,267,153	13,181,516
Restricted:			
Debt service	696,853	-	696,853
Unrestricted	(1,435,523)	78,068	(1,357,455)
Total net assets	<u>11,175,693</u>	<u>1,345,221</u>	<u>12,520,914</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 19,080,918</u></u>	<u><u>1,346,308</u></u>	<u><u>20,427,226</u></u>

CITY OF ARCADIA, FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For The Year Ended September 30, 2012

	Business-type Activities		
	Water and Sewer Fund	Airport Fund (Nonmajor)	Total
Operating revenues:			
Charges for services	\$ 2,971,051	57,005	3,028,056
Tap fees	89,776	-	89,776
Miscellaneous	39,987	-	39,987
Total operating revenues	<u>3,100,814</u>	<u>57,005</u>	<u>3,157,819</u>
Operating expenses:			
Personal services	956,691	-	956,691
Operating expenses	873,984	22,783	896,767
Depreciation and amortization	880,440	36,627	917,067
Total operating expenses	<u>2,711,115</u>	<u>59,410</u>	<u>2,770,525</u>
Operating income (loss)	<u>389,699</u>	<u>(2,405)</u>	<u>387,294</u>
Nonoperating revenues (expenses):			
Interest earnings	8,369	-	8,369
Interest and fiscal agent fees	(230,229)	-	(230,229)
Total nonoperating revenues (expenses)	<u>(221,860)</u>	<u>-</u>	<u>(221,860)</u>
Income before capital contributions and transfers	167,839	(2,405)	165,434
Capital contributions	1,668,652	136,669	1,805,321
Transfers in	141,272	21,964	163,236
Change in net assets	1,977,763	156,228	2,133,991
Total net assets, beginning of year	<u>9,197,930</u>	<u>1,188,993</u>	<u>10,386,923</u>
Total net assets, end of year	<u>\$ 11,175,693</u>	<u>1,345,221</u>	<u>12,520,914</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ARCADIA, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2012

	Business-type Activities		
	Water and Sewer Fund	Airport Fund (Nonmajor)	Total
Cash flows from operating activities:			
Cash received from customers	\$ 3,083,187	60,325	3,143,512
Cash payments to suppliers	(798,305)	(21,696)	(820,001)
Cash payments to employees for services	(903,737)	-	(903,737)
Cash received (payments) for interfund loans	100,203	6,852	107,055
Net cash provided by operating activities	<u>1,481,348</u>	<u>45,481</u>	<u>1,526,829</u>
Cash flows from noncapital financing activities:			
Advances from other funds	165,022	-	165,022
Transfers from other funds	141,272	21,964	163,236
Net cash provided by noncapital financing activities	<u>306,294</u>	<u>21,964</u>	<u>328,258</u>
Cash flows from capital and related financing activities:			
Capital contributions	941,041	114,678	1,055,719
Acquisition of capital assets	(3,678,759)	(136,669)	(3,815,428)
Loan proceeds	1,494,949	-	1,494,949
Payments of long-term debt principal	(415,870)	-	(415,870)
Payments of interest expense and fiscal charges	(160,309)	-	(160,309)
Net cash used by capital and related financing activities	<u>(1,818,948)</u>	<u>(21,991)</u>	<u>(1,840,939)</u>
Cash flows from investing activities:			
Interest received	8,165	-	8,165
Net cash provided by investing activities	<u>8,165</u>	<u>-</u>	<u>8,165</u>
Net increase (decrease) in cash and cash equivalents	(23,141)	45,454	22,313
Cash and cash equivalents, beginning of year	<u>1,005,156</u>	<u>6,712</u>	<u>1,011,868</u>
Cash and cash equivalents, end of year	<u>\$ 982,015</u>	<u>52,166</u>	<u>1,034,181</u>
Cash and cash equivalents			
Cash and cash equivalents, unrestricted	\$ -	52,166	52,166
Cash and cash equivalents, restricted	<u>982,015</u>	<u>-</u>	<u>982,015</u>
	<u>\$ 982,015</u>	<u>52,166</u>	<u>1,034,181</u>

(Continued)

The notes to the financial statements are an integral part of this statement.

CITY OF ARCADIA, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
For the Year Ended September 30, 2012

	Business-type Activities		
	Water and Sewer Fund	Airport Fund (Nonmajor)	Total
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 389,699	(2,405)	387,294
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	880,440	36,627	917,067
(Increase) decrease in:			-
Accounts receivable	(24,637)	3,320	(21,317)
Due from other funds	(34,910)	6,852	(28,058)
Increase (decrease) in:			
Accounts payable	74,557	1,087	75,644
Accrued payroll	(473)	-	(473)
Due to other funds	135,113	-	135,113
Other accrued liabilities	1,122	-	1,122
Customer deposits	7,010	-	7,010
Compensated absences	(3,788)	-	(3,788)
Other post-employment benefits	57,215	-	57,215
Net cash provided by operating activities	<u>\$ 1,481,348</u>	<u>45,481</u>	<u>1,526,829</u>
Noncash investing, capital and financing activities:			
Amortization of loss and discount on refunding bonds	<u>\$ 73,295</u>	<u>-</u>	<u>73,295</u>
Amortization of bond issue costs	<u>\$ 7,638</u>	<u>-</u>	<u>7,638</u>

CITY OF ARCADIA, FLORIDA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
September 30, 2012

	Pension Trust Funds
ASSETS	
Cash	\$ 131
Contributions receivable	13,820
Interest receivable	16,230
Investments:	
Money market funds	311,212
U.S. Government and agencies	1,699,260
Corporate bonds	1,177,809
Corporate stocks	4,495,473
Mutual funds	1,228,874
Pooled investments	737,544
Total investments	9,650,172
TOTAL ASSETS	9,680,353
LIABILITIES	
Accounts payable	11,262
Deferred contribution	21,636
DROP plan payable	264,738
Total liabilities	297,636
NET ASSETS	
Net assets held in trust for pension benefits	\$ 9,382,717

The notes to the financial statements are an integral part of this statement.

CITY OF ARCADIA, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
For the Year Ended September 30, 2012

	Pension Trust Funds
ADDITIONS	
Contributions:	
Employer	\$ 291,648
Plan member	95,421
State of Florida	99,339
Total contributions	486,408
Investment income:	
Net increase in fair value of investments	609,047
Gain on sale of investments	455,441
Interest and dividends	221,653
Total investment income	1,286,141
Less investment expenses	92,904
Net investment income	1,193,237
Total additions	1,679,645
DEDUCTIONS	
Benefits	609,626
Administrative expenses	33,626
Refund of contributions	36,199
DROP plan	234,127
Total deductions	913,578
Change in net assets	766,067
Net assets held in trust for pension benefits:	
Net assets, beginning of year (restated)	8,616,650
Net assets, end of year	\$ 9,382,717

The notes to the financial statement are an integral part of this statement.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Arcadia, Florida (“the City”), have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. The Financial Reporting Entity

The City began as a small ranching and farming settlement on the bluff overlooking the Peace River in 1883. The City was first chartered in 1886 and became the County Seat of DeSoto County in 1888. It was granted its present Charter in 1901, established under the 1901 Laws of Florida, Chapter 5080. It is located in Central Florida near the intersection of U.S. Highway 17 and State Road 70, and is comprised of approximately 4.1 square miles with a population of approximately 6,900. The City operates under an elected Council (five members rotate as Mayor) administrative/legislative form of government and provides the following services as authorized by its charter: police and fire protection, emergency medical services, waste collection, parks and recreation, certain social services, and general administration. In addition, the City owns and operates a water system and sewer system. Fire services are contracted with Desoto County.

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the accompanying financial statements include all funds for which the City is financially accountable. The City has also considered all other potential organizations for which the nature and significance of their relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a majority of an organization's governing body and: (1) the ability of the City to impose its will on that organization, or (2) the potential for that organization to provide specific benefits to or impose specific financial burdens on the City. Other considerations are whether the organization is legally separate, whether the City holds the corporate powers of the organization, and whether there is fiscal dependency by the organization on the City. Based on these criteria, there are no other organizations or agencies which should be included in these basic financial statements.

The Arcadia Housing Authority (AHA) was created by Chapter 421 of the Florida Statutes, 1941, as amended by Chapter 21697 and 21699, Laws of 1943, and approved May 11, 1943. The City and the AHA entered into a cooperative agreement on March 19, 1962. The City Council has the responsibility of ratifying the appointment of AHA Board members. The City's accountability for this organization does not extend beyond this role.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net assets and the Statement of Activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers property tax revenues and all other governmental fund revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, such as in grants and similar items, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded and the availability criteria. In the

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

other, monies are virtually unrestricted as to purpose of expenditure, and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria are met.

Permits and assessments, fines and forfeitures, charges for services (other than utility), and miscellaneous revenues are generally recorded as revenue when received in cash, because they are generally not measurable until actually received. Utility services, investment earnings, franchise fees, and utility taxes are recorded as earned, since they are measurable and available.

Property taxes are recognized as revenue at the time an enforceable legal claim is established. This is determined to occur November 1 of each year. The assessment roll is validated July 1, and the millage resolution is approved by September 30. The City's property taxes become a lien on October 1, and the tax is levied by DeSoto County each November 1, for real and personal property located in the City. Property taxes are due before April 1, with the maximum discount available if payment is made on or before November 30. If payments remain delinquent, a tax certificate for the full amount of any unpaid taxes is sold no later than June 1. Under this arrangement, there are no property tax receivables at the end of the fiscal year on September 30.

The government reports the following major governmental funds:

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

The *McSwain Park Restoration Fund* is a special revenue fund used to account for the receipt, custody, and expenditure of grants and other funds used for the restoration of McSwain Park.

The government reports the following major proprietary fund:

The *Water and Sewer Fund* accounts for the activities associated with providing water and sewer services to the residents of the City. The City operates a sewage treatment plant, sewage pumping stations and collection systems, and a water treatment and distribution system.

Additionally, the government reports the following fiduciary fund type:

The *pension trust funds* account for the activities of the City's retirement plans which accumulate resources for pension benefit payments made to qualified pension employees.

Private-sector standards and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and other charges between the government's water and sewer function 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.

Amounts reported as *program revenues* include: (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City's Water and Sewer Fund also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

4. Assets, Liabilities and Net Assets or Equity

(a) Deposits and investments

The City maintains a pooled cash account that is available for use by all funds, except the pension trust funds. Each fund's portion of this pool is presented as "Pooled cash and cash equivalents" in the financial statements. Interest income earned as a result of pooling is distributed monthly to the appropriate funds based on average daily balances.

In addition, non-pooled cash and cash equivalents are separately held by several of the City's funds. The government's non-pooled cash and cash equivalents are considered to be cash on hand, demand deposits and interest-bearing time deposits. Investments are held only in the pension trust funds and consist of short-term investments and marketable securities reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales quote at current exchange rates. Investments that do not have an established market are reported at estimated fair value based on market indicators regarded as measures of equity or fixed income performance results. The City does not have a significant amount of investments valued at other than quoted market prices.

Florida Statutes require state and local governmental units to deposit monies with financial institutions classified as "Qualified Public Depositories," a multiple financial institution pool whereby groups of securities pledged by the various financial institutions provide common collateral for their deposits of public funds. This pool is provided as additional insurance to the

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal depository insurance and allows for additional assessments against the member institutions providing full insurance for public deposits. The City had deposits only with qualifying institutions as of September 30, 2012.

The City has no written investment policy and invests surplus funds for the governmental and business-type activities in interest-bearing time deposits at qualified public depositories in accordance with Florida Statutes, Section 218.415(17).

(b) Receivables and payables

Outstanding balances between funds are reported as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Unbilled service receivables represent the estimated amount of accounts receivable for services that have not yet been billed. The amount represents a timing difference between the end of the financial statement cycle (month end) and the billing cycle (varying dates each billing period). All receivables are shown net of an allowance for doubtful accounts. The accounts receivable in excess of 90 days for water, sewer, garbage, and utility tax revenues comprises the allowance for doubtful accounts. The allowance for doubtful accounts as of September 30, 2012, was \$113,944 in the General Fund and \$637,689 in the Water and Sewer Fund.

(c) Restricted assets

Certain proceeds of the City's state revolving fund loans in the enterprise fund, as well as certain resources set aside for their repayment and the repayment of the refunding bonds, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. In addition, customer deposits being held for water and sewer utility accounts are restricted.

(d) Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

repairs that do not add to the value of the asset or materially extend the asset life are not capitalized. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-40
Water and sewer systems	15-40
Public domain infrastructure	15-40
Improvements	10-15
Equipment	5-10

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. Interest in the amount of \$15,613 was capitalized for fiscal year ending September 30, 2012.

(e) Compensated absences

Accumulated unpaid vacation time and sick time amounts, including the related direct and incremental salary related payments, are accrued in the enterprise fund and appear as increases in salary expenses. In governmental funds, these costs are recognized when payments are made to employees or when the costs mature as a result of employee resignation or retirement. All vacation and sick pay is accrued when incurred in the government-wide financial statements.

(f) Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities. 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.

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, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Fund equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance.” Fund equity for all other reporting is classified as “net assets.”

Fund Balance—Generally, fund balance represents the difference between current assets and current liabilities. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

Non-spendable—Fund balances are reported as non-spendable when amounts cannot be spent because they are either: (a) not in spendable form (i.e. items that are not expected to be converted to cash such as prepaid items and advances to other funds) or (b) legally or contractually required to be maintained intact.

Restricted—Fund balances are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Committed—Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the adoption of a resolution or ordinance. Only the City Council may modify or rescind the commitment. These self-imposed limitations must be set in place prior to the end of the fiscal year.

Assigned—Fund balances are reported as assigned when amounts are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. Intent is stipulated by the City Council or an official for whom that authority has been given by City Council. With the exception of the General Fund, amounts in all other governmental funds that are not *non-spendable*, *restricted* or *committed* will be considered to be *assigned*. Also, at fiscal year-end, any appropriation of existing fund balance to eliminate a projected budgetary deficit in the next year’s budget is considered to be an assignment of fund balance.

Pursuant to Florida Statute 212.055 and Resolution 2009-11, the City Council authorized the expenditure of infrastructure surtax proceeds and interest for any public purpose deemed necessary by the City Council. Since the expenditure of these funds is stipulated by City Council, these funds are reported as assigned. Since there is no specific purpose for the expenditure of these funds identified in the resolution, these funds do not qualify as committed funds.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unassigned–Fund balances reported as unassigned are the residual amount of balances that do not meet any of the above criteria. The City reports positive unassigned fund balance only in the General Fund. Negative unassigned fund balance may be reported in other governmental funds.

Net Assets–Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. All net assets not reported as net assets invested in capital assets, net of related debt and restricted net assets, are reported as unrestricted net assets.

Flow Assumptions–When both restricted and unrestricted amounts of fund balance/net assets are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned.

5. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America as applied to governmental units requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted for the General Fund, Infrastructure Fund, Street Reserve Fund, Community Development Block Grant Fund, Capital Improvement Fund, Fire Protection Services Fund, Water and Sewer Fund, and Airport Fund. The enterprise fund budget is prepared on a basis similar to the budgets for governmental type funds. All budgets presented are adopted on a basis

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

consistent with accounting principles generally accepted in the United States of America (GAAP), except that capital outlays, rather than depreciation expense, is treated as an expense in the year budgeted for the enterprise funds.

No later than two months prior to the end of the fiscal year, the City Administrator submits to the City Council a proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and the means of financing them by fund. The Council holds public hearings to obtain taxpayer comments and a final budget must be prepared and adopted by October 1, through the passage of a resolution.

The appropriated budget is prepared by fund, function and department. The City Administrator has the authority to make line item transfers within departmental budgets with all such adjustments reported to the City Council. Transfers of appropriations between departments and changes in total budget appropriations for a fund require the approval of the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level for the General Fund, and the fund level for all other funds. The City Council retains the right to amend the budget as necessary throughout the course of the year.

Budget amounts in the accompanying financial statements are as originally adopted, or as amended by the appropriate authority.

For the year ended September 30, 2012, the following departments reported expenditures in excess of budget appropriations in the General Fund:

Legal counsel	\$ (443,808)
Other general government	(168)
Way building	(19)
Garbage/solid waste disposal	(98,468)

Expenditures for legal counsel were in excess of appropriations due to a one-time settlement payment in the amount of \$450,000 related to a breach of contract issue. Expenditures for garbage/solid waste disposal were in excess of appropriations due to the purchase of a garbage truck.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE C – PRIOR PERIOD ADJUSTMENTS

A prior period adjustment has been made to include a bank account for confiscated property that had previously not been recorded in the City’s accounting records. This prior period adjustment was recorded in a new fund, the Confiscated Property special revenue fund.

	Confiscated Property Fund	Governmental Activities
Net Assets October 1, 2011, as previously reported	\$ -	\$ 8,789,858
Prior period adjustment	15,753	15,753
Net Assets October 1, 2011, restated	\$ 15,753	\$ 8,805,611

The normal form of pension benefit for the Employees’ Retirement Plan for the City of Arcadia is an annuity contract. Prior to October 1, 2010, the financial statements of the Employees’ Retirement Plan were erroneously excluded from the pension trust funds Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets under the assumption that the pension financing arrangement with Aetna was an insured plan whereby funds were being accumulated with an insurance company in return for the insurance company unconditionally undertaking a legal obligation to pay the pension benefits as defined in the City’s plan. However, in the prior year it was noted that the Employees’ Retirement Plan did not meet the criteria of an insured plan and should have been reported as a pension trust fund of the City. Therefore, a prior period adjustment was made for fiscal year ended September 30, 2011, to restate beginning net assets. In the current year, it was discovered that another investment account was erroneously omitted from the plan assets and should have been included in the prior period adjustment made for the prior fiscal year. Thus, another prior period adjustment was made for fiscal year ended September 30, 2012, to increase net assets \$1,139,243.

	Employees' Retirement Plan
Net Assets October 1, 2011, as previously reported	\$ 684,112
Prior period adjustment	1,139,243
Net Assets October 1, 2011, restated	\$ 1,823,355

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE D – INVESTMENTS

As of September 30, 2012, the City had the following investments and maturities, which were all held in the pension trust funds:

	Fair Value	No Fixed Maturity	Less than 1 year	1-5 years	6-10 years	More than 10 years
Money market funds	\$ 311,212	311,212	-	-	-	-
U.S. government and agencies	1,699,260	-	-	684,932	216,206	798,122
Corporate bonds	1,177,809	-	-	1,006,336	167,868	3,605
Corporate stocks	4,495,473	4,495,473	-	-	-	-
Mutual funds	1,228,874	1,228,874	-	-	-	-
Pooled investments	737,544	737,544	-	-	-	-
Total	\$ 9,650,172	6,773,103	-	1,691,268	384,074	801,727

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The police officers' and firefighters' retirement system investment policy realizes that reasonable consistency of return and protection of assets against the inroads of inflation are paramount. However, the volatility of interest rates and security markets makes it necessary to judge results within the context of several years rather than over short periods.

Credit Risk

Credit risk results from the potential default of investments that are not financially sound. Florida Statutes Sections 175.071(1) and 185.06(1) limits investments to: (1) time or savings accounts of an insured financial institution administered by the Federal Deposit Insurance Corporation; (2) obligations of the United States or obligations guaranteed as to principal and interest by the United States; (3) bonds issued by the State of Israel; and (4) bonds, stocks or other evidences of indebtedness issued or guaranteed by a corporation organized under United States law provided the corporation is listed on a national stock exchange, and in the case of bonds only, holds a rating in one of the three highest classifications by a major rating service. In addition, the police officers' and firefighters' retirement system investment policy requires a ranking of A1 by Standard & Poor (S&P) or P1 by Moody's for money market funds, and all fixed income securities should be investment grade or higher as rated by Moody's and S&P. However, fixed income securities rated below BBB/Baa shall be limited to 15% of the fixed income portfolio and the average quality of the fixed income portfolio must remain A or better. The City's investments in U.S. government and agency securities in the amount of \$681,368 were rated Aaa by Moody and AA+ by Standard and Poor and the City's investments in corporate bonds were rated Aaa to Baa3 by Moody and AAA to BBB+ by Standard and Poor. The money market funds, \$1,017,892 in U.S. government and agency securities, corporate stocks, mutual funds, and pooled investments were not rated.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE D – INVESTMENTS (CONTINUED)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the quantity of investments in a single issuer. The police officers' and firefighters' retirement system investment policy states that the value of bonds issued by any single corporation shall not exceed 10% of the total fund, no more than 5% of the fund assets shall be invested in the common stock or capital stock of any one issuing company, and the aggregate investment in any one issuing company shall not exceed 5% of the outstanding capital stock of the company. Additionally, no more than 60% of fund net assets at cost or 70% of fund net assets at market value should be invested in corporate common stock and convertible bonds. Foreign securities shall not exceed 10% of the value at cost of the fund.

NOTE E – CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended September 30, 2012:

	Beginning Balance	Transfers/ Additions	Transfers/ Retirements	Ending Balance
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 1,334,812	-	-	1,334,812
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>1,334,812</u>	<u>-</u>	<u>-</u>	<u>1,334,812</u>
Capital assets, being depreciated:				
Buildings	1,813,003	14,312	(356)	1,826,959
Improvements other than buildings	1,655,956	60,872	(6,681)	1,710,147
Infrastructure	3,822,037	50,057	-	3,872,094
Machinery and equipment	3,438,063	184,274	(877,285)	2,745,052
Total capital assets, being depreciated	<u>10,729,059</u>	<u>309,515</u>	<u>(884,322)</u>	<u>10,154,252</u>
Less accumulated depreciation for:				
Buildings	756,989	55,067	(289)	811,767
Improvements other than buildings	1,039,282	96,349	(6,681)	1,128,950
Infrastructure	1,621,350	91,463	-	1,712,813
Machinery and equipment	3,263,644	78,142	(877,285)	2,464,501
Total accumulated depreciation	<u>6,681,265</u>	<u>321,021</u>	<u>(884,255)</u>	<u>6,118,031</u>
Total capital assets, being depreciated, net	<u>4,047,794</u>	<u>(11,506)</u>	<u>(67)</u>	<u>4,036,221</u>
Total governmental activities capital assets, net	<u>\$ 5,382,606</u>	<u>(11,506)</u>	<u>(67)</u>	<u>5,371,033</u>

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE E – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the functions of the primary government as follows:

Governmental Activities

General government	\$ 128,719
Public safety	46,539
Transportation	95,487
Physical environment	17,173
Culture and recreation	33,103
	<u>321,021</u>
Total depreciation expense, governmental activities	<u>\$ 321,021</u>

	Beginning Balance	Transfers/ Additions	Transfers/ Retirements	Ending Balance
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 380,778	-	-	380,778
Construction in progress	491,267	4,652,148	-	5,143,415
Total capital assets, not being depreciated	<u>872,045</u>	<u>4,652,148</u>	<u>-</u>	<u>5,524,193</u>
Capital assets, being depreciated:				
Buildings	9,489,325	-	-	9,489,325
Improvements other than buildings	966,651	136,669	-	1,103,320
Infrastructure	16,948,614	7,450	-	16,956,064
Machinery and equipment	3,920,671	54,541	(235,804)	3,739,408
Total capital assets, being depreciated	<u>31,325,261</u>	<u>198,660</u>	<u>(235,804)</u>	<u>31,288,117</u>
Less accumulated depreciation for:				
Buildings	6,595,243	253,229	-	6,848,472
Improvements other than buildings	935,709	3,716	-	939,425
Infrastructure	6,920,498	597,787	-	7,518,285
Machinery and equipment	3,672,916	62,335	(235,804)	3,499,447
Total accumulated depreciation	<u>18,124,366</u>	<u>917,067</u>	<u>(235,804)</u>	<u>18,805,629</u>
Total capital assets, being depreciated, net	<u>13,200,895</u>	<u>(718,407)</u>	<u>-</u>	<u>12,482,488</u>
Total business-type activities capital assets, net	<u>\$ 14,072,940</u>	<u>3,933,741</u>	<u>-</u>	<u>18,006,681</u>

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE F – LONG-TERM LIABILITIES

Long-term liability activity for the governmental activities for the year ended September 30, 2012, consisted of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Claims payable	\$ 575,000	-	(500,000)	75,000	50,000
Compensated absences	236,424	-	(22,089)	214,335	20,000
Other post-employment benefits	356,663	294,169	(112,880)	537,952	-
Net pension obligation	31,777	7,333	-	39,110	-
	<u>\$ 1,199,864</u>	<u>301,502</u>	<u>(634,969)</u>	<u>866,397</u>	<u>70,000</u>

The City of Arcadia's long-term liabilities for governmental activities at September 30, 2012, consisted of the following:

Governmental Activities:

On November 27, 2006, the City settled a claim in the amount of \$400,000. Payments are payable monthly in amounts ranging from \$4,167 to \$7,083, with final payment in March 2014. There is no interest or finance charge applicable to this settlement.

	\$ 75,000
Compensated absences	214,335
Other post-employment benefits	537,952
Net pension obligation	<u>39,110</u>
	<u>\$ 866,397</u>

Long-term liabilities of the governmental activities, which include claims payable, compensated absences and the net pension obligation, are generally liquidated by the General Fund.

Claim payment requirements for the governmental activities as of September 30, 2012, are as follows:

<u>September 30,</u>	<u>Claims</u>
2013	\$ 50,000
2014	<u>25,000</u>
	<u>\$ 75,000</u>

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE F – LONG-TERM LIABILITIES (CONTINUED)

Long-term liability activity for the business-type activities for the year ended September 30, 2012, consisted of the following:

	Balance	Additions	Reductions	Balance	One Year
Business-Type Activities					
2003 Refunding bonds, less deferred amounts:	\$ 3,535,000	-	(300,000)	3,235,000	310,000
On Refunding	(567,535)	-	63,059	(504,476)	-
Bond Discount	(23,380)	-	2,598	(20,782)	-
Total bonds payable	2,944,085	-	(234,343)	2,709,742	310,000
State Revolving Fund loan	-	1,587,180	-	1,587,180	-
Capital lease payable	644,113	-	(115,870)	528,243	120,946
Compensated absences	99,374	-	(3,788)	95,586	7,500
Other post-employment benefits	109,736	92,895	(35,680)	166,951	-
	<u>\$ 3,797,308</u>	<u>1,680,075</u>	<u>(389,681)</u>	<u>5,087,702</u>	<u>438,446</u>

The City of Arcadia's long-term liabilities for business-type activities at September 30, 2012, consisted of the following:

Business-Type Activities:

The City issued the Water and Sewer Refunding and Improvement Revenue Bonds, Series 2003 to finance the cost of refunding the City's 1993A Pooled Governmental Unit Note outstanding in the amount of \$5,040,000, fund the required reserve account, finance the cost of expanding an existing reuse facility, and to pay a portion of the costs of issuance. Interest is payable semi-annually on June 1 and December 1, at interest rates ranging from 2.75% to 4.35%. The bonds are secured by the net revenues of the City's water and sewer system.

\$ 3,235,000

State Revolving Fund (SRF) loan issued in the amount of for \$4,454,619 of which \$1,587,180 has been drawn down as of September 30, 2012. Principal and interest will be payable in equal semi-annual installments for a period of twenty (20) years starting June 15, 2013, with interest rates ranging from 2.5% to 3.06%. The principal and interest is secured by net revenues of the water and sewer system.

1,587,180

Capital lease payable

528,243

Compensated absences

95,586

Other post-employment benefits

166,951

Less: Deferred charges

(525,258)

\$ 5,087,702

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE F – LONG-TERM LIABILITIES (CONTINUED)

Annual debt service requirements for the business-type activities (excluding capital leases, compensated absences and other post-employment benefits) as of September 30, 2012, are as follows:

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 310,000	122,920	432,920
2014	320,000	111,695	431,695
2015	330,000	99,708	429,708
2016	345,000	86,836	431,836
2017	355,000	73,051	428,051
2018-2021	<u>1,575,000</u>	<u>137,667</u>	<u>1,712,667</u>
	<u>\$ 3,235,000</u>	<u>631,877</u>	<u>3,866,877</u>

Subsequent to year-end, an amendment was made to the State Revolving Fund loan agreement. The total amount awarded has been amended to \$8,052,704. Of that amount, the estimated amount of principal forgiveness is \$3,620,000. The estimated principal amount of the loan to be repaid is \$4,577,304, which consists of \$4,432,704 and \$144,600 of capitalized interest. Semi-annual loan payments will be in the amount of \$154,494 starting on April 15, 2014 and semiannually thereafter on October 15 and April 15.

Capital Lease

The City entered into a municipal lease/purchase agreement as lessee for financing the acquisition of new water meters for the entire City. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The assets acquired through the capital lease are as follows:

	<u>Business-type Activities</u> <u>Water and Sewer Fund</u>
Asset:	
Improvements other than buildings	\$ 1,196,296
Less: accumulated depreciation	<u>(164,489)</u>
	<u>\$ 1,031,807</u>

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE F – LONG-TERM LIABILITIES (CONTINUED)

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2012, were as follows:

Year Ending September 30,	Business-type Activities Water and Sewer Fund
2013	\$ 141,272
2014	141,272
2015	141,272
2016	141,272
2017	11,773
Total minimum lease payments	576,861
Less: amount representing interest	(48,618)
Present value of minimum lease payments	\$ 528,243

Rate Covenant

In accordance with the Water and Sewer Refunding and Improvement Revenue Bonds, Series 2003, the City has a covenant to fix, establish, revise from time to time whenever necessary, maintain and collect such fees, rates, rentals and other charges for the use of the products, services and facilities of the water and sewer system which shall provide revenues sufficient to pay: (1) 100% of all cost of operation and maintenance as the same shall become due in such year, (2) 125% of the bond service requirement due in such year on the outstanding bonds, and (3) 100% of all other deposits to be made pursuant to the resolution and all other amounts payable from pledged revenues. For fiscal year September 30, 2012, the City was in compliance with the debt covenant.

NOTE G – INSURANCE COVERAGE

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's risk management program mainly encompasses obtaining property and liability insurance through commercial insurance carriers. The City has not had any significant reduction in insurance coverage and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three (3) years. At year-end, the City did not have any significant claims. There were no significant changes in coverage retention or limits during the fiscal year. The General Fund handles property claims for the City and absorbs the loss for any amount below the deductible amounts.

The City provides workers' compensation insurance on its employees through Preferred Government Claims Solutions. Workers' compensation premiums are subject to change when audited by Preferred Government Claims Solutions.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE H – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances at September 30, 2012, is as follows:

Due from/ Due to:

	<u>Due from</u>	<u>Due to</u>
Governmental Funds		
General Fund	\$ 203,685	85,530
Proprietary Funds		
Water and Sewer Fund	<u>85,530</u>	<u>203,685</u>
	<u>\$ 289,215</u>	<u>289,215</u>

The outstanding balances between funds result mainly from the time lag between the dates that: (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Advances to/Advances from:

	<u>Advances to</u>	<u>Advances from</u>
Governmental Funds		
Nonmajor Funds	\$ 1,117,520	-
Proprietary Funds		
Water and Sewer Fund	<u>-</u>	<u>1,117,520</u>
	<u>\$ 1,117,520</u>	<u>1,117,520</u>

Funds were advanced to the Water and Sewer Fund for operations.

Interfund transfers:

	<u>Transfers in</u>	<u>Transfers out</u>
Governmental Activities:		
General Fund	\$ 647,093	63,210
Nonmajor Funds	<u>41,246</u>	<u>788,365</u>
	688,339	851,575
Business-Type Activities:		
Water and Sewer Fund	141,272	-
Airport Fund	<u>21,964</u>	<u>-</u>
	<u>163,236</u>	<u>-</u>
	<u>\$ 851,575</u>	<u>851,575</u>

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE H – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

Transfers are used to: (1) move revenues from the fund that statute or budget requires to collect them to the fund budgeted to expend them, (2) use unrestricted revenues to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (3) make transfers in accordance with bond covenants.

NOTE I – COMMITMENTS AND CONTINGENCIES

Grants

Amounts received or receivable for grants are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Lawsuits

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

Commitment

At September 30, 2012, the City had the following commitment:

	<u>Contract Amount</u>	<u>Completed to Date</u>	<u>Balance</u>
Water Treatment Plant			
Engineers	\$ 1,072,580	850,881	221,699
Construction	<u>5,964,300</u>	<u>4,276,621</u>	<u>1,687,679</u>
	<u>\$ 7,036,880</u>	<u>5,127,502</u>	<u>1,909,378</u>

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE J – EMPLOYEE RETIREMENT SYSTEMS

The City maintains two single-employer defined benefit public employee retirement systems. One is for police officers and former firefighters, and one is for all other employees of the City. Assets are held separately and may be used only for the payment of benefits to the members of the respective plans.

The Employees' Retirement Plan and Police Officers' and Firefighters' Retirement System financial statements are reported as a pension trust funds in the fiduciary fund financial statements. These statements are prepared using the accrual basis of accounting. Employee contributions are recognized as revenues in the period in which the contributions are due. Employer contributions are recognized as revenues when due and when the employer has made a formal commitment to provide the contributions. State contributions for the Police Officers' and Firefighters' Retirement System are recognized in the period payment is made from the State. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Statements of Fiduciary Net Assets

	Police Officers' and Firefighters' Retirement System	Employee Retirement Plan	Total
ASSETS			
Cash	\$ 131	-	131
Contributions receivable	13,820	-	13,820
Interest receivable	16,230	-	16,230
Investments:			
Money market funds	289,127	22,085	311,212
U.S. government and agencies	1,699,260	-	1,699,260
Corporate bonds	1,177,809	-	1,177,809
Corporate stocks	4,495,473	-	4,495,473
Mutual funds	-	1,228,874	1,228,874
Pooled investments	-	737,544	737,544
Total investments	7,661,669	1,988,503	9,650,172
TOTAL ASSETS	7,691,850	1,988,503	9,680,353
LIABILITIES			
Accounts payable	11,262	-	11,262
Deferred contributions	21,636	-	21,636
Drop plan payable	264,738	-	264,738
Total liabilities	297,636	-	297,636
NET ASSETS			
Net assets held in trust for:			
Pension benefits	\$ 7,394,214	1,988,503	9,382,717

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE J – EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Statement of Changes in Fiduciary Net Assets

	<u>Police Officers' and Firefighters' Retirement System</u>	<u>Employee Retirement Plan</u>	<u>Total</u>
ADDITIONS			
Contributions:			
Employer	\$ 140,825	150,823	291,648
Plan member	59,390	36,031	95,421
State of Florida	99,339	-	99,339
Total contributions	<u>299,554</u>	<u>186,854</u>	<u>486,408</u>
Investment income:			
Net increase in fair value of investments	475,213	133,834	609,047
Gain on sale of investments	455,441	-	455,441
Interest and dividends	187,913	33,740	221,653
Total investment income	<u>1,118,567</u>	<u>167,574</u>	<u>1,286,141</u>
Less investment expenses	56,210	36,694	92,904
Net investment income	<u>1,062,357</u>	<u>130,880</u>	<u>1,193,237</u>
Total additions	<u>1,361,911</u>	<u>317,734</u>	<u>1,679,645</u>
DEDUCTIONS			
Benefits	459,878	149,748	609,626
Administrative expenses	30,788	2,838	33,626
Refund of contributions	36,199	-	36,199
DROP plan	234,127	-	234,127
Total deductions	<u>760,992</u>	<u>152,586</u>	<u>913,578</u>
Change in net assets	600,919	165,148	766,067
Net assets held in trust for pension benefits:			
Net assets, beginning of year (restated)	<u>6,793,295</u>	<u>1,823,355</u>	<u>8,616,650</u>
Net assets, end of year	<u>\$ 7,394,214</u>	<u>1,988,503</u>	<u>9,382,717</u>

Employees' Retirement Plan

Plan Description—The Employees' Retirement Plan for the City of Arcadia (the "Plan") is a single-employer contributory defined benefit plan administered by the City of Arcadia covering all municipal employees except for police officers and firefighters. The Plan does not issue a stand-alone financial report, but is included in the pension trust funds of the City's financial statements.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE J – EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

All employees of the City are eligible to participate in the Plan subject to the following requirements:

- A. Agrees in writing to make member contributions.
- B. Employed by the City on a full-time basis and is not a police officer or firefighter.
- C. Completed one (1) year of continuous service.
- D. Attained age 19 (age 21 prior to September 20, 2011).
- E. Entry date is 1/1 coinciding with or next following the date the requirements are met.

As of the actuarial valuation date of January 1, 2012, membership consisted of:

Retirees, disabled participants and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	31
Active employees	22
Total	53

The vesting schedule is as follows:

Effective as of September 20, 2011

Age	Years of Service	Vesting %
Less than 55	Less than 2	0%
	2	20%
	3	40%
	4	60%
	5	80%
	6 or more	100%
55 and over	Any number	100%

Prior to September 20, 2011

Age	Years of Service	Vesting %
Less than 55	Less than 5	0%
	5	50%
	6	60%
	7	70%
	8	80%
	9	90%
55 and over	10	100%
	Any number	100%

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE J – EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Benefits at retirement are summarized as follows:

Retirement	Benefit
Normal (age 65)	2.0% of average monthly compensation times credited service (1.5% prior to January 1, 2007). Average monthly compensation is defined as the monthly average of total compensation for the 5 consecutive years of highest compensation of the last 10 years.
Early (not more than 10 years prior to normal retirement date)	Annuity equals the accrued benefit based on service to early retirement date, reduced by early retirement factors.
Late (after normal retirement date)	Benefit based on final average earnings and credited service as of late retirement date.

In addition, the Plan provides a pre-retirement death benefit for those who attain fifty (50) years of age and fifteen (15) years of service. These benefit provisions and all other requirements are established by and may be amended by state statute and city ordinances.

Funding Policy—City employees are required to contribute 5% of their basic earnings excluding bonuses, overtime and commissions. The employer is required to contribute actuarially determined amounts which, together with member contributions, are sufficient to fund the System.

The amount shown below as the actuarial accrued liability is a measure intended to help users assess: (a) a pension fund's funded status on a going concern basis and (b) progress being made toward accumulating the assets needed to pay benefits as due. The frozen initial liability cost method is used. Under this method, the annual cost is equal to the normal cost, plus amortization of unfunded accrued liabilities over a fixed period of years, selected within the minimum (10 years) and maximum (5 to 30 years) periods permitted by law. When first established, the frozen initial liability is the actuarial accrued liability determined under the entry age normal cost method. At each subsequent valuation, it is adjusted for normal costs, interest, contributions and any changes due to plan amendments or changes in actuarial assumptions. Normal cost is determined as a level percentage of covered compensation of active employees.

The RP-2000 Group Annuity Mortality Tables for Males and Females is used in the calculation of benefits. Investment earnings are assumed at 6.5% per year. Salary increases are projected at 4.5% each year, with no provision for inflation. Since the Plan is in the form of a life annuity, there is no post retirement cost of living increases.

Contributions – The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE J – EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

The funded status of the Plan as of the most recent actuarial report is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/12	\$ 1,956,546	2,928,098	971,552	66.82%	686,316	141.56%

The schedule of funding progress in the required supplementary information presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

All actuarial methods and assumptions used in the January 1, 2012, actuarial valuation report were the same as those used in the prior report,

Three-Year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/2010	\$ 164,347	121.87%	70,171
9/30/2011	145,354	126.41%	31,777
9/30/2012	158,156	95.36%	39,110

Calculation of Net Pension Obligation			
	9/30/12	9/30/11	9/30/10
1. NPO at beginning of period	\$ 31,777	70,171	106,106
2. Annual Pension Costs			
a. Annual Required Contribution (ARC)	159,404	147,670	167,343
b. Interest on NPO	2,066	4,561	6,897
c. Adjustments to ARC	(3,314)	(6,877)	(9,893)
d. Total = (a) + (b) + (c)	158,156	145,354	164,347
3. Contributions made	150,823	183,748	200,282
4. Change in NPO - (2d) - (3)	7,333	(38,394)	(35,935)
5. NPO at end of period - (1) + (4)	\$ 39,110	31,777	70,171

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE J – EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Police Officers' and Firefighters' Retirement System

Plan Description–The Police Officers' and Firefighters' Retirement System of the City of Arcadia (the “Plan”) is a single-employer contributory defined benefit plan administered by the City covering all police officers and former firefighters of the City. The System does not issue a stand-alone financial report, but is included in the pension trust funds of the City's financial statements.

All full-time police officers and former paid firefighters are eligible to participate in the Plan. Effective June 1, 2006, the City and County consolidated fire suppression and emergency services, which resulted in the County maintaining these operations. All City firefighters became employees of the County, and were given the option to remain in the City’s pension plan or be refunded their employee contributions. Several firefighters opted out of the Plan at this time. As of September 30, 2012, there were no remaining former paid firefighters contributing to the Plan.

At September 30, 2012, membership consisted of:

Retirees, disabled participants and beneficiaries currently receiving benefits, terminated employees not yet receiving benefits and DROP participants	28
Active employees	<u>15</u>
Total	<u><u>43</u></u>

Benefits– These benefit provisions are established by state statute and City ordinances. The State of Florida, Division of Retirement reviews and accepts or rejects the actuarial valuation reports.

Retirement:

Normal (age 55 or 20 years of credited service)–3.65% of average final compensation times the number of years of credited service;

Early (age 45 and 6 years of credited service)–Accrued benefits, reduced 3% per year for each year prior to age 55.

Disability:

Service incurred from date of employment–Benefit accrued to date of disability but not less than 42% of average final compensation, payable for life (with 120 payments guaranteed) or until recovery (as determined by the Board);

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE J – EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Non-service incurred with ten (10) years of credited service—Benefit accrued to date of disability but not less than 42% of average final compensation, payable for life (with 120 payments guaranteed) or until recovery (as determined by the Board).

Death:

Not Vested—Refund of member's contributions;
Vested—Accrued benefit paid to beneficiary for ten (10) years;
Post-retirement—According to option selected, if any.

Deferred Retirement Option Plan (DROP)

Any member who is eligible for normal retirement under the System may elect to defer receipt of such service retirement pension by participating in the DROP, while continuing their employment with the City.

The amount of the benefit under the DROP is the same as the participant would have received under the System had he or she terminated his or her employment and elected to receive monthly benefit payments. Under the DROP, amounts representing the participant's monthly benefits are maintained within the System, sharing investment gains and losses, and then made available to the participant (various payment options are available) at the end of the DROP period.

Funding Policy—The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The Plan requires each participant to contribute 9.6% of earnings.

Additional funding is provided by the State of Florida on behalf of the City via a 1.85% tax on fire insurance premiums (firefighters), and a .85% tax on casualty insurance premiums (police officers). Any remaining amount necessary for payment of normal cost and amortization of accrued past service liability over a thirty (30) year period is paid by the City. The required City and State contributions to the Plan for the year ended September 30, 2012, was 39.4% of payroll. Contribution requirements for the Plan are established and may be amended by state law and city ordinance. The on-behalf contributions provided by the State of Florida for fiscal year ending September 30, 2012, were \$99,339.

If an employee separates service from the City before achieving six (6) years of credited service, the employee will receive 100% of their contributions. After achieving six (6) years of service, an employee accrues benefits to be payable at member's election, on his otherwise early or normal retirement date, or may receive a refund of member contributions if requested.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE J – EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

The amount shown below as the actuarial accrued liability is a measure intended to help users assess: (a) a pension fund's funded status on a going concern basis and (b) progress being made toward accumulating the assets needed to pay benefits as due. Allocation of the actuarial present value of projected benefits between past and future service was based on service using the entry age normal cost method. The amortization method is the level of percentage of pay, closed and the remaining amortization period is 25 years as of October 1, 2012. Investment earnings are assumed at 8% per year. Salary increases are projected at 5.75 – 6.50% each year, including inflation of 3%. The Plan does not provide for post retirement cost of living increases.

The funded status of the Plan as of the most recent actuarial report is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
10/1/12	\$ 7,607,113	9,991,004	2,383,891	76.14%	579,741	411.20%

The schedule of funding progress in the required supplementary information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

There were no changes in benefits or changes in methods or assumptions since the prior valuation.

Three-Year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/10	\$ 295,407	99.26%	(33,974)
9/30/11	205,287	98.42%	(30,736)
9/30/12	241,946	99.26%	(28,954)

Calculation of Net Pension Obligation			
	9/30/12	9/30/11	9/30/10
1. NPO at beginning of period	\$ (30,736)	(33,974)	(36,171)
2. Annual Pension Costs			
a. Annual Required Contribution (ARC)	240,164	202,049	293,210
b. Interest on NPO	(2,459)	(2,718)	(2,894)
c. Adjustments to ARC	4,241	5,956	5,091
d. Total = (a) + (b)+ (c)	241,946	205,287	295,407
3. Contributions made	240,164	202,049	293,210
4. Change in NPO, (2d) - (3)	1,782	3,238	2,197
5. NPO at end of period, (1) + (4)	\$ (28,954)	(30,736)	(33,974)

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE K – OTHER POST-EMPLOYMENT BENEFITS

Plan Description–The City of Arcadia provides health insurance benefits to its retired employees through a single-employer Plan administered by the City. Pursuant to provisions of Section 112.0801, Florida Statutes, former employees who retire from the City and eligible dependents may continue to participate in the City’s fully-insured benefit plan for medical and prescription drug insurance coverage. The City subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide both an explicit and implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. The benefits provided under this defined benefit plan are provided for a retiree’s lifetime (or until such time at which the retiree discontinues coverage under the City sponsored plans, if earlier). The Plan does not issue a stand-alone financial report.

Funding Policy–Contribution requirements for the post-employment benefit plan of the City are established and may be amended through recommendations of the City Administrator and action from the City Council. Currently, the City’s other post-employment benefits are unfunded. The City has not advance-funded or established a funding methodology for the annual other post-employment benefit (OPEB) costs or the net OPEB obligation. For the fiscal year, the City provided required contributions of \$148,560 toward the annual OPEB costs, in the form of age adjusted premiums paid on behalf of retirees for the fully insured benefits, and net of retiree contributions. Retirees are required to pay from 0% to 100% of the blended premium depending on their years of service and age at retirement to continue coverage under the City’s group health insurance program.

Annual OPEB Cost and Net OPEB Obligation–The City has elected to calculate the annual required contribution (ARC) and related information using the Alternative Measurement Method (AMM) permitted by GASB Statement 45 for employers in plans with fewer than one hundred total Plan members. The City’s annual OPEB cost (expense) is calculated based on the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years.

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the past two (2) fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
9/30/10	\$ 350,891	121,697	34.68%	229,194
9/30/11	368,575	131,370	35.64%	466,399
9/30/12	387,064	148,560	38.38%	704,903

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE K – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The following table shows the development of the City’s annual OPEB cost and net OPEB obligation for the past three (3) fiscal years:

	2012	2011	2010
Normal Cost	\$ 233,766	222,635	212,033
Amortization of unfunded actuarial accrued liability	150,189	144,412	138,858
Annual required contribution	383,955	367,047	350,891
Interest on net OPEB obligation	18,656	9,168	-
Adjustment to Annual Required Contribution	(15,547)	(7,640)	-
Total expense or annual OPEB cost	387,064	368,575	350,891
Actual contributions toward OPEB cost	148,560	131,370	121,697
Increase in net OPEB obligation	238,504	237,205	229,194
Net OPEB obligation, beginning of year	466,399	229,194	-
NET OPEB obligation, end of year	<u>\$ 704,903</u>	<u>466,399</u>	<u>229,194</u>

Funded Status and Funding Progress—As of the September 30, 2010, the AMM valuation date, the Plan assets were \$0, the actuarial accrued liability was \$4,165,734, the total unfunded actuarial accrued liability was \$4,165,734, and the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) was 0%. The covered payroll (annual payroll of active employees covered by the Plan) was \$1,793,708, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 232%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts regarding the funded status of the Plan and the annual required contributions of the City 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 supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions—Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and Plan members) and include the types of benefits provided at the time of each valuation and the historical patterns of the 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.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE K – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 4% was used. An inflation rate of 2.8% was assumed. In addition, the Entry Age Normal actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at September 30, 2010 was thirty (30) years. Health insurance trends start at 0% for the fiscal year ending in 2011 and 9% for 2012, grading down to 5% at the ultimate trend rate by 2019.

As authorized by GASB Statement 45, the AMM allows the employer to use simplifications of certain assumptions in measuring actuarial accrued liabilities and the ARC.

The following simplifying assumptions were made:

Retirement age for active employees: Active employees are assumed to retire at the age of 62 which is the typical age for normal retirement. If the employees had already attained their normal retirement age as of the time when this calculation was performed, they were assumed to retire in the next year.

Active member marital status: Assumption of marital status for active employees has been incorporated in the acceptance probability for spousal coverage. Using this approach, the percentage of future retired Plan members taking spousal coverage was assumed at 20%. For active employees, spouses' genders were assumed to be opposite to the members' genders and females were assumed three (3) years younger than their spouses. Covered spouse data was collected for current retired Plan members as of the valuation date, and were assumed to remain unchanged until the assumed death of the spouses.

Mortality: Life expectancies were based on the 2004 United States Male and Female life tables.

Turnover: Non-group specific age-based turnover data provided in GASB Statement 45 was used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Health insurance premiums: Health insurance premiums for retirees in effect on the fiscal year ending date were used as the basis for calculation of the present value of total benefits to be paid.

REQUIRED SUPPLEMENTARY INFORMATION

In accordance with Governmental Accounting Standards, the following information is presented as a required part of the financial statements.

CITY OF ARCADIA, FLORIDA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE–
BUDGET AND ACTUAL
For the Year Ended September 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Taxes	\$ 2,283,270	2,283,270	2,280,763	(2,507)
Permits, fees and assessments	435,800	435,800	400,488	(35,312)
Intergovernmental revenue	504,009	504,009	575,177	71,168
Fines and forfeitures	18,785	18,785	22,407	3,622
Charges for services	1,274,340	1,274,340	1,185,267	(89,073)
Interest earnings	3,800	3,800	11,108	7,308
Miscellaneous revenue	287,300	287,300	256,192	(31,108)
Total revenues	4,807,304	4,807,304	4,731,402	(75,902)
Expenditures:				
General government				
Legislative	47,476	46,276	44,872	1,404
Executive	291,110	301,548	299,638	1,910
Financial and administrative	151,315	139,549	138,504	1,045
Legal counsel	46,650	46,650	490,458	(443,808)
Other general government	469,681	432,169	432,337	(168)
Garage	155,567	155,567	147,050	8,517
Way building	17,600	64,840	64,859	(19)
Public safety				
Law enforcement	1,574,473	1,605,714	1,579,549	26,165
Fire control	757,180	757,180	548,539	208,641
School crossing guard	-	12,988	12,981	7
Physical environment				
Garbage/solid waste disposal	593,837	593,837	692,305	(98,468)
Cemetery	86,519	86,519	80,200	6,319
Transportation				
Roads and streets	394,906	394,906	351,846	43,060
Traffic control	62,257	62,257	49,474	12,783
Parks and recreation				
Recreation	25,600	25,600	12,922	12,678
Golf course	482,850	482,850	461,135	21,715
Parks	196,930	203,930	193,180	10,750
Mobile home park	183,523	164,523	145,011	19,512
Total expenditures	5,537,474	5,576,903	5,744,860	(167,957)
Deficiency of revenues under expenditures	(730,170)	(769,599)	(1,013,458)	(243,859)
Other financing sources (uses):				
Transfers in	730,170	730,170	647,093	83,077
Transfers out	-	-	(63,210)	63,210
Total other financing sources (uses)	730,170	730,170	583,883	146,287
Net change in fund balance	-	(39,429)	(429,575)	(390,146)
Fund balance, beginning of year	1,421,219	1,421,219	1,421,219	-
Fund balance, end of year	\$ 1,421,219	1,381,790	991,644	(390,146)

Notes to Required Supplementary Information

The budget was prepared on the modified accrual basis of accounting. Expenditures were controlled at the department level. All annual appropriations lapse at year-end.

CITY OF ARCADIA, FLORIDA
 REQUIRED SUPPLEMENTARY INFORMATION
 (UNAUDITED)

Employees' Retirement Plan
 (Except for Police Officers and Firefighters)
 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/12	\$ 1,956,546	2,928,098	971,552	66.82%	686,316	141.56%
1/1/11	1,918,708	2,880,372	961,664	66.61%	821,992	116.99%
1/1/10	1,760,785	2,908,228	1,147,443	60.54%	956,730	119.93%
1/1/09	1,539,570	2,779,378	1,239,808	55.39%	960,281	129.11%
1/1/08	1,560,424	2,630,835	1,070,411	59.31%	968,475	110.53%
1/1/07	1,409,193	2,461,736	1,052,543	57.24%	880,464	119.54%

Analysis of the dollar amounts of the actuarial value of assets or actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the Retirement Plan's funding status on a going concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Plan. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of covered payroll approximately adjusts for the effects of inflation and aids analysis of the progress being made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Plan.

Employees' Retirement Plan
 (Except for Police Officers and Firefighters)
 Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
9/30/12	\$ 159,404	150,823	94.62%
9/30/11	147,670	183,748	124.43%
9/30/10	167,343	200,282	119.68%
9/30/09	160,580	155,376	96.76%
9/30/08	137,667	154,880	112.50%
9/30/07	129,704	127,831	98.56%

CITY OF ARCADIA, FLORIDA
 REQUIRED SUPPLEMENTARY INFORMATION
 (UNAUDITED)

**Police Officers' and Firefighters' Retirement System
 Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
10/1/12	\$ 7,607,113	9,991,004	2,383,891	76.14%	579,741	411.20%
10/1/11	7,386,319	9,500,454	2,114,135	77.75%	790,836	267.33%
10/1/10	7,818,443	9,210,827	1,392,384	84.88%	880,617	158.11%
10/1/09	7,766,771	8,866,137	1,099,366	87.60%	932,285	117.92%
10/1/08	7,924,519	8,846,352	921,833	89.58%	985,275	93.56%
10/1/07	7,688,494	8,466,723	778,229	90.81%	939,559	82.83%

Analysis of the dollar amounts of the actuarial value of assets or actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the Retirement Plan's funding status on a going concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Plan. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of covered payroll approximately adjusts for the effects of inflation and aids analysis of the progress being made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Plan.

**Police Officers' and Firefighters' Retirement System
 Schedule of Contributions from Employer and Other Entities**

Fiscal Year Ended	Annual Required Contribution	City Contribution	State Contribution	Percentage Contributed
9/30/12	\$ 240,164	140,925	99,339	100.00%
9/30/11	202,049	98,122	103,927	100.00%
9/30/10	293,210	189,527	103,683	100.00%
9/30/09	269,187	149,653	119,534	100.00%
9/30/08	262,762	120,389	142,373	100.00%
9/30/07	234,478	106,575	127,903 *	100.00%

* Frozen pursuant to the provisions of Chapters 175 and 185, Florida Statutes, as amended.

CITY OF ARCADIA, FLORIDA
 REQUIRED SUPPLEMENTARY INFORMATION
 (UNAUDITED)

**Other Post-Employment Benefits
 Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
9/30/10	\$ -	4,165,734	4,165,734	0.00%	1,793,708	232.24%

Analysis of the dollar amounts of the actuarial value of assets or actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the Plan's funding status on a going concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Plan. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of covered payroll approximately adjusts for the effects of inflation and aids analysis of the progress being made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Plan.

**Other Post-Employment Benefits
 Schedule of Employer Contributions**

Fiscal Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
9/30/12	\$ 383,955	148,560	38.69%
9/30/11	367,047	131,370	35.79%
9/30/10	350,891	121,697	34.68%

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

These statements and schedules provide more detailed information than can be found in the basic financial statements. The combining statements provide information on the individual nonmajor governmental funds and the combining fiduciary funds.

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The special revenue fund is used to account for the proceeds of specific revenue sources that are legally restricted for particular purposes or to finance specified activities as required by law or administrative regulation.

Fire Protection Services Fund: This fund is used to account for the receipt, custody and expenditure of the City's Municipal Service Benefit Unit assessment.

CDBG Fund: This fund is used to account for the receipt, custody and expenditure of Community Development Block Grant funds.

Infrastructure Fund: This fund is used to account for the receipt, custody and expenditure of infrastructure tax revenues.

Confiscated Property Fund: This fund is used to account for the receipt, custody and expenditure of Law Enforcement Trust Funds received in accordance with the Florida Contraband Forfeiture Act.

Street Reserve Fund: This fund is used to account for the receipt, custody and expenditure of local option gas tax revenues for maintaining streets and roads.

CAPITAL PROJECTS FUND

Capital Improvement Fund: This fund is used to account for the receipt, custody and expenditure of funds designated as renewal and replacement funds.

CITY OF ARCADIA, FLORIDA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2012

	Special Revenue						Total
	Fire Protection Services Fund	CDBG Fund	Infrastructure Fund	Confiscated Property Fund	Street Reserve Fund	Capital Improvement Fund	
Assets:							
Pooled cash and cash equivalents	\$ -	58,815	994,977	-	3,656	674,898	1,732,346
Non-pooled cash and cash equivalents	-	-	-	53	-	140,000	140,053
Due from other governments	-	-	44,067	-	16,717	-	60,784
Advances to other funds	-	-	-	-	952,498	165,022	1,117,520
Total assets	\$ -	58,815	1,039,044	53	972,871	979,920	3,050,703
Liabilities:							
Accounts payable	\$ -	35,622	-	-	-	-	35,622
Total liabilities	-	35,622	-	-	-	-	35,622
Fund balances:							
Nonspendable							
Advances to other funds	-	-	-	-	952,498	165,022	1,117,520
Restricted							
Housing rehabilitation	-	23,193	-	-	-	-	23,193
Law enforcement	-	-	-	53	-	-	53
Streets	-	-	-	-	20,373	-	20,373
Assigned							
Other	-	-	1,039,044	-	-	-	1,039,044
Capital projects	-	-	-	-	-	814,898	814,898
Total fund balances	-	23,193	1,039,044	53	972,871	979,920	3,015,081
Total liabilities and fund balances	\$ -	58,815	1,039,044	53	972,871	979,920	3,050,703

CITY OF ARCADIA, FLORIDA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended September 30, 2012

	Special Revenue					Total
	Fire Protection Services Fund	CDBG Fund	Infrastructure Fund	Confiscated Property Fund	Street Reserve Fund	
Revenues:						
Taxes	\$ -	-	425,986	-	251,324	-
Permits, fees, and assessments	223,640	-	-	-	-	-
Intergovernmental revenue	-	417,868	-	-	-	-
Interest earnings	-	-	-	-	-	979
Total revenues	223,640	417,868	425,986	-	251,324	979
Expenditures:						
Current:						
Public safety	223,640	-	-	15,700	-	-
Economic environment	-	459,114	-	-	-	-
Capital Outlay	-	-	-	-	-	30,057
Total expenditures	223,640	459,114	-	15,700	-	30,057
Excess (deficiency) of revenues over (under) expenditures	-	(41,246)	425,986	(15,700)	251,324	(29,078)
Other financing sources (uses):						
Transfers in	-	41,246	-	-	-	-
Transfers out	-	-	(355,563)	-	(291,530)	(141,272)
Total other financing sources (uses)	-	41,246	(355,563)	-	(291,530)	(141,272)
Net change in fund balances	-	-	70,423	(15,700)	(40,206)	(170,350)
Fund balances, beginning of year	-	23,193	968,621	15,753	1,013,077	1,150,270
Fund balances, end of year	\$ -	23,193	1,039,044	53	972,871	979,920



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FIDUCIARY FUNDS

Fiduciary funds are used to account for the activities of funds held in a trustee or agency capacity for others that cannot be used to support the City's own programs. The City reports pension trust funds which are used to account for the activities of the City's retirement systems, which accumulate resources for pension benefits payments made to employees.

Police Officers' and Firefighters' Retirement System: To account for the activities of the City's defined benefit retirement plan for police officers and former firefighters of the City.

Employee Retirement Plan: To account for the activities of the City's defined retirement plan for all City employees other than police officers and former firefighters.

CITY OF ARCADIA, FLORIDA
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 September 30, 2012

	Police Officers' and Firefighters' Retirement System	Employee Retirement Plan	Total
ASSETS			
Cash	\$ 131	-	131
Contributions receivable	13,820	-	13,820
Interest receivable	16,230	-	16,230
Investments:			
Money market funds	289,127	22,085	311,212
U.S. Government and agencies	1,699,260	-	1,699,260
Corporate bonds	1,177,809	-	1,177,809
Corporate stocks	4,495,473	-	4,495,473
Mutual funds	-	1,228,874	1,228,874
Pooled investments	-	737,544	737,544
Total investments	<u>7,661,669</u>	<u>1,988,503</u>	<u>9,650,172</u>
TOTAL ASSETS	<u>7,691,850</u>	<u>1,988,503</u>	<u>9,680,353</u>
LIABILITIES			
Accounts payable	11,262	-	11,262
Deferred contributions	21,636	-	21,636
Drop plan payable	264,738	-	264,738
Total liabilities	<u>297,636</u>	<u>-</u>	<u>297,636</u>
NET ASSETS			
Net assets held in trust for:			
Pension benefits	<u>\$ 7,394,214</u>	<u>1,988,503</u>	<u>9,382,717</u>

CITY OF ARCADIA, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
For the Year Ended September 30, 2012

	Police Officers' and Firefighters' Retirement System	Employee Retirement Plan	Total
ADDITIONS			
Contributions:			
Employer	\$ 140,825	150,823	291,648
Plan member	59,390	36,031	95,421
State of Florida	99,339	-	99,339
Total contributions	<u>299,554</u>	<u>186,854</u>	<u>486,408</u>
Investment income:			
Net increase in fair value of investments	475,213	133,834	609,047
Gain on sale of investments	455,441	-	455,441
Interest and dividends	187,913	33,740	221,653
Total investment income	<u>1,118,567</u>	<u>167,574</u>	<u>1,286,141</u>
Less investment expenses	<u>56,210</u>	<u>36,694</u>	<u>92,904</u>
Net investment income	<u>1,062,357</u>	<u>130,880</u>	<u>1,193,237</u>
 Total additions	 <u>1,361,911</u>	 <u>317,734</u>	 <u>1,679,645</u>
DEDUCTIONS			
Benefits	459,878	149,748	609,626
Administrative expenses	30,788	2,838	33,626
Refund of contributions	36,199	-	36,199
DROP plan	234,127	-	234,127
 Total deductions	 <u>760,992</u>	 <u>152,586</u>	 <u>913,578</u>
 Change in net assets	 600,919	 165,148	 766,067
Net assets held in trust for pension benefits:			
Net assets, beginning of year (restated)	<u>6,793,295</u>	<u>1,823,355</u>	<u>8,616,650</u>
 Net assets, end of year	 <u>\$ 7,394,214</u>	 <u>1,988,503</u>	 <u>9,382,717</u>

OTHER INDEPENDENT AUDITOR REPORTS

**INDEPENDENT AUDITOR'S 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***

The Honorable Mayor, City Council
and City Administrator
City of Arcadia, 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 Arcadia, 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 August 6, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective 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 opinion 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 Schedule of Findings in the accompanying Management Letter, 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 Findings 12-6 and 12-7 reported in the Schedule of Findings in the accompanying Management Letter to be material weaknesses.

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 Findings 12-3, 12-4, and 12-8 reported in the Schedule of Findings in the accompanying Management Letter to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the Schedule of Findings in the accompanying Management Letter as Findings 12-5 and 12-9.

We noted certain additional matters that we reported to management of the City in the Management Letter dated August 6, 2013.

The City's responses to the findings identified in our audit are reported in the Schedule of Findings in the accompanying Management Letter. 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, City Council, others within the City, Federal and State awarding agencies and pass-through entities, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Bradenton, Florida
August 6, 2013

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

The Honorable Mayor, City Council,
and City Administrator
City of Arcadia, Florida

Compliance

We have audited the City of Arcadia (“the City”) with the types of compliance requirements described in the U.S. Office of Management and Budget, (OMB) *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City’s major Federal programs for the year ended September 30, 2012. The City’s major Federal programs are identified in the Summary of Auditor’s Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the City’s management. Our responsibility is to express an opinion on the City’s compliance based on our audit.

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

In our opinion, the City of Arcadia, Florida, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the City’s internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance

with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Mauldin & Jenkins, LLC

Bradenton, Florida
August 6, 2013

CITY OF ARCADIA, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Grantor/Pass-through Grantor/Program or Project	CFDA Number	Pass-through Grantor's Number	Expenditures
U.S. Department of Housing and Urban Development Passed through Florida Department of Community Affairs Community Development Block Grant - State Program	14.228	10DB-4N-07-24-02-H20	\$ 417,868
Total U.S. Department of Housing and Urban Redevelopment			<u>417,868</u>
U.S. Department of Justice Passed through Florida Office of the Attorney General Crime Victim Assistance	16.575	V11032	29,204
Direct Public Safety Partnership and Community Policing Grants	16.710	2009RKWX0217	31,236
Passed through Florida Department of Law Enforcement Justice Assistance Grant	16.738	2012-JAGC-DESO-2-C4-203	16,828
Justice Assistance Grant	16.738	2012-JAGD-DESO-1-C5-153	2,687
Total U.S. Department of Justice			<u>79,955</u>
Environmental Protection Agency Passed through Florida Department of Environmental Protection Capitalization Grants for Drinking Water State Revolving Funds	66.468	DW140100	4,455,615
Total Environmental Protection Agency			<u>4,455,615</u>
Total Expenditures of Federal Awards			<u>\$ 4,953,438</u>

CITY OF ARCADIA, FLORIDA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2012

General

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the City of Arcadia, Florida. The reporting entity of the City is disclosed in Note A of the notes to the basic financial statements. All Federal awards received directly from Federal agencies, as well as Federal awards passed through other governmental entities, are included in this schedule.

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Loan Outstanding

The City has \$1,587,180 in outstanding loans as of September 30, 2012, from the State Revolving Fund loan program.

CITY OF ARCADIA, FLORIDA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended September 30, 2012

Section I – Summary of Auditor's Results

Basic Financial Statements

Type of auditor's report issued: Unqualified Opinion

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted? X yes no

Federal Programs

Type of auditor's report issued on compliance for major Federal programs: Unqualified Opinion

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? yes X none reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes X no

Identification of major programs:

CFDA 14.228 – Community Development Block Grant – State Program

CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds

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

Auditee qualified as low-risk auditee for Federal Single Audit? yes X no

CITY OF ARCADIA, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2012

Section II – Financial Statement Findings

This section identifies significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

In the Schedule of Findings reported in the accompanying Management Letter, Audit Findings 12-3, 12-4, and 12-8 are considered significant deficiencies in internal control over financial reporting, Audit Findings 12-6 and 12-7 are considered material weaknesses in internal control over financial reporting, and Audit Findings 12-5 and 12-9 are considered material weaknesses over compliance.

Section III – Federal Program Findings and Questioned Costs

This section identifies significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs, as well as any abuse findings involving Federal programs that are material to a major program, as required by OMB Circular A-133.

No findings over Federal programs were reported.

CITY OF ARCADIA, FLORIDA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2012

Audit Finding Number	Third Consecutive Audit?	Title/Program	Brief Description	Status	Comments
11-1	Yes	Financial Condition Assessment	For numerous years, our assessment of the City's financial condition has disclosed a gradual deterioration in the City's financial position. We have strongly recommended that the City evaluate the reasons for these negative financial results and take action to develop future plans and budgets that will produce positive financial results, avoid continuing deficits, and rebuild equity.	Not corrected	See Finding 12-1 in the Schedule of Findings.
11-2	Yes	Rate Covenant	In accordance with the Water and Sewer Refunding and Improvement Revenue Bonds, Series 2003, the City has certain covenants they must comply with such as collecting sufficient revenues to satisfy 125% of the bond service requirement and 100% of all other amounts payable from pledged revenues. For several years, our audits have disclosed that the City is not meeting this debt covenant.	Corrected	The City met the bond covenants in the current year.
11-3	No	Pensions	During the current audit, we noted pension contributions for the two pension plans, the Employee Retirement Plan and the Police Officer's and Firefighters' Retirement System, were not in accordance with the plan documents. We also noted that employee contributions were not deducted and City contributions were not made for three new police officers until several months after being hired when all police officers are immediately participants in the plan.	Partially corrected	See Finding 12-3 in the Schedule of Findings. The three police officers have been properly adjusted to reflect correct contributions.
11-4	No	Utility Rates	During our testing and review of utility rates charged by the City, we noted utility rates for garbage were not in accordance with the last approved resolution (Resolution 1999-16).	Not corrected	See Finding 12-4 in the Schedule of Findings.
11-5	No	Budget	In the prior year audit, we noted that the City was not maintaining their budget for changes in operating activity, thus resulting in expenditures exceeding appropriations.	Not corrected.	See Finding 12-5 in the Schedule of Findings.
11-6	No	Audit Adjustments	In the prior year, several adjustments and a prior period adjustment were made as a result of the audit resulting in a material weakness regarding the fairness of financial reporting.	Not corrected	See Finding 12-6 in the Schedule of Findings.

CITY OF ARCADIA, FLORIDA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
For the Year Ended September 30, 2012

Audit Finding Number	Third Consecutive Audit?	Title/Program	Brief Description	Status	Comments
11-7	No	Fraud	During the year, a theft occurred at the golf course. We recommended certain procedures be implemented to strengthen internal controls over cash operations at the golf course.	Corrected	The City has implemented new controls over cash operations.
11-8	No	Suspension and Debarment (Federal Grant Finding)	The City entered into a contract with a vendor for services during the year using Federal Funds, without properly verifying that the vendor was not suspended or debarred from receiving Federal Funds.	Corrected	The City verified the vendor was not suspended or debarred from receiving federal funds. No exceptions noted during current year audit procedures.

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Honorable Mayor, City Council
and City Administrator
City of Arcadia, Florida

We have audited the financial statements of the City of Arcadia, Florida ("the City"), as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated August 6, 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, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, dated August 6, 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 significant findings and recommendations made in the preceding annual financial audit report. The status of prior year findings are reported in the *Summary Schedule of Prior Audit Findings*.
- 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 the Auditor General, requires that we address in the management letter any recommendations to improve financial management. Matters required to be disclosed are reported in the accompanying Schedule of Findings.
- Section 10.554(1)(i)4., Rules of the 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

Honorable Mayor, City Council
and City Manager
City of Arcadia, Florida

than material but more than inconsequential. Matters required to be disclosed are reported in the accompanying Schedule of Findings.

- Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the 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. In connection with our audit, we did not have any such findings.
- 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 this management letter, unless disclosed in the notes to the financial statements. This information has been disclosed in the notes to 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(s) met. In connection with our audit, we determined that the City, did not meet any of the conditions described in the 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. Matters have been disclosed about the City's deteriorating financial condition in the accompanying Schedule of Findings.

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.

Mauldin & Jenkins, LLC

Bradenton, Florida
August 6, 2013

CITY OF ARCADIA, FLORIDA
SCHEDULE OF FINDINGS
For the Year Ended September 30, 2012

12-1 Financial Condition Assessment

For numerous years, our assessment of the City's financial condition has disclosed a gradual deterioration in the City's financial position. The City has suffered deficiencies of revenues under expenditures in the General Fund and operating losses and negative cash flows in the Water and Sewer Enterprise Fund for many years. This has been of particular concern in the General Fund where transfers are made annually to cover these deficiencies.

For the fiscal year ending September 30, 2012, the General Fund reported a deficiency of revenues under expenditures of \$1,013,458, and an overall decrease in fund balance of \$429,575. The decrease in the current year was largely due to the settlement of a lawsuit. Although, the Water and Sewer Enterprise Fund reported operating income of \$389,699, unrestricted net assets decreased \$592,193 from a deficit of \$843,330 to a deficit of \$1,435,523. The financial condition still remains critical and appropriate actions needs to be taken as soon as possible to remedy the current situation and prevent further depletion of operating reserves.

We again strongly recommend that the City evaluate the reasons for these negative financial results and take action to develop future plans and budgets that will produce positive financial results, avoid continuing deficits and rebuild equity of the City.

Management's Response:

Management concurs with this finding. In October 2012, a new Finance Director who is a Certified Public Accountant and has years of governmental audit experience was hired. The Finance Department has gone through many changes and is working towards better transparency and accountability. Funds have been combined and the solid waste (garbage) department has been moved from the General Fund and will be an enterprise fund for year ending 2014.

Staff has been trained on how to read error reports. Over 100 meters were found to not be working. This has generated substantial revenue. Staff is also implementing full payment of bills or customers are cut off. This has increased our cash flow and has dropped our bad debt ratios drastically. Late fees were always included in the ordinance and resolutions, but were not implemented; however, staff has been diligently collecting late fees which have greatly increased our water and sewer revenues.

The 2012/2013 General Fund budget was approved with expenditures less than revenues by \$200,000 and for the first time in many years the City has met its water and sewer bond covenants. We believe this will continue with the changes in procedures and continued rate increases that were indicated in an updated rate study in August 2012. This rate study indicated that a 20% increase was needed. City Council implemented Resolution 2012-15 that raised the water and sewer rates by 20% last year and contains an automatic increase of 3% for the following 4 years at which time we will re-evaluate our water and sewer fund condition with an updated rate study and continue to adjust rates as needed.

12-2 Investments

During our audit, we noted investments for the Police Officers' and Firefighters' Retirement System were not in accordance with the pension plan's investment policy. In accordance with the Plan document, investments in foreign securities shall not exceed 10% of the value of the fund at cost. Our audit disclosed foreign securities were approximately 16% of fund net assets at cost. The pension investment policy was established to allow diversification of the investment portfolio, while limiting possible risks due to concentrations.

Therefore, we recommend the City make efforts to comply with the investment policy.

Management's Response:

The City has no control over the Pension Funds or their investments. The funds are overseen by a Pension Administrator and a Pension Board. Therefore, this is not the City's decision. The Pension Board will be notified of this finding.

12-3 Pensions

As disclosed in the prior audit, we again noted pension contributions for the Employee Retirement Plan, were not in accordance with the Plan documents. For the Employee Retirement Plan, employee and City contributions were being calculated on total compensation (including overtime, sick and vacation termination payments, and any other kind of compensation). Per the Plan document, pensionable compensation should only include basic earnings from the City and exclude bonuses, overtime and commissions. Thus, employee and City contributions were in excess of the amounts required by the Plan. However, we also noted that the census data reported to the actuary regarding each individual's compensation for the Plan year also included overtime, sick and vacation termination payments, and all other forms of compensation.

We again recommend the City consult with the pension actuary and legal counsel to determine the best course of action to resolve this issue.

Management's Response:

Management concurs with this finding for years 2011 and 2012. In November of 2012, the contributions were corrected and the City is now in compliance. This condition has been corrected in the payroll system and in the reporting forms to the Plan Administrators.

12-4 Utility Rates

Again, as reported in the prior audit, our audit procedures and testing of utility rates charged by the City disclosed utility rates for garbage were not in accordance with the last approved resolution (Resolution 1999-16). Pursuant to inquiry, we were informed by the City that a rate increase for garbage was approved by City Council in prior years, and we were provided a reference in the minutes related to this increase. In the referenced minutes, there was no approval of a resolution to

indicate Resolution 1999-16 was no longer in effect, no reference to the old and/or new garbage rates, and no reference to whether the approved increase was for residential customers, commercial customers or both. Our tests disclosed that the City increased the garbage utility rates for residential customers, but not for commercial customers. However, there is no documentation to support the actual intent of the approved garbage rate increase.

We recommend the City consult with legal counsel and consider adopting a resolution to document the garbage utility rates previously approved by City Council.

Management's Response:

Resolution 2012-14 corrected the prior increase by motion and further increased the garbage and trash collection charges. Residential rates were increased ten (10) percent. Commercial rates were increased ten (10) percent. Included in the Resolution is an automatic annual increase of two (2) percent.

12-5 Budget

As noted in the prior year audit, we noted that the City was not maintaining their budget for changes in operating activity, thus resulting in expenditures exceeding appropriations. Pursuant to Florida Statute 166.241(2), the adopted budget must regulate expenditures of the municipality, and a government may not expend or contract for expenditures in any fiscal year except pursuant to the adopted budget. In the current year, the Legal Department over expended their budget by approximately \$444,000 and the Garbage Department over expended their budget by approximately \$99,000. Although City Council approved the expenditures that caused both of these departments to over expend their budget, no formal budget amendment resolution was made to amend the budget. Since these expenditures were not included in the original budget, the budget amendment would have provided for earlier identification of financial shortfalls.

We recommend the City enhance their procedures monitoring the budget to actual activity throughout the year, and approve formal budget amendment resolutions for changes in operating activity to document City Council's authorization for such expenditures/amendments and the impact on the financial position of the City.

Management's Response:

Management concurs with this finding. The new Finance Director has implemented, with Council approval, a budget policy that allows budget amendments to be made during the year by Resolution #2013-04. Council will approve any amendment over administrative purchase limits. This should not occur in the future.

12-6 Audit Adjustments

As noted in the prior year audit, the City is responsible for accurate financial reporting which includes detecting and preventing misstatements in the financial statements, as well as within the underlying financial records. As a result of our audit procedures, two (2) prior period adjustments

to restate fund balance/net assets (Note C) and numerous other entries were necessary for the fair presentation of the financial statements.

Although the City relies on the independent auditor for the fair presentation of the financial statements, the auditor cannot be a part of the City's internal control system. Therefore, based on the adjustments made as a result of the audit, the City has a material weakness regarding the fairness of financial reporting.

We recommend that the City implement procedures to ensure all entries are properly recorded prior to commencement of the audit to facilitate the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

Management's Response:

Management concurs with this finding. For the year ending September 2013, the new Finance Director and new staff will post most of the closing entries.

12-7 Reconciliations

Our audit disclosed that supporting documentation for several balance sheet accounts did not agree with the general ledger at year-end. Due to the turnover in the Director of Finance position near year-end, new finance personnel had a difficult time reconciling accounts that had not been reconciled throughout the year. In order for accurate financial reporting throughout the year and at year-end, the City needs to reconcile general ledger accounts such as cash, accounts receivable, interfund receivables and payables, accounts payable, and other balance sheet accounts to supporting documentation in a timely manner on a monthly basis. The benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations. Any reconciling differences should be corrected before the books are closed for the month-end.

Therefore, we recommend the City adopt procedures requiring monthly reconciliations of all balance sheet accounts to their subsidiary ledgers and other supporting documentation. In addition, we recommend that all bank reconciliations be reviewed and approved by a secondary person with the appropriate knowledge and expertise.

Management Response:

Management concurs with this finding. The new Finance Director did not begin employment until October 2012, the beginning of fiscal year ending September 2013. The accounts in the computer were not in proper order, there were no reconciling records for year ending 2012 and backup documentation was either missing or did not match balance sheets. Staff had not been trained to reconcile their accounts. Beginning this year (12/13) staff is being trained to reconcile their accounts receivable, accounts payable and other revenue such as the golf course and mobile home park on a monthly basis. Each reconciliation is reviewed by the Finance Director and corrections, if needed, are posted.

Revenue entries for funds received are now being entered through the computer system rather than by handwritten entries and therefore have decreased the number of monthly journal entries and have eliminated most posting errors. Staff will continue to train on a regular basis to understand their accounting procedures and to be more aware of recognizing inconsistencies. This has created a better audit trail and better reporting.

12-8 Bank Accounts

Our audit procedures disclosed the account activity for three (3) bank accounts administered by the police department were not being recorded and reported in the City's accounting system. Although, the City has policies and procedures in place requiring City Council approval by resolution of all new bank and investment accounts and authorized signers, the City was unaware that these accounts existed. In addition, our audit procedures disclosed that there was inadequate documentation to support the public purpose of the account activity in these bank accounts.

We recommend that City personnel educate staff on the policies and procedures over the authorization of new bank and investment accounts and identify those individuals that are authorized signers for the City to ensure all transactions are properly reported in the City's accounting system. In addition, the City needs to ensure adequate supporting documentation is maintained to support all financial transactions of the City.

Management's Response:

Management concurs with this finding. These accounts were located by the new Finance Director due to years of inactivity in the City managed Law Enforcement Trust Fund that she questioned. Upon locating these accounts in question the Finance Director and City Administrator immediately froze the accounts and ultimately closed them. It appears these accounts existed as far back as 2002/2003 and no previous Finance Director had located or questioned the lack of activity in the Law Enforcement Trust Fund overseen by the City. These accounts in question were opened by unauthorized City employees. As of this date, the banks have been informed and given the City's policy on who can authorize the opening or closing of bank accounts and who is authorized to sign on any account with the City. Employees have been made aware of this policy. This should not occur in the future.

Procedures are now in place to insure that all transactions are recorded and reconciled with documentation.

12-9 Law Enforcement Trust Funds

Our audit procedures disclosed that Law Enforcement Trust Funds ("Trust Funds") received in accordance with the Florida Contraband Forfeiture Act were not being expended in accordance with the provisions of Florida Statute 932.7055(5). Pursuant to Florida Statute, such proceeds and interest earned should be used for school resource officers, crime prevention, safe neighborhood, drug abuse education and prevention programs, or other law enforcement purposes. In addition, these funds may only be expended upon request by the Police Chief to the

City Council, accompanied by a written certification that the request complies with the provisions of Florida Statutes. Our audit disclosed that the Trust Fund expenditures were not submitted to City Council with the required certification for approval and that there was no documentation to support that the funds were being expended for an authorized purpose. These Trust Funds were deposited in a bank account that was not included in the City's accounting records as noted in Finding 12-8 above, and was administered solely by the Police Chief.

As noted above, all activity for the Law Enforcement Trust Fund should be accounted for in the City's books and records in accordance with the provisions of Florida Statutes. We recommend policies and procedures be implemented to obtain City Council approval prior to the expenditure of Trust Fund monies. In addition, invoices and other supporting documentation of the approval process should be maintained to evidence compliance with Florida Statutes.

Management's Response:

Management concurs with this finding. The Police Department has been reprimanded, made very aware of the statutory procedures, and a new Police Chief has been appointed. With the correction to the above finding regarding the bank accounts the Police Department controlled and new policies and procedures that are being updated by the new Police Chief and strictly scrutinized by the Finance Director and City Administrator, this should not occur in the future.