

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORTS**

**CITY OF LAKE CITY  
LAKE CITY, FLORIDA**

**SEPTEMBER 30, 2012**

**CITY OF LAKE CITY  
LAKE CITY, FLORIDA**

**Elected Officials 2011 - 2012**

**Stephen Witt**  
Mayor Councilmember

**Jake Hill, Jr.**  
Vice-Mayor Councilmember

**Melinda Moses**  
Councilmember

**Eugene Jefferson**  
Councilmember

**George Ward**  
Councilmember

**Appointed Officials**

**City Manager**  
Wendell Johnson

**Finance Director**  
Donna Duncan

**City Attorney**  
Herbert F. Darby

**City Clerk**  
Audrey E. Sikes

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORTS**

**CITY OF LAKE CITY  
LAKE CITY, FLORIDA**

**SEPTEMBER 30, 2012**

**TABLE CONTENTS**

<b>Independent Auditors' Report</b> .....	1-2
<b>Management's Discussion and Analysis</b> .....	3-11
<b>Basic Financial Statements</b>	
<b>Government-wide Financial Statements</b>	
Statement of Net Assets .....	12-13
Statement of Activities .....	14
<b>Fund Financial Statements</b>	
Balance Sheet - Governmental Funds .....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds .....	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund .....	18
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Fire Department Special Revenue Fund .....	19
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Community Redevelopment Agency Fund .....	20
Statement of Net Assets - Proprietary Funds .....	21-22
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds .....	23
Statement of Cash Flows - Proprietary Funds .....	24-25
Statement of Fiduciary Net Assets - Fiduciary Funds .....	26
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds .....	27
<b>Notes to Financial Statements</b> .....	28-51
<b>Other Required Supplementary Information</b>	
Schedule of Pension Funding Progress .....	52-53
Schedule of Employer Pension Contributions .....	54
Schedule of Pension Plan Provisions .....	55
Other Postemployment Benefits Plan - Schedule of Funding Progress .....	56

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORTS**

**CITY OF LAKE CITY  
LAKE CITY, FLORIDA**

**SEPTEMBER 30, 2012**

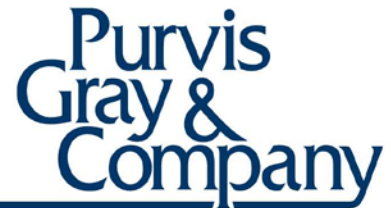
**TABLE CONTENTS  
(Concluded)**

**Supplementary Information**

Combining Balance Sheet - Nonmajor Governmental Funds .....	57
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds .....	58
Historic Statement of Net Revenues and Debt Service Coverage, Series 2003 .....	59
Historic Statement of Net Revenues and Debt Service Coverage, Series 2010 .....	60

**Additional Elements of Report Prepared in Accordance with *Government Auditing Standards*, Issued by the Comptroller General of the United States; the Provisions of the Office of Management and Budget (OMB) Circular A-133; the *Rules of the Auditor General of the State of Florida*; and Other Contract Requirements**

Schedule of Expenditures of Federal Awards .....	61
Note to Schedule of Expenditures of Federal Awards .....	62
Schedule of Findings and Questioned Costs .....	63-64
Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.....	65-66
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	67-68
Management Letter .....	69-71
Management's Response .....	72



## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council  
City of Lake City  
Lake City, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake City, Florida, (the City), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

### Certified Public Accountants

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461 • FAX (352) 378-2505  
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542  
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762  
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309  
MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS  
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Honorable Mayor and City Council  
City of Lake City  
Lake City, Florida

**INDEPENDENT AUDITORS' REPORT**  
*(Concluded)*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information on pages 3 through 11 and 52 through 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The supplementary information on pages 57 through 60 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for the 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 financial statements. The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented in all material respects in relation to the financial statements as a whole.

*Purvis, Gray and Company, LLP*

March 11, 2013  
Gainesville, Florida

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Lake City, Florida (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2012. Management's 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, (d) identify any material deviations from the financial plan, and (e) identify individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

### Financial Highlights

- Assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$63,902,369. Of this amount, \$13,688,091 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets, which includes all governmental and business-type activities, increased by \$959,646. Government activities generated a decrease of \$1,161,597 in net assets.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$7,190,924. Of this total amount \$4,094,793 is available for spending at the City's discretion (unassigned fund balance).

### Overview of the Financial Statements

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

### Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business, in that all governmental and business-type activities are consolidated into columns which add up to a total for the primary government.

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

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highway and streets, airport, physical environment, economic environment, culture and recreation, and health and welfare. Property taxes, utility service taxes, gas taxes, and sales taxes, along with the City's charges for services and interfund charges, finance the majority of these services. The business-type activities include natural gas, and water and wastewater, where the fees for service typically cover all or most of the cost of operation including depreciation.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Fund Financial Statements

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

### Governmental Funds

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

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

The City maintains ten individual governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Fire Department Special Revenue Fund, and the Community Redevelopment Agency Fund which are considered to be major funds. Data included in the other governmental funds consists of governmental funds that are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for the major governmental funds to demonstrate compliance with this budget.

### Proprietary Funds

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City maintains two enterprise funds to account for the following operations: natural gas distribution, and the water and wastewater utilities. The City has no internal service funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the natural gas and water and wastewater utility fund, which are considered to be major funds of the City.



**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

**Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial 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 City utilizes fiduciary funds to account for its employees' retirement plans.

**Notes to the Financial Statements**

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other postemployment benefits to its employees.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

**Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$63,902,369 at the close of the most recent fiscal year.

**City of Lake City's Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011
Current and Other Assets	\$ 9,251,995	\$ 11,686,629	\$ 30,993,879	\$ 30,427,910	\$ 40,245,874	\$ 42,114,539
Capital Assets	29,937,286	29,931,511	43,930,367	43,522,969	73,867,653	73,454,480
<b>Total Assets</b>	<b>39,189,281</b>	<b>41,618,140</b>	<b>74,924,246</b>	<b>73,950,879</b>	<b>114,113,527</b>	<b>115,569,019</b>
Current Liabilities	1,591,989	2,469,740	1,466,092	1,357,216	3,058,081	3,826,956
Long-term Liabilities	4,944,560	5,334,071	42,208,517	43,465,269	47,153,077	48,799,340
<b>Total Liabilities</b>	<b>6,536,549</b>	<b>7,803,811</b>	<b>43,674,609</b>	<b>44,822,485</b>	<b>50,211,158</b>	<b>52,626,296</b>
Net Assets						
Invested in Capital Assets, Net of Related Debt	25,528,925	26,965,613	21,212,887	20,164,307	46,741,812	47,129,920
Restricted	1,974,912	2,459,374	1,497,554	1,451,057	3,472,466	3,910,431
Unrestricted	5,148,895	4,389,342	8,539,196	7,513,030	13,688,091	11,902,372
<b>Total Net Assets</b>	<b>\$ 32,652,732</b>	<b>\$ 33,814,329</b>	<b>\$ 31,249,637</b>	<b>\$ 29,128,394</b>	<b>\$ 63,902,369</b>	<b>\$ 62,942,723</b>

The largest portion of the City's net assets or \$46,741,812 reflects its investment in capital assets (i.e., land, utility plant and improvements, equipment, buildings, improvements, machinery and equipment, and infrastructure). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. An additional portion of the City's net assets, \$3,472,466 represents resources that are subject to external restrictions on how they may be used (restricted net assets).

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
*(Continued)*

**City of Lake City's Net Assets (Concluded)**

The unrestricted net assets balance, \$13,688,091 is intended to be a corporate-style measurement of the City's current financial standing and 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 three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**City of Lake City Changes in Net Assets**

	<b>Governmental</b>		<b>Business-type</b>		<b>Total Primary</b>	
	<b>Activities</b>		<b>Activities</b>		<b>Government</b>	
	<b>FY 2012</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2011</b>
<b>REVENUES</b>						
Program Revenues:						
Charges for Services	\$ 4,772,638	\$ 6,264,138	\$ 14,299,330	\$ 14,623,392	\$ 19,071,968	\$ 20,887,530
Operating Grants and Contributions	699,704	341,874	477,477	437,894	1,177,181	779,768
Capital Grants and Contributions	1,040,557	3,614,563	27,117	271,342	1,067,674	3,885,905
Property Taxes	2,842,573	3,019,895	0	0	2,842,573	3,019,895
Gain on Disposal of Capital Assets	0	76,734	36,130	36,264	36,130	112,998
Other Taxes	4,111,610	3,795,153	0	0	4,111,610	3,795,153
Other	96,303	207,612	369,907	427,598	466,210	635,210
<b>Total Revenues</b>	<b>13,563,385</b>	<b>17,319,969</b>	<b>15,209,961</b>	<b>15,796,490</b>	<b>28,773,346</b>	<b>33,116,459</b>
<b>EXPENSES</b>						
General Government	2,273,950	3,023,799	0		2,273,950	3,023,799
Public Safety	6,910,400	6,748,579	0	0	6,910,400	6,748,579
Highway and Streets	2,104,304	2,057,518	0	0	2,104,304	2,057,518
Airport	1,628,853	1,687,924	0	0	1,628,853	1,687,924
Health and Welfare	135,000	133,000	0	0	135,000	133,000
Economic Environment	266,106	712,637	0	0	266,106	712,637
Physical Environment	412,607	1,448,044	0	0	412,607	1,448,044
Culture and Recreation	774,133	905,011	0	0	774,133	905,011
Debt	199,122	213,946	0	0	199,122	213,946
Water and Sewer Utility	0	0	10,651,015	10,070,518	10,651,015	10,070,518
Natural Gas Utility	0	0	2,458,210	3,019,885	2,458,210	3,019,885
<b>Total Expenses</b>	<b>14,704,475</b>	<b>16,930,458</b>	<b>13,109,225</b>	<b>13,090,403</b>	<b>27,813,700</b>	<b>30,020,861</b>
Increase (Decrease) in Net Assets						
Before Transfers	(1,141,090)	389,511	2,100,736	2,706,087	959,646	3,095,598
Transfers	(20,507)	245,117	20,507	(245,117)	0	0
Increase (Decrease) in Net Assets	(1,161,597)	634,628	2,121,243	2,460,970	959,646	3,095,598
Net Assets, Beginning of Year	33,814,329	33,179,701	29,128,394	26,667,424	62,942,723	59,847,125
<b>Net Assets, End of Year</b>	<b>\$ 32,652,732</b>	<b>\$ 33,814,329</b>	<b>\$ 31,249,637</b>	<b>\$ 29,128,394</b>	<b>\$ 63,902,369</b>	<b>\$ 62,942,723</b>

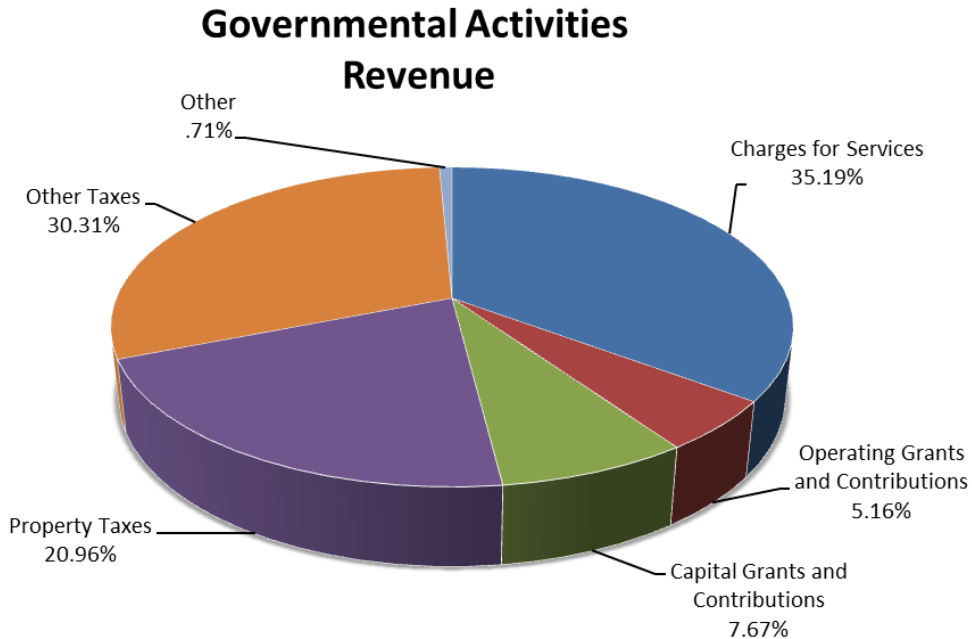
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
*(Continued)*

**Governmental Activities**

Governmental activities decreased the City’s net assets by \$1,161,597 during the current fiscal year compared to the \$634,628 increase during fiscal year 2011. Revenues for the City’s governmental activities had a decrease of \$3,756,584 while total expenses decreased \$2,225,983 for fiscal year 2012. Transfers to business-type activities were \$20,507 for 2012 while in 2011 transfers from business-type activities were \$245,117. Elements of the changes in revenues and expenses include:

**Revenue:**

- Charges for Services decreased \$1,491,500
- Operating Grants and Contributions increased \$357,830
- Capital Grants and Contributions decreased \$2,574,006
- Property Taxes decreased \$177,322
- Gain on Disposal of Capital Assets decreased \$76,734
- Other Taxes increased \$316,457
- Other Revenue decreased \$111,309



**Expenses:**

- General Government decreased \$749,849
- Public Safety increased \$161,821
- Highway and Streets increased \$46,786
- Airport decreased \$59,071
- Health and Welfare increased \$2,000
- Economic Environment decreased \$446,531
- Physical Environment decreased \$1,035,437
- Culture and Recreation decreased \$130,878
- Payment on Long-term Debt decreased \$14,824

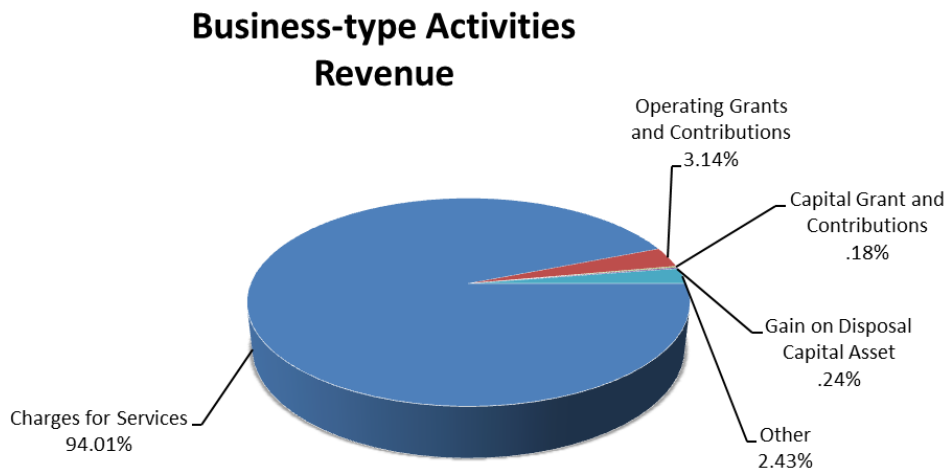
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
*(Continued)*

**Business-type Activities**

Business-type activities increased the City's net assets by \$2,121,243 for fiscal year 2012 compared to an increase of \$2,460,970 for fiscal year 2011. Revenues for the City's business-type activities decreased \$586,529 while total expenses increased \$18,822 for fiscal year 2012. Elements of the changes in revenues and expenses include:

**Revenue:**

- Charges for Services decreased \$324,062
- Capital Grants and Contributions increased \$39,583
- Operating Grants and Contributions decreased \$244,225
- Other Revenue decreased \$57,691
- Gain on Disposal of Capital Assets decreased \$134



**Expenses:**

- Water and sewer increased \$580,497
- Natural gas decreased \$561,675

**The City's Funds**

As the City completed the year, its governmental funds reported a combined fund balance of \$7,190,924, which is a 19.12% percent decrease over the previous year. Approximately 56.94% or \$4,094,793 of the fund balance constitutes unassigned fund balance, which is available for spending at the government's discretion. Non-spendable fund balance of 8.9% is comprised of inventory - \$76,925, prepaid - \$16,949 and advances to other funds - \$545,377. The restricted fund balance of 20.89% has been obligated for debt service of \$91,614, public safety of \$280,532, airport \$629,694, economic development \$389,895 and capital projects \$110,440. The assigned fund balance of 13.28% is for debt service of \$63,925, economic environment of \$115,057, and subsequent year budget \$775,723.

**Business-type Funds**

The City's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of these funds have been addressed in the discussion of the City's business-type activities.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
*(Continued)*

**Budgetary Highlights**

For fiscal year 2012, the City adopted a balanced budget in the General Fund. The General Fund had an original budget of \$13,069,034; the final amended budget was \$13,731,904.

The following is a brief review of the significant budgeting changes from the original budget to the final budget for all funds.

**General Fund**

- Revenue of \$66,653 was received from sale of surplus equipment.
- Workman's compensation payouts of \$63,287 were received for the Police Department.
- Additional bond proceeds of \$504,655 from the 2011 Sales Tax Bond were transferred from Sales Tax Bond Fund. Capital outlay included \$165,746 for roads; excavator for Public Works - \$229,944; Pole Barn for Public Works to house equipment - \$71,000; Police check off room addition - \$37,965.
- Transfers of \$3,845 were received from Airport for leased vehicles moved to Risk Management in the General Fund.
- Justice Grant proceeds of \$24,430 were used to purchase in-car video cameras, ballistic shields and defibrillators.

**Justice Assistance Grant Fund**

- Justice Assistance Grant proceeds received totaling \$88,990 for safety message sign and communication equipment.

**Fire Department**

- Workman's compensation payouts in the amount of \$24,544 received.

**Water Sewer Fund**

- Workman's compensation of \$18,664 received.

**Community Redevelopment Agency**

- Proceeds generated from Farmer's Market - \$5,884.

**Airport Fund**

- Grant proceeds from FAA for AWOS system of \$44,557.

**Airport Construction Fund**

- Airport terminal FAA additional grant proceeds totaling \$130,483.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

**Capital Assets and Debt Administration**

**Long-term Debt**

At the end of the current fiscal year, the City had total bonded debt outstanding of \$45,160,387 net of unamortized refunding losses and discounts. A breakdown of debt obligations is as follows:

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Revenue Bonds and Notes	\$ 4,600,647	\$ 4,770,649	\$40,559,740	\$ 41,645,747	\$ 45,160,387	\$46,416,396

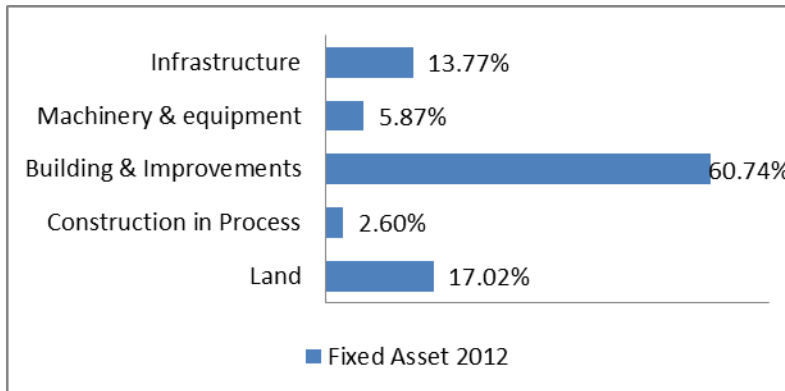
Additional information on the City's long-term debt can be found in Note 5 of the notes to the financial statements.

**Capital Assets**

At the end of fiscal year 2012, the City had \$73,867,653 invested in a broad range of capital assets. This amount represents a net increase of \$413,173 over last year.

Capital Assets at Year-End  
(Net of Depreciation)

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Totals</b>	
	<b>FY 2012</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2011</b>
Land	\$ 7,225,268	\$ 7,225,198	\$ 5,343,447	\$ 5,278,702	\$12,568,715	\$12,503,900
Construction in Process	0	3,173,008	1,922,239	5,554,507	1,922,239	8,727,515
Building & Improvements	9,913,420	7,877,585	34,956,324	30,697,266	44,869,744	38,574,851
Machinery & equipment	2,906,041	2,736,684	1,427,827	1,720,661	4,333,868	4,457,345
Infrastructure	9,892,557	8,919,036	280,530	271,833	10,173,087	9,190,869
<b>Totals</b>	<b>\$ 29,937,286</b>	<b>\$ 29,931,511</b>	<b>\$ 43,930,367</b>	<b>\$ 43,522,969</b>	<b>\$73,867,653</b>	<b>\$73,454,480</b>



**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
*(Concluded)*

**Capital Assets (Concluded)**

Major Capital Asset Acquisitions and reclassifications from construction in progress to infrastructure and building and improvements for 2012 include:

■ Lake City Gateway Airport Terminal	\$	3,135,568
■ Reclaim Water System and Reuse Main	\$	4,933,146
■ Upgrade to City Streets and Stormwater	\$	1,104,483
■ Caterpillar Excavator 329 - Public Works	\$	229,944
■ E-One Rescue Pumper - Fire Department	\$	299,960
■ Ditch Witch Trencher & Trailer-Gas Dept.	\$	101,291
■ AvGas Fuel Truck - Airport	\$	138,558

Additional information on the City’s capital assets can be found in Note 3 of the notes to the financial statements.

**Economic Factors**

The City considers many factors when preparing the fiscal year 2012 budgetary estimates. Some of the major considerations were local and national economic factors, which include:

- Florida’s seasonally adjusted unemployment rate for September 2012 was 8.7% compared to 10.4% September 2011. Construction industry employment continues to decline, but building permit activity is showing signs of improvement.
- Real disposable income per capita, adjusted for inflation, has increased 1.2% since the economic recovery began in 2009.
- Sales tax revenue in Florida increased overall 5.5% from September 2011 to 2012.
- Florida continues to be one of the top three states in the nation in real estate foreclosures. Recovery is being hindered by a shadow inventory of homes that are expected to hit the market. Although median sales prices have improved, prices are still below the national average. Consequently, ad valorem revenues will continue to be adversely impacted.
- National unemployment rate was recorded at 7.8% in September 2012, while September 2011 showed 9.1%, according to the Bureau of Labor Statistics. This is a 2.4% improvement from its peak in October 2009 of 10.2%.
- Gross domestic product, which is an indicator of the economy’s current health, increased 1.5% for 2012.

**Financial Contact**

The City’s financial statements are designed to present users with a general overview of the City’s finances and to demonstrate the City’s accountability. If you have any questions concerning any of the information provided in this report or need additional financial information, contact the City’s Finance Director at City Hall located at 205 North Marion Avenue, Lake City, Florida, 32055.

## **BASIC FINANCIAL STATEMENTS**

These basic financial statements contain Government-wide Financial Statements, Fund Financial Statements, and Notes to Financial Statements.



**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2012**  
**CITY OF LAKE CITY, FLORIDA**

	<b>Primary Government</b>		<b>Total</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	
<b>Assets</b>			
<b>Current Assets</b>			
Pooled Cash and Investments	\$ 6,998,028	\$ 7,561,103	\$ 14,559,131
Accounts Receivable, Net	365,014	2,415,973	2,780,987
Due from Other Governments	1,002,130	78,384	1,080,514
Inventory	76,925	212,449	289,374
Prepays	16,949	18,153	35,102
Internal Balances	40,000	(40,000)	0
<b>Total Current Assets</b>	<b>8,499,046</b>	<b>10,246,062</b>	<b>18,745,108</b>
<b>Noncurrent Assets</b>			
Restricted Pooled Cash and Investments	0	2,905,557	2,905,557
Unspent Bond Proceeds	110,440	17,089,300	17,199,740
Capital Assets:			
Land	7,225,268	5,343,447	12,568,715
Construction in Progress	0	1,922,239	1,922,239
Depreciable Buildings, Property and Equipment, Net	22,712,018	36,664,681	59,376,699
Unamortized Bond Issue Costs	81,846	752,960	834,806
Net Pension Asset	560,663	0	560,663
<b>Total Noncurrent Assets</b>	<b>30,690,235</b>	<b>64,678,184</b>	<b>95,368,419</b>
<b>Total Assets</b>	<b>\$ 39,189,281</b>	<b>\$ 74,924,246</b>	<b>\$ 114,113,527</b>

See accompanying notes.

**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2012**  
**CITY OF LAKE CITY, FLORIDA**  
*(Concluded)*

	<b>Primary Government</b>		<b>Total</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 490,050	\$ 467,204	\$ 957,254
Accrued Liabilities	330,540	776,022	1,106,562
Accrued Compensated Absences	544,200	222,866	767,066
Accrued Interest	47,019	0	47,019
Current Portion of Long-term Obligations	180,180	0	180,180
<b>Total Current Liabilities</b>	<b>1,591,989</b>	<b>1,466,092</b>	<b>3,058,081</b>
<b>Payable from Restricted Assets</b>			
Accrued Interest	0	487,538	487,538
Current Portion of Long-term Obligations	0	1,203,013	1,203,013
Customer Deposits	0	921,135	921,135
<b>Total Payable from Restricted Assets</b>	<b>0</b>	<b>2,611,686</b>	<b>2,611,686</b>
<b>Noncurrent Liabilities</b>			
Accrued Compensated Absences	132,560	71,317	203,877
Noncurrent Portion of Long-term Obligations	4,475,150	39,773,404	44,248,554
Unamortized Premium (Discount)	0	132,358	132,358
Unamortized Refunding (Loss)	(54,683)	(549,035)	(603,718)
Net Pension Obligation	162,798	73,440	236,238
Other Postemployment Benefits Obligation	228,735	95,347	324,082
<b>Total Noncurrent Liabilities</b>	<b>4,944,560</b>	<b>39,596,831</b>	<b>44,541,391</b>
<b>Total Liabilities</b>	<b>6,536,549</b>	<b>43,674,609</b>	<b>50,211,158</b>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	25,528,925	21,212,887	46,741,812
Restricted for:			
Debt Service	44,595	297,642	342,237
Renewal and Replacement	0	500,000	500,000
System Improvements	0	699,912	699,912
Public Safety	282,199	0	282,199
Airport	696,985	0	696,985
Economic Environment	390,470	0	390,470
Pension Benefits	560,663	0	560,663
Unrestricted	5,148,895	8,539,196	13,688,091
<b>Total Net Assets</b>	<b>\$ 32,652,732</b>	<b>\$ 31,249,637</b>	<b>\$ 63,902,369</b>

See accompanying notes.

**STATEMENT OF ACTIVITIES**  
**SEPTEMBER 30, 2012**  
**CITY OF LAKE CITY, FLORIDA**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities</b>							
General Government	\$ 2,273,950	\$ 1,236,493	\$ 20,822	\$ 0	\$ (1,016,635)	\$ 0	\$ (1,016,635)
Public Safety	6,910,400	1,538,699	54,035	88,990	(5,228,676)	0	(5,228,676)
Highway and Street	2,104,304	107,621	362,399	881,084	(753,200)	0	(753,200)
Airport	1,628,853	1,178,483	44,557	70,483	(335,330)	0	(335,330)
Health and Welfare	135,000	0	0	0	(135,000)	0	(135,000)
Economic Environment	266,106	0	215,138	0	(50,968)	0	(50,968)
Physical Environment	412,607	574,583	0	0	161,976	0	161,976
Culture and Recreation	774,133	136,759	2,753	0	(634,621)	0	(634,621)
Interest on Long-term Debt	199,122	0	0	0	(199,122)	0	(199,122)
<b>Total Governmental Activities</b>	<b>14,704,475</b>	<b>4,772,638</b>	<b>699,704</b>	<b>1,040,557</b>	<b>(8,191,576)</b>	<b>0</b>	<b>(8,191,576)</b>
<b>Business-type Activities</b>							
Water and Sewer Utility	10,651,015	11,488,577	476,953	27,117	0	1,341,632	1,341,632
Natural Gas Utility	2,458,210	2,810,753	524	0	0	353,067	353,067
<b>Total Business-type Activities</b>	<b>13,109,225</b>	<b>14,299,330</b>	<b>477,477</b>	<b>27,117</b>	<b>0</b>	<b>1,694,699</b>	<b>1,694,699</b>
<b>Total Primary Government</b>	<b>\$ 27,813,700</b>	<b>\$ 19,071,968</b>	<b>\$ 1,177,181</b>	<b>\$ 1,067,674</b>	<b>(8,191,576)</b>	<b>1,694,699</b>	<b>(6,496,877)</b>
<b>General Revenues</b>							
Taxes:							
Property Taxes					2,842,573	0	2,842,573
Business and Utility Taxes					2,022,986	0	2,022,986
Discretionary Sales Surtax					1,141,813	0	1,141,813
Half-cent Sales Tax					663,288	0	663,288
State Revenue Sharing					283,523	0	283,523
Investment Earnings					30,849	51,018	81,867
Miscellaneous					65,454	318,889	384,343
Gain on Disposal of Capital Assets					0	36,130	36,130
<b>Transfers</b>					(20,507)	20,507	0
<b>Total General Revenues and Transfers</b>					<b>7,029,979</b>	<b>426,544</b>	<b>7,456,523</b>
<b>Change in Net Assets</b>					<b>(1,161,597)</b>	<b>2,121,243</b>	<b>959,646</b>
<b>Net Assets, Beginning of Year</b>					<b>33,814,329</b>	<b>29,128,394</b>	<b>62,942,723</b>
<b>Net Assets, End of Year</b>					<b>\$ 32,652,732</b>	<b>\$ 31,249,637</b>	<b>\$ 63,902,369</b>

See accompanying notes.

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

	<b>General Fund</b>	<b>Fire Department Special Revenue Fund</b>	<b>Community Redevelopment Agency Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>					
Pooled Cash and Investments	\$ 4,787,836	\$ 713,191	\$ 410,030	\$ 1,197,411	\$ 7,108,468
Accounts Receivable, Net	328,921	0	54	36,039	365,014
Due from Other Governments	964,609	15,329	0	22,192	1,002,130
Inventory	12,194	0	0	64,731	76,925
Prepays	12,147	1,667	575	2,560	16,949
Advances to Other Funds	545,377	0	0	0	545,377
<b>Total Assets</b>	<b>6,651,084</b>	<b>730,187</b>	<b>410,659</b>	<b>1,322,933</b>	<b>9,114,863</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	300,104	62,326	17,228	110,392	490,050
Accrued Liabilities	312,774	5,778	2,961	9,027	330,540
Deferred Revenues	575,780	0	0	22,192	597,972
Advances from Other Funds	0	422,634	0	82,743	505,377
<b>Total Liabilities</b>	<b>1,188,658</b>	<b>490,738</b>	<b>20,189</b>	<b>224,354</b>	<b>1,923,939</b>
<b>Fund Balances</b>					
Nonspendable:					
Inventory	12,194	0	0	64,731	76,925
Prepays	12,147	1,667	575	2,560	16,949
Advances to Other Funds	545,377	0	0	0	545,377
Restricted for:					
Public Safety	0	237,782	0	42,750	280,532
Airport	0	0	0	629,694	629,694
Community Development	0	0	389,895	0	389,895
Debt Service	0	0	0	91,614	91,614
Capital Projects	0	0	0	110,440	110,440
Assigned for:					
Economic Environment	0	0	0	115,057	115,057
Debt Service	0	0	0	63,925	63,925
Subsequent Year Budget	775,723	0	0	0	775,723
Unassigned	4,116,985	0	0	(22,192)	4,094,793
<b>Total Fund Balances</b>	<b>5,462,426</b>	<b>239,449</b>	<b>390,470</b>	<b>1,098,579</b>	<b>7,190,924</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 6,651,084</b>	<b>\$ 730,187</b>	<b>\$ 410,659</b>	<b>\$ 1,322,933</b>	

**Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	29,937,286
Net pension asset (obligation) is not an available financial resource and, therefore, is not reported as an asset in the governmental funds.	397,865
Other postemployment benefits obligation does not require the use of current financial resources and, therefore, is not reported as a liability in the governmental funds.	(228,735)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(5,277,407)
Deferred issue costs used in governmental activities are not financial resources, and, therefore, are not reported as an asset in the governmental funds.	81,846
Interest on long-term debt is generally not accrued in the governmental funds, but rather is recognized as an expenditure when due.	(47,019)
Nonexchange receivables do not provide current financial resources and, therefore, are not reported as revenues in the funds.	597,972

**Net Assets of Governmental Activities**

**\$ 32,652,732**

See accompanying notes.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**  
**CITY OF LAKE CITY, FLORIDA**

	<b>General Fund</b>	<b>Fire Department Special Revenue Fund</b>	<b>Community Redevelopment Agency Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>					
Property Taxes	\$ 2,797,501	\$ 0	\$ 103,181	\$ 0	\$ 2,900,682
Nonproperty Taxes	4,015,577	0	0	0	4,015,577
Franchise Fees and Permits	1,313,908	0	0	0	1,313,908
Intergovernmental Revenues	1,273,304	0	164,494	241,838	1,679,636
Charges for Services	597,478	1,561,647	0	1,142,954	3,302,079
Fines and Forfeitures	25,969	0	0	0	25,969
Investment Earnings	28,216	0	1,093	1,540	30,849
Miscellaneous Revenues	111,498	849	6,261	46,247	164,855
Interfund Charges	1,604,649	0	0	0	1,604,649
<b>Total Revenues</b>	<b>11,768,100</b>	<b>1,562,496</b>	<b>275,029</b>	<b>1,432,579</b>	<b>15,038,204</b>
<b>Expenditures</b>					
Current:					
General Government	3,785,222	0	0	0	3,785,222
Public Safety	4,512,043	1,781,857	0	29,312	6,323,212
Highway and Street	1,529,525	0	0	0	1,529,525
Airport	0	0	0	1,065,451	1,065,451
Health and Welfare	135,000	0	0	0	135,000
Economic Environment	0	0	266,106	0	266,106
Physical Environment	412,607	0	0	0	412,607
Culture and Recreation	751,283	0	0	0	751,283
Debt Service:					
Principal	0	0	0	173,120	173,120
Interest and Other	0	0	0	193,338	193,338
Capital Outlay	1,214,258	312,680	236,717	406,199	2,169,854
<b>(Total Expenditures)</b>	<b>(12,339,938)</b>	<b>(2,094,537)</b>	<b>(502,823)</b>	<b>(1,867,420)</b>	<b>(16,804,718)</b>
<b>(Deficiency) of Revenues (Under)</b>					
<b>Expenditures</b>	<b>(571,838)</b>	<b>(532,041)</b>	<b>(227,794)</b>	<b>(434,841)</b>	<b>(1,766,514)</b>
<b>Other Financing Sources (Uses)</b>					
Proceeds from the Sale of Fixed Assets	41,403	0	0	45,250	86,653
Operating Transfers in	1,313,282	592,783	0	544,390	2,450,455
Operating Transfers (out)	(680,679)	0	0	(1,790,283)	(2,470,962)
<b>Total Other Financing Sources (Uses)</b>	<b>674,006</b>	<b>592,783</b>	<b>0</b>	<b>(1,200,643)</b>	<b>66,146</b>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>					
	102,168	60,742	(227,794)	(1,635,484)	(1,700,368)
<b>Fund Balances, Beginning of Year</b>	<b>5,360,258</b>	<b>178,707</b>	<b>618,264</b>	<b>2,734,063</b>	<b>8,891,292</b>
<b>Fund Balances, End of Year</b>	<b>\$ 5,462,426</b>	<b>\$ 239,449</b>	<b>\$ 390,470</b>	<b>\$ 1,098,579</b>	<b>\$ 7,190,924</b>

See accompanying notes.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
CITY OF LAKE CITY, FLORIDA**

**Net Change in Fund Balances - Total Governmental Funds** \$ (1,700,368)

**Amounts Reported for Governmental Activities in the Statement of  
Activities are Different Because:**

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

Expenditures for Capital Assets	\$ 2,169,854	
(Less Current Year Depreciation)	<u>(1,946,681)</u>	223,173

Governmental funds report proceeds from sales of general fixed assets as current financial resources. The gain or loss on disposal of general fixed assets is not reflected in the governmental funds:

Proceeds from Sales of General Fixed Assets	(86,653)	
(Loss) or Gain on Disposal of General Fixed Assets	<u>(130,745)</u>	(217,398)

Repayments of bond principal are expenditures in the governmental funds but the repayment reduces long-term liabilities in the statement of net assets.

173,120

Changes in the net pension asset/obligation and other postemployment benefits obligations do not provide or require current financial resources and, therefore, are not reported in the governmental funds:

Net Pension Obligation	211,265	
Other Postemployment Benefits Obligation	<u>(31,059)</u>	180,206

Certain nonexchange revenues reported in the statement of activities are not considered current financial resources and, therefore, are not reported as revenue in the governmental funds.

129,830

Some expenditures reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Debt Interest Expense and Amortization	(5,784)	
Compensated Absences	<u>55,624</u>	49,840

**Change in Net Assets of Governmental Activities**

\$ (1,161,597)

See accompanying notes.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**  
**CITY OF LAKE CITY, FLORIDA**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$ 2,820,475	\$ 2,820,475	\$ 2,797,501	\$ (22,974)
Nonproperty Taxes	3,847,711	3,847,711	4,015,577	167,866
Franchise Fees and Permits	1,379,210	1,379,210	1,313,908	(65,302)
Intergovernmental Revenues	1,202,357	1,226,787	1,273,304	46,517
Charges for Services	599,189	599,189	597,478	(1,711)
Fines and Forfeitures	29,057	29,057	25,969	(3,088)
Investment Earnings	43,657	43,657	28,216	(15,441)
Miscellaneous Revenues	47,403	110,690	111,498	808
Interfund Charges	1,604,649	1,604,649	1,604,649	0
<b>Total Revenues</b>	<u>11,573,708</u>	<u>11,661,425</u>	<u>11,768,100</u>	<u>106,675</u>
<b>Expenditures</b>				
General Government	4,155,165	4,145,635	3,876,083	269,552
Public Safety	4,593,751	4,776,321	4,582,902	193,419
Highway and Streets	2,338,454	2,771,855	2,573,982	197,873
Health and Welfare	135,000	135,000	135,000	0
Physical Environment	418,749	420,549	412,607	7,942
Culture and Recreation	780,860	801,493	759,364	42,129
<b>(Total Expenditures)</b>	<u>(12,421,979)</u>	<u>(13,050,853)</u>	<u>(12,339,938)</u>	<u>710,915</u>
<b>(Deficiency) of Revenues (Under) Expenditures</b>	<u>(848,271)</u>	<u>(1,389,428)</u>	<u>(571,838)</u>	<u>817,590</u>
<b>Other Financing Sources (Uses)</b>				
Operating Transfers in	804,782	1,313,282	1,313,282	0
Operating Transfers (out)	(647,055)	(681,051)	(680,679)	372
Sale of General Fixed Assets	20,000	86,653	41,403	(45,250)
<b>Total Other Financing Sources (Uses)</b>	<u>177,727</u>	<u>718,884</u>	<u>674,006</u>	<u>(44,878)</u>
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<u>(670,544)</u>	<u>(670,544)</u>	<u>102,168</u>	<u>772,712</u>
<b>Fund Balances, Beginning of Year</b>	<u>670,544</u>	<u>670,544</u>	<u>5,360,258</u>	<u>4,689,714</u>
<b>Fund Balances, End of Year</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,462,426</u>	<u>\$ 5,462,426</u>

See accompanying notes.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FIRE DEPARTMENT SPECIAL REVENUE FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
CITY OF LAKE CITY, FLORIDA**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Charges for Services	\$ 1,541,174	\$ 1,541,174	\$ 1,561,647	\$ 20,473
Miscellaneous Revenues	600	25,144	849	(24,295)
<b>Total Revenues</b>	<u>1,541,774</u>	<u>1,566,318</u>	<u>1,562,496</u>	<u>(3,822)</u>
<b>Expenditures</b>				
Public Safety	2,121,870	2,159,141	2,094,537	64,604
<b>(Total Expenditures)</b>	<u>(2,121,870)</u>	<u>(2,159,141)</u>	<u>(2,094,537)</u>	<u>64,604</u>
<b>(Deficiency) of Revenues (Under) Expenditures</b>	<u>(580,096)</u>	<u>(592,823)</u>	<u>(532,041)</u>	<u>60,782</u>
<b>Other Financing Sources (Uses)</b>				
Operating Transfers in	280,096	592,783	592,783	0
<b>Total Other Financing Sources (Uses)</b>	<u>280,096</u>	<u>592,783</u>	<u>592,783</u>	<u>0</u>
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	(300,000)	(40)	60,742	60,782
<b>Fund Balances, Beginning of Year</b>	<u>300,000</u>	<u>40</u>	<u>178,707</u>	<u>178,667</u>
<b>Fund Balances, End of Year</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 239,449</u>	<u>\$ 239,449</u>

See accompanying notes.



**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
COMMUNITY REDEVELOPMENT AGENCY FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
CITY OF LAKE CITY, FLORIDA**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$ 0	\$ 0	\$ 103,181	\$ 103,181
Intergovernmental Revenues	255,974	255,974	164,494	(91,480)
Investment Earnings	0	0	1,093	1,093
Miscellaneous Revenues	0	5,884	6,261	377
<b>Total Revenues</b>	<u>255,974</u>	<u>261,858</u>	<u>275,029</u>	<u>13,171</u>
<b>Expenditures</b>				
Economic Environment	865,337	871,221	502,823	368,398
<b>(Total Expenditures)</b>	<u>(865,337)</u>	<u>(871,221)</u>	<u>(502,823)</u>	<u>368,398</u>
<b>(Deficiency) of Revenues (Under) Expenditures</b>	<u>(609,363)</u>	<u>(609,363)</u>	<u>(227,794)</u>	<u>381,569</u>
<b>(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing Uses</b>	(609,363)	(609,363)	(227,794)	381,569
<b>Fund Balances, Beginning of Year</b>	<u>609,363</u>	<u>609,363</u>	<u>618,264</u>	<u>8,901</u>
<b>Fund Balances, End of Year</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 390,470</u>	<u>\$ 390,470</u>

See accompanying notes.

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

	<u>Water and Sewer Utility</u>	<u>Natural Gas Utility</u>	<u>Total</u>
<b>Assets</b>			
<b>Current Assets</b>			
Pooled Cash and Investments	\$ 5,327,188	\$ 2,233,915	\$ 7,561,103
Accounts Receivable, Net	2,090,682	325,291	2,415,973
Due from Other Governments	77,860	524	78,384
Due from Other Funds	94,328	0	94,328
Inventory	134,363	78,086	212,449
Prepays	10,320	7,833	18,153
<b>Total Current Assets</b>	<u>7,734,741</u>	<u>2,645,649</u>	<u>10,380,390</u>
<b>Noncurrent Assets</b>			
Restricted Pooled Cash and Investments	2,616,983	288,574	2,905,557
Unspent Bond Proceeds	17,089,300	0	17,089,300
Capital Assets:			
Land	5,342,324	1,123	5,343,447
Construction in Progress	1,922,239	0	1,922,239
Depreciable Buildings, Property and Equipment, Net	35,850,582	814,099	36,664,681
Unamortized Bond Issue Costs	752,960	0	752,960
<b>Total Noncurrent Assets</b>	<u>63,574,388</u>	<u>1,103,796</u>	<u>64,678,184</u>
<b>Total Assets</b>	<u>\$ 71,309,129</u>	<u>\$ 3,749,445</u>	<u>\$ 75,058,574</u>

See accompanying notes.

**STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 SEPTEMBER 30, 2012  
 CITY OF LAKE CITY, FLORIDA  
 (Concluded)**

	<u>Water and Sewer Utility</u>	<u>Natural Gas Utility</u>	<u>Total</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 378,526	\$ 88,678	\$ 467,204
Accrued Liabilities	138,198	637,824	776,022
Due to Other Funds	40,000	94,328	134,328
Accrued Compensated Absences	177,110	45,756	222,866
<b>Total Current Liabilities</b>	<u>733,834</u>	<u>866,586</u>	<u>1,600,420</u>
<b>Payable from Restricted Assets</b>			
Accrued Interest	487,538	0	487,538
Current Portion of Long-term Obligations	1,203,013	0	1,203,013
Customer Deposits	631,891	289,244	921,135
<b>Total Payable from Restricted Assets</b>	<u>2,322,442</u>	<u>289,244</u>	<u>2,611,686</u>
<b>Noncurrent Liabilities</b>			
Noncurrent Portion of Long-term Obligations	39,773,404	0	39,773,404
Unamortized Premium (Discount)	132,358	0	132,358
Unamortized Refunding (Loss)	(549,035)	0	(549,035)
Accrued Compensated Absences	64,745	6,572	71,317
Net Pension Obligation	39,894	33,546	73,440
Other Postemployment Benefits Obligation	77,910	17,437	95,347
<b>Total Noncurrent Liabilities</b>	<u>39,539,276</u>	<u>57,555</u>	<u>39,596,831</u>
<b>Total Liabilities</b>	<u>42,595,552</u>	<u>1,213,385</u>	<u>43,808,937</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	20,397,665	815,222	21,212,887
Restricted for:			
Renewal and Replacement	500,000	0	500,000
Debt Service	297,642	0	297,642
System Improvements	699,912	0	699,912
Unrestricted	6,818,358	1,720,838	8,539,196
<b>Total Net Assets</b>	<u>\$ 28,713,577</u>	<u>\$ 2,536,060</u>	<u>\$ 31,249,637</u>

See accompanying notes.

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

	<u>Water and Sewer Utility</u>	<u>Natural Gas Utility</u>	<u>Total</u>
<b>Operating Revenues</b>			
Charges for Services	\$ 11,488,577	\$ 2,810,753	\$ 14,299,330
<b>Operating Expenses</b>			
Personal Services	3,144,018	726,827	3,870,845
Contractual Services, Materials and Supplies	2,455,656	1,347,525	3,803,181
Interfund Charges	1,212,800	266,849	1,479,649
Depreciation	1,789,811	117,009	1,906,820
<b>(Total Operating Expenses)</b>	<u>(8,602,285)</u>	<u>(2,458,210)</u>	<u>(11,060,495)</u>
<b>Operating Income</b>	<u>2,886,292</u>	<u>352,543</u>	<u>3,238,835</u>
<b>Nonoperating Revenues (Expenses)</b>			
Impact Fees	27,117	0	27,117
Interest Income	46,556	4,462	51,018
Gain (Loss) on Disposal of Capital Assets	40,255	(4,125)	36,130
Miscellaneous Income (Expense)	394,428	2,845	397,273
Interest Subsidy	399,093	0	399,093
Interest Expense	(1,929,712)	0	(1,929,712)
Amortization	(119,018)	0	(119,018)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(1,141,281)</u>	<u>3,182</u>	<u>(1,138,099)</u>
<b>Income Before Capital Grants and Contributions and Operating Transfers</b>	1,745,011	355,725	2,100,736
<b>Transfer in</b>	<u>17,982</u>	<u>2,525</u>	<u>20,507</u>
<b>Change in Net Assets</b>	1,762,993	358,250	2,121,243
<b>Net Assets, Beginning of Year</b>	<u>26,950,584</u>	<u>2,177,810</u>	<u>29,128,394</u>
<b>Net Assets, End of Year</b>	<u>\$ 28,713,577</u>	<u>\$ 2,536,060</u>	<u>\$ 31,249,637</u>

See accompanying notes.

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

	<u>Water and Sewer Utility</u>	<u>Natural Gas Utility</u>	<u>Total</u>
<b>Cash Flows from Operating Activities</b>			
Cash Received for Services	\$ 11,780,194	\$ 2,904,784	\$ 14,684,978
Cash from Other Sources	11,110	2,321	13,431
Cash Paid to Employees	(3,329,113)	(737,661)	(4,066,774)
Cash Paid to Outside Parties	(2,188,130)	(1,378,253)	(3,566,383)
Cash Paid for Interfund Charges	(1,212,800)	(266,849)	(1,479,649)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u>5,061,261</u>	<u>524,342</u>	<u>5,585,603</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Transfers	17,982	2,525	20,507
<b>Net Cash Provided by (Used in) Noncapital Financing Activities</b>	<u>17,982</u>	<u>2,525</u>	<u>20,507</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Impact Fees Received	27,117	0	27,117
Acquisition and Construction of Capital Assets	(2,143,909)	(216,942)	(2,360,851)
Proceeds from the Disposition of Capital Assets	63,813	18,951	82,764
Principal Payments on Bonds and Notes	(1,166,494)	0	(1,166,494)
Interest Paid	(1,938,476)	0	(1,938,476)
Interest Subsidy Received	399,093	0	399,093
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>	<u>(4,758,856)</u>	<u>(197,991)</u>	<u>(4,956,847)</u>
<b>Cash Flows from Investing Activities</b>			
Interest Received	46,556	4,462	51,018
<b>Net Cash Provided by (Used in) Investing Activities</b>	<u>46,556</u>	<u>4,462</u>	<u>51,018</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	366,943	333,338	700,281
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>24,666,528</u>	<u>2,189,151</u>	<u>26,855,679</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 25,033,471</u>	<u>\$ 2,522,489</u>	<u>\$ 27,555,960</u>
<b>Reported as</b>			
Cash and Cash Equivalents	\$ 5,327,188	\$ 2,233,915	\$ 7,561,103
Restricted Cash and Cash Equivalents	2,616,983	288,574	2,905,557
Unspent Bond Proceeds	17,089,300	0	17,089,300
<b>Total Cash and Cash Equivalents, End of Year</b>	<u>\$ 25,033,471</u>	<u>\$ 2,522,489</u>	<u>\$ 27,555,960</u>

See accompanying notes.

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**  
**CITY OF LAKE CITY, FLORIDA**  
*(Concluded)*

	<u>Water and Sewer Utility</u>	<u>Natural Gas Utility</u>	<u>Total</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities</u></b>			
Operating Income	\$ 2,886,292	\$ 352,543	\$ 3,238,835
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities:			
Depreciation	1,789,811	117,009	1,906,820
Miscellaneous Income	394,428	2,845	397,273
Changes in Assets - Decrease (Increase) and Liabilities - Increase (Decrease):			
Accounts Receivable	132,840	82,544	215,384
Due from Other Governments	(77,860)	(524)	(78,384)
Inventory	(4,452)	(22,412)	(26,864)
Prepays	(10,320)	(4,036)	(14,356)
Accounts Payable	127,152	(12,101)	115,051
Accrued Compensated Absences	(12,669)	10,425	(2,244)
Accrued Liabilities	(15,241)	16,128	887
Net Pension Obligation	(166,430)	(22,485)	(188,915)
Other Postemployment Benefit Obligations	9,245	2,494	11,739
Customer Deposits	8,465	1,912	10,377
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u><u>\$ 5,061,261</u></u>	<u><u>\$ 524,342</u></u>	<u><u>\$ 5,585,603</u></u>
<b><u>Supplemental Disclosure of Noncash Activity</u></b>			
Amortization of Bond Issue Costs	\$ 38,532	\$ 0	\$ 38,532
Amortization of Bond Discount/(Premium)	(3,812)	0	(3,812)
Amortization of Refunding Loss	84,299	0	84,299

See accompanying notes.

**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**SEPTEMBER 30, 2012**  
**CITY OF LAKE CITY, FLORIDA**

	<b>General Employees' Retirement Plan</b>	<b>Firemen's Retirement Plan</b>	<b>Police Retirement Plan</b>	<b>Retirement Plan Total</b>
<b>Assets</b>				
Cash and Investments	\$ 13,572,604	\$ 6,550,832	\$ 9,858,981	\$ 29,982,417
Contributions Receivable	45,714	18,899	43,843	108,456
Interest Receivable	18,369	25,229	30,252	73,850
<b>Total Assets</b>	<u>13,636,687</u>	<u>6,594,960</u>	<u>9,933,076</u>	<u>30,164,723</u>
<b>Liabilities</b>				
Accounts Payable	525	4,551	0	5,076
Excess Premium Tax	0	0	10,334	10,334
DROP Payable	94,769	229,841	0	324,610
<b>Total Liabilities</b>	<u>95,294</u>	<u>234,392</u>	<u>10,334</u>	<u>340,020</u>
<b>Net Assets</b>				
Held in Trust for Pension Benefits	<u>\$ 13,541,393</u>	<u>\$ 6,360,568</u>	<u>\$ 9,922,742</u>	<u>\$ 29,824,703</u>

See accompanying notes.

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
CITY OF LAKE CITY, FLORIDA**

	<u>General Employees' Retirement Plan</u>	<u>Firemen's Retirement Plan</u>	<u>Police Retirement Plan</u>	<u>Retirement Plan Total</u>
<b>Additions</b>				
Contributions:				
Employer	\$ 1,490,627	\$ 187,742	\$ 461,228	\$ 2,139,597
Employee	37,552	42,009	81,717	161,278
State of Florida	0	75,406	92,122	167,528
<b>Total Contributions</b>	<u>1,528,179</u>	<u>305,157</u>	<u>635,067</u>	<u>2,468,403</u>
Investment Earnings:				
Net Appreciation (Depreciation) in Fair Value of Investments	1,903,314	869,481	1,189,990	3,962,785
Interest and Dividends	303,117	159,412	280,189	742,718
Net Investment Earnings	<u>2,206,431</u>	<u>1,028,893</u>	<u>1,470,179</u>	<u>4,705,503</u>
<b>Total Additions</b>	<u>3,734,610</u>	<u>1,334,050</u>	<u>2,105,246</u>	<u>7,173,906</u>
<b>Deductions</b>				
Benefit Payments	753,499	253,758	451,877	1,459,134
DROP Benefit Expense	127,716	73,479	0	201,195
Refunds of Contributions	0	0	8,653	8,653
Administrative Fees	101,491	87,994	73,267	262,752
<b>(Total Deductions)</b>	<u>(982,706)</u>	<u>(415,231)</u>	<u>(533,797)</u>	<u>(1,931,734)</u>
<b>Net Increase</b>	2,751,904	918,819	1,571,449	5,242,172
<b>Net Assets Held in Trust for Pension Benefits, Beginning of Year</b>	<u>10,789,489</u>	<u>5,441,749</u>	<u>8,351,293</u>	<u>24,582,531</u>
<b>Net Assets Held in Trust for Pension Benefits, End of Year</b>	<u>\$ 13,541,393</u>	<u>\$ 6,360,568</u>	<u>\$ 9,922,742</u>	<u>\$ 29,824,703</u>

See accompanying notes.



## **NOTES TO FINANCIAL STATEMENTS**

## NOTES TO FINANCIAL STATEMENTS CITY OF LAKE CITY, FLORIDA

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the City of Lake City, Florida, (the City) conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies used in the preparation of these financial statements.

#### **Reporting Entity**

The City was incorporated in 1859, under the State of Florida Laws, Chapter 40, Acts of 1858. The City operates under a City Council form of government and provides, under the administration of an appointed City Manager, the following services: public safety (police and fire), public works (streets and infrastructure), recreation, natural gas services, planning, zoning, water and sewer services, and general and administrative services.

As outlined in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units—an Amendment to GASB Statement No. 14*, the financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations whose exclusions would cause the reporting entity's financial statements to be misleading or incomplete. Each potential component unit is individually evaluated using specific criteria outlined in GASB Statement No. 14, to determine whether the entity is: a) part of the primary government; b) a component unit which should be included in the reporting entity (blended or discretely presented); or c) an organization which should be excluded from the reporting entity entirely. The principal criteria for classifying a potential component unit include the legal separateness of the organization, the financial accountability of the primary government for the potential component unit resulting from either the primary government's ability to impose its will on the potential component unit, or the potential component unit's fiscal dependency on the primary government.

Based upon the application of these criteria, the Lake City Community Redevelopment Agency (the Agency) is a blended component unit of the City. The Agency was established to provide a method of eliminating blighted areas, expanding employment opportunities, and providing an environment for the social and economic growth of an area designated by City Ordinance. Each member of the City Council is a member of the Agency. The Agency is included as a major fund.

This report also includes the accounts and transactions of the following entities, which do not satisfy the definition of component units because they are not legally separate from the City:

- The City of Lake City Policemen's Pension Board
- The City of Lake City Firemen's Pension Board

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally 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.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Government-wide and Fund Financial Statements (Concluded)**

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: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and, b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

The City reports three major governmental funds: the general fund, the fire department special revenue fund, and the community redevelopment agency fund. The general fund is the City's primary operating fund. It accounts for all resources traditionally associated with governments except those required to be accounted for in another fund. The fire department special revenue fund accounts for the activities of the Lake City Fire Department and is primarily funded by a fire protection assessment imposed on all nongovernmental real property within the City. The community redevelopment agency fund is used to account for receipts and expenditures from certain property tax increments which are to be used for specific projects involving community redevelopment.

The City also reports two major enterprise funds, the water and sewer utility fund and the natural gas utility fund. These funds account for the activities of the City's water and sewer and natural gas utilities. In addition, the City reports three fiduciary funds, the police, firemen's and general employees' pension trust funds. The City acts as a trustee for the pension plan participants.

**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 the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 thirty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences are recorded only when payment is due.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Concluded)**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the City's enterprise funds are charges to customers for water, sewer, and natural gas 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 nonoperating revenues and expenses.

**Fund Balance Classifications**

Fund balance classifications are comprised of a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components: nonspendable, restricted, committed, assigned and unassigned:

- **Nonspendable**—This component of fund balance consists of amounts that cannot be spent because (a) they are not expected to be converted to cash or (b) they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. On the governmental funds balance sheet, the inventory balance reported is offset by a nonspendable fund balance classification which indicates it does not constitute "available spendable resources" even though it is a component of net current assets.
- **Restricted**—This component of fund balance consists of amounts that are constrained either (a) externally by third parties (creditors, grantors, contributors, or laws or regulations of other governments), or (b) by law through constitutional provisions or enabling legislation.
- **Committed**—This component of fund balance consists of amounts that can only be used for the specific purposes determined by a formal action of the City Council's highest level of decision-making authority (i.e., by ordinance). These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action employed to constrain those amounts.
- **Assigned**—This component of fund balance consists of amounts that are constrained by a less-than-formal action of the organization's governing authority, or by an individual or body to whom the governing authority has delegated this responsibility. The City has delegated responsibility for assigning funds to the City Manager and City Clerk pursuant to Ordinance 97-804. In addition, residual balances in capital projects and debt service funds are considered assigned for the general purpose of the respective fund.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Fund Balance Classifications (Concluded)**

- **Unassigned**—This classification is used for (a) deficit unrestricted fund balances in any governmental fund, or (b) fund balances within the general fund that are not restricted, committed or assigned.

**Use of Restricted and Unrestricted Assets**

When both restricted and unrestricted resources are available for use, it is generally the practice of the City to use restricted resources first, then unrestricted resources as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use in any governmental fund, it is the City's practice to use committed resources first, then assigned, and then unassigned as needed.

**Minimum Fund Balance**

It is the City's policy to strive to maintain a minimum reserve level of 30% of the operating budget for the general fund.

**Budgets**

General governmental revenue and expenditures accounted for in budgetary funds are controlled by a budgetary accounting system in accordance with various legal requirements which govern the City's operations. Budgets are monitored at varying levels of classification detail; however, expenditures cannot legally exceed total appropriations at the individual fund level. Encumbrances are not recorded. Unexpended items at year-end must be reappropriated in the subsequent year.

The City Clerk and City Manager, together, are authorized to transfer budgeted amounts within departments within a fund; however, any revisions that increase the total expenditures of any department or fund must be approved by the City Council. The budgetary information presented for the general fund and any major special revenue funds is prepared on the modified accrual basis.

**Property Taxes**

The assessment of all properties and the collection of all property taxes are made through the County Property Appraiser and County Tax Collector. General property taxes are recorded as received, in cash, which approximates taxes levied less discounts for the current fiscal year.

Taxes are levied on November 1 of each year. All taxes become delinquent on April 1 of the following year. Discounts are allowed for early payment. On or prior to June 1, certificates bearing interest at 18% are sold for all uncollected real property taxes. Unsold certificates are held by the County.

**Cash and Investments**

In most instances, cash resources of the individual funds are combined to form a pool of cash and investments. Investments in the pooled cash fund consist primarily of certificates of deposit which mature in one year or less and cash invested in a repurchase agreement, the Florida Municipal Investment Trust (FMIT), and the State of Florida Board of Administration (SBA). Interest income earned on the pooled cash and investments is distributed to the appropriate funds based on the average monthly balance of investments in each fund.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Cash and Investments (Concluded)**

Investments are valued at fair market value, except for investments considered to be 2a7-like pools, which are reported at amortized cost. For the purposes of the statement of cash flows, the City considers cash and cash equivalents to include cash and investments with an original maturity of three months or less.

**Receivables and Payables**

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” Receivables are stated at net realizable value, reduced by an allowance for doubtful accounts, where appropriate. Unbilled utility service receivables are recorded at year-end. They are calculated by pro-rating cycle billings subsequent to year-end according to the number of days included in the current fiscal year.

**Inventories**

Inventories are valued at cost, which approximates market value, using the first-in, first-out (FIFO) method. Generally, the costs of governmental fund type inventories are recorded as expenditures when consumed (consumption method) rather than when purchased. On the governmental funds balance sheet, the inventory balance reported is offset by a nonspendable fund balance which indicates that it does not constitute “available spendable resources” even though it is a component of net current assets.

**Capital Assets**

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, right-of-ways, the stormwater system, 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 City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are expensed as incurred.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<b>Assets</b>	<b>Years</b>
Buildings and Improvements	10 - 60 Years
Equipment	2 - 10 Years
Infrastructure	20 - 60 Years

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (Concluded)**

**Capital Assets (Concluded)**

Intangible assets with definite lives are amortized over their determined lives. Intangible assets with indefinite lives are evaluated for impairment.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred during construction of business-type assets are capitalized, net of interest income from the proceeds of related debt, as part of the cost of the related assets. No amount was capitalized in the current year.

**Deferred Revenue**

Deferred revenues reported in the government-wide financial statements represent unearned revenues. The deferred revenues will be recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting. Deferred revenues reported in governmental fund financial statements represent unearned revenues or revenues which are measurable but not available, and in accordance with the modified accrual basis of accounting, are reported as deferred revenues.

**Long-term Obligations**

In the government-wide financial statements and the proprietary funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issue costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issue costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances 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.

**Compensated Absences**

Accumulated unpaid vacation and sick pay are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported.

**Note 2 - Deposits and Investments**

**Equity in Pooled Cash and Investments**

The City maintains a cash and investment pool that is available for use by all funds. In addition, certain deposits of the pension trust fund are held separately from those of other City funds.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 2 - Deposits and Investments (Continued)**

**Deposits**

As of September 30, 2012, the carrying amount of the City's deposits and cash on hand was \$1,828,848 including \$2,535 of petty cash, \$12,489 of prepaid postage, and \$921,135 of restricted customer deposits. Monies which are placed on deposit with financial institutions in the form of demand deposit accounts, time deposit accounts, and certificates of deposit are defined as public deposits. All of the City's public deposits are held in qualified public depositories pursuant to Florida Statutes Chapter 280, *Florida Security for Public Deposits Act*. Under the Act, all qualified public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits, times the depository's collateral pledged level. The pledging level may range from 25% to 125% depending upon the depository's financial condition and establishment period. All collateral must be deposited with an approved financial institution. Any losses to public depositories are covered by applicable deposit insurance, sale of securities pledged as collateral and, if necessary, assessments against other qualified public depositories of the same type as the depository in default.

**Investments**

Investments other than bank deposits are registered in the name of the custodial third party and held by them for the account of the City. The custodians are primarily bank trust departments, insurance companies, brokerage firms, the Florida State Board of Administration (SBA), and the Florida Municipal Investment Trust (FMIT).

The SBA administers and provides regulatory oversight over the Florida PRIME and the Fund B Surplus Funds Trust Fund (Fund B). The SBA has interpreted that the Florida PRIME is currently considered a 2a7-like fund. The City's investment in the Florida PRIME is reported at amortized cost. The fair value of the position in the pool is equal to the value of the pool shares. Fund B investments are restricted on how participants can access portions of their surplus funds and are being distributed to participants as they become available from maturities, sales, and received income. The Fund B is reported at fair value, determined by the fair value per share of the pool's underlying portfolio. As of September 30, 2012, the fair value factor for Fund B was .94896811. Separate financial reports for the SBA investments can be obtained from the Florida State Board of Administration, 1801 Hermitage Blvd., Tallahassee, Florida 32308.

**Authorized Investments**

Under the City's investment policies, general investments' activities are to be consistent with Florida Statutes and are authorized to invest in certificates of deposit, money market funds, obligations issued by the U.S. or obligations guaranteed as to principal and interest by the U.S. repurchase agreements collateralized by U.S. securities, and the SBA. Pension trust funds can invest in the aforementioned and, additionally, authorized investments include stocks, foreign securities, mutual funds, and bonds or other evidences of indebtedness issued or guaranteed by a corporation organized under the laws of the U.S.

Following are the investments, credit ratings by Fitch and Standard & Poor's for FMIT and Florida PRIME investments, respectively, and maturities of the City's governmental and business-type activities at September 30, 2012:



**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 2 - Deposits and Investments (Continued)**

**Authorized Investments (Concluded)**

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
			<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Total</u>
Repurchase Agreement	Unrated	\$ 28,563,196	\$ 28,563,196	\$ 0	\$ 0	\$ 28,563,196
Florida Municipal						
Investment Trust	AAA/V1	3,506,230	3,506,230	0	0	3,506,230
Florida Municipal						
Investment Trust	AAA/V2	547,350	0	547,350	0	547,350
Florida PRIME	AAAm	192,218	192,218	0	0	192,218
Fund B Surplus						
Trust Funds						
Investment Pool	Unrated	26,586	0	26,586	0	26,586
<b>Total</b>		<u>\$ 32,835,580</u>	<u>\$ 32,261,644</u>	<u>\$ 573,936</u>	<u>\$ 0</u>	<u>\$ 32,835,580</u>

Listed below are the investments and maturities in the City's pension trust funds at September 30, 2012:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>				
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>	<u>Total</u>
Equities	\$ 16,466,755	\$ 16,466,755	\$ 0	\$ 0	\$ 0	\$ 16,466,755
Mutual Funds	4,933,573	4,933,573	0	0	0	4,933,573
Fixed Income	6,309,114	265,000	2,084,791	2,004,012	1,955,311	6,309,114
Alternative Strategies	142,669	142,669	0	0	0	142,669
Real Estate						
Investments	269,657	269,657	0	0	0	269,657
<b>Total</b>	<u>\$ 28,121,768</u>	<u>\$ 22,077,654</u>	<u>\$ 2,084,791</u>	<u>\$ 2,004,012</u>	<u>\$ 1,955,311</u>	<u>\$ 28,121,768</u>

Credit quality distribution for the City's pension trust fund investments with credit exposure as a percentage of the total pension investment subject to credit risk is as follows:

<u>Investment Type</u>	<u>Moody's Credit Rating</u>	<u>Percent of Total</u>
Corporate Bonds	Aaa	36.06%
Corporate Bonds	Aa2	1.24%
Corporate Bonds	Aa3	1.29%
Corporate Bonds	A1	3.99%
Corporate Bonds	A2	7.59%
Corporate Bonds	A3	14.82%
Corporate Bonds	Baa1	12.52%
Corporate Bonds	Baa2	14.71%
Corporate Bonds	Baa3	3.91%
Corporate Bonds	Ba1	0.28%
Corporate Bonds	Unrated	3.59%

In addition to the above investments, the City's pension trust funds had money market funds and equity in pooled cash totaling \$1,860,649 at September 30, 2012.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 2 - Deposits and Investments (Concluded)**

**Additional Risk Disclosures**

Investments of the City conform to the provisions of Florida Statutes, Section 218.415. The following items discuss the City and pension funds' exposure to various risks in primarily the fixed rate portions of their investment portfolios:

- *Interest Rate Risk*—The City's fixed rate investments are generally tied to bond reserve requirements and are intended to be held until the funds are needed, at maturity. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's pension funds limit their risk by averaging investment maturities at approximately seven to ten years.
- *Custodial Credit Risk*—For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City generally utilizes third party custodians to help manage custodial credit risk.
- *Concentration of Credit Risk*—The pension funds' investment policies and practices require investments to be diversified to the extent practicable to control the risk of loss resulting from overconcentration of assets in a specific maturity, issuer, instrument, dealer or bank through which financial instruments are purchased and sold. No more than 3% of the trust fund shall be invested in any one issuer.

**Note 3 - Capital Assets**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 7,225,198	\$ 70	\$ 0	\$ 7,225,268
Construction in Progress	<u>3,173,008</u>	<u>0</u>	<u>(3,173,008)</u>	<u>0</u>
<b>Total Capital Assets Not Being Depreciated</b>	<u>10,398,206</u>	<u>70</u>	<u>(3,173,008)</u>	<u>7,225,268</u>
<b>Capital Assets Being Depreciated</b>				
Buildings and Improvements	18,990,326	2,700,345	(572,336)	21,118,335
Machinery and Equipment	9,367,346	1,189,239	(720,984)	9,835,601
Infrastructure	<u>19,133,070</u>	<u>1,453,208</u>	<u>0</u>	<u>20,586,278</u>
<b>Total Capital Assets Being Depreciated</b>	<u>47,490,742</u>	<u>5,342,792</u>	<u>(1,293,320)</u>	<u>51,540,214</u>
<b>Less Accumulated Depreciation</b>				
Buildings and Improvements	(11,112,741)	(468,748)	376,574	(11,204,915)
Machinery and Equipment	(6,630,662)	(998,246)	699,348	(6,929,560)
Infrastructure	<u>(10,214,034)</u>	<u>(479,687)</u>	<u>0</u>	<u>(10,693,721)</u>
<b>Total Accumulated Depreciation</b>	<u>(27,957,437)</u>	<u>(1,946,681)</u>	<u>1,075,922</u>	<u>(28,828,196)</u>
<b>Total Being Depreciated, Net</b>	<u>19,533,305</u>	<u>3,396,111</u>	<u>(217,398)</u>	<u>22,712,018</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 29,931,511</u>	<u>\$ 3,396,181</u>	<u>\$ (3,390,406)</u>	<u>\$ 29,937,286</u>

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 3 - Capital Assets (Concluded)**

Depreciation expense was charged to governmental activities functions/programs of the primary government as follows:

General Government	\$ 147,445
Public Safety	657,193
Highway and Street	634,559
Airport	457,458
Culture and Recreation	<u>50,026</u>
<b>Total Depreciation Expense - Governmental Activities</b>	<b><u>\$ 1,946,681</u></b>

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Business-type Activities</b>				
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 5,278,702	\$ 64,745	\$ 0	\$ 5,343,447
Construction in Progress	<u>5,554,507</u>	<u>1,088,460</u>	<u>(4,720,728)</u>	<u>1,922,239</u>
<b>Total Capital Assets Not Being Depreciated</b>	<u>10,833,209</u>	<u>1,153,205</u>	<u>(4,720,728)</u>	<u>7,265,686</u>
<b>Capital Assets Being Depreciated</b>				
Buildings	5,648,842	4,631	0	5,653,473
Utility Plant and Improvements	52,878,431	5,433,645	(187,799)	58,124,277
Machinery and Equipment	7,149,235	475,317	(314,176)	7,310,376
Infrastructure	<u>296,006</u>	<u>14,781</u>	<u>0</u>	<u>310,787</u>
<b>Total Capital Assets Being Depreciated</b>	<u>65,972,514</u>	<u>5,928,374</u>	<u>(501,975)</u>	<u>71,398,913</u>
<b>Less Accumulated Depreciation</b>				
Buildings	(696,507)	(141,897)	0	(838,404)
Utility Plant and Improvements	(27,133,500)	(993,696)	144,174	(27,983,022)
Machinery and Equipment	(5,428,574)	(765,143)	311,168	(5,882,549)
Infrastructure	<u>(24,173)</u>	<u>(6,084)</u>	<u>0</u>	<u>(30,257)</u>
<b>Total Accumulated Depreciation</b>	<u>(33,282,754)</u>	<u>(1,906,820)</u>	<u>455,342</u>	<u>(34,734,232)</u>
<b>Total Being Depreciated, Net</b>	<u>32,689,760</u>	<u>4,021,554</u>	<u>(46,633)</u>	<u>36,664,681</u>
<b>Business-type Activities Capital Assets, Net</b>				
	<u>\$ 43,522,969</u>	<u>\$ 5,174,759</u>	<u>\$ (4,767,361)</u>	<u>\$ 43,930,367</u>

Depreciation expense was charged to business-type activities functions/programs of the primary government as follows:

Water and Sewer	\$ 1,789,811
Natural Gas	<u>117,009</u>
<b>Total Depreciation Expense - Business-type Activities</b>	<b><u>\$ 1,906,820</u></b>

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 4 - Allowance for Uncollectible Accounts**

Accounts receivable are reported net of an allowance for uncollectible accounts. As of September 30, 2012, allowances for receivables were \$11,090 in the governmental funds and \$302,843 in the enterprise funds.

**Note 5 - Long-term Debt**

Long-term liability activity for the year ended September 30, 2012, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
<b>Governmental Activities</b>					
Revenue Bonds:					
Series 2011	\$ 4,828,450	\$ 0	\$ (173,120)	\$ 4,655,330	\$ 180,180
(Unamortized Refunding Loss)	(57,801)	0	3,118	(54,683)	0
Compensated Absences	732,384	0	(55,624)	676,760	544,200
OPEB Obligation	<u>197,676</u>	<u>31,059</u>	<u>0</u>	<u>228,735</u>	<u>0</u>
<b>Total Governmental Activities –</b>					
<b>Long-term Liabilities</b>	<u>\$ 5,700,709</u>	<u>\$ 31,059</u>	<u>\$ (225,626)</u>	<u>\$ 5,506,142</u>	<u>\$ 724,380</u>
<b>Business-type Activities</b>					
State Revolving Fund Loan	\$ 9,857,911	\$ 0	\$ (611,494)	\$ 9,246,417	\$ 628,013
Utility Revenue Bonds:					
Series 2003	4,085,000	0	(555,000)	3,530,000	575,000
Series 2010A	9,815,000	0	0	9,815,000	0
Series 2010B	18,385,000	0	0	18,385,000	0
(Unamortized Refunding Loss)	(633,334)	0	84,299	(549,035)	0
(Unamortized Discount)	(15,910)	0	1,447	(14,463)	0
Unamortized Premium	152,080	0	(5,259)	146,821	0
Compensated Absences	296,427	0	(2,244)	294,183	222,866
OPEB Obligation	<u>83,608</u>	<u>11,739</u>	<u>0</u>	<u>95,347</u>	<u>0</u>
<b>Total Business-type Activities –</b>					
<b>Long-term Liabilities</b>	<u>\$ 42,025,782</u>	<u>\$ 11,739</u>	<u>\$ (1,088,251)</u>	<u>\$ 40,949,270</u>	<u>\$ 1,425,879</u>

Governmental activities' compensated absences and OPEB obligation are liquidated by the General Fund, Fire Department Special Revenue Fund, Community Redevelopment Agency Fund, and Airport Special Revenue Fund.

A summary of the City's long-term debt outstanding at September 30, 2012, is as follows:

**Governmental Activities**

■ **Sales Tax Revenue and Refunding Bonds, Series 2011**

On April 19th, 2011, the City issued \$4,847,450 of Sales Tax Revenue and Refunding Bonds, Series 2011. The proceeds were used to refund the City's Sales Tax Revenue and Refunding Bonds, Series 2010, that had an unpaid principal balance of \$4,310,019, and to pay for cost of issuance of the bonds. This refunding was undertaken to reduce total debt service payments over the next nineteen years by \$154,372 and resulted in an economic gain of \$261,276. The proceeds were also used to finance certain public capital projects. The bonds are fully registered and bear interest payable semiannually on January 1 and July 1 each year at 4.04% through 2030.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 5 - Long-term Debt (Continued)**

**Governmental Activities (Concluded)**

■ **Sales Tax Revenue and Refunding Bonds, Series 2011 (Concluded)**

The bond principal and interest are payable solely from and secured by a pledged portion of proceeds of the local government half-cent sales tax revenue, including investment income of certain funds, as determined by resolution. Annual principal and interest on the bonds required approximately 55% of such revenues. A total debt service payment in the amount of \$366,458 was paid in the current year. Revenues pledged for repayment totaled \$663,287 for the year. At September 30, 2012, principal and interest to maturity in 2030 to be paid from pledged future revenues totaled \$6,596,246.

**Business-type Activities**

■ **Utilities Revenue and Refunding Bonds, Series 2003**

On June 1, 2003, the City issued \$6,665,000 of utilities revenue bonds to refund the Utilities Revenue and Refunding Bonds, Series 1993, to acquire and construct improvements to the City's water and sewer system, and to pay certain costs of issuance. The bonds are due serially on July 1 of each year through 2017 with term bonds due in 2023. The bonds are fully registered and require semiannual interest payments on January 1 and July 1, with rates ranging from 1.50% to 4.05%.

The bond principal and interest are payable solely from and secured by a lien on the net revenues of the City's water, sewer, and natural gas utility systems. Annual principal and interest on the bonds required approximately 12% of such revenues. Principal and interest paid for the current year was \$691,638. Pledged net system revenues, as defined in the bond ordinance, totaled \$5,630,076 for the year. At September 30, 2012, principal and interest to maturity in 2023 to be paid from pledged future revenues totaled \$4,092,925.

■ **Utility System Refunding Revenue Bonds, Series 2010A**

On August 26, 2010, the City issued \$9,815,000 of Utility System Refunding Revenue Bonds, Series 2010A. The proceeds were used to refund the City's Utilities Revenue Bonds, Series 1998A, and Utilities Revenue and Refunding Bonds, Series 2000, that had an unpaid principal balance of \$9,615,000 and were originally issued to fund improvements to the water and sewer system, and to pay for cost of issuance of the bonds, including a portion of the bond and reserve fund insurance premiums. This refunding was undertaken to reduce total debt service payments over the next seventeen years by \$154,028 and resulted in an economic gain of \$727,151.

The Series 2010A bonds are due in serial installments on July 1 of each year beginning in 2017 through 2028. The bonds bear interest payable semiannually on January 1 and July 1 of each year at 3.5% to 5.0%.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 5 - Long-term Debt (Continued)**

**Business-type Activities (Continued)**

■ **Utility System Refunding Revenue Bonds, Series 2010A (Concluded)**

The bond principal and interest are payable solely from and secured by a lien on the net revenues of the City's water and sewer utility systems. The lien is junior to the City's outstanding Utilities Revenue and Refunding Bonds, Series 2003, and on parity with the Utility System Revenue Bonds, Series 2010B. Annual interest on the bonds required approximately 8% of such revenues. Interest paid for the current year was \$398,119. Pledged net system revenues, as defined in the bond ordinance, totaled \$5,157,342 for the year. At September 30, 2012, principal and interest to maturity in 2028 to be paid from pledged future revenues totaled \$14,196,300.

■ **Utility System Revenue Bonds, Series 2010B**

On August 26, 2010, the City issued \$18,385,000 of Utility System Revenue Bonds, Series 2010B. The proceeds will finance the costs of sewer capital projects and cost of issuance of the bonds.

The Series 2010B bonds are due in serial installments on July 1 of each year, beginning 2029 through 2040. The bonds bear interest payable semiannually on January 1 and July 1 of each year at 6.025% to 6.275%. The Series 2010B bonds are taxable, elected as Build America Bonds for the purposes of the American Recovery and Reinvestment Act of 2009. As such, the City expects to receive direct subsidy payments from the U.S. Treasury Secretary in the amount equal to 35% of interest payable on the Series 2010B bonds. Such direct subsidy payments are not pledged to the payment of debt service of the Series 2010B bonds but are legally available for such purpose. The direct subsidy payments are not backed by the full faith and credit guarantee of the U.S. and no assurances are provided that the City will receive the direct subsidy payments.

The bond principal and interest are payable solely from and secured by a lien on the net revenues of the City's water and sewer utility systems. The lien is junior to the City's outstanding Utilities Revenue and Refunding Bonds, Series 2003, and on parity with the Utility System Refunding Revenue Bonds, Series 2010A. Annual interest on the bonds required approximately 14% of such revenues. Interest paid for the current year was \$741,173, net of a \$399,093 subsidy. Pledged net system revenues, as defined in the bond ordinance, totaled \$5,157,342 for the year. At September 30, 2012, principal and interest to maturity in 2040 to be paid from pledged future revenues totaled \$44,624,925.

■ **State Revolving Fund Loan**

The City entered into an agreement with the State of Florida Department of Environmental Protection for a State Revolving Fund Loan to finance the expansion of the City's water utility. Principal and interest payments are due December 15 and June 15 each year, bearing interest at 2.64% to 2.71%.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 5 - Long-term Debt (Continued)**

**Business-type Activities (Continued)**

■ **State Revolving Fund Loan (Concluded)**

The loan principal and interest are payable solely from and secured by a lien on the gross revenues of the City's water and sewer utility after payment of the operation and maintenance expenses and debt service of all senior revenue obligations, as defined by the loan agreement. The lien is junior, inferior, and subordinate to the lien of the Utilities Revenue and Refunding Bonds, Series 2003, 2010A, and 2010B. Annual principal and interest on the loan required approximately 35% of such revenues. Principal and interest paid for the current year was \$871,948. Pledged revenues, as defined in the loan agreement, totaled \$2,519,754 for the year. At September 30, 2012, principal and interest to estimated maturity in 2027 to be paid from pledged future revenues totaled \$10,953,917.

■ **Defeased Bonds**

At September 30, 2012, the City has outstanding bonds that have been defeased by the purchase of qualifying government securities in irrevocable trusts. The scheduled maturities and the interest earnings on the escrowed securities are sufficient to redeem these defeased bonds without further debt service costs to the City. Both defeased bonds and the escrowed securities are, as required by generally accepted accounting principles, omitted from the financial statements of the City.

The following bonds have been defeased by the City and no longer are included in the accompanying financial statements:

	<b>Balance</b>
	<b>September 30,</b>
	<b>2012</b>
Utilities Revenue Bonds, Series 1987	\$ 2,430,000
Utilities Revenue Bonds, Series 1991A	<u>1,755,000</u>
<b>Total</b>	<u><u>\$ 4,185,000</u></u>

■ **Rate Covenant**

The City has covenanted to establish, maintain, and collect fees from users of the water and sewer and natural gas utility systems (gross revenues of the system, as defined in the bond ordinance) sufficient to pay the costs for operation and maintenance (operating expenses of the system, as defined in the bond ordinance). Thus, resulting in net revenues (as defined in the bond ordinance) adequate to pay in each fiscal year 110% of the current annual debt service, and 100% of any amount required to be deposited in the reserve fund or in the renewal and replacement fund or with any issuer of a reserve fund letter of credit or reserve fund insurance policy. The City met all requirements and, therefore, is in compliance with the rate covenants at year-end.

Annual debt service requirements to maturity for the City's outstanding long-term obligations are as follows:

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 5 - Long-term Debt (Concluded)**

**Business-type Activities (Concluded)**

■ **Rate Covenant (Concluded)**

<u>Year Ending</u> <u>September 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 180,180	\$ 186,274	\$ 1,203,013	\$ 1,903,140
2014	187,540	178,921	1,234,978	1,868,925
2015	195,190	171,268	1,262,401	1,833,212
2016	203,150	163,302	1,310,296	1,795,817
2017	211,450	155,012	1,393,673	1,756,335
2018-2022	1,193,930	638,368	7,821,883	7,908,682
2023-2027	1,458,240	374,049	7,220,173	6,642,376
2028-2032	1,025,650	73,722	6,335,000	5,292,599
2033-2037	0	0	7,745,000	3,197,491
2038-2041	0	0	5,450,000	693,073
<b>Total</b>	<u>\$ 4,655,330</u>	<u>\$ 1,940,916</u>	<u>\$40,976,417</u>	<u>\$ 32,891,650</u>

**Letters of Credit**

As of September 30, 2012, pursuant to an agreement with First Federal Savings Bank of Florida and Florida Gas Utility, the City had available a \$153,000 unsecured line of credit; none of which was outstanding as of that date. There was no activity on the line during the year.

**Note 6 - Defined Benefit Pension Plans**

**Plan Descriptions and Contribution Information**

The City maintains three separate single-employer pension plans, one for police officers, one for firemen, and one for general employees that covers substantially all other full-time City employees. As of January 1, 2006, the General Employees' Retirement Plan was closed to all new employees and participating employees were given the option to withdraw from the plan. New employees and those withdrawn from the General Employees' Retirement Plan participate in the Florida Retirement System. The single-employer plans are maintained as pension trust funds and are included as part of the City's reporting entity. The Florida Retirement System is a multiple-employer defined benefit plan, whose assets are not reported in the City's financial statements. City ordinance and state law require contributions to be determined by actuarial studies. Stand-alone financial reports are not issued for the three single-employer plans.

Membership of each plan consisted of the following at October 1, 2011, the date of the latest actuarial valuations:

	<u>General</u> <u>Employees</u>	<u>Firemen</u>	<u>Police</u>
Retirees and Beneficiaries Receiving Benefits	64	14	19
Terminated Plan Members Entitled to but Not Yet Receiving Benefits	16	4	13
Active Plan Members	64	19	37
<b>Total</b>	<u>144</u>	<u>37</u>	<u>69</u>



**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 6 - Defined Benefit Pension Plans (Continued)**

**Plan Descriptions and Contribution Information (Concluded)**

■ **General Employees' Retirement Plan**

- *Plan Description*—The General Employees' Retirement Plan provides retirement, disability and death benefits to plan members and their beneficiaries. The City Council has the authority to establish and amend the benefit provisions of the plan. The General Employees' Retirement Plan was closed to new members as of January 1, 2006.
- *Contributions*—The City is required to contribute at an actuarially determined rate. Plan members are required to contribute 2% of their annual covered salary. Contribution requirements are established by City Code, which may be amended by the City Council. Administrative costs of the General Employees' Retirement Plan are financed through plan contributions and investment earnings.

■ **Florida Retirement System (General Employees)**

- *Plan Description*—The Florida Retirement System (the System) is a cost-sharing multiple-employer plan administered by the State of Florida, Department of Administration, Division of Retirement. The System provides retirement, disability, or death benefits to retirees or their designated beneficiaries. Chapter 121, Florida Statutes, establishes the authority for benefit provisions. Changes to the law can only occur through an act of the Florida Legislature. The System issues financial statements and required supplementary information for the System. That report may be obtained by writing to the State of Florida Division of Retirement, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or by calling (850) 488-5706.
- *Contributions*—The contribution requirements of plan members are established, and may be amended, by the Florida Legislature. The City and its employees are required to contribute at an actuarially determined rate. The rates at September 30, 2012, are as follows:

<b>FRS Membership Class</b>	<b>Employee Contribution Rate</b>	<b>Employer Contribution Rate</b>	<b>Total Contribution Rate</b>
Regular Employees	3.00%	5.18%	8.18%
Special Risk Employees	3.00%	14.90%	17.90%
Rehired Employees	3.00%	5.18%	8.18%
Elected Officials	3.00%	10.23%	13.23%
Senior Management Services	3.00%	6.30%	9.30%
Deferred Retirement Option Program (DROP)	N/A	5.44%	5.44%

The City's contributions to the System for the years ended September 30, 2012, 2011, and 2010, were \$156,759, \$283,355, and \$298,434, respectively. Employee contributions to the System for the years ended September 30, 2012 and 2011 were \$91,617 and \$21,513, respectively. Contributions are equal to the required contributions for those years.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 6 - Defined Benefit Pension Plans *(Continued)***

**Plan Descriptions and Contribution Information *(Concluded)***

■ **Firemen's Retirement Plan**

- *Plan Description*—The Firemen's Retirement Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The Firemen's Retirement Plan is governed by the Firemen's Pension Board, although the City Council retains the authority to establish and amend the benefit provisions of the plan.
- *Contributions*—The City is required to contribute at an actuarially determined rate. Plan members are required to contribute 5% of their annual covered salary. Contribution requirements may be amended by the City Council. Administrative costs are financed through plan contributions and investment earnings.

■ **Police Retirement Plan**

- *Plan Description*—The Police Retirement Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The Police Retirement Plan is governed by the Policemen's Pension Board, although the City Council retains the authority to establish and amend the benefit provisions of the plan.
- *Contributions*—The City is required to contribute at an actuarially determined rate. Plan members are required to contribute 5.0% of their annual covered salary. Contribution requirements may be amended by the City Council. Administrative costs are financed through plan contributions and investment earnings.

**Annual Pension Costs and Net Pension Obligation**

The City's annual pension cost and net pension obligation to the General Employees', Firemen's, and Police Retirement Plans for the current year were as follows:

	<b>General</b>	<b>Firemen</b>	<b>Police</b>
	<b>Employees</b>	<b>Firemen</b>	<b>Police</b>
Annual Required Contribution (ARC)	\$ 910,615	\$ 307,326	\$ 408,907
Interest on Net Pension Obligation	52,735	(1,541)	(45,133)
Adjustment to ARC	(83,401)	1,671	66,791
Annual Pension Cost	879,949	307,456	430,565
(Contributions Made)	(1,302,893)	(306,350)	(408,907)
Net Pension Obligation, Beginning of Year	659,182	(19,259)	(564,168)
<b>Net Pension Obligation (Excess), End of Year</b>	<b>\$ 236,238</b>	<b>\$ (18,153)</b>	<b>\$ (542,510)</b>

Over time, contributions to the pension plans have been made in amounts other than the computed ARC. The net pension obligation recorded is based upon the 2011 actuarial valuations, adjusted for an additional contribution made by the City during 2012 to reduce the obligation.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 6 - Defined Benefit Pension Plans (Continued)**

**Other Pension Plan Information**

The annual required contributions for the current year were determined as part of the October 1, 2011, actuarial valuations for the plans using the entry age actuarial cost method. The actuarial assumptions include a 7.75% rate of return on investments for all plans. Projected salary increases for the General Employees', Firemen's, and Police Retirement Plans range from 4% to 7%. The assumptions also include postretirement benefit increases in all plans. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a four-year period. The unfunded actuarial accrued liabilities are being amortized over remaining amortization periods of 2 to 29 years.

**Three-year Trend Information**

<b>Fiscal Year Ended</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation (Asset)</b>
<b>General Employees</b>			
09/30/09	\$ 708,471	98%	\$ 477,529
09/30/10	866,517	79%	659,182
09/30/11	879,949	148%	236,238
<b>Firemen</b>			
09/30/09	\$ 341,746	94%	\$ (19,430)
09/30/10	253,223	100%	(19,259)
09/30/11	307,456	100%	(18,153)
<b>Police</b>			
09/30/09	\$ 212,531	107%	\$ (589,686)
09/30/10	303,021	92%	(564,168)
09/30/11	430,565	95%	(542,510)

**Funded Status and Funding Progress**

The following is funded status information for each Plan as of the most recent actuarial valuation date and is intended to help users assess (i) the Plan's funded status on a going concern basis, and (ii) progress being made toward accumulating the assets needed to pay benefits when due:

■ **General Employees' Retirement Plan**

Actuarial Accrued Liability	\$ 18,686,675
Actuarial Value of Assets (Market Value was \$10,789,489)	<u>(12,277,990)</u>
Unfunded Actuarial Accrued Liability	<u>\$ 6,408,685</u>

The General Employees' Retirement Plan is 65.70% funded and the Unfunded Actuarial Accrued Liability represents 281.44% of covered payroll as of September 30, 2011.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 6 - Defined Benefit Pension Plans (Concluded)**

**Funded Status and Funding Progress (Concluded)**

■ **Firemen's Retirement Plan**

Actuarial Accrued Liability	\$ 7,625,697
Actuarial Value of Assets (Market Value was \$5,441,749)	(6,494,063)
Unfunded Actuarial Accrued Liability	\$ 1,131,634

The Firemen's Retirement Plan is 85.16% funded and the Unfunded Actuarial Accrued Liability represents 130.45% of covered payroll as of September 30, 2011.

■ **Police Retirement Plan**

Actuarial Accrued Liability	\$ 10,545,723
Actuarial Value of Assets (Market Value was \$8,351,293)	(8,939,113)
Unfunded Actuarial Accrued Liability	\$ 1,606,610

The Police Retirement Plan is 84.77% funded and the Unfunded Actuarial Accrued Liability represents 100.03% of covered payroll as of September 30, 2011.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Note 7 - Postemployment Benefits Other Than Pensions**

**Plan Description**

The City has previously established and maintains an employee group medical insurance plan (the Plan) that it makes available to eligible retirees in accordance with State of Florida law and City ordinance. The Plan is a single-employer, experience rated insurance plan that provides medical benefits to eligible retirees and their eligible dependents. The postretirement benefit portion of this benefit plan refers to the medical benefits applicable to current and future retirees and their eligible dependents.

As of the valuation date, the total number of participating eligible current and future retirees and dependents used for the Plan was 245. The City currently determines the eligibility, benefit provisions and changes to those provisions applicable to retirees in accordance with applicable City ordinance, federal and state laws. The Plan does not issue a stand-alone report, and is not included in the report of a Public Employee Retirement System or another entity.

**Funding Policy**

To-date, the City has followed a pay-as-you-go funding policy, contributing only those amounts necessary to provide for its portion of current year benefit cost and expenses. The contribution requirements of plan members, if any, are established by the City. Eligible retirees pay the full cost of blended rate premiums associated with the medical plan elected; no direct City subsidy is currently applicable. However, there are implicit costs of the medical plan for retirees, as their claims experience is higher than the blended rate premiums.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 7 - Postemployment Benefits Other Than Pensions (Continued)**

**Funding Policy (Concluded)**

State of Florida law prohibits the City from separately rating retirees and active employees specifically for medical plan benefits. The City therefore assigns eligible active employees and eligible retirees equal, blended-rate premiums and makes available to both groups the same plan options. Although both groups are assigned the same blended rate premiums, generally accepted auditing principles (GAAP) requires the actuarial liabilities presented below to be calculated using age-adjusted premiums approximating claim costs for eligible retirees separate from active eligible members. The use of age-adjusted premiums results in the full expected retiree obligation recognized in this disclosure.

**Annual Other Postemployment Benefits (OPEB) Cost and Net OPEB Obligation**

The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for postemployment health care benefits:

Annual Required City Contribution (ARC)	\$	80,031
Interest on Plan Obligation		10,732
Adjustment to ARC		<u>(14,010)</u>
Annual OPEB Cost (Expense)		76,753
Net Contributions Made		<u>(33,954)</u>
Decrease in Net OPEB Obligation		42,799
<b>Net OPEB Obligation, Beginning of Year</b>		<u>281,283</u>
<b>Net OPEB Obligation, End of Year</b>	<b>\$</b>	<b><u>324,082</u></b>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of September 30, 2012, was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
09/30/2010	\$ 165,553	28.0%	\$ 238,484
09/30/2011	\$ 76,753	44.2%	\$ 281,283
09/30/2012	\$ 76,753	44.2%	\$ 324,082

**Funded Status and Funding Progress**

As of October 1, 2010, the actuarial valuation date, the actuarial accrued liability for benefits was \$604,940, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$604,940 and a funded ratio of 0%. The covered payroll (annual payroll of active participating employees) was \$7,652,641, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 7.9%. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time, relative to the actuarial accrued liabilities for benefits.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 7 - Postemployment Benefits Other Than Pensions *(Continued)***

**Actuarial Methods and Assumptions**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funding status of a plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of the valuation and the historical pattern of sharing of benefit costs between the employer and Plan members. The actuarial 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.

Annual requirements are determined in accordance with the actuarial assumptions and the Projected Unit Credit Actuarial Cost Method. The actuarial assumptions include a 4.5% discount rate, compounded annually, and it is based on the City's expected rate of discount, based on the assumption that the Plan will not be funded. The annual health care cost trend rate was assumed to decline gradually over the next several years from 9% in fiscal year 2011 to an ultimate rate of 5% in fiscal year 2015. The actuarial assumption did not include a payroll growth rate. Plan expenses are assumed included in premium rates. Benefits are assumed to be unfunded. Retiring participants were assumed to elect the same coverage they currently have under the Plan while active employees. Actual current coverage was used and status was assumed to continue. Marital status of active employees and retirees is actual, as reported. The actual age of the spouse was used if provided; if not available, assumed male spouses three years older and female spouses three years younger than employee.

**Retirees Eligible to Receive Benefits**

In accordance with State of Florida law, an employee retiring from employment at or after normal retirement date with the City will be eligible to participate in the City's employee group medical insurance plans for life so long as applicable premium payments continue to be paid. Retirees have the option to elect to continue medical benefits at retirement from the City, or during an open enrollment period, or in the event of a qualified event in accordance with federal and state laws.

**Benefits**

Presently, eligible retirees may elect to receive medical benefits under the same medical plan options as active employees. Eligible retirees may change between types of plans offered, add or drop eligible dependents, or reject or re-elect coverage during an open enrollment period. Benefits are those as described in each medical Plan's certificate of coverage.

**Retiree Contributions**

Retiree's contributions equal to 100% of the elected medical plan (blended rate) premiums applicable after retirement from employment from the City.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 7 - Postemployment Benefits Other Than Pensions (Concluded)**

**Actuarial Cost Method**

The Projected Unit Credit Actuarial Cost Method was used. Under this method, the cost of each member's projected retiree benefit is recognized through a series of annual charges, determined as that year's pro rata share of the actuarial present value (APV) of the projected benefits, and based on service earned to-date. The accrued value of normal cost payments due prior to the valuation date is termed the actuarial accrued liability (AAL). This amount minus actuarial value of assets is known as the unfunded actuarial accrued liability (UAAL). A yearly normal cost for each member is determined as the increase in the APV of projected retiree benefits due to service earned during that year. The annual cost of a plan consists of two components: normal cost and an amortization cost, which may vary between prescribed limits, toward the UAAL.

Actuarial gains (or losses), a measure of the difference between actual experience and that expected based upon the actuarial assumptions during the period between two valuation dates, as they occur, reduce (or increase) the UAAL.

It is intended that the UAAL be recognized over a thirty-year closed amortization period from October 1, 2010, the actuarial valuation date, through amortizations expressed as a level percentage of payroll. Changes in the UAAL resulting from actuarial gains or losses, or changes in actuarial assumptions, will be amortized over the remaining portion of the thirty-year period, but not less than fifteen years.

**Miscellaneous Valuation Procedures**

The medical benefit liability values were developed using average age-adjusted premiums for current retirees, even though the premiums applicable to retirees are based on the average costs of the entire participating group, both active and retired, as required under Florida law. The average age-adjusted premiums incorporate the application of Medicare as primary insurer of medical benefits for "retirees" age sixty-five or older that are no longer employed. It is also assumed that post-sixty-five participants in the City's program will also be participants in Medicare Parts A and B.

**Plan Assets**

No separate trust assets as of the valuation date.

**Summary of Census Data Used in the Valuation**

Membership in the Plan consisted of the following at October 1, 2010, the date of the latest actuarial valuation:

Future Retirees (Including DROP)	234
Retired and Disabled Participants Receiving Benefits	9
Spouses Receiving Benefits	2
Other Dependents Receiving Benefits	<u>0</u>
<b>Total Number of Participants and Dependents Included in Valuation</b>	<u><u>245</u></u>

**Note 8 - Restricted Net Assets**

The government-wide statements of net assets reports \$3,472,466 of restricted net assets, of which \$3,081,996 is restricted by external resource providers and \$390,470 is restricted by enabling legislation.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 9 - Interfund Accounts**

**Due from/to Other Funds**

At September 30, 2012, the balance due from/to other funds consists of the following:

<b>Due to</b>	<b><u>Amount</u></b>	<b><u>Due from</u></b>
General Fund	\$ 422,634	Fire Department Fund
General Fund	82,743	Nonmajor Funds
General Fund	40,000	Water and Sewer Fund
Water and Sewer Fund	<u>94,328</u>	Natural Gas Fund
<b>Due to Total</b>	<b><u>\$ 639,705</u></b>	

Interfund balances result from a time lag between dates that reimbursable expenditures occur and payments are made between funds as a result of the City's cash management system.

**Transfers in/out**

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

<b>Transfer (out)</b>	<b><u>Amount</u></b>	<b><u>Transfer in</u></b>
General Fund	\$ 292,823	Fire Department Fund
General Fund	17,982	Water and Sewer Fund
General Fund	2,525	Natural Gas Fund
General Fund	367,349	Nonmajor Funds
Nonmajor Funds	1,313,282	General Fund
Nonmajor Funds	299,960	Fire Department Fund
Nonmajor Funds	<u>177,041</u>	Nonmajor Funds
<b>Total</b>	<b><u>\$ 2,470,963</u></b>	

**Note 10 - Deficit Equity Balances**

The following individual fund shows deficit equity balances at September 30, 2012, in the amount shown below:

<b><u>Fund</u></b>	<b><u>Type</u></b>	<b><u>Deficit</u></b>
Drug Task Force Grant Fund	Nonmajor Governmental Fund	\$ (22,192)

**Note 11 - Commitments and Contingencies**

As of September 30, 2012, the City had outstanding commitments on contracts in progress as follows:

<b><u>Project Type</u></b>	<b><u>Unexpended Contract Amounts</u></b>
Water and Sewer Utility Improvements	\$ 379,245

Amounts received or receivable from grantor agencies are subject to audit or adjustment by grantor agencies, principally the federal government. Any disallowed claims including amounts already collected, could constitute liabilities of the applicable funds.

In the general course of business, the City is involved in various litigations. The majority of these are as defendant in litigation relating to claims arising from normal municipal activities. The City is insured for these types of suits and expects no significant adverse financial impact from the settlement of any of them.



**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Concluded)*

**Note 11 - Commitments and Contingencies (Concluded)**

The City agreed to participate with Columbia County and the Columbia County Industrial Development Authority to offer a collaborative economic package to Target Corporation as an inducement to locate a Target cold storage distribution center to a site within the City. The economic package to Target Corporation included an initial cash contribution to cover land development costs supplemented by a five-year commitment to contribute \$350,000 annually to the Columbia County Economic Development Fund, beginning fiscal year 2010 through 2014. During 2012, the City committed to an additional payment in 2015 to pay the difference between the total paid by the City to the Columbia County Economic Development Fund and the actual City tax paid by Target Corporation.

The City entered into an agreement with Columbia County (the County), and Lifeguard Ambulance Services of Florida, LLC (Lifeguard), for Lifeguard to provide the County and City with emergency medical services. As part of the agreement, the County will furnish and manage for and on behalf of Lifeguard emergency ambulance dispatch and communications services, the cost of which will be shared between the County and the City. Beginning October 1, 2011, and subsequently for five years, the City will pay \$79,448 annually for its share of the County's cost attributed to providing Lifeguard with emergency ambulance dispatch and communications services, and \$97,706 annually for emergency fire dispatch services.

The City is in the process of upgrading and expanding the wastewater system. The cost is currently estimated to be approximately \$15 million and will be financed through a combination of available funds and grant proceeds.

As part of operating the City's natural gas system, the City has committed to purchase various quantities of natural gas, at fixed and variable prices, over the next several years. These contracts allow the City to secure a reliable supply of natural gas for its customers. Currently, the anticipated demand for natural gas by the City's customers exceeds the supply scheduled in advance by the City.

**Note 12 - Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors or omissions; workers' compensation; and natural disaster. The City carries commercial insurance for accidental death and dismemberment, general liability and certain bonds. For the last three years, settled claims have not exceeded coverage, nor has there been any reduction in coverage.

The City is a member of the Florida Municipal Self-Insurance Fund (the Fund). The Fund was created to allow members to pool their liabilities pursuant to provisions in Florida Workers' Compensation Law. The City pays an annual premium to the Fund for workers' compensation coverage. The Fund's underwriting and rate setting policies were established after consulting with an independent actuary. The Fund is nonassessable and, therefore, the City has no liability for future deficits of the Fund, if any.

**Note 13 - Subsequent Events**

The City issued Sales Tax Revenue and Refunding Bond, Series 2012, on December 17, 2012, in the amount of \$5,006,394 which will be used to refund its Sales Tax Revenue and Refunding Bonds, Series 2011, pay costs of issuance, and finance certain capital projects.

**OTHER REQUIRED SUPPLEMENTARY INFORMATION**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PENSION FUNDING PROGRESS  
SEPTEMBER 30, 2012  
CITY OF LAKE CITY, FLORIDA**

**General Employees' Retirement Plan**

<b>Actuarial Valuation Date</b>	<b>(1) Actuarial Accrued Liability (AAL)</b>	<b>(2) Actuarial Value of Assets (AVA)</b>	<b>(3) Unfunded AAL (UAAL)</b>	<b>(4) Percentage Funded (2)/(1)</b>	<b>(5) Annual Covered Payroll</b>	<b>(6) UAAL as % of Payroll (3)/(5)</b>
9/30/06	\$ 15,017,812	\$ 11,546,676	\$ 3,471,136	76.89%	\$ 3,008,860	115.36%
9/30/07	15,434,964	12,407,086	3,027,878	80.38%	2,854,652	106.07%
9/30/08	16,180,762	12,457,060	3,723,702	76.99%	2,819,886	132.05%
9/30/09	17,314,834	12,143,726	5,171,108	70.13%	2,805,902	184.29%
9/30/10	17,481,490	12,286,593	5,194,897	70.28%	2,549,664	203.75%
9/30/11	18,686,675	12,277,990	6,408,685	65.70%	2,277,075	281.44%

**Firemen's Retirement Plan**

<b>Actuarial Valuation Date</b>	<b>(1) Actuarial Accrued Liability (AAL)</b>	<b>(2) Actuarial Value of Assets (AVA)</b>	<b>(3) Unfunded AAL (UAAL)</b>	<b>(4) Percentage Funded (2)/(1)</b>	<b>(5) Annual Covered Payroll</b>	<b>(6) UAAL as % of Payroll (3)/(5)</b>
9/30/06	\$ 6,467,466	\$ 5,159,055	\$ 1,308,411	79.77%	\$ 1,003,764	130.35%
9/30/07	6,696,637	5,738,297	958,340	85.69%	926,680	103.42%
9/30/08	6,797,874	6,156,431	641,443	90.56%	864,993	74.16%
9/30/09	6,833,641	6,067,826	765,815	88.79%	921,252	83.13%
9/30/10	7,126,536	6,610,581	515,955	92.76%	885,532	58.26%
9/30/11	7,625,697	6,494,063	1,131,634	85.16%	867,463	130.45%

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF PENSION FUNDING PROGRESS**  
**SEPTEMBER 30, 2012**  
**CITY OF LAKE CITY, FLORIDA**  
*(Concluded)*

**Police Retirement Plan**

<b>Actuarial Valuation Date</b>	<b>(1) Actuarial Accrued Liability (AAL)</b>	<b>(2) Actuarial Value of Assets (AVA)</b>	<b>(3) Unfunded AAL (UAAL)</b>	<b>(4) Percentage Funded (2)/(1)</b>	<b>(5) Annual Covered Payroll</b>	<b>(6) UAAL as % of Payroll (3)/(5)</b>
9/30/06	\$ 8,349,823	\$ 8,346,584	\$ 3,239	99.96%	\$ 1,459,153	0.22%
9/30/07	9,044,048	9,083,882	(39,834)	100.44%	1,438,659	-2.77%
9/30/08	9,310,635	8,994,192	316,443	96.60%	1,439,811	21.98%
9/30/09	9,756,041	8,885,979	870,062	91.08%	1,568,283	55.48%
9/30/10	9,992,664	9,029,276	963,388	90.36%	1,381,799	69.72%
9/30/11	10,545,723	8,939,113	1,606,610	84.77%	1,606,093	100.03%

Analysis of the dollar amounts of net assets available for benefits, AAL and UAAL in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the AAL provides one indication of the Plan's funded status on a going concern basis. Analysis of this percentage over time indicates whether the system is realizing its funding policy.

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS  
SEPTEMBER 30, 2012  
CITY OF LAKE CITY, FLORIDA**

**General Employees' Retirement Plan**

<b>Fiscal Year</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2006	\$ 741,233	81%
2007	667,701	77%
2008	674,923	102%
2009	727,523	95%
2010	886,237	77%
2011	910,615	143%

**Firemen's Retirement Plan**

<b>Fiscal Year</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2006	\$ 372,902	92%
2007	411,209	78%
2008	364,318	104%
2009	341,390	94%
2010	253,052	100%
2011	307,326	100%

**Police Retirement Plan**

<b>Fiscal Year</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2006	\$ 341,646	101%
2007	363,612	100%
2008	346,272	100%
2009	346,040	100%
2010	374,104	100%
2011	500,125	100%

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PENSION PLAN PROVISIONS  
SEPTEMBER 30, 2012  
CITY OF LAKE CITY, FLORIDA**

	<u>General Employees' Retirement Plan</u>	<u>Firemen's Retirement Plan</u>	<u>Police Retirement Plan</u>
<b>Valuation Date</b>	10/1/2011	10/1/2011	10/1/2011
<b>Actuarial Cost Method</b>	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method
<b>Amortization Method</b>	Straight-line	Straight-line	Level Percent of Payroll, Closed
<b>Amortization Period(s)</b>	2 to 15 Years Remaining	4 to 29 Years Remaining	9 to 25 Years Remaining
<b>Actuarial Asset Valuation Method</b>	Actuarial Value of Assets	Actuarial Value of Assets	4-Year Smoothed Market
<b>Actuarial Assumptions</b>			
Investment Rate of Return	7.75%	7.75%	7.75%
Projected Salary Increases	4% to 7%	4% to 7%	6%
Postretirement Benefit Increases	2%, if Over 20 Years Vested	2%, if Over Age 60	2%, if Over Age 60
Inflation	3.25%	3.25%	3.00%

**REQUIRED SUPPLEMENTARY INFORMATION  
OTHER POSTEMPLOYMENT BENEFITS PLAN  
SCHEDULE OF FUNDING PROGRESS  
SEPTEMBER 30, 2012  
CITY OF LAKE CITY, FLORIDA**

Actuarial Valuation Date	(1) Actuarial Accrued Liability (AAL)	(2) Actuarial Value of Assets (AVA)	(3) Unfunded AAL (UAAL)	(4) Percentage Funded (2)/(1)	(5) Annual Covered Payroll	(6) UAAL as % of Payroll (3)/(5)
10/1/2008	\$ 2,201,070	\$ 0	\$ 2,201,070	0.00%	\$ 6,108,308	36.03%
10/1/2010	604,940	0	604,940	0.00%	7,652,641	7.90%

Analysis of the dollar amounts of net assets available for benefits, AAL and UAAL in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the AAL provides one indication of the Plan's funded status on a going concern basis. Analysis of this percentage over time indicates whether the system is realizing its funding policy.

The financial reporting information for the City's OPEB program has changed significantly since the prior valuation was completed, due in large part to a change in the assumed utilization of Medicare by those retirees who are eligible for coverage. The actuarial valuation as of October 1, 2010, has assumed that post-65 participants in the City's program will also be participants in Medicare Parts A and B.

**SUPPLEMENTARY INFORMATION**



## NONMAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are restricted to expenditures for particular purposes. The City maintains the following special revenue funds:

**Airport Special Revenue Fund**—This fund accounts for receipts and expenditures from the activities of the Lake City Airport.

**Special Police Fund**—This fund accounts for confiscated assets, which are subsequently sold and the proceeds of which are restricted for police purposes.

**Drug Task Force Grant Fund**—This fund accounts for receipts and expenditures from a Joint Drug Task Force Grant with Columbia County from the U.S. Department of Justice.

**CDBG Housing Fund**—This fund accounts for receipts and expenditures from a Community Development Block Grant (CDBG) from the U.S. Department of Housing and Urban Development for housing assistance.

### DEBT SERVICE FUND

The debt service fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs other than obligations payable from the operations of the business-type activities.

### CAPITAL PROJECTS FUND

**Airport Capital Projects Fund**—This fund is used to account for major capital projects, typically grant-funded, related to the Lake City Airport.

**2011 Series Capital Projects Fund**—This fund is used to account for major capital projects, funded by proceeds of the Sales Tax Revenue and Refunding Bond, Series 2010.

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2012  
CITY OF LAKE CITY, FLORIDA**

	<u>Special Revenue Funds</u>					<u>Capital Projects Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Airport Special Revenue Fund</u>	<u>Special Police Fund</u>	<u>Drug Task Force Grant Fund</u>	<u>CDBG Housing Fund</u>	<u>Debt Service Fund</u>	<u>Airport Capital Projects Fund</u>	<u>2011 Series Capital Projects Fund</u>	
<b>Assets</b>								
Pooled Cash and Investments	\$ 773,625	\$ 42,750	\$ 0	\$ 115,057	\$ 155,539	\$ 0	\$ 110,440	\$ 1,197,411
Accounts Receivable	36,039	0	0	0	0	0	0	36,039
Due From Other Governments	0	0	22,192	0	0	0	0	22,192
Inventory	64,731	0	0	0	0	0	0	64,731
Prepays	2,560	0	0	0	0	0	0	2,560
<b>Total Assets</b>	<u>876,955</u>	<u>42,750</u>	<u>22,192</u>	<u>115,057</u>	<u>155,539</u>	<u>0</u>	<u>110,440</u>	<u>1,322,933</u>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities</b>								
Accounts Payable	110,392	0	0	0	0	0	0	110,392
Accrued Liabilities	9,027	0	0	0	0	0	0	9,027
Deferred Revenues	0	0	22,192	0	0	0	0	22,192
Advances from Other Funds	60,551	0	22,192	0	0	0	0	82,743
<b>Total Liabilities</b>	<u>179,970</u>	<u>0</u>	<u>44,384</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>224,354</u>
<b>Fund Balances</b>								
Nonspendable:								
Inventory	64,731	0	0	0	0	0	0	64,731
Prepays	2,560	0	0	0	0	0	0	2,560
Restricted for:								
Public Safety	0	42,750	0	0	0	0	0	42,750
Airport	629,694	0	0	0	0	0	0	629,694
Debt Service	0	0	0	0	91,614	0	0	91,614
Capital Projects	0	0	0	0	0	110,440	0	110,440
Assigned for:								
Economic Environment	0	0	0	115,057	0	0	0	115,057
Debt Service	0	0	0	0	63,925	0	0	63,925
Unassigned	0	0	(22,192)	0	0	0	0	(22,192)
<b>Total Fund Balances</b>	<u>696,985</u>	<u>42,750</u>	<u>(22,192)</u>	<u>115,057</u>	<u>155,539</u>	<u>0</u>	<u>110,440</u>	<u>1,098,579</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 876,955</u>	<u>\$ 42,750</u>	<u>\$ 22,192</u>	<u>\$ 115,057</u>	<u>\$ 155,539</u>	<u>\$ 0</u>	<u>\$ 110,440</u>	<u>\$ 1,322,933</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
CITY OF LAKE CITY, FLORIDA**

	Special Revenue Funds				Debt Service Fund	Capital Projects Funds		Total Nonmajor Governmental Funds
	Airport Special Revenue Fund	Special Police Fund	Drug Task Force Grant Fund	CDBG Housing Fund		Airport Capital Projects Fund	2011 Series Capital Projects Fund	
<b>Revenues</b>								
Intergovernmental	\$ 44,557	\$ 0	\$ 66,798	\$ 0	\$ 0	\$ 130,483	\$ 0	\$ 241,838
Charges for Services	1,142,954	0	0	0	0	0	0	1,142,954
Investment Earnings	186	8	0	0	0	0	1,346	1,540
Miscellaneous	41,549	4,698	0	0	0	0	0	46,247
<b>Total Revenues</b>	<u>1,229,246</u>	<u>4,706</u>	<u>66,798</u>	<u>0</u>	<u>0</u>	<u>130,483</u>	<u>1,346</u>	<u>1,432,579</u>
<b>Expenditures</b>								
Current:								
Public Safety	0	7,120	22,192	0	0	0	0	29,312
Airport	1,065,451	0	0	0	0	0	0	1,065,451
Debt Service:								
Principal Payments	0	0	0	0	173,120	0	0	173,120
Interest and Other Charges	0	0	0	0	193,338	0	0	193,338
Capital Outlay	155,275	0	66,798	0	0	184,126	0	406,199
<b>(Total Expenditures)</b>	<u>(1,220,726)</u>	<u>(7,120)</u>	<u>(88,990)</u>	<u>0</u>	<u>(366,458)</u>	<u>(184,126)</u>	<u>0</u>	<u>(1,867,420)</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>8,520</u>	<u>(2,414)</u>	<u>(22,192)</u>	<u>0</u>	<u>(366,458)</u>	<u>(53,643)</u>	<u>1,346</u>	<u>(434,841)</u>
<b>Other Financing Sources (Uses)</b>								
Proceeds from the Sale of Fixed Assets	45,250	0	0	0	0	0	0	45,250
Operating Transfers in	762	0	0	0	366,587	177,041	0	544,390
Operating Transfers (out)	(180,886)	0	0	0	0	0	(1,609,397)	(1,790,283)
<b>Total Other Financing Sources (Uses)</b>	<u>(134,874)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>366,587</u>	<u>177,041</u>	<u>(1,609,397)</u>	<u>(1,200,643)</u>
<b>(Deficiency) Excess of Revenues and Other Financing Sources (Under) Over Expenditures and Other Financing Uses</b>	<u>(126,354)</u>	<u>(2,414)</u>	<u>(22,192)</u>	<u>0</u>	<u>129</u>	<u>123,398</u>	<u>(1,608,051)</u>	<u>(1,635,484)</u>
<b>Fund Balances, Beginning of Year</b>	<u>823,339</u>	<u>45,164</u>	<u>0</u>	<u>115,057</u>	<u>155,410</u>	<u>(123,398)</u>	<u>1,718,491</u>	<u>2,734,063</u>
<b>Fund Balances, End of Year</b>	<u>\$ 696,985</u>	<u>\$ 42,750</u>	<u>\$ (22,192)</u>	<u>\$ 115,057</u>	<u>\$ 155,539</u>	<u>\$ 0</u>	<u>\$ 110,440</u>	<u>\$ 1,098,579</u>

**UTILITIES REVENUE AND REFUNDING BONDS, SERIES 2003, RATE COVENANT  
HISTORIC STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
CITY OF LAKE CITY, FLORIDA**

<b>Gross Revenues</b>	
Charges for Services	\$ 14,299,330
Interest and Miscellaneous Charges	484,421
<b>Total Gross Revenues</b>	<u>14,783,751</u>
<b>Total Operating Expenses, Excluding Interest, Amortization, and Depreciation</b>	<u>(9,153,675)</u>
<b>Net Revenue Available for Debt Service</b>	<u><u>\$ 5,630,076</u></u>
<b>Current Annual Debt Service</b>	
Debt Service on 2003 Bonds	\$ 691,638
<b>Total Current Annual Debt Service</b>	<u><u>\$ 691,638</u></u>
<b>Debt Service Coverage Ratio</b>	<u><u>8.14</u></u>
<b>Required Debt Service Coverage Ratio of Current Annual Debt Service</b>	<u><u>1.10</u></u>

**UTILITY SYSTEM REVENUE AND REFUNDING BONDS, SERIES 2010, RATE COVENANT  
HISTORIC STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
CITY OF LAKE CITY, FLORIDA**

<b>Gross Revenues</b>	
Charges for Services	\$ 11,488,577
Interest and Miscellaneous Charges	481,239
<b>Total Gross Revenues</b>	<u>11,969,816</u>
<b>Total Operating Expenses, Excluding Interest, Amortization, and Depreciation</b>	<u>(6,812,474)</u>
<b>Net Revenue Available for Debt Service</b>	<u>\$ 5,157,342</u>
<b>Debt Service on Prior Lien Obligations</b>	
Debt Service on 2003 Bonds	\$ 691,638
<b>Total Debt Service on Prior Lien Obligations</b>	<u>\$ 691,638</u>
<b>Debt Service Coverage Ratio on Prior Lien Obligations</b>	<u>7.46</u>
<b>Required Debt Service Coverage Ratio of Prior Lien Obligations</b>	<u>1.10</u>
<b>Current Annual Debt Service</b>	
Debt Service on 2003 Bonds	\$ 691,638
Debt Service on 2010A Bonds	398,119
Debt Service on 2010B Bonds	741,173
<b>Total Current Annual Debt Service</b>	<u>\$ 1,830,930</u>
<b>Debt Service Coverage Ratio</b>	<u>2.82</u>
<b>Required Debt Service Coverage Ratio of Current Annual Debt Service</b>	<u>1.10</u>

**ADDITIONAL ELEMENTS OF REPORT PREPARED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*,  
ISSUED BY THE COMPTROLLER GENERAL OF THE UNITED STATES;  
THE PROVISIONS OF THE OFFICE OF MANAGEMENT AND BUDGET  
(OMB) CIRCULAR A-133; THE *RULES OF THE AUDITOR GENERAL OF  
THE STATE OF FLORIDA*; AND OTHER CONTRACT REQUIREMENTS**

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

<b>Federal Awards</b>	<b>Grant/Contract Number</b>	<b>CFDA/CSFA Number</b>	<b>Contract or Award Amount</b>	<b>Receipts</b>	<b>Expenses*</b>
<b>U.S. Department of Justice</b>					
Direct Programs:					
Edward Byrne Memorial Justice Assistance Grant	2012-DJ-BX-0848	16.738	\$ 12,560	\$ 0	\$ 0
Edward Byrne Memorial Justice Assistance Grant	2011-DJ-BX-2138	16.738	14,759	14,535	14,535
Indirect Programs:					
Passed Through Florida Department of Law Enforcement:					
Edward Byrne Memorial Justice Assistance Grant	2012-JAGC-COLU-1-C4-110	16.738	29,838	6,640	28,832
Subtotal Expenditures - CFDA 16.738			<u>57,157</u>	<u>21,175</u>	<u>43,367</u>
Passed Through City of Tampa:					
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grant	2012-NC-BX-3070	16.580	4,544	0	4,544
<b>Total U.S. Department of Justice</b>			<u>61,701</u>	<u>21,175</u>	<u>47,911</u>
<b>U.S. Department of Transportation</b>					
Direct Programs:					
Airport Improvement Program	3-12-0039-017-2010	20.106	670,483	163,029	70,483
Airport Improvement Program	3-12-0039-019-2012	20.106	208,689	44,557	44,557
Subtotal Expenditures - CFDA 20.106			<u>879,172</u>	<u>207,586</u>	<u>115,040</u>
Indirect Programs:					
Passed Through Florida Department of Transportation					
State and Community Highway Safety	AQL10	20.600	100,000	69,943	94,051
<b>Total U.S. Department of Transportation</b>			<u>979,172</u>	<u>277,529</u>	<u>209,091</u>
<b>U.S Department of Homeland Security</b>					
Indirect Programs:					
Passed Through Florida Division of Emergency Management					
Disaster Grants - Public Assistance	13-DB-73-03-22-01-578	97.036	285,225	0	285,225
<b>Total U.S. Department of Homeland Security</b>			<u>285,225</u>	<u>0</u>	<u>285,225</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,326,098</u>	<u>\$ 298,704</u>	<u>\$ 542,227</u>

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
CITY OF LAKE CITY, FLORIDA  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal awards activity of the City of Lake City, Florida, (the City) under programs of the federal government for the year ended September 30, 2012. The information is presented in accordance with the requirement of OMB Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City. Expenditures reported on the schedule are presented on the accrual basis of accounting.



**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
CITY OF LAKE CITY, FLORIDA**

1. **Summary of Audit Results**

I. **Type of Audit Report Issued on Financial Statements**

Unqualified Opinion

II. **Significant Deficiency and/or Material Weaknesses in Internal Control**

The audit disclosed no significant deficiencies and/or material weaknesses in internal control over financial reporting.

III. **Noncompliance Material to Auditee Financial Statements**

The audit disclosed no material instances of noncompliance.

IV. **Significant Deficiencies and/or Material Weaknesses in Internal Control Over Major Federal Programs**

The audit disclosed no material weaknesses and/or significant deficiencies in internal control over major federal programs that are required to be reported in the schedule of findings and questioned costs.

V. **Type of Audit Report Issued on Compliance with Requirements Applicable to Major Federal Programs**

Unqualified Opinion

VI. **Audit Findings Relative to Section .510(a) of OMB Circular A-133**

The audit disclosed no findings required to be reported under Section .510(a) of OMB Circular A-133.

VII. **The Programs Tested as Major Programs/Projects Included the Following:**

<u>Federal Program</u>	<u>CFDA No.</u>
Disaster Grants – Public Assistance	97.036

VIII. **Dollar Threshold Used to Distinguish Between Type A and Type B Programs**

\$300,000 for Major Programs

IX. **Auditee Qualification as Low-risk Auditee**

The auditee does not qualify as low-risk under OMB Circular A-133.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEDERAL AWARDS PROGRAMS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
CITY OF LAKE CITY, FLORIDA  
(Concluded)**

2. **Findings Related to the Financial Statements Required to be Reported Under GAGAS**

The audit disclosed no findings that required to be reported under generally accepted *Government Auditing Standards* (GAGAS).

3. **Findings and Questioned Costs for Major Federal Programs**

The audit disclosed no findings for major federal programs required to be reported under OMB Circular A-133.

4. **Status of Prior Audit Findings**

There were no prior year findings required to be reported in accordance with OMB Circular A-133.

---

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

Honorable Mayor and City Council  
City of Lake City  
Lake City, Florida

**Compliance**

We have audited the compliance of the City of Lake City, Florida, (the City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*, that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2012. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

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

**Internal Control Over Compliance**

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

**Certified Public Accountants**

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461 • FAX (352) 378-2505  
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542  
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762  
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309  
MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS  
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Honorable Mayor and City Council  
City of Lake City  
Lake City, Florida

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

**Internal Control Over Compliance (Concluded)**

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

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

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

*Purvis, Gray and Company, LLP*

March 11, 2013  
Gainesville, Florida

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and City Council  
City of Lake City  
Lake City, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake City, Florida, (the City), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 11, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

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

**Certified Public Accountants**

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461 • FAX (352) 378-2505  
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542  
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762  
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309  
MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS  
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Honorable Mayor and City Council  
City of Lake City  
Lake City, Florida

**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*  
(*Concluded*)**

**Compliance and Other Matters**

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

We noted a certain matter that we reported to management of the City, in a separate letter dated March 11, 2013. The City's response to the certain matters identified in our audit is described in the accompanying letter completed by management. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, finance committee, management, the Florida Auditor General, and agencies providing federal awards and state financial assistance and is not intended to be and should not be used by anyone other than these specified parties.

*Purvis, Gray and Company, LLP*

March 11, 2013  
Gainesville, Florida

## MANAGEMENT LETTER

Honorable Mayor and City Council  
City of Lake City  
Lake City, Florida

We have audited the financial statements of the City of Lake City, Florida, (the City), as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated March 11, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and 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 report on internal control over financial reporting and compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*, independent auditors' report on compliance with requirements that could have a direct and material effect on each major federal program and on internal control over compliance in accordance with OMB Circular A-133, and schedule of findings and questioned costs. Disclosures in those reports and schedule, which are dated March 11, 2013, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, *Rules of the Auditor General*, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' 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 recommendation made in the preceding annual financial audit reports. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, except as noted below under the heading Prior Year Findings and Recommendations.
- 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. In connection with our audit, we have the following recommendation:

### Certified Public Accountants

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461 • FAX (352) 378-2505  
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542  
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762  
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309  
MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS  
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Honorable Mayor and City Council  
City of Lake City  
Lake City, Florida

## MANAGEMENT LETTER

(Continued)

### **Prior Year Findings and Recommendations**

#### **11-2 Pension Contributions**

*Condition*—The City has previously underfunded the annual required contribution to the General Employees' Retirement Plan which resulted in a net pension obligation. While the City made an additional contribution of \$477,529 during 2012 to reduce it, the net pension obligation of the City as of September 30, 2012, is estimated to be \$236,238.

*Effect*—Continuing to underfund the annual required contribution results in an increasing liability of the City and increased contribution amounts in the following years.

*Recommendation*—We recommend the City assure that funding to the General Employees' Retirement Plan meet the annual required contribution and consider additional contributions to help eliminate the current underfunding.

- Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that we address violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)5., *Rules of the Auditor General*, provides that the auditor may, based upon professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)6., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is included in Note 1 to the financial statements.
- Section 10.554(1)(i)7.a., *Rules of the Auditor General*, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)7.b., *Rules of the Auditor General*, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2012, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes is in agreement with the annual financial audit report for the fiscal year ended September 30, 2012. In connection with our audit, we determined that these two reports were in agreement.



Honorable Mayor and City Council  
City of Lake City  
Lake City, Florida

**MANAGEMENT LETTER**  
*(Concluded)*

- Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), *Rules of the Auditor General*, we applied financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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

*Purvis, Gray and Company, LLP*

March 11, 2013  
Gainesville, Florida



# City of Lake City

---

**Finance Administration**  
205 North Marion Avenue  
Lake City, Florida 32055-3918

March 8, 2013

Honorable Mayor and City Council  
City of Lake City  
Lake City, Florida

This correspondence is submitted in response to the independent auditor's report on the management letter for the fiscal year ending September 30, 2012.

Prior Year Findings and Recommendations

11-2 - Auditor's Comment Pension Contributions

Condition – The City has previously underfunded the annual required contribution to the General Employees' Retirement Plan which resulted in a net pension obligation. While the City made an additional contribution of \$477,529 during 2012 to reduce it, the net pension obligation of the City as of September 30, 2012, is estimated to be \$236,238.

Recommendation – We recommend the City assure that funding to the General Employees' Retirement Plan meet the annual required contribution and consider additional contributions to help eliminate the current under funding.

City's Response – The City budgeted \$236,238 in 2013 fiscal year to the General Employees' Retirement Plan to eliminate the underfunding of the plan from the actuarial valuation dated October 1, 2011.

We would like to express our gratitude for the professional manner in which you and your staff conducted the audit.

Respectfully,

*Donna R. Duncan, CPA*

Donna R. Duncan, CPA  
Finance Director

*Wendell Johnson*  
Wendell Johnson  
City Manager