

CITY OF AVON PARK, FLORIDA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

Prepared by:

Renée A. Green, CPA

Finance Director

INTRODUCTORY SECTION

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CITY OF AVON PARK

Highlands County, Florida

Office of the City Manager
110 East Main Street
Avon Park, Florida 33825

March 24, 2011

To the Citizens of the City of Avon Park, Florida:

I am pleased to present to you, the citizens of Avon Park, the Comprehensive Annual Financial Report (CAFR) of the City of Avon Park, Florida, (the City) for the fiscal year ended **September 30, 2010**.

The Finance Director and her staff prepared this report. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Finance Director of the City. We believe the data, as presented, are accurate in all material respects and are presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. In addition, all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have also been included.

The CAFR contains four major sections: Introductory, Financial, Statistical, and Compliance. The Introductory Section is designed to give the reader general information on the government structure, services and environment. The Financial Section includes the Management Discussion and Analysis (MD&A) and the Basic Financial Statements including notes and the required supplementary information. The Statistical Section reflects social and economic data, financial trends and the fiscal capacity of the City. The Compliance Section includes independent auditors' reports on (1) compliance and on internal control over financial reporting and (2) management letter of independent auditors required by chapter 10.550, Rules of the Auditor General.

SIGNIFICANT CHANGES IN PRESENTATION

This is **the** sixth year the City prepared the CAFR and the fifth year using the new financial reporting requirements and prescribed by GASB Statement No. 34. This GASB Statement requires management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of a MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

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PROFILE

The City is located on U.S. Highway #27 in Highlands County, Florida, in the center of the state. It was founded in 1886 and incorporates 8.1 square miles within its corporate limits. The City, a municipality under the laws of the State of Florida, was incorporated in 1926 when Florida Law Chapter 12512 approved its original charter. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by State Statute to extend its corporate properties located within its boundaries. It also is empowered by State Statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

The City has operated under the council-city manager form of government since 1986. The Council is comprised of the Mayor and four Council persons. The Council serves as the policy-making and legislative authority. The Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees and hiring both the City's manager and attorney. The City Manager is responsible for carrying out the policies and ordinances of the council, for overseeing the day-to-day operations of the City and for appointing the heads of the various departments.

The City provides public safety, public works, recreation and general government services to its approximately 8,824 residents. The City also operates water and wastewater, airport and solid waste enterprises.

The annual budget serves as the foundation for the City's financial planning and control. All departments are required to submit requests for appropriations to the City's Finance Director by June 1 each year. The Finance Director uses these requests as a starting point for developing a proposed budget. The Finance Director and the City Manager present the proposed budget to the Council for review. Public hearings are held in September and the budget is adopted by the end of September.

ECONOMIC OUTLOOK

The City is known as "The City of Charm", "The City of Champions" and "Home of the Mile Long Mall".

- Citrus and its related industries, retail sales and service industries provide the primary source of economic activity in Highlands County. The taxable value of real property decreased 10 percent in 2010. New construction decreased 61 percent over last year.
- The Nation's economic factors have greatly influenced our City. Negative economic growth is correlated with decreased revenues from property taxes, sales taxes, and charges for services as well as state and federal grants.
- The unemployment rate for the County was 12 percent for the month of December 2010, which is greater than the state of Florida rate of 11.6 percent and greater than the national rate of 9.1 percent. This is the highest rate in over 25 years.
- At this time the State of Florida has not released any revenue estimates for budget year 2011.

Avon Park Executive Airport (AVO) is located on State Road 64 in Avon Park approximately ½ mile west of U.S. Highway 27. The 325-acre airport services general aviation aircraft and pilots. It is the home of four aviation-related businesses, two corporate hangars and 58 single and twin engine T-hangars. In addition to aviation related activities, the airport is home to a caladium bulb processing facility that ships internationally. Current projects include Runway Landing Designator markings design and construction and rehabilitate taxiway E lighting and electrical vault design.

Avon Park is experiencing a downward decline in growth but the need to improve infrastructure is still there. In 2009 and 2010, The City began a large project of rehabilitating and upgrading the wastewater treatment plant. The City started an aggressive fire hydrant replacement plan in 2009 and completed this project in 2010.

In 2010, the City rehabilitated four major lift stations. In addition, the City replaced ahead of schedule the fire station lift station. Both water treatment plants were modernized by installing variable frequency drives, along with modern day instrumentation to optimize operations. The City also rehabilitated the return activated sludge pump room at the waste water treatment plant.

The City acquired the Valencia Acres wastewater utility system in 2010 which consisted of ninety three (93) residential accounts. The purchase cost was \$10,000. The estimated recurring revenues is approximately \$26,000 annually.

The City decommissioned the Shad water plant and converted the Grouper water plant into a booster pump station. These improvements will save \$40,000 annually in staff costs, and save over \$15,000 in operating costs. Utilities staff also changed over four hundred (400) meters in Sebring Ridge to radio read meters.

The City repaired over one thousand (1,000) feet of damaged sidewalks. The City also repaved and reconstructed over twelve (12) miles of roadway infrastructure.

The City's utilities department started processing wastewater septage from septic tank waste and small treatment systems. This was implemented in March 2010. Revenues received for 2010 were approximately \$61,645.

FUTURE CONCERNS AND PLANNING

City staff and Council have begun planning for the next year due to the decline in the economy. As noted above the unemployment rate is constantly growing. As of February 2011 new estimates are projecting taxable values of property will decline eight to ten percent. With the passing of Amendment 1 in January 2008 and the new caps on millage rates, the City has been experiencing a decline in funds. An eight percent decrease in tax revenue will result in approximately \$111,147.

The City is taking aggressive steps to monitor the current year's budget. Planning for a lower budget amount in 2011 will include reorganizing some departments, lower working hours on some employees to 32 hour work week and eliminating some contract work by using City employees.

The Public Works Director is researching new avenues of generating revenue for the water/sewer funds. He has implemented new cost saving ideas in the departments.

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The City is purchasing a water/sewer system in Crystal Lakes owned by Mink Inc. This will increase our customer base by approximately 530 customers. Estimated annual revenues is \$324,805. This purchase will be through a revenue certificate with Highlands Independent Bank for \$400,000.

We are looking at combining duplicated services with other municipalities and with the County.

FINANCIAL INFORMATION

Readers of this report are encouraged to read the MD&A report. The MD&A provides basic financial information about the City and an overview of the City's activities.

INDEPENDENT AUDIT

The City's financial statements have been audited by James Moore & Co., P.L., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2010, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluation the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended September 30, 2010, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader federal mandated single audit designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the City's internal controls and compliance with legal requirements, with special emphasis on those internal controls and legal requirements involving the administration of federal awards. These reports are in the compliance section of this report.

In addition to meeting the requirements set forth in the Florida Statutes Section 218.39, the audit also was designed to meet the requirements of *Government Auditing Standards* and Rules of the Auditor General, Chapter 10.550.

CASH MANAGEMENT

Cash temporarily idle during the year was invested in the Local Government Surplus Funds Trust Fund. The Local Government Surplus Funds Trust Fund was established to assist units of local government in maximizing net earnings on invested surplus funds, reducing the need for the imposition of additional taxes upon local constituents. The portfolio objective is to provide a short-term, very liquid, and high

quality investment. The city has invested in cash money funds and fixed income account in U.S. Treasury Securities.

RISK MANAGEMENT

The City entered into an agreement with other political subdivisions to create a local government risk management pool called Public Risk Management of Florida (PRM). PRM was organized to develop and administer a protected self-insured retention program of property and casualty coverage for its member organizations. PRM provides the City with coverage for risks in the areas of property, automobile, general liability, workmen's compensation, and public officials' liability.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Avon Park for its CAFR for the fiscal year ended September 30, 2009. This was the fifth year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

The certificate of achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. Credit also must be given to the Mayor and the City Council for their support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully submitted,

Maria Sutherland
City Manager

Renée A. Green, CPA
Finance Director

Julian Deleon
Interim City Manager

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Certificate of Achievement for Excellence in Financial Reporting

Organizational chart obtained from the client

PLEASE INCLUDE THE SAME AS 2009. NO CHANGES UNTIL 2011.
RENEE

List of Principal Officials

City Council

Sharon Schuler, Mayor

Brenda Gray, Deputy Mayor

Al Joe Hinson, Councilman

Paul Miller, Councilman

Terry Heston Councilman

City Attorney

Gerald Buhr

City Manager

Maria Sutherland

Interim City Manager

Julian Deleon

Finance Director

Renée A. Green, CPA

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Avon Park, Florida (the City), as of and for the year ended September 30, 2010, which collectively comprise City of Avon Park, Florida's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Avon Park, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City of Avon Park Firefighters' Retirement System and Police Officers' Retirement System which statements are summarized in the Statement of Plan Net Assets and Statement of Changes in Plan Net Assets as of and for the year ended September 30, 2010. This represents one-hundred percent of the fiduciary funds assets and the aggregate remaining fund information, and ninety-one percent of revenues. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included in the Statement of Plan Net Assets and Statement of Changes in Plan Net Assets, is based on the reports of the other auditors.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Avon Park, Florida, as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and respective budgetary comparisons for the general, infrastructure and CRA funds 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 24, 2011**, on our consideration of City of Avon Park, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

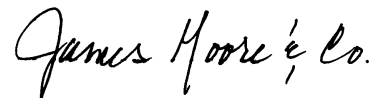
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress, as listed in the table of contents, be

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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 City of Avon Park, Florida's basic financial statements. The introductory section and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Combining Schedule of Deposits and Withdrawals – CRA Funds is presented for purposes of additional analysis as required by *Florida Statutes 163.387(8) Redevelopment trust fund* and is not a required part of the basic financial statements. The Combining Schedule of Deposits and Withdrawals – CRA Funds has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Daytona Beach, Florida
March 24, 2011



MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Avon Park (the City) offers this narrative overview and analysis of the financial activities of the City for the fiscal year ended **September 30, 2010**. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1 – 5 of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$30,840,655. Of this amount, \$1,209,304(unrestricted net assets) has a positive balance. In the past this amount has been negative balance. This shows the City is improving their net assets.
- As of the close of the current fiscal year, the City reported combined governmental ending fund balances of \$4,340,707, an increase of \$91,953 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,303,895 or 23 percent of total general fund expenditures.
- The City's non- current liabilities decreased by \$1,133,319 (15%) during the current year. The factors in this change are principal payments of \$1,064,405, and a decrease in compensated absences of \$89,300..

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 25 - 26 of this report.

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

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

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

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

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

The basic governmental fund financial statements can be found on pages 27 - 33 of this report.

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and

sewer operations, airport operations and solid waste operations, which are all considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 34 - 37 of this report.

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

The basic fiduciary fund financial statements can be found on pages 38 - 39 of this report.

Notes To Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 40 - 65 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 67 - 68 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$30,840,655 at the close of the most recent fiscal year.

The largest portion of the City's net assets (79 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (13 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is \$1,209,304. The past few years the unrestricted net assets were a negative balance due to cash deficits in the airport and water/sewer funds.

CITY OF AVON PARK'S NET ASSETS

	Governmental Activities 2009	Governmental Activities 2010	Business- type Activities 2009	Business- type Activities 2010	Total 2009	Total 2010
Current and other assets	\$5,040,860	\$4,865,038	\$2,569,984	\$3,998,087	\$ 7,610,844	\$ 8,863,125
Capital assets	8,956,099	9,661,265	20,477,499	20,054,003	29,433,598	29,715,268
Total assets	13,996,959	14,526,303	23,047,483	24,052,090	37,044,442	38,578,393
Long-term liabilities outstanding	1,729,936	1,461,535	5,937,485	5,072,567	7,667,421	6,534,102
Other liabilities	375,234	323,626	900,860	880,010	1,276,094	1,203,636
Total liabilities	2,105,170	1,785,161	6,838,345	5,952,577	8,943,515	7,737,738
Net assets:						
Invested in capital assets, net of related debt	7,975,124	8,885,690	16,251,607	16,667,811	24,226,731	25,553,501
Restricted	2,893,280	2,643,382	1,568,973	1,414,468	4,462,253	4,057,850
Unrestricted	1,023,385	1,192,070	(1,611,442)	17,234	(588,057)	1,209,304
Total net assets	\$11,891,789	\$12,721,142	\$16,209,138	\$18,099,513	\$28,100,927	\$30,820,655

CITY OF AVON PARK'S CHANGES IN NET ASSETS

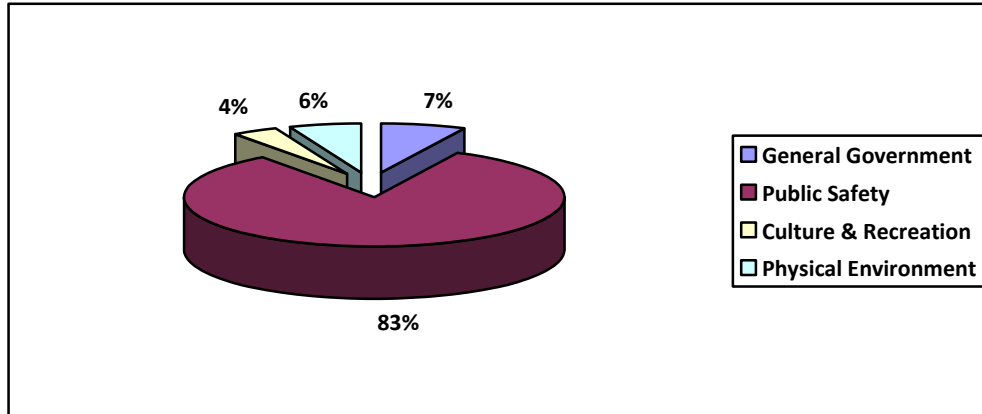
	Governmental Activities 2009	Governmental Activities 2010	Business- Type Activities 2009	Business- Type Activities 2010	Total 2009	Total 2010
Revenues:						
Program revenues:						
Charges for services	\$1,148,470	\$1,214,420	\$4,988,531	\$ 5,862,266	\$ 6,137,001	\$7,076,686
Operating grants and contributions	580,802	573,842	-	-	580,802	573,842
Capital grants and contributions	1,086,493	271,478	693,950	309,868	1,780,443	581,346
General Revenues:						
Property taxes	1,556,117	1,511,158	-	-	1,556,117	1,511,158
Other taxes	2,236,688	2,322,137	-	-	2,236,688	2,322,137
Other	1,056,459	983,429	62,652	29,194	1,119,111	1,012,623
Total revenues	7,665,029	6,876,464	5,745,133	6,201,328	13,410,162	13,077,792
Expenses:						
General government	635,939	686,201	-	-	635,939	686,201
Public Safety	3,449,934	3,748,882	-	-	3,449,934	3,748,882
Physical Environment	601,986	651,747	-	-	601,986	651,747
Culture and Recreation	682,083	630,786	-	-	682,083	630,786
Economic Environment	208,495	153,723	-	-	208,495	153,723
Interest on long-term debt	73,011	43,443	-	-	73,011	43,443
Water/Sewer	-	-	2,879,831	2,742,031	2,879,831	2,742,031
Airport	-	-	578,119	611,963	578,119	611,963
Solid Waste	-	-	1,132,480	1,089,288	1,132,480	1,089,288
Total expenses	5,651,448	5,914,782	4,590,430	4,443,282	12,123,326	10,358,064
Increase in net assets before transfers	2,013,581	961,682	1,154,703	1,915,031	3,168,284	2,876,713
Transfers	(91,529)	(132,329)	91,529	132,329	-	-
Increase in net assets	1,922,052	829,353	1,246,232	1,890,375	3,168,284	2,719,728
Net assets, beginning	9,969,737	11,891,789	14,962,906	14,962,906	24,932,643	26,854,695
Restated						
Net assets, ending	\$11,891,789	\$12,721,142	\$16,209,138	\$18,099,142	\$28,100,927	\$30,820,284

Governmental Activities. Governmental activities increased by \$829,353 thereby accounting for 30 percent of the total growth in the net assets of the City. Key elements of this increase are as follows:

The City's governmental activities had net expenses of \$1,098,058. These services are intended to be primarily funded by taxes, as opposed to charges for services and grants. The City's business-type activities had net revenue of \$1,885,837.

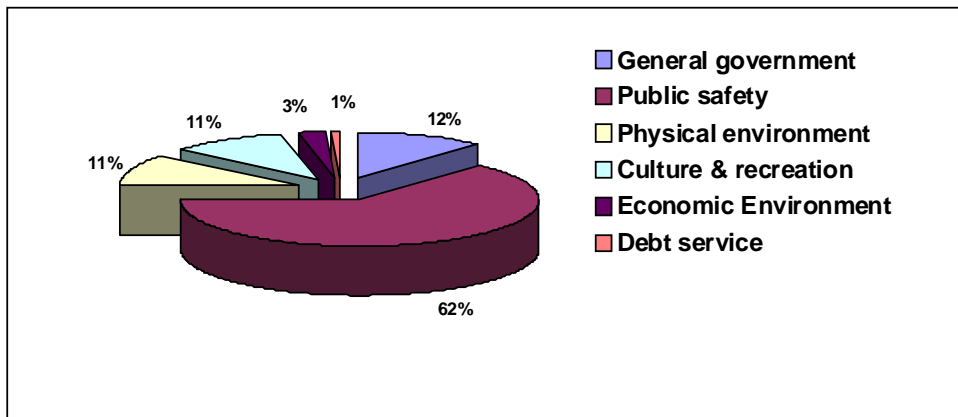
Property taxes decreased by \$44,959 (3 percent) during the year. Operating grants and contributions and capital grants and contributions decreased by \$821,975. This was due to the C.D.B.G. streetscape grant and the TEA21 streetscape grant was mostly completed in 2009.

PROGRAM REVENUES – GOVERNMENTAL ACTIVITIES
2009-10 Fiscal Year

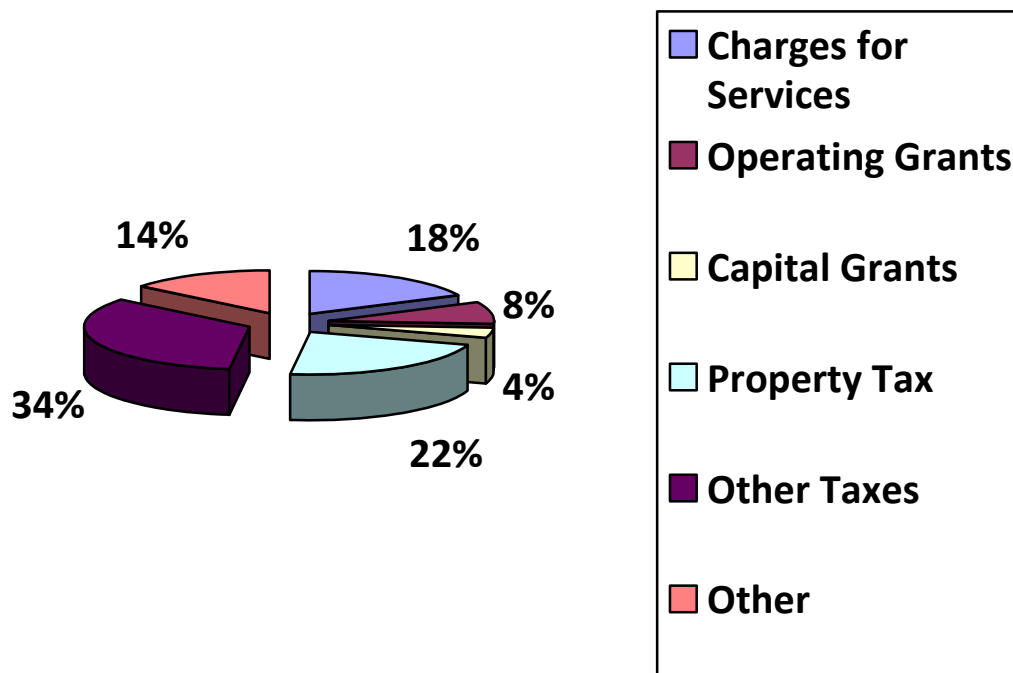


PROGRAM EXPENSES – GOVERNMENTAL ACTIVITIES

2009-10 Fiscal Year



REVENUES BY SOURCE-GOVERNMENTAL ACTIVITIES
2009-10 Fiscal Year



Business-type Activities. Business-type activities account for 59 percent of the City's net assets. The City maintains three enterprise funds: water and sewer, airport and solid waste. The water and sewer fund and solid waste fund derive income from service fees and interest. The airport revenues are derived from rental of the facilities.

Business-type activities increased the net assets by \$1,890,004. Key elements of this increase were as follows:

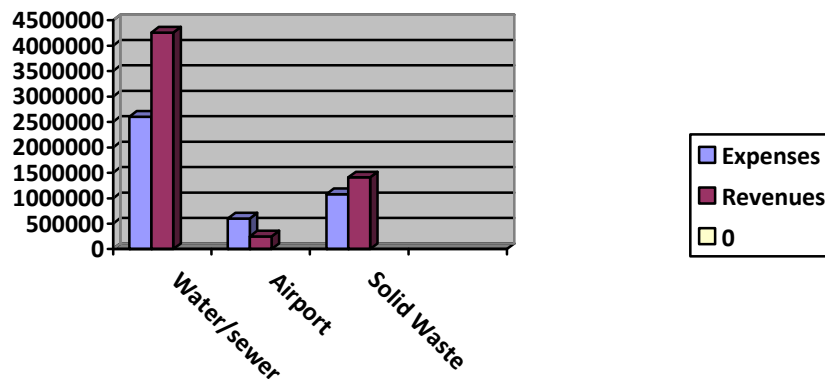
Charges for services for business-type activities increased 18 percent.

Investments in capital assets, net of related debt for business-type activities increased by 3% due to increase in airport assets by \$416,204 which consist of \$110,544 for lift stations, and \$80,569 for equipment and fire hydrants.. Increase in water/sewer assets of \$136,024 memorial drive extensions. The airport fund included \$68,666 for improvement and taxiway design and lights. Water/sewer fund Improvements to Sebring Ridge Meters \$37,233.

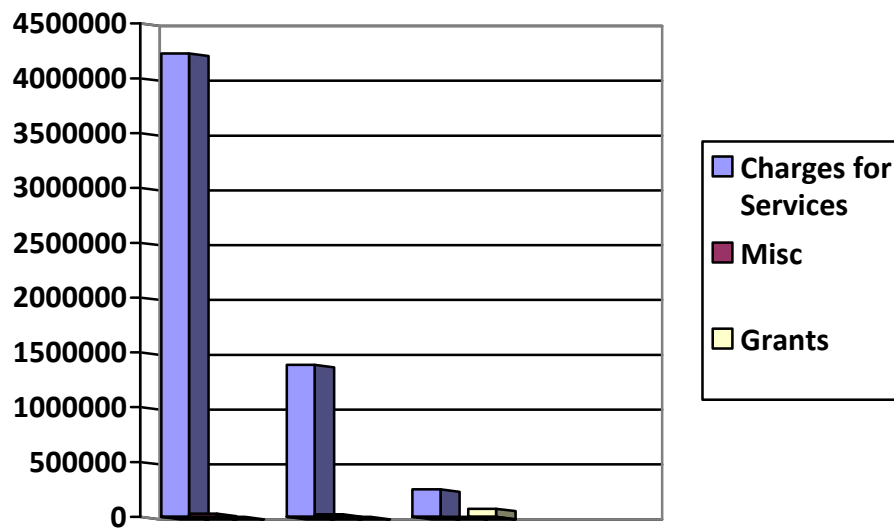
The Airport fund has a deficit of unrestricted net assets in the amount of \$1,051,821, an increase in deficit from prior year of \$68,984 due to the funds received are invested in "capital" assets. The Airport Fund is showing an operating loss of \$351,965 a decrease of \$5,161 from 2009.. Operating revenues received were not enough to cover the operating expenses. The main contributor to the loss is the interest and liabilities recorded on the industrial building rental.

The Solid Waste Fund has operating income of \$329,729 an decrease of \$72,449 from prior year. Operating expenses decreased by \$91,997.

EXPENSES AND PROGRAM REVENUES- BUSINESS-TYPE ACTIVITIES 2009-10 Fiscal Year



REVENUES BY SOURCE – BUSINESS-TYPE ACTIVITIES
Fiscal Year 2009-10



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending balances of \$4,340,707, a decrease of \$91,953 in comparison of the prior year. Approximately \$4,261,963, or 98 percent, is in unreserved fund balance, which is available for spending at the City's discretion. The City's infrastructure fund, CRA Funds and CDBG fund are unrestricted within the fund but have overall restrictions. The remainder of fund balance is reserved to indicate it is not available for new spending as it has been committed.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,634,665 while total fund balance reached \$1,713,409. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 29 percent of total general fund expenditures, while total fund balance represents 30 percent of that same amount.

The fund balance of the City's general fund increased by \$154,906 during the current fiscal year. Key factors in this increase were due to increased revenues of \$ 220,515.

The fund balance of the City's infrastructure fund decreased by \$352,635 during the current fiscal year. Key factors in this decrease were due to increases in capital outlay of \$464,736 and transfer to water/sewer fund of \$182,329.

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

Unrestricted net assets of the Water and Sewer fund at the end of the year were \$110,010. The Airport fund and Solid Waste funds unrestricted net assets were \$(1,051,821) and \$922,672 respectively. Other factors concerning the finances of these three funds have already been addressed in the discussion of the City's business-type activities.

GOVERNMENTAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget for the general fund were a \$459,108 increase in revenues and a \$573,898 increase in expenditures. These differences were as follows:

Loan Proceeds revenues increased \$300,000 due to Revenue used for Street Improvements and sidewalks. Revenues received for the Main Street S. Lake Ave. Lighting project was increased by \$50,000. Rental on governmental buildings increased by \$47,900 due to unbudgeted revenue from AT&T tower lease.

- Miscellaneous revenues increased \$20,000 due to transfer from CRA for parks.
- Police Department expenditures increased \$51,200 due to increase of increase in Overtime. The Fire Department salaries increased by \$ \$53,559 which was a re-class from executive salaries to regular salaries in the amount of \$37,350 and \$22,800 for overages at year end.
- Planning and Zoning expenditures increased by \$40,601 for pay out of an employee.
- Street Department expenditures increased \$36,220 due to purchase of 2 lawn movers approx. \$12,170 and the purchase of two used vehicles \$18,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2010 amounts to \$29,715,268 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, and curbs and sidewalks. The total decrease in the City's investment in capital assets for the current fiscal year was 1 percent.

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

- A variety of street projects including resurfacing existing roads, addition of new sidewalks and curbing. The total for the year was \$749,362 and \$28,204 for storm water improvements.
- CIP increased due to Memorial Field concession stand, Aline McWhite playground, the TEA 21 Museum Avenue and CDBG Street scape in the amount of \$149,345.
- Projects for airport improvements increased \$69,478 due to Taxiway design and other improvements to the FBO building.
- Water and sewer improvements included water and sewer mains, extensions, improvements to the system, and equipment. The total additions for the year were approximately \$607,037. Equipment purchases were approximately \$34,264, Fire hydrants \$46,304. The water extension from Memorial Ave. to Sebring Ridge \$136,024.

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

	Governmental Activities	Governmental Activities	Business- type Activities	Business- type Activities	Total	Total
	2009	2010	2009	2010	2009	2010
Land	\$ 316,634	\$ 316,174	\$ 818,360	\$ 818,360	\$ 1,134,994	\$ 1,134,994
Buildings & system	2,844,164	2,755,807	17,078,050	16,970,906	19,514,218	19,726,713
Machinery & Equipment	1,685,529	1,569,369	2,116,740	1,829,734	4,108,131	3,399,103
Infrastructure	2,934,335	3,709,959	-	-	2,102,721	3,709,959
Intangible Assets						
Construction in progress	0	0		81,948	0	81,948
	1,175,437	1,309,956	464,349	337,107	1,622,426	1,647,063
	<u>\$8,956,099</u>	<u>\$9,661,265</u>	<u>\$20,477,499</u>	<u>\$20,038,055</u>	<u>\$28,482,490</u>	<u>\$29,699,780</u>

Additional information on the City's capital assets can be found on Note 4 on pages 51 - 53 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$6,579,102. Of this amount, \$3,120,000 comprises debt secured by specific revenue sources (revenue bonds) and \$1,568,581 is for notes payable, \$791,517 for future landfill closure, \$382,414 for compensated absences and \$678,832 for deferred revenue relating to the airport industrial building. For year 2010 liability was added for Other Post-Employment Benefits for \$37,758.

CITY OF AVON PARK'S OUTSTANDING DEBT

	Governmental Activities	Governmental Activities	Business- type Activities	Business- type Activities	Total	Total
	2009	2010	2009	2010	2009	2010
Loans payable and other obligations	\$1,729,936	\$1,461,535	\$2,097,413	\$1,997,567	\$3,827,349	\$3,459,102
Revenue bonds	-	-	3,585,000	3,120,000	3,585,000	3,120,000
Total	\$1,729,936	\$1,461,535	\$5,682,413	\$5,117,567	\$7,412,349	\$6,579,102

The City's total debt decreased \$833,247 (11 percent) during the current fiscal year. The City maintains an "A-" rating from Standard & Poor's.

General debt includes a loan for street improvements that is secured by a pledge of non-ad valorem revenues. The loan payable at the end of the current fiscal year is \$1,060,000.

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Business-type debt includes water and sewer Revenue Bonds, Series 2003 due in annual installments of \$585,314 to \$589,720. Bond payment at the end of the current fiscal year is \$3,120,000.

Additional information on the City's long-term debt can be found in Note 5 on pages 54 - 56 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Economic growth in the local economy is influenced by local and national economic factors. Negative economic growth is correlated with decreased revenues from property taxes, sales taxes, and charges for services as well as state and federal grants. Unemployment, new construction, assessed valuation, and growth are indicators of economic growth.

- The taxable value of real property in the City decreased 8 percent over last year. Estimates for 2010-2011 expect a 10 to 12 percent decrease in property values.
- New construction decreased 58 percent over last year.
- The unemployment rate for the County was 12 percent for the month of December 2010, which is higher than the state of Florida rate of 11.6 percent and greater than the national rate of 9.1 percent. This is the highest rate in over 25 years.
- Building and construction permits for year ending totaled 289 permits. For year ending 2010 the total of permits issued in the City was 31 percent decrease.

On January 29, 2008, the Florida electorate approved an amendment to the Florida Constitution relative to property taxation. This amendment (referred to as Amendment 1) was placed on the ballot by the Florida Legislature at a special session held in October 2007. With respect to homestead property, Amendment 1 increases the current \$25,000 homestead exemption by another \$25,000 (for property values between \$50,000 - \$75,000), except for school district taxes. Since the new \$25,000 homestead exemption does not apply to school district taxes, this effectively amounts to a \$15,000 increase to the existing homestead exemption, resulting in an estimated annual savings of \$240 for an average homeowner. Amendment 1 also allows property owners to transfer (make portable) up to \$500,000 of their Save Our Homes benefits to their next homestead when they move. Save Our Homes became effective in 1995 and limits (caps) the annual increase in assessed value for homestead property to three percent (3%) or the percentage change in the Consumer Price Index, whichever is less.

With respect to non-homestead property, Amendment 1 limits (caps) the annual increase in assessed value for non-homestead property (businesses, industrial property, rental property, second homes, etc.) to ten percent (10%), except for school district taxes. The Amendment also provides a \$25,000 exemption for tangible personal property.

Amendment 1 became effective on October 1, 2008, with the exception of the ten percent (10%) assessment cap on non-homestead property which became effective on January 1, 2009.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

(a) **Reporting entity**—The City, a municipality under the laws of the State of Florida, is located in Highlands County and is approximately 8.1 square miles in area. It was incorporated in 1926 when Florida Law Chapter 12512 approved its original charter. The City Council is comprised of the Mayor and four City Council persons. The City provides public safety, public works, recreation, and general government services to its approximately 8, 824 residents. The City also operates water and wastewater, airport, and solid waste enterprises.

The accompanying financial statements include all those separately administered departments and funds for which the City has financial accountability. There are no potential component units of the City.

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

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

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

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

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

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

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

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

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

The City's fiduciary funds (which have been redefined and narrowed in scope) are presented in the fund financial statements by type (agency). Since these assets are being held for the benefit of a third party (other local governments) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Fund Financial Statements

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

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

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

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Property taxes, intergovernmental revenues and interest earned associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. When grant terms provide that the expenditure or resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. All other revenue items are considered to be measurable only when cash is received by the City.

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

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

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

Proprietary Funds

The City's enterprise funds are proprietary funds. In the fund financial statements, proprietary funds are presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net assets. The City applies all Statement of Financial Accounting Standards and Interpretations issued before November 30, 1989, except those that conflict with or contradict Statements of Government Accounting Standards. The City has elected not to apply Financial Accounting Standards Board Pronouncements issued after November 30, 1989.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

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

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

Basis of Presentation

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

Governmental Major Funds

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

Infrastructure Fund—This fund was created to account for revenues that are required by Florida Statutes to be expended only for certain purposes.

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

Proprietary Major Funds

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

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

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

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

Other Fund Types

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

Non-current Governmental Assets/Liabilities

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

(c) **Budgets and Budgetary Accounting**—Budgets are prepared for General, Infrastructure, and CRA Funds on a basis consistent with the basis of accounting utilized for the respective funds; that is the modified accrual basis. A legally adopted annual budget is not prepared for the Community Development Block Grant Fund. The Community Development Block Grant is a multi-year grant, which has a budget prepared for the total program as outlined in the grant agreement.

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

Budgets are not prepared for the Pension Trust Funds.

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

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

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

"Total fund balances" of the City's governmental funds, \$4,340,707 differs from net assets" of governmental activities, \$12,741,142 reported in the statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheet.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

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

The "net change in fund balances" for governmental funds, (\$91,953), differs from the "change in net assets" for governmental activities, \$849,353 reported in the statement of activities. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds.

Reclassification and Eliminations

Transfers in and transfers out in the amount of \$132,329 between governmental activities were eliminated.

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

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

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

(f) **Investments**—Investments are stated at fair value, *except for* short-term investments, which are stated at amortized cost.

Fair value is based on a quoted market price or the best available estimate.

(g) **Inventories**—Inventories are stated at cost, which is not in excess of market. Cost is determined on a weighted average method. The purchases method is used to account for inventory.

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

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

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

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

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

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

Long-term interfund advances are recorded as reductions in fund balance by the advancing fund in the Governmental Fund Types. The amount advanced is reported as "Advances to other funds" and as "Reserved for advances" to maintain the accountability and to properly disclose the amount available for appropriation (unreserved fund balance).

(j) **Intangible asset**—On October 1, 1996, the City established a new enterprise fund for its solid waste operations. Assets and liabilities relating to solid waste were transferred from the General Fund to the Solid Waste Fund. The excess of liabilities over the cost of assets totaling \$273,161 was recorded as an intangible asset in the Solid Waste Fund. This intangible asset is being amortized on a straight-line basis over a 20 year period and at September 30, 2010 accumulated amortization totals \$191,213 and the net amortized value of the asset amounts to \$81,948.

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

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

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

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

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

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

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

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

- General government employees will be paid up to a maximum of twice the employee's annual accrual.
- Police officers will be paid up to a maximum of 240 hours.
- Firefighters will be paid up to a maximum of 480 hours.
- City manager and department heads are not limited and will be paid in full unless under a contractual agreement.

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

- General government employees shall be paid for one-half of the accumulated unused sick leave up to a maximum of 480 hours after ten years of service or death.
- Police officers and firefighters shall be paid for one-half of the accumulated unused sick leave up to a maximum of 480 hours at retirement or death.

Compensated absences are reported in governmental funds only if the absences have matured (i.e. unused reimbursable leave still outstanding following and employee's resignation or retirement). As accumulated sick and annual leave would not be liquidated with expendable available resources, a long-term liability of accrued sick and annual leave has been recorded in the government-wide statement of net assets at September 30, 2010, representing the City's commitment to fund such costs from future operations. In the governmental funds, only amounts that normally would be liquidated with expendable available financial resources are accrued as current year expenditures. The liability for compensated absences is liquidated in the fund in which an employee's payroll expense is normally recorded. The general fund has been used in prior years to liquidate the liability for compensated absences in governmental funds.

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

(n) **Retiree health insurance**—Health insurance is available to retired employees at the retirees' cost. No life insurance is provided for retired employees.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(p) **Fund equity**—In the fund financial statements, governmental and proprietary funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. The City's policy for fund balance of the general fund and enterprise funds is to maintain a reservation of fund balance equal to 20% of the current fiscal year operating expenditure and transfers out budgeted for each fund, exclusive of depreciation.

(q) **Property tax revenues**—Ad valorem taxes for the current fiscal year (beginning October 1, 2010) are assessed on July 1, 2009 based on property values of January 1, 2009. The taxes are billed in the month of November 2009 by the Highlands County Tax Collector who remits collected taxes to the City monthly. Taxes are due November 1, 2009 (levy date) and become delinquent April 1, 2010. Tax certificates are issued for delinquent taxes by June 1, 2010 (lien date). Generally, the City collects substantially all of its current year property taxes during the year in which they are due.

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

(s) **Change in accounting principle**—The City implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions" for the year ended September 30, 2010.

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 resulted in increased employee benefit expense and related long term liabilities totaling \$37,758 for the year and certain disclosures related to postemployment benefits (see Note 7) have been modified to conform to the new reporting requirements.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

(2) **Deposits and Investments:**

(a) **Deposits**—At September 30, 2010, the carrying amount of the City's deposits was \$7,078,393 and the bank balance was \$7,272,822. The difference between these two balances is created by timing differences due to the float on disbursements which have not cleared the bank. The City also had \$2,160 cash on hand at September 30, 2010.

(b) **Investments**—As of September 30, 2010, the City had the following investments and maturities:

Investment Type	Fair Value	Remaining Maturities (in Years)			
		Less Than 1	1 - 5	6-10	More Than 10
U.S. Government securities	\$ 424,793	\$ 424,793	\$ -	\$ -	\$ -
U.S. Government Bonds	916,382	916,382	-	-	-
Florida SBA LGIP Fund A	1,398,393	1,398,393	-	-	-
Florida SBA LGIP Fund B	54,769	-	-	54,769	-
Total fair value	<u>\$ 2,794,337</u>	<u>\$ 2,739,568</u>	<u>\$ -</u>	<u>\$ 54,769</u>	<u>\$ -</u>

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

Credit Risk. Credit risk is the risk that an insurer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's investment policy minimizes credit risk by limiting the maximum percentage that may be invested in any one entity or instrument at any one time. Presented below is the actual rating as of September 30, 2010 for each type of investment in debt securities.

Rating as of Year-End	U.S. Government Securities	U.S. Government Bonds	SBA LGIP Fund A	SBA LGIP Fund B
AAAm	\$ -	\$ -	\$ 1,398,393	\$ -
AAA	424,793	916,382	-	-
Not rated	-	-	-	54,769
Total	<u>\$ 424,793</u>	<u>\$ 916,382</u>	<u>\$ 1,398,393</u>	<u>\$ 54,769</u>

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

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside part.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

All bank accounts of the City are placed in banks that qualify as a public depository, as required by law (Florida Security For Public Deposits Act, Chapter 280, Florida Statutes). Chapter 280 of the Florida Statutes provides that qualified public depositories must maintain eligible collateral having a market value equal to 50% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held by the depository during the twelve months immediately preceding the date of any computation of the balance. As such, the depository is not required to hold collateral in the City's name, nor specify which collateral is held for the City's benefit. The Public Deposit Security Trust Fund, as created under the laws of the State of Florida, would be required to pay the City for any deposits not covered by depository insurance or collateral pledged by the depository as previously described. Florida Statutes and the City's investment policy authorize the City to use interest bearing time deposit savings accounts and money market accounts in qualified public depositories. All deposits are entirely insured.

The City is a member of the Local Government Surplus Funds Trust Fund Investment Pool Fund A (the Pool) that is administered by the State Board of Administration of Florida (SBA). At September 30, 2010, the carrying amount of the City's deposits was \$1,507,931 and the SBA balances were \$1,507,931. This pool is a "2a-7 like" pool, which has the characteristics of a money market fund. Therefore, the fair value of the City's position in the Pool is the same as the value of the Pool shares.

The City is also a member of the Local Government Surplus Funds Trust Fund Investment Pool Fund B that is administered by the State Board of Administration of Florida (SBA). At September 30, 2010, the principle amount of the City's deposits was \$70,656 and the fair value was \$54,769. The SBA's interpretation in regard to Fund B is that it does not meet the requirements of a SEC 2a7-like fund; therefore, SBA provided the Fair Value factor of 70.70581%.

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

(3) **Receivables:**

Receivables as of year-end for the government, individual major funds and nonmajor and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities	Business-Type Activities			
	General	Water and Sewer	Airport	Solid Waste	Total
Utility and franchise taxes	\$ 111,004	\$ -	\$ -	\$ -	\$ 111,004
Code enforcement	23,227	-	-	-	23,227
Water and sewer charges	-	429,301	-	-	429,301
Solid waste charges	-	-	-	84,569	84,569
Miscellaneous	1,760	-	1,355	-	3,465
Gross receivables	135,991	429,301	1,705	84,569	651,566
Allowance for doubtful accounts	(23,227)	(3,950)	(3,502)	(3,502)	(32,440)
	<u>\$ 111,353</u>	<u>\$ 425,351</u>	<u>\$ 1,355</u>	<u>\$ 81,067</u>	<u>\$ 619,126</u>

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

(4) Capital Assets:

Capital asset activity for the year ended September 30, 2010 was as follows:

Primary Government	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 316,634	\$ -	\$ (460)	\$ -	\$ 316,174
Construction in process	1,175,437	152,064	-	(17,545)	1,309,956
Total capital assets, not being depreciated	<u>1,492,071</u>	<u>152,064</u>	<u>(460)</u>	<u>(17,545)</u>	<u>1,626,130</u>
Capital assets, being depreciated:					
Buildings	4,735,160	34,679	-	17,545	4,787,384
Equipment	4,871,054	227,143	(231,416)	-	4,866,781
Infrastructure	3,211,695	894,820	-	-	4,106,515
Total capital assets, being depreciated:	<u>12,817,909</u>	<u>1,156,642</u>	<u>(231,416)</u>	<u>17,545</u>	<u>13,760,680</u>
Less accumulated depreciation for:					
Buildings	(1,890,996)	(140,581)	-	-	(2,031,577)
Equipment	(3,185,525)	(343,763)	231,876	-	(3,297,412)
Infrastructure	(277,360)	(119,196)	-	-	(396,556)
Total accumulated depreciation	<u>(5,353,881)</u>	<u>(603,540)</u>	<u>231,876</u>	<u>-</u>	<u>(5,725,545)</u>
Total capital assets, being depreciated, net	<u>7,464,028</u>	<u>553,102</u>	<u>460</u>	<u>17,545</u>	<u>8,035,135</u>
Governmental activities capital assets, net	<u><u>\$ 8,956,099</u></u>	<u><u>\$ 705,166</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,661,265</u></u>

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

	Beginning Balance, as restated	Increases	Decreases	Transfers	Ending Balance
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 818,360	\$ -	\$ -	\$ -	\$ 818,360
Construction in process	464,349	48,488	-	(175,730)	337,107
Total capital assets, not being depreciated	<u>1,282,709</u>	<u>48,488</u>	<u>-</u>	<u>(175,730)</u>	<u>1,155,467</u>
Capital assets, being depreciated & amortized:					
Buildings and system	31,056,480	549,098	-	175,730	31,781,308
Machinery and equipment	4,459,572	80,569	(72,711)	-	4,467,430
Intangible assets	273,161	-	-	-	273,161
Total capital assets, being depreciated & amortized:	<u>35,789,213</u>	<u>629,667</u>	<u>(72,711)</u>	<u>175,730</u>	<u>36,521,899</u>
Less accumulated depreciation & amortization for:					
Buildings and system	(13,978,430)	(831,972)	-	-	(14,810,402)
Machinery and equipment	(2,438,438)	(271,353)	72,095	-	(2,637,696)
Intangible assets	(177,555)	(13,658)	-	-	(191,213)
Total accumulated depreciation & amortization	<u>(16,594,423)</u>	<u>(1,116,983)</u>	<u>72,095</u>	<u>-</u>	<u>(17,639,311)</u>
Total capital assets, being depreciated & amortized, net	<u>19,194,790</u>	<u>(487,316)</u>	<u>(616)</u>	<u>175,730</u>	<u>18,882,588</u>
Business-type activities capital assets, net	<u>\$ 20,477,499</u>	<u>\$ (438,828)</u>	<u>\$ (616)</u>	<u>\$ -</u>	<u>\$ 20,038,055</u>

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

Governmental activities:

General government	\$ 62,523
Public safety	290,929
Physical environment	105,367
Culture and recreation	144,721
Total depreciation expense - governmental activities	<u>\$ 603,540</u>

Business-type activities:

Water and sewer	\$ 705,564
Airport	316,065
Solid waste	81,740
Total depreciation & amortization expense – business-type activities	<u>\$ 1,103,369</u>

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

At September 30, 2010 the City had the following outstanding construction commitments in business-type activities.

<u>Project</u>	<u>Project Authorization</u>	<u>Expended to September 30, 2010</u>	<u>Commitment</u>
Water and Sewer Fund			
Wastewater Treatment Plant Improvement	\$ 258,838	\$ 260,161	\$ 0
Water line extension	146,694	137,018	9,676
U.S. 27 North widening	150,000	42,793	107,207
	<u>\$ 555,532</u>	<u>\$ 439,972</u>	<u>\$ 116,883</u>
Airport Fund			
Airport drainage	\$ 2,577,182	\$ 215,890	\$ 2,361,292
Corporate Hangar B	250,000	18,005	231,995
	<u>\$ 2,827,182</u>	<u>\$ 233,895</u>	<u>\$ 2,593,287</u>

At September 30, 2010, the City had the following outstanding construction commitments in governmental type activities:

<u>Project</u>	<u>Project Authorization</u>	<u>Expended to September 30, 2010</u>	<u>Commitment</u>
Memorial Field Concession	112,000	9,850	102,150
TEA21 Streetscape	405,000	365,518	39,482
	<u>\$ 517,000</u>	<u>\$375,368</u>	<u>\$ 141,632</u>

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

(5) Long-Term Liabilities:

The summary of changes in long-term liabilities for the fiscal year ended September 30, 2010, is as follows:

	Balance October 1, 2009	Additions	Principal Payments	Balance September 30, 2010	Due Within One Year
<u>Governmental activities</u>					
Notes payable	\$ 1,371,366	\$ -	\$ 202,460	\$ 1,168,906	\$ 211,037
Compensated absences	358,570	289,550	382,399	265,721	265,721
Other post-employment benefits	-	26,908	-	26,908	-
Governmental activity long-term liabilities	<u>\$ 1,729,936</u>	<u>\$ 316,458</u>	<u>\$ 584,859</u>	<u>\$ 1,461,535</u>	<u>\$ 476,758</u>
<u>Business-type activities</u>					
Notes payable	\$ 796,620	\$ -	\$ 396,945	\$ 399,675	\$ 112,980
Revenue bond	3,585,000	-	465,000	3,120,000	480,000
Landfill closure	791,517	-	-	791,517	26,460
Deferred revenue	706,202	17,630	45,000	678,832	45,000
Compensated absences	103,144	82,487	68,938	116,693	68,938
Other post-employment benefits	-	10,850	-	10,850	-
Business-type activity long-term liabilities	<u>\$ 5,982,483</u>	<u>\$ 110,967</u>	<u>\$ 975,884</u>	<u>\$ 5,117,567</u>	<u>\$ 733,378</u>

The following notes payable and revenue bonds payable were outstanding at September 30, 2010:

Governmental Activities Notes and Bonds Payable:

\$1,910,000 revenue bond with a varying interest rate between 3.25% and 5.25%, dated November 15, 2001, with final payment due October 20, 2016. Beginning April 20, 2002 interest payments are due semi-annually, and principal payments varying between \$95,000 and \$175,000 are due annually, until maturity date. Proceeds are used for street improvements and are secured by a pledge of non-ad valorem revenues, which are legally available for loan repayment. \$ 1,060,000

\$376,000 with a fixed interest rate equal to 4.4%, dated January, 22, 2007, with a final payment due January 22, 2012. Beginning February 22, 2007, payments are due in monthly installments of \$7,021, including interest, until maturity date, secured by a fire truck. 108,906

Total Governmental Activities Notes Payable \$ 1,168,906

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

Business-Type Activities Notes Payable:

\$250,000 with a fixed interest rate equal to 5.18%, dated March 25, 2003, with final payment due March 25, 2023. Beginning April 25, 2003 payments are due in monthly installments of \$1,675, including interest, until maturity date. Proceeds are used for construction of corporate hangars at the airport and are secured by revenue derived from the corporate hangars and T-hangars.	185,445
\$179,932 with a fixed interest rate equal to 4.4% dated January 22, 2007, with a final payment due January 22, 2012. Proceeds are used for the purchase of Refuse Truck. Beginning February 22, 2007 payments are due in monthly installments of \$3,352 including interest, until maturity date, secured by revenues from the solid waste fund.	51,991
\$188,908 with a fixed interest rate equal to 4.740% dated November 5, 2007, with a final payment due November 5, 2012. Proceeds are used for the purchase of a 2008 Side Loader Refuse Truck. Beginning December 5, 2007, payments are due in monthly installments of \$3,543 including interest, until maturity date, secured by a revenue certificate from the solid waste fund.	87,386
\$104,424 with a fixed interest rate equal to 2.07% dated November 6, 2006. The current balance of this State Revolving Fund loan was used to perform a study to determine the feasibility of expanding and upgrading the Wastewater Treatment Plant. Potential draws total \$802,837; however, the City has made the decision not to expand the plant at this time. Interest is capitalized until repayment begins. Repayment of draws is semiannual for 20 years beginning March 15, 2010.	74,853
Total Business-type Activities Notes Payable	<u>\$ 399,675</u>

Business-type Activities Revenue Bond:

\$5,750,000 in Water and Sewer Refunding Revenue Bonds, Series 2003 due in annual installments of \$585,314 to \$589,720, including interest, through December 1, 2015; interest ranges from 1.05% to 3.8%; collateralized by a pledge of water and sewer revenue.	<u><u>\$ 3,120,000</u></u>
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CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

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

Year Ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 211,037	\$ 54,594	\$ 593,482	\$ 147,139
2012	162,869	45,008	586,084	117,781
2013	145,000	37,750	553,771	98,029
2014	150,000	30,188	537,596	78,361
2015	160,000	22,050	558,264	58,107
2016 – 2020	340,000	18,113	642,652	69,038
2021 - 2025	-	-	47,826	3,213
	<u>\$ 1,168,906</u>	<u>\$ 207,703</u>	<u>\$ 3,519,675</u>	<u>\$ 571,668</u>

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

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

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

During the year the City met the Sinking Fund and rate covenant requirements described in the preceding paragraphs.

Loan Covenants for Governmental Activities – Street Improvement Revenue Bond

Average actual receipts over the most recent two year period of non ad valorem revenues must cover projected maximum annual debt service payments by at least 1.5 times. For the purposes of this covenant, the maximum annual debt service requirement for all debt secured by and payable from non ad valorem revenues is limited to 20% of governmental fund revenues (defined as general fund, special funds, debt service fund and capital project funds), exclusive of (i) ad valorem revenues restricted to debt service on any debt and (ii) any debt proceeds; actual required debt service on all debt secured by non ad valorem revenues or, 15% of the original par value of all debt secured by non ad valorem revenues.

During the year the City met the Sinking Fund and rate covenant requirements described in the preceding paragraphs.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

(6) Landfill Closure and Postclosure Care Liability:

The City owns and operates a landfill for yard trash as part of its solid waste operation. The solid waste operation of the City is accounted for in the Solid Waste Enterprise Fund. State laws and regulations require that the City place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site after closure. In addition to operating expenses related to current activities of the landfill, a related liability is being recognized based on the future closure and post closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of the landfill closure and post closure care liability is based on the capacity of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$791,517 as of September 30, 2010, which is based on an estimated 68 percent usage (filled) of the landfill. It is estimated that an additional liability of \$372,000 will be recognized for closure and postclosure care between the balance sheet date and the date the landfill is expected to be filled to capacity (2014). The estimated total current cost of the landfill closure and postclosure care (\$1,164,000) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of September 30, 2010. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The City, pursuant to Florida Administrative Code, Rule 62-701.630(5), issued by the Florida Department of Environmental Protection, established a landfill management escrow account for the purpose of accumulating financial resources for the closure of the City's landfill. The funding of the escrow account for closure costs is by monthly contributions over the remaining estimated active life of the landfill. At September 30, 2010, the City has escrowed \$791,517 to cover the landfill closure requirements of the Florida Department of Environmental Protection. The contributions are revised each year for the cost of inflation and additional costs that might arise from changes in closure requirements due to changes in technology or more rigorous environmental regulations.

Subsequent to September 30, 2010, the FDEP approved a change in the type of permit covering the landfill. Additional information on this subsequent event is detailed at note 13.

(7) Other Post Employment Benefits:

The City of Avon Park does not offer a postemployment benefit plan to its employees. However, Florida State 112.0801 requires that public employers offer health insurance benefits at the current group rates to retirees (at their own expense) from the date of retirement. This requirement creates an implicit rate subsidy that falls under the requirements of GASB 43 and 45. The City of Avon Park is a phase 3 government as defined by GASB43, and as such is required to implement this statement for periods beginning after December 15, 2008 (fiscal year 2010).

Effective for fiscal year 2010, the City implemented GASB Statement 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)" prospectively (no beginning Net OPEB Obligation).

Plan Description—The City of Avon Park administers a single-employer defined benefit healthcare plan (the "Retiree Benefit Plan"). The plan provides postemployment healthcare benefits through the City's group health insurance plan, which covers both active and retired members. Benefit provisions are established through city policy as approved by City Council. The Retiree Benefit Plan does not issue a publicly available financial report.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

(8) Other Post Employment Benefits: (Continued)

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

Funding Policy—Contribution requirements are set by City policy as approved by City Council. Retired and active participants pay 100% of the active employee premium, net of any Florida Retirement System Benefits. The City pays additional premiums in excess of active employee rates on behalf of retired participants. In fiscal year 2010, the City made no contributions to the plan.

Annual OPEB Cost and Net OPEB Obligation—The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation. Because fiscal year 2010 is the first year of implementation of GASB Statement 45, the OPEB obligation at the beginning of the year is zero and the OPEB cost (expense) is equal to the ARC.

Annual required contribution (ARC)	\$55,659
Interest on net OPEB obligation	-
Adjustment to the ARC	-
Annual OPEB Cost	\$55,659
Contributions made	(17,901)
Increase in net OPEB obligation	\$37,758
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	\$37,758

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 were as follows:

Fiscal Year Ending	Annual OPEB Cost	Actual Contribution Made	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$55,659	\$17,901	32.2%	\$37,758

Funded Status and Funding Progress—As of October 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$369,847, all of which was unfunded. The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions of the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the program and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits (only one year presented in this year of implementation).

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

Methods and Assumptions—Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the October 1, 2009 actuarial valuation, the Entry Age Normal (level % of pay) actuarial cost method was used.

The actuarial assumptions included a 4.5 percent investment rate of return (discount rate) and an annual health care cost trend rate of 8 percent initially (2010), reduced by decrements of 1 percent per year until reaching an ultimate trend rate of 5 percent in 2013. The unfunded actuarial liability is being amortized over a closed 30 year period using a level percentage of payroll with an assumption that payroll increases by 5 percent per year for Fire Employees and no increases for Police and General Employees. The remaining amortization period at September 30, 2010, was thirty years.

(8) **Risk Management:**

Risk Pool

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

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

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

Individual interfund receivable and payable balances at September 30, 2010 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Solid Waste Fund	Airport Fund	\$ 403,038

Amounts due to and from other funds arise from timing differences in the affected funds due to timing of expenditures and related reimbursements and due to cash shortages at year-end.

**CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

(10) **Transfers:**

Transfers during the year ended September 30, 2010 consisted of the following:

	Transfers In:		
	General Fund	Water and Sewer	CRA Funds
Transfers From:			
General Fund	\$ -	\$ -	\$ 152,924
Infrastructure	-	182,329	-
Solid Waste Fund	50,000	-	-
	<u>\$ 50,000</u>	<u>\$ 182,329</u>	<u>\$ 152,924</u>

Transfers are used to 1) move revenues from the fund that state law required to collect them to the fund that state law requires to expend them; 2) provide matching funds for grants; and 3) use unrestricted fund revenues to finance activities which must be accounted for in another fund and 4) City's portion of ad valorem taxes to the CRA funds; 5) provide funds from restricted resources for capital outlay.

(11) **Fund Equity:**

Reservations of fund balances at September 30, 2010 are summarized below:

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

Reserve For Street Improvements—The reserve for street improvements was created to restrict the initial deposit and earnings from the proceeds of the issuance of a loan payable. The reservation was established to satisfy legal restrictions imposed by the loan agreement.

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

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

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

Police Officers' Retirement System (PORS)

Plan Description

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

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

Firefighters' Retirement System (FFRS)

Plan Description

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

Funding Policy and Annual Pension Cost

The City Council establishes and may amend the contribution requirements of plan members. The City, taking into account the state contribution, is required by city ordinance and state statutes to make additional contributions to fund the pension plans on an actuarially sound basis and at a minimum must contribute 5 percent of employee compensation. The amounts contributed by the State to the PORS represents the City's portion of an .85 percent tax on all premiums collected on casualty insurance policies on property within the City and for the FFRS is a 1.85 percent tax on all premiums collected on property insurance policies covering property within the City. The City, for 2010 funding purposes, is limited by state statutes on the amount of the state contribution that can be credited toward the annual required contribution. Administrative costs for each plan are financed through investment earnings. Information related to contributions for the year ended September 30, 2010 is as follows:

	<u>Police Officers' Retirement System</u>	<u>Firefighters' Retirement System</u>
Contribution rates:		
City	12.5%	15.9%
Plan members	5.0%	5.0%
Annual pension cost	\$143,488	\$116,308
Contributions made	\$143,489	\$117,402
Actuarial valuation date	10/1/2007	10/1/2007
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar, closed	Level % of pay, closed
	19 years as of	
Remaining amortization period	10/1/2009	29 years as of 10/1/2009
Asset valuation method	4 Year Smooth	4 Year Smoothed Market
Actuarial assumptions:		
Investment rate of return *	8.0%	8.0%
Projected salary increases *	6.5%	6.0%
* Includes inflation at	3.0%	3.0%
Post retirement cost of living adjustments	3.0%	3.0%

	<u>Year Ended September 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
Police Officers' Retirement System	2009	143,488	100%	(103,185)

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

	2008	184,440	117%	(106,176)
	2007	127,011	144%	(76,342)
Firefighters' Retirement System	2009	116,308	101%	(63,937)
	2008	113,415	124%	(65,028)
	2007	96,550	107%	(38,194)

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

Funding Policy and Annual Pension Cost

The funded status of each plan as of September 30, 2010, the most recent actuarial valuation date (October 1, 2009), is as follows:

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a)/c)
Fire	\$ 3,254,690	\$ 4,322,855	\$ 1,068,165	75.29%	\$ 738,380	144.66%
Police	5,172,660	5,147,485	(25,175)	100.49	967,184	(2.60)

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

Significant Accounting Policies

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

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

(c) **Contribution Requirements and Contributions Made**—Florida Legislature, City Commission and each Pension Board govern the City and employee contribution requirements for both plans. The City’s contribution to the plans is an actuarially determined periodic amount that increases gradually over time so that sufficient assets will be available to pay benefits when due. The employees’ contributions to the Firefighters’ Retirement Trust Fund and Police Officers’ Retirement Trust Fund were each 5.0% for the fiscal year 2010.

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

The City receives contributions from the state for the Firefighters’ and Police Officers’ Retirement plans. The City recognized \$97,541 in revenue and related expense in the general fund.

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

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

The actuarially determined net pension obligation (NPO) (asset) for the plans at the end of 2009 are approximately as follows:

	Police Officer's Retirement System	Firefighter's Retirement System
Actuarially Determined Contribution (A)	\$ 143,488	\$ 116,308
Interest on NPO	(8,494)	(5,202)
Adjustments to (A)	11,486	7,387
Annual Pension Cost	146,480	118,493
Contributions Made	143,489	117,402
Increase in NPO	2,991	1,091
NPO Beginning of Year	(106,176)	(65,028)
NPO End of Year	(\$ 103,185)	(\$ 63,937)

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

Florida Retirement System (FRS)

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

The Division of Retirement issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. That report may be obtained by writing to Division of Retirement, Cedars Executive Center, 2639 N. Monroe Street, Tallahassee, Florida 32399-1560, or by calling 1-850-488-6491.

The Pension Plan provides for vesting of benefits after six years of creditable service. Normal retirement benefits are available to employees who retire at or after age 62 with one or more years of service. Retirement benefits are based upon employee's account balance. Employees are not required to contribute to the Pension Plan. The Investment Plan provides for vesting after one year of creditable service. Normal retirement benefits are available to employees who retire at or after age 62 with one or more years of service. Retirement benefits are based on the employee's account balance. Employees are not required to contribute to the Investment Plan.

Participating employer contributions are based upon statewide rates established by the State of Florida. These rates which include the health insurance subsidy contribution of 1.11 percent age applied to

**CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

employee salaries as follows: regular employees – 10.77% and drop – 12.25%. The City's contributions made during the years ended September 30, 2010, 2009, and 2008, were \$149,509, \$57,128, and \$65,681, respectively, equal to the actuarially determined contribution requirements for each year. The City has determined, in accordance with GASB Statement No. 27, that there was no pension liability before or at transition.

CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

Defined Contribution Plan

Plan Description and Contribution Requirements—The City provides pension benefits through a defined contribution plan for all full-time employees hired after December 31, 1995 who are not covered by either the Police Officer's Retirement System or the Firefighters' Retirement System. This plan is administered by the Florida Municipal Pension Trust Fund. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees who are at least 18 years of age and have six months of service are eligible to participate in the plan. The resolution adopting the plan requires that the City contribute an amount equal to 10.77 percent of the employee's salary each month. The City Council by ordinance maintains the authority to establish new and amend existing benefit provisions of the plan and contribution requirements.

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

The City's payroll for the year ended September 30, 2010 for eligible employees participating in the plan was \$1,486,232. The City's total payroll for all employees was \$3,792,062.

As of September 30, 2010, the City's contributions to the plan were \$149,508 on behalf of the 58 employees participating. The total required and voluntary employee contributions to the plan amounted to \$32,177.

(13) **Deficits:**

The Airport Fund has an unrestricted net assets deficit of \$1,051,821 at September 30, 2010. This deficit is primarily due to investment by the City in the airport's capital assets, and operating expenses exceeding operating revenues.

**CITY OF AVON PARK, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

(14) Leases:

The City is the lessor of various types of industrial buildings and hangars at the airport over periods ranging from month to month to ten years. All of the City's leases are classified as operating leases. For the year ended September 30, 2010 the city received rent revenue from operating leases of \$233,754.

The following is a schedule by years of minimum future rent revenues from non-cancelable operating leases as of September 30, 2010:

<u>Year Ending September 30</u>	<u>Amount</u>
2010	\$ 94,596
2011	94,596
2012	83,040
2013	83,040
2014	83,040
2015 - 2018	23,040
Total future minimum rentals	\$ 461,352

At September 30, 2010 the value of buildings held for leasing was as follows:

Buildings and hangars	
Cost	\$ 3,654,097
Accumulated depreciation	(858,709)
Net book value	\$ 2,795,388

The City has entered into a lease with a tenant on October 1, 2003 which expires on September 30, 2013, unless extended. The City has granted three options to renew for additional terms of 10 years each. The City also agreed to allow tenant to offset against rent due by 100% of the general improvements and 65% of the tenant use specific improvements made to the premises during the first ten (10) year lease term, including cost of engineering and financing. Said improvements, engineering and financing shall be prorated over the initial ten year term of the lease, but shall offset not more than \$45,000 of the rent per year. If tenant is unable to recoup its investments during the initial term, this offset shall continue into successive option terms, if said options are exercised. Any rental reduction for tenant specific improvements will not begin until the second term. To date \$615,776, \$152,426, and \$208,000 of general improvements, tenant specific improvements, and financing costs, respectively, were available for rental offsets in the future. At September 30, 2010, \$633,832 is reported in the Airport fund as deferred revenue in connection with the rental offsets available to use in the future by the tenant.

(15) Subsequent Event:

Effective December 26, 2010, the FDEP approved a change to the City's landfill permit. The landfill permit in effect until December 26, 2010 was a general landfill permit, which requires a restriction on funds to cover 30 years of postclosure maintenance. The new permit is a yard waste facility permit, which only requires a restriction on enough funds to cover 60 days of postclosure maintenance. The amount restricted for landfill postclosure maintenance at September 30, 2010 of \$791,517 was reclassified as unrestricted cash and the related liability was removed as of December 26, 2010.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF AVON PARK, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PENSION FUNDING PROGRESS
SEPTEMBER 30, 2010**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age Normal (b)	Unfunded AAL (uaal) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of covered payroll ((b- a)/c)
Firefighters' Retirement Trust						
10/01/02	2,190,083	2,190,083	-	100.00%	485,591	0.00%
10/01/03	2,281,673	2,281,673	-	100.00%	547,028	0.00%
10/01/04	2,363,295	2,601,933	238,638	90.83%	617,694	38.63%
10/01/05	2,559,504	3,138,324	578,820	81.56%	608,202	95.17%
10/01/06	2,798,112	3,464,093	665,981	80.77%	660,315	100.86%
10/01/07	3,131,140	3,784,277	653,137	82.74%	690,352	94.61%
10/01/08	3,370,070	4,129,874	759,804	81.60%	738,078	102.94%
10/01/09	3,254,690	4,322,855	1,068,165	75.29%	738,380	144.66%
Police Officers' Retirement Trust						
10/01/02	3,064,373	3,064,373	-	100.00%	939,029	0.00%
10/01/03	3,307,546	3,307,546	-	100.00%	969,387	0.00%
10/01/04	3,543,135	3,543,135	-	100.00%	994,853	0.00%
10/01/05	3,916,363	3,916,363	-	100.00%	953,822	0.00%
10/01/06	4,416,529	4,416,529	-	100.00%	976,594	0.00%
10/01/07	4,939,711	4,519,021	(420,689)	109.31%	1,051,409	-40.01%
10/01/08	5,101,456	4,939,141	(162,315)	103.29%	1,041,764	-15.58%
10/01/09	5,172,660	5,147,485	(25,175)	100.49%	967,184	-2.60%

**CITY OF AVON PARK, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER AND
OTHER CONTRIBUTING ENTITIES
SEPTEMBER 30, 2010**

Firefighters' Retirement System:

Year Ended September 30	Annual Required Contributions	City Actual Contribution	State Actual Contribution*	Percentage Contributed
2002	35,335	25,359	29,779	156%
2003	59,444	30,690	29,779	102%
2004	75,396	45,617	29,779	100%
2005	112,120	98,172	36,339	120%
2006	120,684	92,402	37,674	108%
2007	134,224	103,553	37,674	105%
2008	151,089	140,668	37,674	118%
2009	156,122	118,448	37,674	100%
2010	176,165	140,034	37,096	101%

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

Police Officers' Retirement System:

Year Ended September 30	Annual Required Contributions	City Actual Contribution	State Actual Contribution**	Percentage Contributed
2002	140,527	98,237	42,290	100%
2003	151,066	108,776	42,290	100%
2004	182,820	140,531	42,290	100%
2005	201,822	159,532	42,290	100%
2006	215,976	176,952	59,657	110%
2007	186,668	183,301	59,657	130%
2008	244,097	216,425	59,657	113%
2009	201,391	143,488	57,903	100%
2010	223,025	166,953	56,072	100%

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

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CRA FUNDS

FOLLOWING IS A SCHEDULE OF DEPOSITS AND WITHDRAWALS AS REQUIRED BY SECTION 163.387(8), FLORIDA STATUTES. THIS SCHEDULE PROVIDES A SOURCE FOR ALL DEPOSITS AND A PURPOSE FOR ALL WITHDRAWALS AS PRESCRIBED FOR EACH CRA DISTRICT FOR FISCAL YEAR ENDED SEPTEMBER 30, 2010.

CRA FORM see G15-02

STATISTICAL SECTION

This part of the City of Avon Park's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents	Page
Financial Trends	
These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.	73 - 78
Revenue Capacity	
These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	79 - 82
Debt Capacity	
These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	83 - 85
The table which concerns computation of legal debt margin is omitted because the Constitution of the State of Florida, Section 200.181, Florida Statutes, and the City of Avon Park set no legal debt limit.	
Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	86 - 87
Operating Information	
These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	88 - 90

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

**CITY OF AVON PARK, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

CITY OF AVON PARK, FLORIDA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE
FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2010

1. Basis of Presentation:

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

2. Subrecipients:

The City provided no federal awards to subrecipients for the fiscal year ended September 30, 2009.

3. Contingency:

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

CITY OF AVON PARK, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARD PROGRAMS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

A. Summary of Auditors' Results:

Financial Statements:

- Type of audit report issued on the basic financial statements: *Unqualified.*

Internal control over financial reporting:

- There was four material weaknesses related to internal control over financial reporting disclosed by the audit of the basic financial statements.
- There were no significant deficiencies related to internal control over financial reporting disclosed by the audit of the basic financial statements not considered to be material weaknesses.
- The audit disclosed one instance of noncompliance.

Federal Awards:

Internal control over major programs:

- There was one material weakness related to internal control over major programs disclosed by the audit.
- There was one significant deficiency related to internal control over major programs disclosed by the audit considered to be a material weakness.
- Type of report issued on compliance for each major program: *Unqualified.*
- The audit did not disclose any audit findings, which are required to be reported under OMB Circular A-133.
- Major program identification:
 - CFDA Number 14.218 – Community Development Block Grant
 - CFDA Number 20.205– Highway Planning and Construction
- Dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- The City of Avon Park, Florida did not qualify as a low-risk auditee.

B. Financial Statement Findings:

2009-1 Grant Administration and Reporting (Prior Year Repeat Comment)

The City did not provide a Schedule of Federal Awards that properly summarized all required grant reporting requirements. Furthermore, the City did not properly accrue all grant revenues and the corresponding grants receivable. Consequently, material adjustments were required in order to fairly and accurately present the schedule of federal awards and the City's financial statements. We recommend the City implement processes and procedures to properly track grants received and grant expenditures and the corresponding revenues. We also recommend the City implement a system of controls to ensure that the processes and procedures properly followed and the transactions properly recorded.

Management Response:

Management concurs with this finding. In prior and current year The City has been working on centralizing all projects and grants and has taken actions to improve the information obtained. There will be a reorganization of duties performed to insure that transactions, reimbursement forms, etc. relating to grants and projects will be processed properly and within a timely manner.

2009-2 Financial Statement Adjustments (Prior Year Repeat Comment)

Internal control over financial reporting should be in place to ensure the City is preparing complete and accurate financial statements in accordance with accounting principles generally accepted in the United States (GAAP). A material weakness in internal control over financial reporting existed as of September 30, 2009 because material adjusting journal entries to the financial statements were required to ensure the financial statements were presented fairly in accordance with GAAP. This weakness resulted in material understatements and overstatements in various account balances and funds of the City for the year ended September 30, 2009, including prior period adjustments. Substantive testing of account balances, analytical procedures and review of the City's trial balances noted the differences and adjustments necessary. Analysis, reconciliation and adjustment of account balances should be performed to ensure accurate financial reporting which is essential in the Council's decision making process. A thorough review, analysis and reconciliation of each account should be performed during the year-end closing process. Differences identified should be analyzed and adjustments to the general ledger accounts should be made when necessary. The City is unable to complete this process due to the limited finance and accounting staff available to perform these functions. We recommend developing procedures to determine the most effective and efficient use of the time of the City's finance and accounting staff in performing the year-end close out process. Since many of the analyses, reconciliations and adjustments necessary are required each year, a list of these items should be compiled to ensure they are completed annually. Unusual account balances should be identified by the Finance Director and analyzed for proper recording.

Management Response:

Management concurs with this finding. In the prior year a reorganization of the finance department with additional help was to be implemented. Due to budget constraints this reorganization will be deferred to year ending 2010. A part -time accounting manager is needed to review and process daily accounting procedures. The Finance Department has implemented checklists to be completed each month and presented to the Finance Director for verification

2009-3 Investment Account Activity

During the course of our audit, we noted certain investment accounts which were not reconciled to the general ledger on a monthly basis. Investment activity should be analyzed and recorded on a monthly basis. We recommend that in the future, these accounts be reconciled on a monthly basis along with the pooled cash accounts. This process of reconciling the investment account balances to the general ledger will deter fraud and allow finance to monitor the investment balances more closely.

Management Response:

Management does not agree with this finding. Accounts are reconciled monthly with the pooled cash. The money market or SBA investment accounts are recorded monthly. For the Broker's investments they are not reconciled monthly only at year end after all sales and purchases are recorded. The interest and dividends are also booked at year end. Due to the amount of transactions this is not time effective to reconcile on a monthly basis.

2009-4 Pooled Cash

We proposed and management recorded adjustments to reconcile pooled cash to the bank account reconciliations. While it is not uncommon to have adjustments in this area, these adjustments did not occur until after the audit process began and significantly after year end. Properly reconciling cash in a timely manner will assist the City in a number of ways: 1) management can make more informed decisions. 2) Any errors, including fraud, will be identified and corrected timely and 3) The City has various restrictions on cash, properly reconciling will help ensure restrictions are met. We recommend the City implement control processes to ensure that cash is reconciled to the general ledger in a timely and accurate manner.

Management Response:

Management does not agree with this finding. Monthly journal entries are required to the pooled cash accounts in order to record interest and transfers to and from the cash management account. These cannot be recorded automatically through our computer system. All pooled cash accounts are reconciled each month. There were a few transactions posted after year end due to year end journal entries were entered twice. Cash is reconciled with a reasonable time.

2009-5 Budget Adjustments

The City's current budget adjustment policy indicates that all budget adjustments greater than \$10,000 be approved by the Council. During the course of the audit, we noted a number of budget adjustments that were greater than \$10,000 and not approved by Council. We recommend that the City place internal control processes in place to ensure that budget adjustments are approved according to policy. In addition, we recommend that Council and management review this policy to determine if this policy is written as intended.

Management Response:

Management concurs with this finding. Budget adjustments for over \$10,000 are to be approved by Council. This is completed at the Council Meetings on the consent agenda. In 2009 there were two budget adjustments for the Community Redevelopment Agency which was approved by the CRA Board but was not presented to the City Council for approval. Two approval levels for the CRA adjustments are required.

C. Federal Award and Findings and Questioned Costs: 2009-1 as described above

D. Prior Audit Findings: The findings and recommendations made in the preceding annual financial audit report have been corrected, except for the matters reported above with references to "Prior Year Comment Repeated".

E. Corrective Action Plan: See management responses above.

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor, City Commission, and City Manager,
City of Avon Park, Florida:

Compliance

We have audited the compliance of City of Avon Park, 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 are applicable to each of its major federal programs for the year ended September 30, 2010. 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 requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item **2009-1**.

Internal Control Over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in a City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item **2009-1** to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Of the significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item **2009-1** to be a material weakness.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this management letter is intended solely for the information and use of the State of Florida Office of the Auditor General, City Council, management, others within the City, and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

James Moore & Co.

Daytona Beach, Florida
March 24, 2010

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

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

We have audited the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Avon Park, Florida (the City) as of and for the year ended September 30, 2010, which collectively comprise the City of Avon Park, Florida's basic financial statements and have issued our report thereon dated March 24, 2010. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Avon Park Firefighters' Retirement System and Police Officers' Retirement System, as described in our report on the City's financial statements. The financial statements of the Avon Park Firefighters' Retirement System and Police Officers' Retirement System were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Financial Statement Adjustments (Prior Year Repeat Comment)

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

United States (GAAP). A material weakness in internal control over financial reporting existed as of September 30, 2010 because material adjusting journal entries to the financial statements were required to ensure the financial statements were presented fairly in accordance with GAAP. This weakness resulted in material understatements and overstatements in various account balances and funds of the City for the year ended September 30, 2010. Substantive testing of account balances, analytical procedures and review of the City's trial balances noted the differences and adjustments necessary. Analysis, reconciliation and adjustment of account balances should be performed to ensure accurate financial reporting which is essential in the Council's decision making process. A thorough review, analysis and reconciliation of each account should be performed during the year-end closing process. Differences identified should be analyzed and adjustments to the general ledger accounts should be made when necessary. The City is unable to complete this process due to the limited finance and accounting staff available to perform these functions. We recommend developing procedures to determine the most effective and efficient use of the time of the City's finance and accounting staff in performing the year-end close out process. Since many of the analyses, reconciliations and adjustments necessary are required each year, a list of these items should be compiled to ensure they are completed annually. Unusual account balances should be identified by the Finance Director and analyzed for proper recording.

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

Timeliness of Bank Reconciliations

Bank statements in some instances were accumulated for several months before they were reconciled to the appropriate general ledger controls. Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind. We recommend that all bank accounts be reconciled each month prior to preparation of the monthly financial statements.

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*.

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

We noted certain matters that we reported to management of the City of Avon Park, Florida in a separate letter dated April 24, 2011.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this management letter is intended solely for the information and use of the State of Florida Office of the Auditor General, City Council, management, others within the City, and

Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Daytona Beach, Florida

April 24, 2011

**MANAGEMENT LETTER OF INDEPENDENT AUDITORS'
REQUIRED BY CHAPTER 10.550, RULES OF THE AUDITOR GENERAL**

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

We have audited the financial statements of the City of Avon Park, Florida (the City), as of and for the year ended September 30, 2010, and have issued our report thereon dated **April 24, 2011**.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financials audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters. Disclosures in that report, which is dated **April 24, 2011**, should be considered in conjunction with this management letter. Other auditors audited the financial statements of the Avon Park Firefighters' Retirement System and Police Officers' Retirement System, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. The findings and recommendations made in the preceding annual financial audit report have been corrected, except for the matters reported with references to "Prior Year Repeat Comment" in the accompanying Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters and as discussed below.
- 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 of Avon Park, Florida has 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. Our audit disclosed the following matter required to be disclosed by the Rules of the Auditor General (Section 10.554(1)(i)3.):
 - **Inventory Counts**— An inventory is performed each September 30th and ten test counts are performed by members of the finance department. During the audit, we noted errors on nine of the ten test counts. The amount of the error was relatively small; however, obtaining accurate physical counts is important. We recommend that someone not involved in the inventory count or initial compilation check for clerical errors by refooting and re-extending the inventory items on a test basis and that inventory reconciliations be computed to identify the reconciling items between the general ledger and inventory counts in order to test the accuracy of the inventory system and, therefore, provide more accurate financial information.

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- **New Accounting Pronouncement—GASB No. 54**— In March 2009, the GASB issued Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* effective for the City's fiscal year beginning October 1, 2010. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. Because of the significance of the change, we recommend that management develop a plan to properly transition the City's current reporting of fund balances to the new fund balance definitions. Governmental fund balances will be summarized into the following classifications:
 - Nonspendable
 - Restricted fund balance
 - Committed fund balance
 - Assigned fund balance
 - Unassigned fund balance
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, 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 on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) control deficiencies that are not significant deficiencies. Our audit disclosed the following matters required to be disclosed by the Rules of the Auditor General (Section 10.554(1)(i)5.):
 - **Review of Billing Register** — During the course of our audit, we noted there was no evidence of review or approval of the primary billing register by the Billing Clerk, the Utility Billing Supervisor or the Senior Customer Account Specialist prior to the bills being mailed to customers. The primary billing register should be reviewed by all responsible parties and the employees performing the review should sign and date the report providing evidence of review.
 - **Community Redevelopment Districts (Prior Year Repeat Comment)** — The City's community redevelopment district plans are in certain circumstances ambiguous with the types of expenditures allowed under the plan. In other circumstances, the plans are outdated as it relates to management's current plans with utilization of community redevelopment funds. Consequently, certain expenditures could be interpreted as unallowable. We recommend a comprehensive analysis of all current and future plans. Based on those plans, we recommend management modify the plans to include more specific reference to the types expenditures expected to occur within the community redevelopment districts now and in the future.
- 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. The City of Avon Park, Florida was created and reestablished as a municipal government when its present charter was approved by the voters at a general referendum in 1931 and by the Laws of Florida 14622 and the Act of 1929.

- 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 of Avon Park, Florida, did not meet any of the conditions described in Section 218.503(1), Florida Statutes. Although the City of Avon Park, Florida reported deficit unrestricted net assets of \$1,051,821 in its airport fund as of September 30, 2010, the City of Avon Park, Florida had unreserved general fund balance and unrestricted capital assets available to cover the reported deficit and the disposal of such assets would not impair the City of Avon Park, Florida's ability to carry out its functions.
- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City of Avon Park, Florida for the fiscal year ended September 30, 2010, 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, 2010. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City of Avon Park, Florida'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.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this management letter is intended solely for the information and use of the State of Florida Office of the Auditor General, City Council, management, others within the City, and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

James Moore & Co.

Daytona Beach, Florida
April 24, 2011