

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

For the Fiscal Year Ended September 30, 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 from material misstatement.

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

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

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 as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note A to the financial statements, the City adopted new accounting guidance and implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and early implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* as of October 1, 2012. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents 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 and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for

purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2015, 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* in considering the City's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Bradenton, Florida
January 27, 2015

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CITY OF ARCADIA, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013
(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 17).

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 exceeded its liabilities at September 30, 2013, by \$24,093,685 (net position). Of this amount, \$3,733,141 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- As of September 30, 2013, the City's governmental funds reported combined ending fund balances of \$4,268,041, for an increase of \$261,316 in comparison with the prior year. Of this amount, \$1,154,123 is available for spending at the City's discretion (unassigned fund balance).
- The City's total net position increased \$3,185,793. Net position for governmental activities increased \$336,935, while net position for business-type activities increased \$2,848,858.
- Total debt for the City increased \$2,391,807 or 45% 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'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, 2013
(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 Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. The focus of the Statement of Net Position 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 position 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 change in net position 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 (known as the primary government). There are no component units.

The government-wide financial statements can be found on pages 17 to 19 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, 2013
(UNAUDITED)

legal requirements. All of the funds of the City can be grouped into three (3) categories: (1) governmental funds, (2) proprietary funds, and (3) 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 21 and 23) to facilitate the comparison between governmental funds and governmental activities. The flow of current financial resources reflects debt proceeds and the sale of capital assets as other financing sources, and 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.

For fiscal year 2012-2013, the City adopted annual appropriated budgets for the General Fund, Infrastructure Fund, Street Reserve Fund, Community Development Block Grant Fund, Capital Improvement Fund, McSwain Park Fund, Fire Protection Services Fund, Water and Sewer Fund, and Airport Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 20 and 22 of this report.

CITY OF ARCADIA, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013
(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 24 to 28 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 29 and 30 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 starting on page 31 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 Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$24,093,685 at the close of the most recent fiscal year.

CITY OF ARCADIA, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013
(UNAUDITED)

Table 1
City of Arcadia's Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 5,218,744	\$ 4,790,432	\$ 2,988,212	\$ 946,003	\$ 8,206,956	\$ 5,736,435
Capital assets	5,292,764	5,371,033	20,403,247	18,006,681	25,696,011	23,377,714
Total assets	<u>10,511,508</u>	<u>10,161,465</u>	<u>23,391,459</u>	<u>18,952,684</u>	<u>33,902,967</u>	<u>29,114,149</u>
Deferred outflows of resources	-	-	441,416	-	441,416	-
Long-term liabilities outstanding	855,829	866,397	7,965,651	5,087,702	8,821,480	5,954,099
Other liabilities	778,429	754,753	650,789	1,497,405	1,429,218	2,252,158
Total liabilities	<u>1,634,258</u>	<u>1,621,150</u>	<u>8,616,440</u>	<u>6,585,107</u>	<u>10,250,698</u>	<u>8,206,257</u>
Net investment in capital assets	5,292,764	5,371,033	13,123,215	13,181,516	18,415,979	18,552,549
Restricted	1,239,378	996,117	705,187	696,853	1,944,565	1,692,970
Unrestricted	<u>2,345,108</u>	<u>2,173,165</u>	<u>1,388,033</u>	<u>(1,510,792)</u>	<u>3,733,141</u>	<u>662,373</u>
Total net position	<u>\$ 8,877,250</u>	<u>\$ 8,540,315</u>	<u>\$ 15,216,435</u>	<u>\$ 12,367,577</u>	<u>\$ 24,093,685</u>	<u>\$ 20,907,892</u>

By far, the largest portion of the City's net position (76%) 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 position, \$1,944,565, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$3,733,141, 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 position for governmental activities.

For more detailed information see the Statement of Net Position (page 17).

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

Normal Impacts

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

Net Results of Activities – will impact (increase/decrease) current assets and unrestricted net position.

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. An increase in capital assets and an increase in related net debt will not change the net investment in capital assets.

Spending of Non-borrowed Current Assets on New Capital – will reduce current assets and increase capital assets, and reduce unrestricted net position and increase the net investment in capital assets.

Principal Payment on Debt – will: (a) reduce current assets and reduce long-term debt and (b) reduce unrestricted net position and increase the net investment in capital assets.

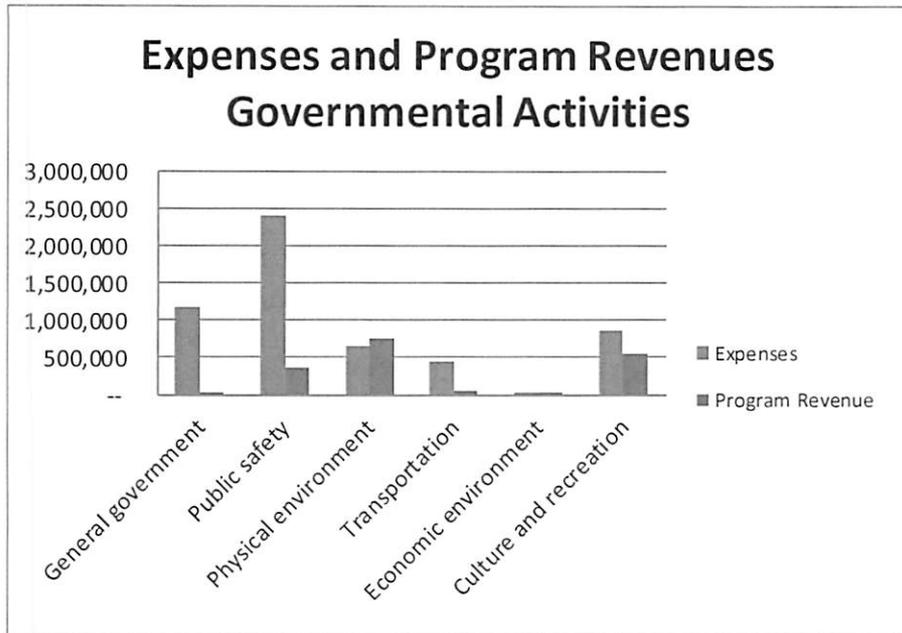
Reduction of Capital Assets through Depreciation – will reduce capital assets and the net investment in capital assets.

CITY OF ARCADIA, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013
(UNAUDITED)

Table 2
City of Arcadia's
Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program Revenues						
Charges for services	\$ 1,649,098	\$ 1,349,968	\$ 3,704,565	\$ 3,157,819	\$ 5,353,663	\$ 4,507,787
Operating grants	146,653	788,747	20,923	-	167,576	788,747
Capital grants	-	24,600	1,879,042	1,805,321	1,879,042	1,829,921
General Revenues						
Property taxes	1,515,643	1,423,422	-	-	1,515,643	1,423,422
Other taxes	1,624,327	1,534,651	-	-	1,624,327	1,534,651
Franchise fees	376,476	389,506	-	-	376,476	389,506
Intergovernmental	491,702	490,195	-	-	491,702	490,195
Other	233,581	74,710	12,389	8,369	245,970	83,079
Total revenues	<u>6,037,480</u>	<u>6,075,799</u>	<u>5,616,919</u>	<u>4,971,509</u>	<u>11,654,399</u>	<u>11,047,308</u>
Expenses						
General government	1,169,820	1,279,713	-	-	1,169,820	1,279,713
Public safety	2,409,539	2,417,326	-	-	2,409,539	2,417,326
Physical environment	649,029	729,369	-	-	649,029	729,369
Transportation	437,981	467,666	-	-	437,981	467,666
Economic environment	24,476	459,114	-	-	24,476	459,114
Culture and recreation	868,330	824,671	-	-	868,330	824,671
Water and sewer	-	-	2,813,598	2,941,344	2,813,598	2,941,344
Airport	-	-	95,833	59,410	95,833	59,410
Total expenses	<u>5,559,175</u>	<u>6,177,859</u>	<u>2,909,431</u>	<u>3,000,754</u>	<u>8,468,606</u>	<u>9,178,613</u>
Increase (decrease) in net position before transfers	478,305	(102,060)	2,707,488	1,970,755	3,185,793	1,868,695
Transfers	(141,370)	(163,236)	141,370	163,236	-	-
Change in net position	336,935	(265,296)	2,848,858	2,133,991	3,185,793	1,868,695
Net position, beginning of year (restated)	<u>8,540,315</u>	<u>8,805,611</u>	<u>12,367,577</u>	<u>10,233,586</u>	<u>20,907,892</u>	<u>19,039,197</u>
Net position, end of year	<u>\$ 8,877,250</u>	<u>\$ 8,540,315</u>	<u>\$ 15,216,435</u>	<u>\$ 12,367,577</u>	<u>\$ 24,093,685</u>	<u>\$ 20,907,892</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013
(UNAUDITED)

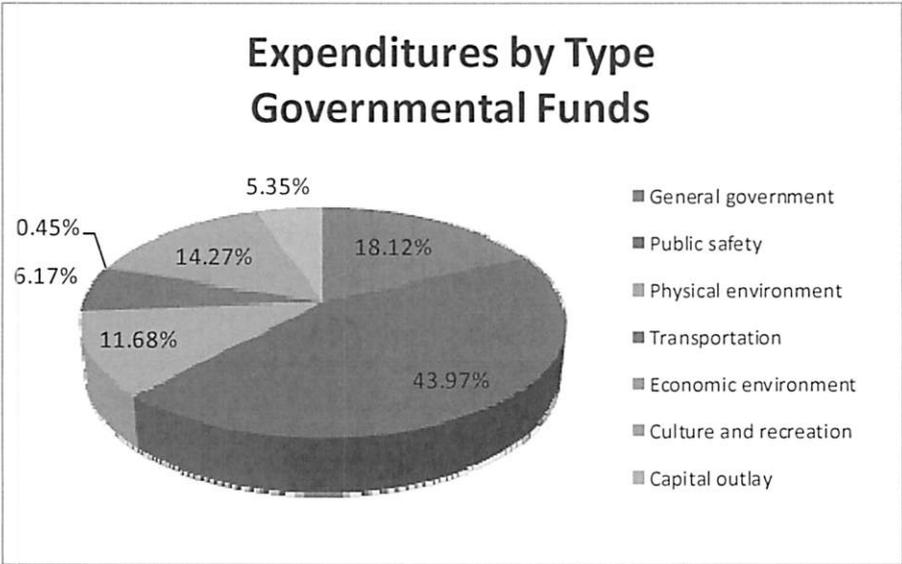
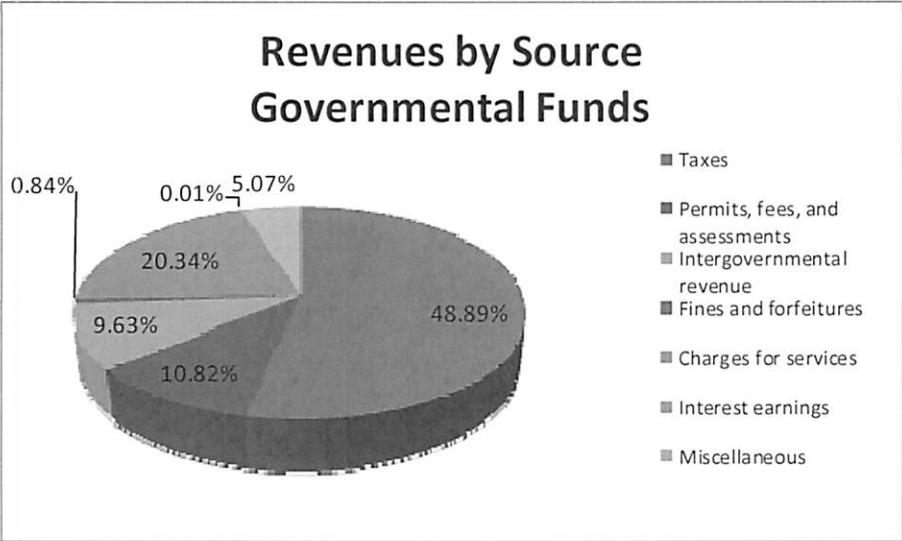


Financial Analysis of the City's Funds – As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 \$4,268,041, an increase of \$261,316 in comparison with the prior year. Approximately 27% of this total amount, \$1,154,123, 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 increased by \$162,479.

Nonmajor governmental funds consisting of special revenue funds and capital project funds have a combined fund balance of \$3,113,918 of which all of it is nonspendable, restricted or assigned.

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



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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 position of the Water and Sewer Fund at the end of the year amounted to \$1,276,131; and the increase in net position was \$2,770,599. The City increased water utility rates and late fees in November 2012 and 2013, in an effort to rebuild net position in this fund.

General Fund Budgetary Highlights – The City did not amend the 2012-2013 budget during the year. Overall, General Fund expenditures were less than budgeted appropriations by \$27,734. The City reported expenditures in excess of appropriations for the Executive, Financial and Administrative, Legal Counsel, Way Building, Law Enforcement, Fire Control, and Golf Course departments. More detailed information can be found in the General Fund Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual on page 61.

Capital Assets and Debt Administration

Capital Assets – The City's capital assets for its governmental and business-type activities as of September 30, 2013, amount to \$25,696,011 (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 Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 1,334,812	\$ 1,334,812	\$ 380,778	\$ 380,778	\$ 1,715,590	\$ 1,715,590
Construction in progress	-	-	8,150,060	5,143,415	8,150,060	5,143,415
Buildings	996,024	1,015,192	2,387,624	2,640,853	3,383,648	3,656,045
Improvements other than buildings	539,427	581,197	151,827	163,895	691,254	745,092
Infrastructure	2,065,142	2,159,281	9,019,689	9,437,779	11,084,831	11,597,060
Machinery and equipment	357,359	280,551	313,269	239,961	670,628	520,512
Total	\$ 5,292,764	\$ 5,371,033	\$ 20,403,247	\$ 18,006,681	\$ 25,696,011	\$ 23,377,714

Construction continued 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, 2013
(UNAUDITED)

Long-term Debt – At the end of the 2013 fiscal year, the City had debt outstanding of \$7,721,448.

**Table 4
City of Arcadia's Outstanding Debt**

	Business-type Activities	
	2013	2012
Bonds payable	\$ 2,906,816	\$ 3,214,218
State Revolving Fund loan payable	4,407,336	1,587,180
Capital lease payable	407,296	528,243
Total	\$ 7,721,448	\$ 5,329,641

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 2013-2014, the City's property tax values increased slightly. The City adopted a millage rate of 8.6694 which was an increase from 8.5859 in fiscal year 2012-2013, but less than the rolled back rate of 8.7867. The City is making efforts to increase fund balance in the General Fund; however, increases in pension contributions and other expenditures have had a significant impact on the City's ability to do so.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City'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 POSITION
September 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 4,262,982	1,382,897	5,645,879
Accounts receivable, net of allowance	377,489	444,790	822,279
Interest receivable	-	245	245
Internal balances	299,103	(299,103)	-
Due from other governments	251,896	476,997	728,893
Restricted assets			
Cash and cash equivalents	-	982,386	982,386
Net pension asset	27,274	-	27,274
Capital assets not being depreciated			
Land	1,334,812	380,778	1,715,590
Construction in process	-	8,150,060	8,150,060
Capital assets being depreciated			
Buildings	1,811,273	9,489,325	11,300,598
Improvements other than buildings	1,521,850	1,103,320	2,625,170
Furniture, fixtures and equipment	2,506,596	3,871,085	6,377,681
Infrastructure	3,868,027	16,956,064	20,824,091
Accumulated depreciation	(5,749,794)	(19,547,385)	(25,297,179)
TOTAL ASSETS	<u>10,511,508</u>	<u>23,391,459</u>	<u>33,902,967</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding debt	-	441,416	441,416
LIABILITIES			
Current liabilities			
Accounts payable	120,724	289,216	409,940
Accrued expenses	157,705	-	157,705
Retainage payable	-	84,374	84,374
Unearned revenue	500,000	-	500,000
Current liabilities payable from restricted assets			
Accrued interest	-	39,165	39,165
Customer deposits	-	238,034	238,034
Non-current liabilities			
Due within one year	45,000	453,744	498,744
Due in more than one year	810,829	7,511,907	8,322,736
Total liabilities	<u>1,634,258</u>	<u>8,616,440</u>	<u>10,250,698</u>
NET POSITION			
Net investment in capital assets	5,292,764	13,123,215	18,415,979
Restricted for			
Debt service	-	705,187	705,187
Housing rehabilitation	8,717	-	8,717
Streets	1,230,661	-	1,230,661
Unrestricted	<u>2,345,108</u>	<u>1,388,033</u>	<u>3,733,141</u>
Total net position	<u>\$ 8,877,250</u>	<u>15,216,435</u>	<u>24,093,685</u>

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, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 1,169,820	18,269	15,500	-
Public safety	2,409,539	299,592	65,850	-
Physical environment	649,029	771,991	-	-
Transportation	437,981	-	55,053	-
Economic environment	24,476	-	10,000	-
Culture and recreation	868,330	559,246	250	-
	<u>5,559,175</u>	<u>1,649,098</u>	<u>146,653</u>	<u>-</u>
Business-type activities				
Water and sewer	2,813,598	3,640,405	-	1,790,033
Airport	95,833	64,160	20,923	89,009
Total business-type activities	<u>2,909,431</u>	<u>3,704,565</u>	<u>20,923</u>	<u>1,879,042</u>
Total	<u>\$ 8,468,606</u>	<u>5,353,663</u>	<u>167,576</u>	<u>1,879,042</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 position

Net position, beginning of year, as previously stated

Restatement of net position

Net position, beginning of year (restated)

Net position, end of year

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

Net (Expense) Revenue and
Changes in Net Position
Primary Government

Governmental Activities	Business-type Activities	Total
(1,136,051)	-	(1,136,051)
(2,044,097)	-	(2,044,097)
122,962	-	122,962
(382,928)	-	(382,928)
(14,476)	-	(14,476)
(308,834)	-	(308,834)
<u>(3,763,424)</u>	<u>-</u>	<u>(3,763,424)</u>
-	2,616,840	2,616,840
-	78,259	78,259
-	2,695,099	2,695,099
<u>(3,763,424)</u>	<u>2,695,099</u>	<u>(1,068,325)</u>
1,515,643	-	1,515,643
257,790	-	257,790
109,590	-	109,590
451,150	-	451,150
469,639	-	469,639
278,941	-	278,941
57,217	-	57,217
376,476	-	376,476
491,702	-	491,702
817	12,389	13,206
232,764	-	232,764
(141,370)	141,370	-
<u>4,100,359</u>	<u>153,759</u>	<u>4,254,118</u>
<u>336,935</u>	<u>2,848,858</u>	<u>3,185,793</u>
<u>8,540,315</u>	<u>12,520,914</u>	<u>21,061,229</u>
<u>-</u>	<u>(153,337)</u>	<u>(153,337)</u>
<u>8,540,315</u>	<u>12,367,577</u>	<u>20,907,892</u>
<u>\$ 8,877,250</u>	<u>15,216,435</u>	<u>24,093,685</u>

CITY OF ARCADIA, FLORIDA
 GOVERNMENTAL FUNDS
 BALANCE SHEET
 September 30, 2013

	<u>General Fund</u>	<u>McSwain Park Fund</u>
Assets		
Pooled cash and cash equivalents	\$ 441,639	500,000
Non-pooled cash and cash equivalents	472,561	-
Accounts receivable, net	377,489	-
Due from other funds	266,167	-
Due from other governments	128,462	-
Advances to other funds	-	-
	<u> </u>	<u> </u>
Total assets	<u>\$ 1,686,318</u>	<u>500,000</u>
Liabilities		
Accounts payable	\$ 97,404	-
Accrued expenses	157,705	-
Due to other funds	132,086	-
Unearned revenue	-	500,000
	<u> </u>	<u> </u>
Total liabilities	<u>387,195</u>	<u>500,000</u>
Deferred inflows of resources		
Unavailable funds, restitution	145,000	-
	<u> </u>	<u> </u>
Fund balances		
Nonspendable		
Advances to other funds	-	-
Restricted		
Housing rehabilitation	-	-
Streets	-	-
Assigned		
Other	-	-
Capital projects	-	-
Unassigned	1,154,123	-
	<u> </u>	<u> </u>
Total fund balances	<u>1,154,123</u>	<u>-</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,686,318</u>	<u>500,000</u>

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 POSITION
OF GOVERNMENTAL ACTIVITIES
September 30, 2013

Other Governmental Funds	Total		\$	
		Fund balance, total governmental funds		4,268,041
2,848,782	3,790,421	Amounts reported for governmental activities		
-	472,561	in the Statement of Net Position are different		
-	377,489	because:		
-	266,167	Capital assets used in governmental activities		
123,434	251,896	are not financial resources and, therefore,		
165,022	165,022	are not reported in the governmental funds.		
3,137,238	5,323,556			
		Capital assets	11,042,558	
23,320	120,724	Less accumulated depreciation	(5,749,794)	5,292,764
-	157,705	Certain non-current assets are not available		
-	132,086	to pay for current period expenditures and,		
-	500,000	therefore, are not recorded in the funds.		172,274
23,320	910,515	Non-current liabilities are not due and payable		
		in the current period and, therefore, are not		
		reported in the governmental funds.		
-	145,000	Claims payable	(25,000)	
		Compensated absences	(223,653)	
165,022	165,022	Other post-employment benefits	(568,262)	
		Net pension obligation	(38,914)	(855,829)
8,717	8,717	Net position, governmental activities		\$ 8,877,250
1,230,661	1,230,661			
1,158,000	1,158,000			
551,518	551,518			
-	1,154,123			
3,113,918	4,268,041			
3,137,238	5,323,556			

CITY OF ARCADIA, FLORIDA
 GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 For the Year Ended September 30, 2013

	General Fund	McSwain Park Fund
Revenues		
Taxes	\$ 2,431,030	-
Permits, fees and assessments	387,577	-
Intergovernmental revenue	557,552	-
Fines and forfeitures	49,747	-
Charges for services	1,198,392	-
Interest earnings	472	-
Miscellaneous revenue	298,579	-
Total revenues	4,923,349	-
Expenditures		
Current		
General government	992,025	-
Public safety	2,163,746	-
Physical environment	641,471	-
Transportation	338,496	-
Economic environment	-	-
Culture and recreation	783,207	-
Capital outlay	173,318	-
Total expenditures	5,092,263	-
Excess (deficiency) of revenues over (under) expenditures	(168,914)	-
Other financing sources (uses)		
Transfers in	332,208	-
Transfers out	(815)	-
Total other financing sources (uses)	331,393	-
Net change in fund balances	162,479	-
Fund balances, beginning of year	991,644	-
Fund balances, end of year	\$ 1,154,123	-

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, 2013

Other Governmental Funds	Total		
		Net change in fund balances, total governmental funds	\$ 261,316
708,940	3,139,970	Amounts reported in the Statement of Activities are different because:	
249,846	637,423		
10,000	567,552	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.	
-	49,747		
-	1,198,392		
345	817		
-	298,579		
969,131	5,892,480		
		Capital outlay expenditures	\$ 293,921
2,553	994,578	Less current year depreciation	<u>(335,357)</u> (41,436)
249,899	2,413,645	Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	145,000
-	641,471		
-	338,496	The net effect of various miscellaneous transactions involving capital assets (i.e. sales, dispositions and capital transfers) is to decrease net position.	(36,833)
24,476	24,476		
-	783,207		
120,603	293,921		
397,531	5,489,794	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.	
571,600	402,686		
		Change in claims payable	50,000
815	333,023	Change in net pension asset/obligation	(1,484)
(473,578)	(474,393)	Change in compensated absences	(9,318)
		Change in post-employment benefits	<u>(30,310)</u> 8,888
(472,763)	(141,370)	Change in net position of governmental activities	<u>\$ 336,935</u>
98,837	261,316		
3,015,081	4,006,725		
3,113,918	4,268,041		

CITY OF ARCADIA, FLORIDA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2013

	Business-type Activities		
	Water and Sewer Fund	Airport Fund (Nonmajor)	Total
ASSETS			
Current assets			
Unrestricted cash and cash equivalents	\$ 1,281,878	101,019	1,382,897
Restricted cash and cash equivalents			
2003 refunding bonds, sinking fund	305,832	-	305,832
Customer deposits	238,034	-	238,034
Accounts receivable, net of allowance	440,294	4,496	444,790
Interest receivable	245	-	245
Due from other governments	453,735	23,262	476,997
Due from other funds	132,086	-	132,086
Total current assets	2,852,104	128,777	2,980,881
Non-current assets			
Restricted cash and cash equivalents			
2003 refunding bonds, reserve funds	438,520	-	438,520
Total non-current assets	438,520	-	438,520
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
Furniture, fixtures and equipment	3,846,677	24,408	3,871,085
Construction in progress	8,060,817	89,243	8,150,060
	37,205,101	2,745,531	39,950,632
Less accumulated depreciation	18,113,432	1,433,953	19,547,385
Net capital assets	19,091,669	1,311,578	20,403,247
Total assets	22,382,293	1,440,355	23,822,648
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding debt	441,416	-	441,416
Total deferred outflows of resources	441,416	-	441,416

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			
Current liabilities			
Accounts payable	\$ 272,341	16,875	289,216
Due to other funds	266,167	-	266,167
Retainage payable	84,374	-	84,374
Advances from other funds	165,022	-	165,022
Current liabilities payable from restricted assets			
Accrued interest	39,165	-	39,165
Customer deposits	238,034	-	238,034
Bonds payable, current portion	266,667	-	266,667
Compensated absences, current portion	7,500	-	7,500
Capital lease payable, current portion	126,244	-	126,244
Bonds payable, current portion	53,333	-	53,333
Total current liabilities	1,518,847	16,875	1,535,722
Non-current liabilities			
Compensated absences	85,759	-	85,759
Other post-employment benefits	150,944	-	150,944
Capital lease payable	281,052	-	281,052
Loan payable	4,407,336	-	4,407,336
Bonds payable	2,586,816	-	2,586,816
Total non-current liabilities	7,511,907	-	7,511,907
Total liabilities	9,030,754	16,875	9,047,629
NET POSITION			
Net investment in capital assets	11,811,637	1,311,578	13,123,215
Restricted:			
Debt service	705,187	-	705,187
Unrestricted	1,276,131	111,902	1,388,033
Total net position	\$ 13,792,955	1,423,480	15,216,435

CITY OF ARCADIA, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For The Year Ended September 30, 2013

	Business-type Activities		
	Water and Sewer Fund	Airport Fund (Nonmajor)	Total
Operating revenues			
Charges for services	\$ 3,452,976	56,530	3,509,506
Tap fees	13,728	-	13,728
Miscellaneous	173,701	7,630	181,331
Total operating revenues	<u>3,640,405</u>	<u>64,160</u>	<u>3,704,565</u>
Operating expenses			
Personal services	857,673	-	857,673
Operating expenses	1,052,201	51,015	1,103,216
Depreciation and amortization	696,938	44,818	741,756
Total operating expenses	<u>2,606,812</u>	<u>95,833</u>	<u>2,702,645</u>
Operating income (loss)	<u>1,033,593</u>	<u>(31,673)</u>	<u>1,001,920</u>
Non-operating revenues (expenses)			
Interest earnings	12,389	-	12,389
Interest and fiscal agent fees	(206,786)	-	(206,786)
Operating grant	-	20,923	20,923
Total non-operating revenues (expenses)	<u>(194,397)</u>	<u>20,923</u>	<u>(173,474)</u>
Income before capital contributions and transfers	839,196	(10,750)	828,446
Capital contributions	1,790,033	89,009	1,879,042
Transfers in	141,370	-	141,370
Change in net position	<u>2,770,599</u>	<u>78,259</u>	<u>2,848,858</u>
Net position, beginning of year, as previously stated	11,175,693	1,345,221	12,520,914
Restatement of net position	(153,337)	-	(153,337)
Net position, beginning of year, as restated	<u>11,022,356</u>	<u>1,345,221</u>	<u>12,367,577</u>
Net position, end of year	<u>\$ 13,792,955</u>	<u>1,423,480</u>	<u>15,216,435</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, 2013

	Business-type Activities		
	Water and Sewer Fund	Airport Fund (Nonmajor)	Total
Cash flows from operating activities			
Cash received from customers	\$ 3,588,458	64,662	3,653,120
Cash payments to suppliers	(1,522,007)	(35,227)	(1,557,234)
Cash payments to employees for services	(901,428)	-	(901,428)
Net cash provided by operating activities	<u>1,165,023</u>	<u>29,435</u>	<u>1,194,458</u>
Cash flows from noncapital financing activities			
Repayments to other funds	(952,498)	-	(952,498)
Transfers from other funds	141,370	-	141,370
Operating grants	-	20,923	20,923
Net cash provided by noncapital financing activities	<u>(811,128)</u>	<u>20,923</u>	<u>(790,205)</u>
Cash flows from capital and related financing activities			
Capital contributions	2,063,909	87,738	2,151,647
Acquisition of capital assets	(3,283,348)	(89,243)	(3,372,591)
Loan proceeds	2,711,137	-	2,711,137
Payments of long-term debt principal	(430,947)	-	(430,947)
Payments of interest expense and fiscal charges	(144,745)	-	(144,745)
Net provided (used) by capital and related financing activities	<u>916,006</u>	<u>(1,505)</u>	<u>914,501</u>
Cash flows from investing activities			
Interest received	12,348	-	12,348
Net cash provided by investing activities	<u>12,348</u>	<u>-</u>	<u>12,348</u>
Net increase in cash and cash equivalents	1,282,249	48,853	1,331,102
Cash and cash equivalents, beginning of year	<u>982,015</u>	<u>52,166</u>	<u>1,034,181</u>
Cash and cash equivalents, end of year	<u>\$ 2,264,264</u>	<u>101,019</u>	<u>2,365,283</u>
Cash and cash equivalents			
Cash and cash equivalents, unrestricted	\$ 1,281,878	101,019	1,382,897
Cash and cash equivalents, restricted	<u>982,386</u>	<u>-</u>	<u>982,386</u>
	<u>\$ 2,264,264</u>	<u>101,019</u>	<u>2,365,283</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, 2013

	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)	\$ 1,033,593	(31,673)	1,001,920
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation and amortization	696,938	44,818	741,756
(Increase) decrease in			-
Accounts receivable	(47,601)	502	(47,099)
Due from other funds	(46,556)	-	(46,556)
Increase (decrease) in			
Accounts payable	(484,610)	15,788	(468,822)
Accrued expenses	(1,122)	-	(1,122)
Accrued payroll	(25,421)	-	(25,421)
Due to other funds	62,482	-	62,482
Other accrued liabilities	-	-	-
Customer deposits	(4,346)	-	(4,346)
Compensated absences	(2,327)	-	(2,327)
Other post-employment benefits	(16,007)	-	(16,007)
Net cash provided by operating activities	<u>\$ 1,165,023</u>	<u>29,435</u>	<u>1,194,458</u>
Noncash investing, capital and financing activities			
Amortization of discount and deferred amount on refunding debt	<u>\$ 65,658</u>	<u>-</u>	<u>65,658</u>

CITY OF ARCADIA, FLORIDA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
September 30, 2013

	Pension Trust Funds
ASSETS	
Contributions receivable	\$ 49,370
Interest and dividends receivable	14,333
Investments	
Money market funds	197,428
U.S. Government and agencies	893,982
Mortgage backed securities	705,217
Corporate bonds	1,322,467
Corporate stocks	5,364,367
Mutual funds	1,314,262
Pooled investments	747,398
Total investments	10,545,121
TOTAL ASSETS	10,608,824
LIABILITIES	
Accounts payable	13,246
Deferred contribution	50,479
Termination payments	91,301
DROP plan payable	416,750
	571,776
Total liabilities	571,776
NET POSITION	
Net position held in trust for pension benefits	\$ 10,037,048

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

CITY OF ARCADIA, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
For the Year Ended September 30, 2013

	Pension Trust Funds
ADDITIONS	
Contributions	
Employer	\$ 423,426
Plan members	96,493
State of Florida	109,591
Total contributions	629,510
Investment income	
Net increase in fair value of investments	507,644
Gain on sale of investments	255,825
Interest and dividends	273,201
Total investment income	1,036,670
Less investment expenses	98,799
Net investment income	937,871
Total additions	1,567,381
DEDUCTIONS	
Benefits	619,164
Administrative expenses	32,544
Refund of contributions	109,330
DROP plan	152,012
Total deductions	913,050
Change in net position	654,331
Net position held in trust for pension benefits	
Net position, beginning of year	9,382,717
Net position, end of year	\$ 10,037,048

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.

The City adopted new accounting guidance and implemented the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and early implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Other than GASB Statements No. 63 and No. 65, the implementation of these standards had no significant effect on the financial statements of the City.

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 7,600. 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. A primary government is considered financially accountable if it appoints a voting majority of an organization's governing body and is able to impose its will on that organization. The primary government may also be financially accountable if an organization is fiscally dependent on the primary government and a financial benefit or burden relationship exists, regardless of the authority of the organization's governing board. Based on these criteria, there are no other organizations or agencies which should be included in these basic financial statements.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position 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 revenues to be available if they are collected within 60 days of the end of the current fiscal period, with the exception of grant revenues, which are considered available when eligible expenditures have been incurred even though they may be collected beyond 60 days. Property taxes, gas taxes, utility taxes, franchise fees, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

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 Fund* is 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 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.

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 enterprise funds 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.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

4. Assets, Liabilities and Net Position or Fund Balance

(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, interest-bearing time deposits, and deposits in the Local Government Surplus Trust Fund Investment Pool administered by the Florida State Board of Administration. Investments are held only in the pension trust funds and consist of short-term investments and marketable securities reported at fair value based on quoted market prices. 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 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, 2013.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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, 2013, was \$123,322 in the General Fund and \$710,352 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 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.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$109,019 was capitalized for fiscal year ending September 30, 2013.

(e) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred charges on refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category. Accordingly, the item, unavailable funds for restitution, is reported only in the balance sheet for the governmental funds. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

(f) 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 earned in the government-wide financial statements.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) 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 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.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued and premiums are 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.

(h) 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 position.”

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.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 Position—Net position represents the difference between assets and liabilities. The net investment in capital assets 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. The net investment in capital assets excludes unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. All net position not reported as net investment in capital assets or restricted net position, is reported as unrestricted net position.

Flow Assumptions—When both restricted and unrestricted amounts of fund balance/net position 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

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

For the year ended September 30, 2013, the following departments reported expenditures in excess of budget appropriations in the General Fund:

Executive	\$ (56,936)
Financial and administrative	(6,788)
Legal counsel	(29,650)
Way building	(10,906)
Law enforcement	(138,773)
Fire control	(49,243)
Golf course	(24,676)

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Although positive budget variances for revenues and expenditures reported in other departments more than offset these negative budget variances, expenditures in excess of appropriations is a budgetary violation.

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

NOTE C – RESTATEMENT

On October 1, 2012, beginning net position for the business-type activities and Water and Sewer Fund were restated due to the implementation of GASB Statement 65. In accordance with GASB Statement 65, debt issuance costs should be recognized as an expense in the period incurred. Prior to GASB Statement 65, debt issuance costs were amortized over the duration of the related debt. As a result of implementing GASB Statement 65, beginning net position has been decreased for the unamortized balance of debt issuance costs as of October 1, 2012.

	Business-type Activities	Water and Sewer Fund
Net position, October 1, 2012, as previously reported	\$ 12,520,914	11,175,693
Implementation of GASB 65	(153,337)	(153,337)
Net position, October 1, 2012, restated	\$ 12,367,577	11,022,356

NOTE D – DEPOSITS AND INVESTMENTS

As of September 30, 2013, the City had the following investments and maturities, which were all held in the pension trust funds:

	Fair Value	Rating	No Fixed Maturity	Less than 1 year	1-5 years	6-10 years	More than 10 years
Money market funds	\$ 197,428	NR	\$ 197,428	-	-	-	-
U.S. government and agencies	893,982	Aaa	-	-	672,769	221,213	-
Mortgage backed securities	705,217	NR	-	-	-	-	705,217
Corporate bonds	1,322,467	A1-Baa3	-	15,491	1,131,693	175,283	-
Corporate stocks	5,364,367	NR	5,364,367	-	-	-	-
Mutual funds	1,314,262	NR	1,314,262	-	-	-	-
Pooled investments	747,398	NR	747,398	-	-	-	-
Total	\$ 10,545,121		\$ 7,623,455	15,491	1,804,462	396,496	705,217

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE D -- DEPOSITS AND INVESTMENTS (CONTINUED)

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. The City has not adopted a written investment policy; therefore, the City's investments are limited in accordance with Florida Statute 218.415(17) to the Local Government Surplus Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits or savings accounts in qualified public depositories; and direct obligations of the U.S. Treasury.

The City's funds in the Local Government Surplus Trust Fund (the "LGIP"), a Securities and Exchange Commission 2a7-like external investment pool, in the amount of \$367,833 is reported at amortized cost and has a weighted average of 44 days to maturity as of September 30, 2013. The fund is rated AAAM by Standard & Poor's.

The police officers' and firefighters' retirement system has an investment policy that limits investments to: (1) time, savings and money market accounts of a national bank, a state bank or a savings and loan institution, insured by the Federal Deposit Insurance Corporation, provided the amount deposited does not exceed the insured amount; (2) obligations issued by the United States government or obligations guaranteed as to principal and interest by the United States or by an agency of the United States government; (3) stocks, commingled funds administered by national or state banks, mutual funds and bonds or other evidences of indebtedness, issued or guaranteed by a corporation organized under the laws of the United States, any state or organized territory of the United States or the District of Columbia. Equities must be traded on a national exchange; fixed income securities shall have a minimum rating of investment grade or higher as reported by a major credit rating service, except 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; and money market funds should have a minimum rating of A1 by Standard & Poor's or P1 by Moody's.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE D – DEPOSITS AND 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 4% of the total fund, no more than 5% of the plan 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 66% of plan assets at cost or 70% of plan assets at market value should be invested in corporate common stock and convertible bonds. Foreign securities shall not exceed 25% of the market value of the plan.

NOTE E – CAPITAL ASSETS

The following is a summary of changes in capital assets for the governmental activities for the year ended September 30, 2013:

	Beginning Balance	Transfers/ Additions	Transfers/ Retirements	Ending Balance
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 1,334,812	-	-	1,334,812
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	1,826,959	48,939	(64,625)	1,811,273
Improvements other than buildings	1,710,147	67,504	(255,801)	1,521,850
Infrastructure	3,872,094	-	(4,067)	3,868,027
Furniture, fixtures and equipment	2,745,052	177,478	(415,934)	2,506,596
Total capital assets, being depreciated	<u>10,154,252</u>	<u>293,921</u>	<u>(740,427)</u>	<u>9,707,746</u>
Less accumulated depreciation for				
Buildings	811,767	52,352	(48,870)	815,249
Improvements other than buildings	1,128,950	90,227	(236,754)	982,423
Infrastructure	1,712,813	92,108	(2,036)	1,802,885
Furniture, fixtures and equipment	2,464,501	100,670	(415,934)	2,149,237
Total accumulated depreciation	<u>6,118,031</u>	<u>335,357</u>	<u>(703,594)</u>	<u>5,749,794</u>
Total capital assets, being depreciated, net	<u>4,036,221</u>	<u>(41,436)</u>	<u>(36,833)</u>	<u>3,957,952</u>
Total governmental activities capital assets, net	<u>\$ 5,371,033</u>	<u>(41,436)</u>	<u>(36,833)</u>	<u>5,292,764</u>

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE E – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the various functions of governmental activities as follows:

Governmental Activities	
General government	\$ 125,485
Public safety	42,162
Transportation	95,428
Physical environment	39,117
Culture and recreation	<u>33,165</u>
Total depreciation expense, governmental activities	<u><u>\$ 335,357</u></u>

The following is a summary of changes in capital assets for the business-type activities for the year ended September 30, 2013:

	Beginning Balance	Transfers/ Additions	Transfers/ Retirements	Ending Balance
Business-type Activities				
Capital assets, not being depreciated				
Land	\$ 380,778	-	-	380,778
Construction in progress	5,143,415	3,006,645	-	8,150,060
Total capital assets, not being depreciated	<u>5,524,193</u>	<u>3,006,645</u>	<u>-</u>	<u>8,530,838</u>
Capital assets, being depreciated				
Buildings	9,489,325	-	-	9,489,325
Improvements other than buildings	1,103,320	-	-	1,103,320
Infrastructure	16,956,064	-	-	16,956,064
Furniture, fixtures and equipment	3,739,408	131,677	-	3,871,085
Total capital assets, being depreciated	<u>31,288,117</u>	<u>131,677</u>	<u>-</u>	<u>31,419,794</u>
Less accumulated depreciation for				
Buildings	6,848,472	253,229	-	7,101,701
Improvements other than buildings	939,425	12,068	-	951,493
Infrastructure	7,518,285	418,090	-	7,936,375
Furniture, fixtures and equipment	3,499,447	58,369	-	3,557,816
Total accumulated depreciation	<u>18,805,629</u>	<u>741,756</u>	<u>-</u>	<u>19,547,385</u>
Total capital assets, being depreciated, net	<u>12,482,488</u>	<u>(610,079)</u>	<u>-</u>	<u>11,872,409</u>
Total business-type activities capital assets, net	<u><u>\$ 18,006,681</u></u>	<u><u>2,396,566</u></u>	<u><u>-</u></u>	<u><u>20,403,247</u></u>

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE E – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the various functions of business-type activities as follows:

Business-type Activities	
Water and sewer	\$ 696,938
Airport	<u>44,818</u>
Total depreciation expense, business-type activities	<u><u>\$ 741,756</u></u>

NOTE F – LONG-TERM LIABILITIES

Long-term liability activity for the governmental activities for the year ended September 30, 2013, consisted of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Claims payable	\$ 75,000	-	(50,000)	25,000	25,000
Compensated absences	214,335	9,318	-	223,653	20,000
Other post-employment benefits	537,952	97,130	(66,820)	568,262	-
Net pension obligation	<u>39,110</u>	<u>-</u>	<u>(196)</u>	<u>38,914</u>	<u>-</u>
	<u><u>\$ 866,397</u></u>	<u><u>106,448</u></u>	<u><u>(117,016)</u></u>	<u><u>855,829</u></u>	<u><u>45,000</u></u>

The City's long-term liabilities for governmental activities at September 30, 2013, consisted of the following:

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.	\$ 25,000
Compensated absences	223,653
Other post-employment benefits	568,262
Net pension obligation	<u>38,914</u>
	<u><u>\$ 855,829</u></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.

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, 2013, consisted of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities					
2003 Refunding bonds	\$ 3,235,000	-	(310,000)	2,925,000	320,000
Less Bond Discount	(20,782)	-	2,598	(18,184)	-
Total bonds payable	3,214,218	-	(307,402)	2,906,816	320,000
State Revolving Fund loan	1,587,180	2,820,156	-	4,407,336	-
Capital lease payable	528,243	-	(120,947)	407,296	126,244
Compensated absences	95,586	-	(2,327)	93,259	7,500
Other post-employment benefits	166,951	25,819	(41,826)	150,944	-
	<u>\$ 5,592,178</u>	<u>2,845,975</u>	<u>(472,502)</u>	<u>7,965,651</u>	<u>453,744</u>

The City's long-term liabilities for business-type activities at September 30, 2013, consisted of the following:

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.	\$ 2,906,816
State Revolving Fund (SRF) loan issued in the amount of \$4,520,904 of which \$4,407,336 has been drawn down as of September 30, 2013. Principal and interest will be payable in equal semi-annual installments of \$152,848 for a period of twenty (20) years with a proposed date of first repayment starting October 15, 2015, and interest rates ranging from 2.5% to 3.06%. The principal and interest is secured by net revenues of the water and sewer system.	4,407,336
Capital lease payable	407,296
Compensated absences	93,259
Other post-employment benefits	<u>150,944</u>
	<u>\$ 7,965,651</u>

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, 2013, are as follows:

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 320,000	111,695	431,695
2015	330,000	99,707	429,707
2016	345,000	86,836	431,836
2017	355,000	73,051	428,051
2018	370,000	58,551	428,551
2019-2021	1,205,000	79,116	1,284,116
	<u>\$ 2,925,000</u>	<u>508,956</u>	<u>3,433,956</u>

The estimated principal amount of the SRF loan and payment terms have not been finalized, and thus have not been included in the above schedule. Currently, semi-annual loan payments (principal and interest) are estimated to be in the amount of \$152,848 starting on October 15, 2015, and semiannually thereafter on October 15 and April 15 for a period of 20 years.

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:

Asset	<u>Business-type Activities Water and Sewer Fund</u>
Improvements other than buildings	\$ 1,196,296
Less accumulated depreciation	<u>(194,396)</u>
	<u>\$ 1,001,900</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, 2013, were as follows:

Year Ending September 30,	Business-type Activities Water and Sewer Fund
2014	\$ 141,272
2015	141,272
2016	141,272
2017	11,772
Total minimum lease payments	435,588
Less amount representing interest	(28,292)
Present value of minimum lease payments	\$ 407,296

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, 2013, 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 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, 2013, is as follows:

Due from/Due to	<u>Due from</u>	<u>Due to</u>
Governmental Funds		
General Fund	\$ 266,167	132,086
Proprietary Funds		
Water and Sewer Fund	<u>132,086</u>	<u>266,167</u>
	<u>\$ 398,253</u>	<u>398,253</u>

The outstanding balances between funds result mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur; transactions are recorded in the accounting system; and payments between funds are made.

Advances to/Advances from	<u>Advances to</u>	<u>Advances from</u>
Governmental Funds		
Nonmajor Funds	\$ 165,022	-
Proprietary Funds		
Water and Sewer Fund	<u>-</u>	<u>165,022</u>
	<u>\$ 165,022</u>	<u>165,022</u>

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

Interfund transfers	<u>Transfers in</u>	<u>Transfers out</u>
Governmental Activities		
General Fund	\$ 332,208	815
Nonmajor Funds	815	473,578
Business-type Activities		
Water and Sewer Fund	<u>141,370</u>	<u>-</u>
	<u>\$ 474,393</u>	<u>474,393</u>

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

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

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. Subsequent to year-end, the City was awarded restitution in the amount of \$145,000 related to the theft of City funds. The City is confident that these funds will be recovered and has recorded a receivable for the full amount owed.

Commitment

At September 30, 2013, the City had the following commitment:

	Contract Amount	Completed to Date	Balance
Water Treatment Plant			
Engineers	\$ 1,315,580	1,262,266	53,314
Construction	6,986,643	6,673,619	313,024
	\$ 8,302,223	7,935,885	366,338

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. 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.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE J – EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Statements of Fiduciary Net Position

	<u>Police Officers' and Firefighters' Retirement System</u>	<u>Employee Retirement Plan</u>	<u>Total</u>
ASSETS			
Contributions receivable	\$ 27,979	21,391	49,370
Interest and dividends receivable	14,333	-	14,333
Investments	8,461,392	2,083,729	10,545,121
TOTAL ASSETS	<u>8,503,704</u>	<u>2,105,120</u>	<u>10,608,824</u>
LIABILITIES			
Accounts payable	13,246	-	13,246
Due to other funds	-	-	-
Deferred contributions	50,479	-	50,479
Termination payments	91,301	-	91,301
Drop plan payable	416,750	-	416,750
Total liabilities	<u>571,776</u>	<u>-</u>	<u>571,776</u>
NET POSITION			
Net position held in trust for pension benefits	<u>\$ 7,931,928</u>	<u>2,105,120</u>	<u>10,037,048</u>

Statement of Changes in Fiduciary Net Position

	<u>Police Officers' and Firefighters' Retirement System</u>	<u>Employee Retirement Plan</u>	<u>Total</u>
ADDITIONS			
Contributions			
Employer	\$ 247,435	175,991	423,426
Plan member	56,484	40,009	96,493
State of Florida	109,591	-	109,591
Total contributions	<u>413,510</u>	<u>216,000</u>	<u>629,510</u>
Investment income			
Net increase (decrease) in fair value of investments	536,555	(28,911)	507,644
Realized gain on sale of investments	255,825	-	255,825
Interest and dividends	154,183	119,018	273,201
Total investment income	<u>946,563</u>	<u>90,107</u>	<u>1,036,670</u>
Less investment expenses	58,430	40,369	98,799
Net investment income	<u>888,133</u>	<u>49,738</u>	<u>937,871</u>
Total additions	<u>1,301,643</u>	<u>265,738</u>	<u>1,567,381</u>
DEDUCTIONS			
Benefits	472,473	146,691	619,164
Administrative expenses	30,114	2,430	32,544
Refund of contributions	109,330	-	109,330
DROP plan	152,012	-	152,012
Total deductions	<u>763,929</u>	<u>149,121</u>	<u>913,050</u>
Change in net position	<u>537,714</u>	<u>116,617</u>	<u>654,331</u>
Net position held in trust for pension benefits			
Net position, beginning of year	7,394,214	1,988,503	9,382,717
Net position, end of year	<u>\$ 7,931,928</u>	<u>2,105,120</u>	<u>10,037,048</u>

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE J – EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

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 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.

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, 2013, membership consisted of:

Retirees, disabled participants and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	29
Active employees	24
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%

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE J – EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

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%
	10	100%
55 and over	Any number	100%

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 50 years of age and 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.

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. 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 IRS Small Plan Combined Static Mortality Tables are 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.

The funded status of the Plan as of the January 1, 2013, 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
1/1/13	\$ 2,075,913	\$ 3,030,771	\$ 954,858	68.49%	\$ 809,733	117.92%

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.

All actuarial methods and assumptions used in the January 1, 2013, 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
9/30/2011	\$ 145,354	126.41%	31,777
9/30/2012	158,156	95.36%	39,110
9/30/2013	175,795	100.11%	38,914

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE J – EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Calculation of Net Pension Obligation

	9/30/13	9/30/12	9/30/11
1. NPO at beginning of period	\$ 39,110	31,777	70,171
2. Annual Pension Costs			
a. Annual Required Contribution (ARC)	177,130	159,404	147,670
b. Interest on NPO	2,542	2,066	4,561
c. Adjustments to ARC	(3,877)	(3,314)	(6,877)
d. Total = (a) + (b) + (c)	175,795	158,156	145,354
3. Contributions made	175,991	150,823	183,748
4. Change in NPO - (2d) - (3)	(196)	7,333	(38,394)
5. NPO at end of period - (1) + (4)	\$ 38,914	39,110	31,777

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, 2013, there were no remaining former paid firefighters contributing to the Plan.

At September 30, 2013, membership consisted of:

Retirees, disabled participants and beneficiaries currently receiving benefits, terminated employees not yet receiving benefits and DROP participants	28
Active employees	13
Total	41

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE J – EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

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 covered 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);

Non-service incurred with ten 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 Plan may elect to defer receipt of such service retirement pension by participating in the DROP, while continuing their employment with the City for a period not to exceed 60 months.

The amount of the benefit under the DROP is the same as the participant would have received under the Plan 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 Plan, earning a 6.5% annual rate of return or actual net rate of return earned by the Plan at the member' election. Amounts in the DROP are then made available to the participant (various payment options are available) at the end of the DROP period.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE J – EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

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 30 year period is paid by the City. The required City and State contributions to the Plan for the year ended September 30, 2013, was 60.88% 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, 2013, were \$109,591.

If an employee separates service from the City before achieving six years of credited service, the employee will receive 100% of their contributions. After achieving six 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.

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 asset valuation method was a 4-year smoothing methodology of market value returns. Contribution rates for fiscal year ending September 30, 2013, were determined as of the October 1, 2011, actuarial report. In this report, the amortization method used was the level of percentage of pay, closed and the remaining amortization period was 26 years. Investment earnings were assumed at 8% per year. Salary increases were 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, dated October 1, 2013, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
10/1/13	\$ 8,112,106	\$ 9,493,224	\$ 1,381,118	85.45%	\$ 546,605	252.67%

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.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE J – EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

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	
9/30/11	\$ 205,287	98.42%	\$	(30,736)
9/30/12	241,946	99.26%		(28,954)
9/30/13	358,705	99.53%		(27,274)
		<u>9/30/13</u>	<u>9/30/12</u>	<u>9/30/11</u>
1. NPO at beginning of period		<u>\$ (28,954)</u>	<u>(30,736)</u>	<u>(33,974)</u>
2. Annual Pension Costs				
a. Annual Required Contribution (ARC)		357,026	240,164	202,049
b. Interest on NPO		(2,316)	(2,459)	(2,718)
c. Adjustments to ARC		3,995	4,241	5,956
d. Total = (a) + (b)+ (c)		<u>358,705</u>	<u>241,946</u>	<u>205,287</u>
3. Contributions made		<u>357,025</u>	<u>240,164</u>	<u>202,049</u>
4. Change in NPO, (2d) - (3)		<u>1,680</u>	<u>1,782</u>	<u>3,238</u>
5. NPO at end of period, (1) + (4)		<u><u>\$ (27,274)</u></u>	<u><u>(28,954)</u></u>	<u><u>(30,736)</u></u>

NOTE K – OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The City 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.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE K – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

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 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 fiscal years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
9/30/11	\$ 368,575	\$ 131,370	35.64%	\$ 466,399
9/30/12	387,064	148,560	38.38%	704,903
9/30/13	122,949	108,646	88.37%	719,206

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Normal Cost	\$ 22,774	233,766	222,635
Amortization of unfunded actuarial accrued liability	142,469	150,189	144,412
Annual required contribution	165,243	383,955	367,047
Interest on net OPEB obligation	28,196	18,656	9,168
Adjustment to Annual Required Contribution	(70,490)	(15,547)	(7,640)
Total expense or annual OPEB cost	122,949	387,064	368,575
Actual contributions toward OPEB cost	108,646	148,560	131,370
Increase in net OPEB obligation	14,303	238,504	237,205
Net OPEB obligation, beginning of year	704,903	466,399	229,194
Net OPEB obligation, end of year	<u>\$ 719,206</u>	<u>704,903</u>	<u>466,399</u>

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE K – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Funded Status and Funding Progress—As of September 30, 2013, the AMM valuation date, the Plan assets were \$0, the actuarial accrued liability was \$1,384,654, the total unfunded actuarial accrued liability was \$1,384,654, 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 \$2,357,730, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 58.73%.

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.

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 3% 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, 2013 was ten years. Health insurance trends start at 11.5% for the fiscal year ending in 2014 and 8% for 2015, grading down by 0.5% per year to 5% at the ultimate trend rate by 2021.

During the summer of 2013, the City revised the retiree health subsidy program. Under the revised policy, employees retiring after September 30, 2013, with at least 20 years of service will be eligible for a Medicare stipend. There will be no other form of direct premium subsidy from the City for employees retiring in the future. Current retirees not eligible for Medicare may continue receiving the City assistance under the current arrangements until they become eligible for Medicare benefits. Upon attaining eligibility for Medicare, such current retirees will be required to discontinue coverage through the City group plan and they may be eligible for a stipend at a fixed amount of \$225 per month. Retirees currently covered through a Medicare Supplement are grandfathered and may continue coverage and receive the direct City subsidy for as long as they remain covered under the plan.

CITY OF ARCADIA, FLORIDA
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE L – SUBSEQUENT EVENTS

In February 2014, the City entered into a loan agreement in an amount not to exceed \$499,675 for the purpose of financing improvements at the Arcadia Municipal Airport in anticipation of reimbursement by the Florida Department of Transportation. Draws in the amount of \$369,342 were taken against the loan. On September 25, 2014, the City paid off the loan and all accrued interest owed under the loan agreement.

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, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes	\$ 2,279,291	2,279,291	2,431,030	151,739
Permits, fees and assessments	402,000	402,000	387,577	(14,423)
Intergovernmental revenue	525,734	525,734	557,552	31,818
Fines and forfeitures	40,200	40,200	49,747	9,547
Charges for services	1,284,453	1,284,453	1,198,392	(86,061)
Interest earnings	11,250	11,250	472	(10,778)
Miscellaneous revenue	244,875	244,875	298,579	53,704
Total revenues	<u>4,787,803</u>	<u>4,787,803</u>	<u>4,923,349</u>	<u>135,546</u>
Expenditures				
General government				
Legislative	44,301	44,301	39,989	4,312
Executive	232,150	232,150	289,086	(56,936)
Financial and administrative	113,482	113,482	120,270	(6,788)
Legal counsel	43,500	43,500	73,150	(29,650)
Other general government	548,492	548,492	367,831	180,661
Garage	138,882	138,882	122,832	16,050
Way building	16,900	16,900	27,806	(10,906)
Public safety				
Law enforcement	1,535,507	1,535,507	1,674,280	(138,773)
Fire control	423,175	423,175	472,418	(49,243)
School crossing guard	22,283	22,283	17,048	5,235
Physical environment				
Garbage/solid waste disposal	720,153	720,153	714,918	5,235
Cemetery	63,479	63,479	50,932	12,547
Transportation				
Roads and streets	355,279	355,279	290,984	64,295
Traffic control	55,053	55,053	47,512	7,541
Parks and recreation				
Golf course	437,395	437,395	462,071	(24,676)
Parks	211,487	211,487	179,936	31,551
Mobile home park	158,479	158,479	141,200	17,279
Total expenditures	<u>5,119,997</u>	<u>5,119,997</u>	<u>5,092,263</u>	<u>27,734</u>
Excess (deficiency) of revenues over(under) expenditures	<u>(332,194)</u>	<u>(332,194)</u>	<u>(168,914)</u>	<u>163,280</u>
Other financing sources (uses)				
Transfers in	332,194	332,194	332,208	14
Transfers out	-	-	(815)	(815)
Total other financing sources (uses)	<u>332,194</u>	<u>332,194</u>	<u>331,393</u>	<u>(801)</u>
Net change in fund balance	-	-	162,479	162,479
Fund balance, beginning of year	<u>991,644</u>	<u>991,644</u>	<u>991,644</u>	<u>-</u>
Fund balance, end of year	<u>\$ 991,644</u>	<u>991,644</u>	<u>1,154,123</u>	<u>162,479</u>

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
1/1/13	\$ 2,075,913	\$ 3,030,771	\$ 954,858	68.49%	\$ 809,733	117.92%
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%

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
9/30/13	\$ 177,130	\$ 175,991	99.36%
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%

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
10/1/13	\$ 8,112,106	\$ 9,493,224	\$ 1,381,118	85.45%	\$ 546,605	252.67%
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%

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
9/30/13	\$ 357,026	\$ 247,435	\$ 109,590	100.00%
9/30/12	240,164	140,825	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%

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
9/30/12	\$ -	\$ 1,384,654	\$ 1,384,654	0.00%	\$ 2,357,730	58.73%
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.

COMBINING FUND FINANCIAL STATEMENTS

These statements provide more detailed information than can be found in the basic financial statements. The combining fund financial 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 for capital improvements.

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CITY OF ARCADIA, FLORIDA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2013

	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	\$ -	3,717	1,083,437	-	1,186,790	574,838	2,848,782
Due from other governments	-	5,000	74,563	-	43,871	-	123,434
Advances to other funds	-	-	-	-	-	165,022	165,022
Total assets	\$ -	8,717	1,158,000	-	1,230,661	739,860	3,137,238
Liabilities							
Accounts payable	\$ -	-	-	-	-	23,320	23,320
Unearned revenue	-	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	23,320	23,320
Fund balances							
Nonspendable							
Advances to other funds	-	-	-	-	-	165,022	165,022
Restricted							
Housing rehabilitation	-	8,717	-	-	-	-	8,717
Streets	-	-	-	-	1,230,661	-	1,230,661
Assigned							
Special projects	-	-	1,158,000	-	-	-	1,158,000
Capital projects	-	-	-	-	-	551,518	551,518
Total fund balances	-	8,717	1,158,000	-	1,230,661	716,540	3,113,918
Total liabilities and fund balances	\$ -	8,717	1,158,000	-	1,230,661	739,860	3,137,238

CITY OF ARCADIA, FLORIDA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For The Year Ended September 30, 2013

	Special Revenue						Total
	Fire Protection Services Fund	CDBG Fund	Infrastructure Fund	Confiscated Property Fund	Street Reserve Fund	Capital Improvement Fund	
Revenues							
Taxes	\$ -	-	451,150	-	257,790	-	708,940
Permits, fees and assessments	249,846	-	-	-	-	-	249,846
Intergovernmental revenue	-	10,000	-	-	-	-	10,000
Interest earnings	-	-	-	-	-	345	345
Total revenues	249,846	10,000	451,150	-	257,790	345	969,131
Expenditures							
Current							
General government	-	-	-	-	-	2,553	2,553
Public safety	249,846	-	-	53	-	-	249,899
Economic environment	-	24,476	-	-	-	-	24,476
Capital Outlay	-	-	-	-	-	120,603	120,603
Total expenditures	249,846	24,476	-	53	-	123,156	397,531
Excess (deficiency) of revenues over (under) expenditures	-	(14,476)	451,150	(53)	257,790	(122,811)	571,600
Other financing sources (uses)							
Transfers in	-	-	-	-	-	815	815
Transfers out	-	-	(332,194)	-	-	(141,384)	(473,578)
Total other financing sources (uses)	-	-	(332,194)	-	-	(140,569)	(472,763)
Net change in fund balances	-	(14,476)	118,956	(53)	257,790	(263,380)	98,837
Fund balances, beginning of year	-	23,193	1,039,044	53	972,871	979,920	3,015,081
Fund balances, end of year	\$ -	8,717	1,158,000	-	1,230,661	716,540	3,113,918

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.

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CITY OF ARCADIA, FLORIDA
 COMBINING STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUND
 September 30, 2013

	<u>Police Officers' and Firefighters' Retirement System</u>	<u>Employee Retirement Plan</u>	<u>Total</u>
ASSETS			
Contributions receivable	\$ 27,979	21,391	49,370
Interest and dividends receivable	14,333	-	14,333
Investments			
Money market funds	175,359	22,069	197,428
U.S. Government and agencies	893,982	-	893,982
Mortgage backed securities	705,217	-	705,217
Corporate bonds	1,322,467	-	1,322,467
Corporate stocks	5,364,367	-	5,364,367
Mutual funds	-	1,314,262	1,314,262
Pooled investments	-	747,398	747,398
Total investments	<u>8,461,392</u>	<u>2,083,729</u>	<u>10,545,121</u>
TOTAL ASSETS	<u>8,503,704</u>	<u>2,105,120</u>	<u>10,608,824</u>
LIABILITIES			
Accounts payable	13,246	-	13,246
Deferred contributions	50,479	-	50,479
Termination payments	91,301	-	91,301
Drop plan payable	416,750	-	416,750
Total liabilities	<u>571,776</u>	<u>-</u>	<u>571,776</u>
NET POSITION			
Net position held in trust for Pension benefits	<u>\$ 7,931,928</u>	<u>2,105,120</u>	<u>10,037,048</u>

CITY OF ARCADIA, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
For the Year Ended September 30, 2013

	Police Officers' and Firefighters' Retirement System	Employee Retirement Plan	Total
ADDITIONS			
Contributions			
Employer	\$ 247,435	175,991	423,426
Plan members	56,484	40,009	96,493
State of Florida	109,591	-	109,591
Total contributions	<u>413,510</u>	<u>216,000</u>	<u>629,510</u>
Investment income			
Net increase (decrease) in fair value of investments	536,555	(28,911)	507,644
Realized gain on sale of investments	255,825	-	255,825
Interest and dividends	154,183	119,018	273,201
Total investment income	<u>946,563</u>	<u>90,107</u>	<u>1,036,670</u>
Less investment expenses	<u>58,430</u>	<u>40,369</u>	<u>98,799</u>
Net investment income	<u>888,133</u>	<u>49,738</u>	<u>937,871</u>
Total additions	<u>1,301,643</u>	<u>265,738</u>	<u>1,567,381</u>
DEDUCTIONS			
Benefits	472,473	146,691	619,164
Administrative expenses	30,114	2,430	32,544
Refund of contributions	109,330	-	109,330
DROP plan	152,012	-	152,012
Total deductions	<u>763,929</u>	<u>149,121</u>	<u>913,050</u>
Change in net position	537,714	116,617	654,331
Net position held in trust for pension benefits			
Net position, beginning of year	<u>7,394,214</u>	<u>1,988,503</u>	<u>9,382,717</u>
Net position, end of year	<u>\$ 7,931,928</u>	<u>2,105,120</u>	<u>10,037,048</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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Arcadia, Florida (the "City"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 27, 2015. As referenced in our report, the City adopted new accounting guidance and implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and early implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* as of October 1, 2012.

Internal Control Over Financial Reporting

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

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

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

material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying *Schedule of Findings and Questioned Costs* as Findings 2013-01 and 2013-02 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 the deficiency described in the accompanying *Schedule of Findings and Questioned Costs* as Findings 2013-03 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the *Schedule of Findings and Questioned Costs* as Finding 2013-04.

City's Responses to Findings

The City's responses to the findings identified in our audit are reported in the accompanying *Schedule of Findings and Questioned Costs*. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Mauldin & Jenkins, LLC

Bradenton, Florida
January 27, 2015

**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

Report on Compliance for Each Major Federal Program

We have audited the City of Arcadia, Florida's (the "City") compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the City's major Federal programs for the year ended September 30, 2013. The City's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying *Schedule of Findings and Questioned Costs*.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

CITY OF ARCADIA, FLORIDA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2013

General

The accompanying Schedule of Expenditures of Federal Awards includes Federal grant activity of the City. 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 \$4,407,336 in outstanding loans as of September 30, 2013, from the State Revolving Fund loan program.

CITY OF ARCADIA, FLORIDA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended September 30, 2013

Section I – Summary of Auditor's Results

Basic Financial Statements

Type of auditor's report issued: Unmodified 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: Unmodified 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 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, 2013

Section II – Financial Statement Findings

2013-01 Reconciliations/Audit Adjustments

Criteria: To ensure that financial statements properly present the financial position and results of operations of the City in accordance with generally accepted accounting principles (GAAP), in addition to providing meaningful financial reports to City Council and management, the City should reconcile the general ledger accounts for cash, accounts receivable, accounts payable, and other balance sheet accounts to subsidiary ledgers and other supporting documentation 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.

Condition: Our audit procedures disclosed that the bank accounts had not been reconciled the entire year and there was no documented evidence that any of the balance sheet accounts had been reconciled to the general ledger. When we started the audit there were numerous discrepancies between the supporting documentation and the amounts reported in the general ledger. Thus, numerous misstatements were detected in our audit of the City's financial statements for the year ended September 30, 2013.

Context/Cause: Prior to closing the books after year-end, the Finance Director position was vacated. Upon hiring a new Finance Director, it was noted that the City's books were not maintained throughout the year and various normal routine accounting processes and reconciliations were not being performed. In addition, the City upgraded their financial reporting software (MUNIS) and changed the coding for various automated journal entries which were incorrect, but not detected, since the above reconciliations were not being performed. Internal financial reports were not being generated by management to analyze and review the financial activity. There was a lack of management oversight over the financial reporting process.

Effect: It took the City a year to complete numerous reconciliations and to close its books, and numerous audit adjustments were still necessary for the fair presentation of the financial statements.

Recommendation: We recommend the City adopt procedures requiring monthly reconciliations of all balance sheet accounts to the 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. All entries should be 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.

CITY OF ARCADIA, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2013

Management's Response: Management concurs with this finding. The new Finance Director started in January of 2014. There was a delay in the 2012-2013 audit until March 24, 2014, because of drastic changes in management both in Finance and in Administration. Due to the transition time and the new Finance Director not being involved in the actual year that was being audited, it was discovered very late (after the audit had begun) that many entries had not been entered into the computer system and bank reconciliations had not been done for the entire year. As a result, a former Finance Director of the City of Arcadia, with nearly 30 years of governmental accounting experience was hired on a contractual basis to assist with the 2012-2013 audit. The former Finance Director has remained working with the City contractually after the 2012-2013 audit was completed in an effort to catch up with the reconciliations for the 2013-2014 year. Efforts are being made to ensure that all entries are recorded prior to the beginning of the audit. A system is being set in place where the general ledger accounts for cash, accounts receivable, accounts payable, and other balance sheet accounts are reconciled to subsidiary ledgers and other supporting documentation on a monthly basis. Once staff is trained properly on the reconciliation process we will have a secondary person review statements and approve them.

2013-02 Bank Accounts

Criteria: All new bank and investment accounts and signers on those accounts should be authorized by the City Council.

Condition: 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.

Context/Cause: All bank and investment accounts should be accounted for in the books and records of the City with internal controls in place to safeguard assets and provide accountability of all public resources.

Effect: Due to the lack of proper oversight by City personnel, \$145,000 of City funds were misappropriated as determined by the Florida Department of Law Enforcement.

Recommendation: We recommend 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.

CITY OF ARCADIA, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2013

Management's Response: Management concurs with this finding. All three accounts were closed. The Police Department no longer writes any checks or has any checking accounts they keep. The City opened the "City of Arcadia Law Enforcement Trust Account" which is used for the Project Generated Income (PGI)/Confiscated Funds. Confiscated Funds are given to the Finance Department and deposited into the Trust Account. The only signers on this account are the City Administrator and Finance Director. The Criminal Investigation Division (C.I.D.) money, formerly in the C.I.D. account, is now a budgeted line item in the Law Enforcement Department's budget. All expenditures for C.I.D. are now submitted through normal purchasing procedures just like all other departments do. There is no longer a Police Auxiliary Bank Account and money is not given by the City of Arcadia to the Police Auxiliary.

2013-03 Pensions

Criteria: For the Employee Retirement Plan, employee and City contributions should be calculated based on pensionable compensation which is further defined in the plan document as basic earnings from the City excluding bonuses, overtime, and commissions.

Condition: As noted in prior years, our audit procedures disclosed that employee and City contributions were being calculated on total compensation, including overtime and sick and vacation termination payments.

Cause: Unfamiliarity with the plan document.

Effect or Potential Effect: As a result, employee and City contributions to the plan were in excess of amounts required by the plan document. In addition, pensionable compensation being reported in the census data to calculate future benefits is overstated, thus effectively increasing future pension contribution rates.

Recommendation: We again recommend that 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. The City has consulted with our pension actuary and legal counsel. Staff has corrected this error in the payroll system so that in the future (2015) the census data will be correct. It is not clear why this was not changed in the 2011-2012 year as it was stated in Management's Response; however on January 8, 2015, it was changed in our system.

2013-04 Budget

Criteria: The legal level of budgetary control for the General Fund is by department. Pursuant to Florida Statute 166.241(2), the adopted budget must regulate expenditures of the municipality, and an officer of a municipal government may not expend or contract for expenditures except pursuant to the adopted budget.

CITY OF ARCADIA, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2013

Condition: 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 for several departments. As noted in the General Fund Schedule of Revenues, Expenditures and Changes in Fund Balance—Budget and Actual, expenditures exceeded appropriations in the Executive, Financial and Administrative, Way Building, Legal Counsel, Law Enforcement, Fire Control, and Golf Course departments.

Cause: Lack of management oversight and no review of budget to actual financial statements caused these negative budget variances to not be detected.

Effect or Potential Effect: As a result, there were unidentified financial shortfalls, the City is not in compliance with Florida Statutes, and there were expenditures not authorized by City Council.

Recommendation: We recommend the City implement procedures to monitor 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 and the impact on the financial position of the City.

Management’s Response: Management concurs with this finding. This issue has been brought to light. Procedures are being put in place for department heads to be given monthly and quarterly expenditure reports so they can track expenses. It may be an issue for the 2013-2014 year, but measures are being taken in the 2014-2015 year for management to monitor expenditures and where necessary, present formal budget amendment resolutions for changes in operating activity to the City Council for authorization. For instance, the policy with purchasing now is for the Purchasing Clerk to check every Purchase Order submitted for approval against each department’s budget. No Purchase Order is approved by the Finance Director unless it has been marked by the Purchasing Clerk that the request is covered in that department’s budget.

Section III – Federal Program Findings and Questioned Costs

None reported.

Section IV – Other Findings in Accordance with the Rules of the Auditor General

2013-05 Financial Condition Assessment

Criteria: 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 for many years, and transfers are made annually to cover these deficiencies.

Condition: The City reported a \$169,000 deficiency of revenues under expenditures in the General Fund for fiscal year ending September 30, 2013. As a result of a transfer of \$332,000 from the Infrastructure Fund, the General Fund was able to report an increase in fund balance of \$163,000. However, the General Fund continues to rely on other funds to report positive financial results.

CITY OF ARCADIA, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2013

Cause: The decline in property values which has reduced property tax revenues, a major source of revenue for the City, in addition to increasing costs such as pension costs, has made it difficult for the City to limit annual appropriations to estimated revenues.

Effect or Potential Effect: The City's current fund balance in the General Fund equates to less than three (3) months of expenditures. The financial condition still remains critical and appropriate actions need to be taken to prevent further depletion of operating reserves.

Recommendation: We strongly recommend the City closely monitor the financial condition of the City 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. The City takes its financial condition very seriously and understands the importance of keeping the fund balance higher than three (3) months of expenditures. That is why for both the 2013-2014 and 2014-2015 years we have budgeted to retain reserve funds for the General Fund: \$674,903 for 2013-2014, and \$600,000 for the 2014-2015 year. While the \$169,000 deficiency of revenues under expenditures in the General Fund is disconcerting, in the 2011-2012 year the deficiency was \$1,013,458. Every effort has been made to lower expenditures. The 2014-2015 approved budgeted appropriations came in at \$141,202 less than the 2013-2014 budgeted appropriations.

CITY OF ARCADIA, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2013

Section V – Summary Schedule of Prior Audit Findings

Finding Number	Title/Program	Brief Description	Status	Comments
2011-01 and 2012-01	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 2013-05 in the Schedule of Findings and Questioned Costs.
2012-02	Investments	Investments for the Police Officers' and Firefighters' Retirement System were not in accordance with the pension plan investment policy.	Corrected	After prior year audit was issued, it was discovered that there had been a change in the investment policy and the City was in compliance.
2011-03 and 2012-03	Pensions	The City's pension contributions to the Employee Retirement Plan were in excess of the amounts required by the Plan.	Not Corrected	See Finding 2013-03 in the Schedule of Findings and Questioned Costs.
2011-04 and 2012-04	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).	Corrected	The City adopted a new resolution and the garbage rates being charged were in accordance with this new resolution.
2011-05 and 2012-05	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 2013-04 in the Schedule of Findings and Questioned Costs.
2011-06 and 2012-06	Audit Adjustments	In the prior year, several adjustments and two prior period adjustments were made as a result of the audit resulting in a material weakness regarding the fairness of financial reporting.	Not Corrected	See Finding 2013-01 in the Schedule of Findings and Questioned Costs.
2012-07	Reconciliations	Supporting documentation for several balance sheet accounts did not agree with the general ledger at year-end.	Not Corrected	See Finding 2013-01 in the Schedule of Findings and Questioned Costs.
2012-08	Bank Accounts	Three bank accounts administered by the police department were not being recorded and reported in the City's accounting system.	Partially Corrected	See Finding 2013-02 in the Schedule of Findings and Questioned Costs.
2012-09	Law Enforcement Trust Accounts	Funds received in accordance with the Florida Contraband Forfeiture Act were not being expended in accordance with the provisions of Florida Statutes.	Corrected	No noncompliance noted.

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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, 2013, and have issued our report thereon dated January 27, 2015.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, Rules of the Florida Auditor General. We have issued our Independent 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, which are dated January 27, 2015, should be considered in conjunction with this management letter.

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

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. The status of prior year audit findings are reported in the Summary Schedule of Prior Audit Findings in the *Schedule of Findings and Questioned Costs*.
- 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 *Schedule of Findings and Questioned Costs*.

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

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
January 27, 2015

Opinion on Each Major Federal Program

In our opinion, the City of Arcadia, Florida, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended September 30, 2013.

Report on Internal Control Over Compliance

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

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

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

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

Mauldin & Jenkins, LLC

Bradenton, Florida
January 27, 2015

CITY OF ARCADIA, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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	13DB-01-07-24-02-N22	\$ 10,000
Total U.S. Department of Housing and Urban Redevelopment			10,000
U.S. Department of Justice Passed through Florida Office of the Attorney General Crime Victim Assistance	16.575	V12008	28,450
Direct Public Safety Partnership and Community Policing Grants	16.710	2009-RK-WX-0217	23,012
Passed through Florida Department of Law Enforcement Justice Assistance Grant	16.738	2013-JAGC-DESO-2-D7-226	12,804
Justice Assistance Grant	16.738	2013-JAGD-DESO-1D8-090	1,584
Total U.S. Department of Justice			65,850
Environmental Protection Agency Passed through Florida Department of Environmental Protection Capitalization Grants for Drinking Water State Revolving Funds	66.468	DW140100	3,233,890
Total Environmental Protection Agency			3,233,890
Total Expenditures of Federal Awards			\$ 3,309,740