

**CITY OF INVERNESS
INVERNESS, FLORIDA**

**FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS**

FOR THE YEAR ENDED SEPTEMBER 30, 2013

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

Honorable City Council
City of Inverness
Inverness, Florida

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Inverness, as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 and 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Inverness's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the

Honorable City Council
City of Inverness
Inverness, Florida

United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2014, on our consideration of the City of Inverness'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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Inverness's internal control over financial reporting and compliance.

William, McClain, Paul & Cook, P.A.

Inverness, Florida

June 17, 2014

CITY OF INVERNESS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2013

The City's Annual Financial Report (AFR) was prepared in accordance with generally accepted accounting principles (GAAP) applicable to government entities. This Management's Discussion and Analysis report (MD&A) is required supplementary information (RSI) in accordance with GAAP and presents an overview of financial information included in the AFR. The City of Inverness's (the "City") discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

Since Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the City's financial statements listed in the table of contents.

Financial Condition Overview

The following Key financial metrics indicate that the City remains in sound financial condition:

- *Operating results* reflects the degree to which budgets met expectations. Both actual revenues and actual expenditures were within reasonable proximity of budgeted amounts for FY 2013.
- *Liquidity* reflects the City's ability to pay current liabilities with current assets. The City maintained sufficient, prudent liquidity levels throughout FY 2013 and at year end.
- *Reserves and fund balance* reflect the provision of financial resources for future needs and contingencies. The City's reserves and fund balances provided reasonable and sufficient working capital for operations and security for contingencies throughout FY 2013 and at year end.
- *Debt levels and debt payments* reflect the impacts of the City's borrowing decisions. The City maintains no outstanding debt balance in governmental activities and a sustainable debt balance in the City's business activity.
- *Trends* reflect the degree to which the above key financial metrics are changing. Conservative estimates for the pace and amount of recovery in the economy and the housing market could impact the City's ability to maintain or enhance service levels in the future.

Financial Highlights

- The assets of the City of Inverness exceeded liabilities at September 30, 2013 by \$49,392,170 (net assets). Of this amount, \$19,295,394 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$1,362,523.
- As of September 30, 2013, the City of Inverness' governmental funds reported combined ending fund balances of \$12,516,898, a decrease of \$4,172,928 in comparison with the prior year. The City retired its General Fund Debt in 2013 by action of a bond defeasance for a total principal reduction of \$4,725,000 funded by a

planned reduction in governmental fund balances. Approximately 97% of this total amount, \$12,092,315 is available for spending at the City's discretion (committed and unassigned fund balance).

USING THIS ANNUAL REPORT

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

This discussion and analysis is intended to serve as an introduction to the City of Inverness' basic financial statements, which are comprised of three components:

- 1) Government-wide financial statements;
- 2) Fund financial statements; and
- 3) Notes to the financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The focus is on "activities," rather than (the previous model's) "fund-types."

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. The focus of the Statement of Net Assets (the "unrestricted net assets") is designed to be similar to bottom line results for the City and its governmental and business-type activities. This statement combines and consolidates governmental fund current resources (short-term spendable resources) with capital assets and long-term obligations. Over time, the increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes 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, highways and streets, sanitation, and parks and recreation. The business-type activities of the City consist of the Public Utilities System and the Oakridge Cemetery.

The government-wide financial statements include the City of Inverness (known as the primary government), and the Inverness Community Redevelopment Agency, a legally separate entity reported as a "component unit" because the City is financially accountable for it.

The government-wide financial statements can be found on pages 26 through 27 of this report.

Fund Financial Statements

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

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. 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, Whispering Pines Fund and the Capital Projects Fund, all of which are considered to be major funds. Data from the other three governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in this report, immediately following the Notes to the Financial Statements.

The City adopts an annual appropriated budget for its General Fund, as well as the Whispering Pines Park Fund and the Capital Projects Fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 28 through 36 of this report.

Proprietary Funds

The City maintains only one of the two proprietary fund types. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Public Utilities System and the Oakridge Cemetery. Internal service funds are an accounting device used to accumulate and allocate costs internally among a government's various functions. The City does not utilize internal service funds.

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

The basic proprietary fund financial statements can be found on pages 37 through 41 of this report.

Notes to the 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. They can be found on pages 41 through 62 of this report.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, and underground pipes not associated with a utility, etc.) have not been reported nor depreciated in governmental financial statements. The standard requires that these assets be valued and reported within the governmental column of the government-wide statements. Under the standards of GASB Statement 34, the City has elected to report infrastructure assets on a prospective basis. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life, or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government elects the asset management system (the modified approach), which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The City has elected to depreciate its infrastructure assets.

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GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the current year, the City's assets exceeded liabilities by \$49,392,170.

The following table reflects the condensed Statement of Net Assets for the current and prior year. For more detailed information, see the Statement of Net Assets on page 25.

STATEMENT OF NET ASSETS	Government Activities		Business Activities		Total Government	
SEPTEMBER 30	2012	2013	2012	2013	2012	2013
Assets:						
Current and other assets	\$ 17,125,459	\$ 13,183,438	\$ 5,852,526	\$ 8,403,504	\$ 22,977,985	\$ 21,586,942
Capital assets	17,003,872	17,445,342	24,964,144	24,318,036	\$ 41,968,016	\$ 41,763,378
Total Assets	34,129,331	30,628,780	30,816,670	32,721,540	64,946,001	63,350,320
Liabilities:						
Current and other liabilities	429,528	840,705	664,700	1,019,925	\$ 1,094,228	\$ 1,860,630
Long-term liabilities	4,949,186	-	10,872,940	12,097,520	\$ 15,822,126	\$ 12,097,520
Total Liabilities	5,378,714	840,705	11,537,640	13,117,445	16,916,354	13,958,150
Net Assets:						
Invested in Capital, net of debt	12,157,998	17,445,342	13,804,412	11,729,470	\$ 25,962,410	\$ 29,174,812
Restricted	350,010	350,010	616,830	571,954	\$ 966,840	\$ 921,964
Unrestricted	16,242,609	11,992,723	4,857,788	7,302,671	\$ 21,100,397	\$ 19,295,394
Total Net Assets	\$ 28,750,617	\$ 29,788,075	\$ 19,279,030	\$ 19,604,095	\$ 48,029,647	\$ 49,392,170

Sixty-two (62%) percent of the City's net assets reflects its investment in capital assets (e.g., land, buildings, improvements, infrastructure, and vehicles and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in 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. Total net assets increased three (3%) percent (1,362,523) over the prior year.

Two (2.0%) percent (921,964) of the City's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$19,295,394) may be used to meet the City's ongoing obligations to citizens and creditors.

At September 30, 2013, the City is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Statement of Activities

The following table reflects the condensed Statement of Activities for the current year. For more detailed information, see the Statement of Activities on page 27.

Changes in Net Assets as of September 30, 2013

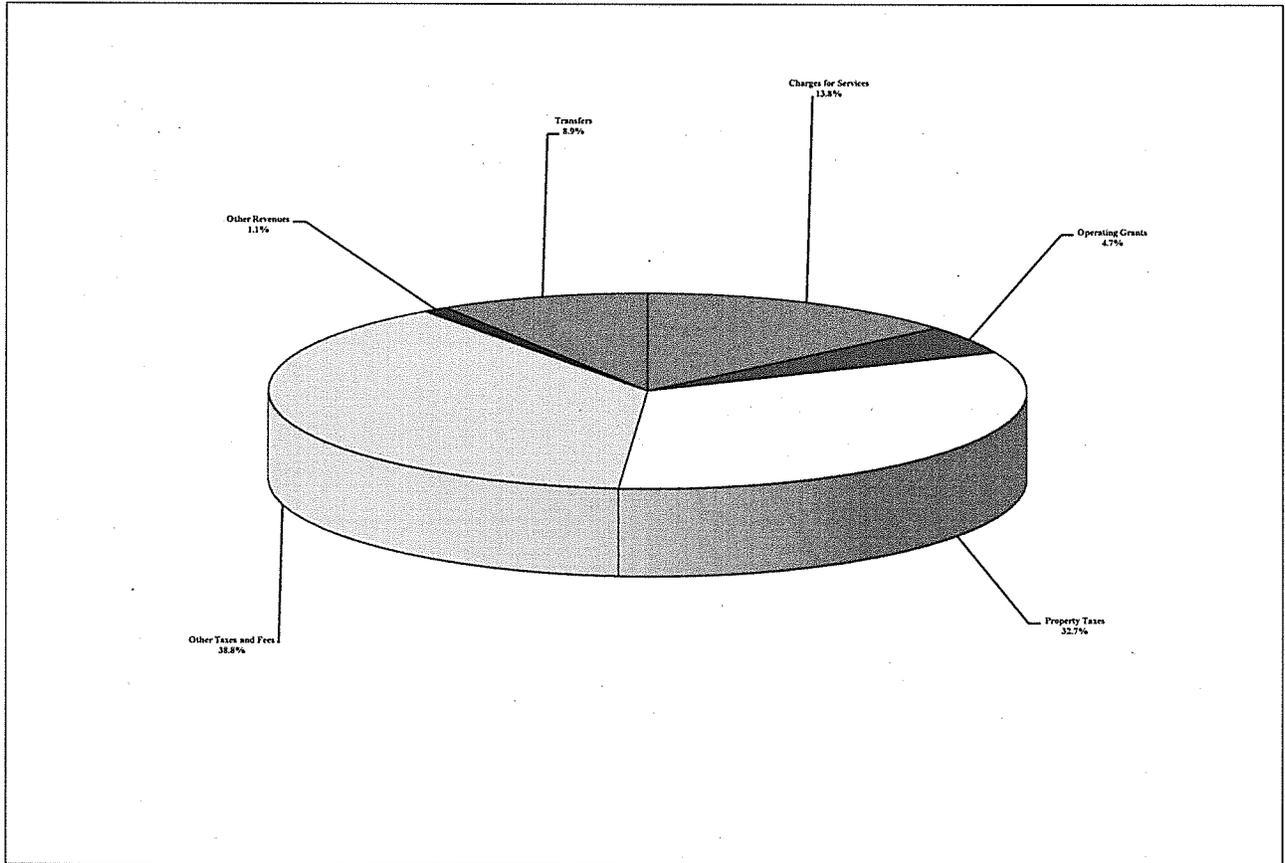
Statement of Activities	Governmental Activities		Business Activities		Total Primary Government	
	2012	2013	2012	2013	2012	2013
REVENUES						
Program revenues:						
Charges for Services	\$ 363,104	\$ 919,202	\$ 2,864,699	\$ 3,071,504	\$ 3,227,803	\$ 3,990,706
Operating Grants	643,478	313,838	-	-	643,478	313,838
Capital Grants	703,024	-	504,633	498,463	1,207,657	498,463
General Revenues:						
Property Taxes	2,190,520	2,185,897	-	-	2,190,520	2,185,897
Other Taxes and Fees	2,258,799	2,527,851	-	-	2,258,799	2,527,851
Other Revenues	259,089	72,915	(166,219)	(204,975)	92,870	(132,060)
Total Revenues	6,418,014	6,019,703	3,203,113	3,364,992	9,621,127	9,384,695
Expenses						
Program Expenses:						
General Government	1,387,972	1,629,809	-	-	1,387,972	1,629,809
Development Services	186,891	188,053	-	-	186,891	188,053
Public Safety	728,800	728,800	-	-	728,800	728,800
Physical Environment	479,084	976,366	2,659,923	2,686,427	3,139,007	3,662,793
Economic Environment	54,916	54,916	-	-	54,916	54,916
Roads and Streets	506,361	472,832	-	-	506,361	472,832
Culture and Recreation	1,281,459	1,021,935	-	-	1,281,459	1,021,935
Interest on Long Term Debt	225,446	505,443	-	-	225,446	505,443
Total Expenses	4,850,929	5,578,154	2,659,923	2,686,427	7,510,852	8,264,581
Excess	1,567,085	441,549	543,190	678,565	2,110,275	1,120,114
Net Transfers	528,898	595,909	(406,000)	(353,500)	122,898	242,409
Change in Net Assets	2,095,983	1,037,458	137,190	325,065	2,233,173	1,362,523
Net Assets - October 1	26,654,634	28,750,617	19,141,840	19,279,030	45,796,474	48,029,647
Net Assets - September 30	\$ 28,750,617	\$ 29,788,075	\$ 19,279,030	\$ 19,604,095	\$ 48,029,647	\$ 49,392,170

Governmental Activities

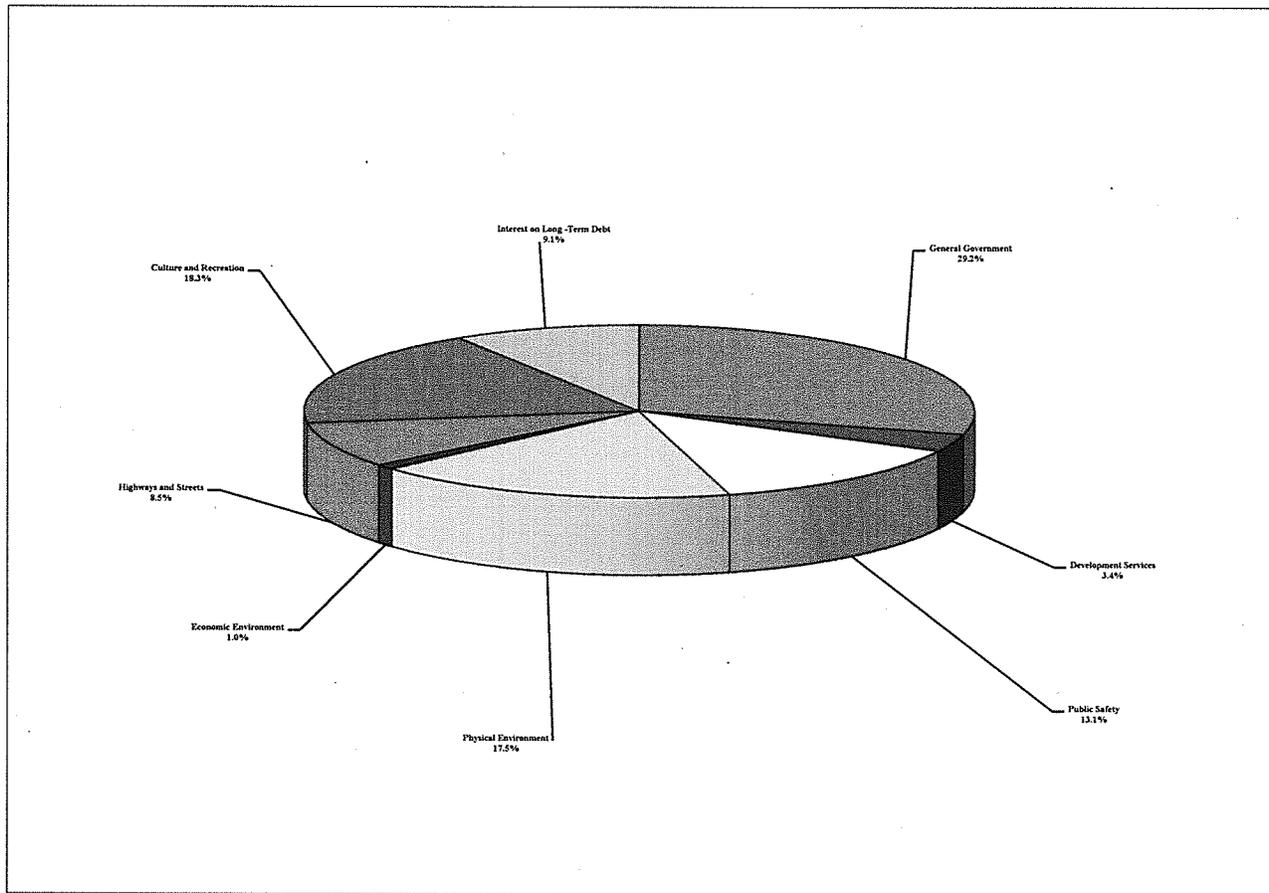
Governmental activities increased the City's net assets by \$1,037,458 primarily due to an increase in charges for commercial sanitation services. Fiscal Year 2013 the City commenced billing commercial sanitation services in-house. Revenue increases were also recognized in development impact fees.

Expenses and Revenues – Governmental Activities

Revenues by Source – Governmental Activities



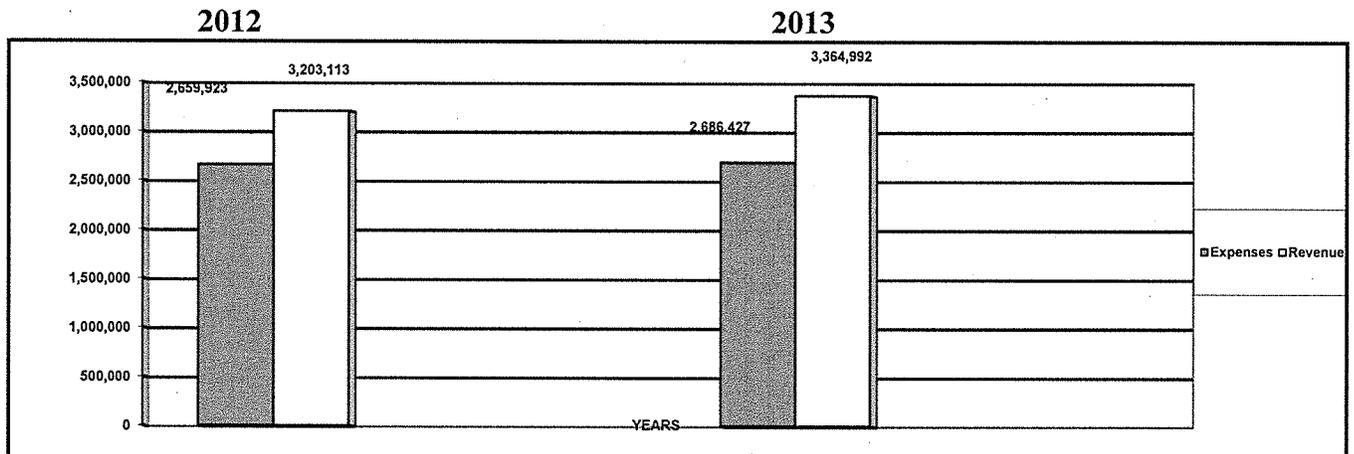
Expenses by Category – Governmental Activities



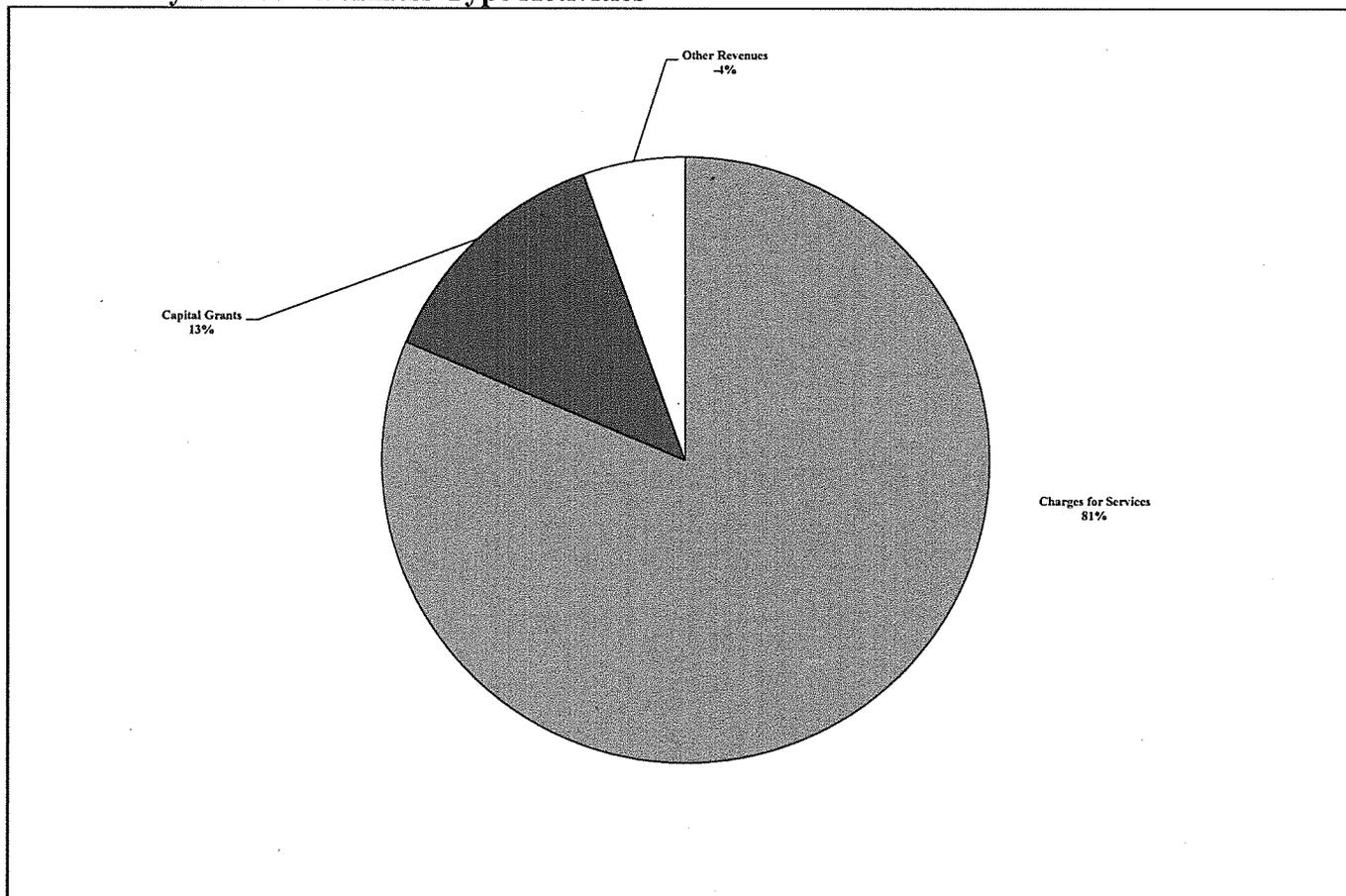
Business-Type Activities

Business-type activities increased the City's net assets by \$325,065, primarily a result of a continuation of a three-year phased utility rate modification plan that was implemented in November 2011 to ensure debt coverage is adequately maintained and debt limits are sustainable based on recommendations of a utility rate study conducted by Public Resources Management Group, Inc.

Expenses and Revenues – Business-Type Activities



Revenues by Source – Business-Type Activities



Financial Analysis of the City's Funds

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

Governmental funds

The focus of the City's governmental funds 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, committed and unassigned 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 September 30, 2013, the City's governmental funds reported combined ending fund balances of \$12,516,898, a decrease of \$4,172,928 in comparison with the prior year. Approximately 99% of this total amount (\$12,092,315) constitutes committed and unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance (\$424,583) is reserved to indicate that it is not available for new spending because it has already been committed.

The General Fund is the chief operating fund of the City. At September 30, 2013, the unassigned fund balance of the General Fund was \$2,039,763 while the total fund balance was \$5,811,589. As a measure of the General Fund's liquidity, it may be useful to compare both uncommitted fund balance and total fund balance to total fund expenditures. Uncommitted fund balance represents 22.23% of total General Fund expenditures, while total fund balance represents 63.39% of that same amount.

The total General Fund expenditures for Fiscal Year 2013 were \$9,168,283 which includes the early retirement of principal and interest charges for a bond defeasance totaling \$5,230,443.

The fund balance of the City's General fund decreased by \$2,459,083 during the current fiscal year due to the early retirement of bonded debt in the amount of \$5,230,443 and a continued effort by the City to reduce operational expenditures adequately below revenues in order to maintain sufficient funding levels for Capital Improvements.

The Whispering Pines Park and Capital Projects Funds have a total fund balance of \$280,660 and \$5,907,913 respectively. Whispering Pines fund balance decreased by \$263,784 primarily due to planned reductions in the amount of \$89,500 to fund the Park's Capital Improvement Program and \$175,000 to alleviate the pressure of funding by the General Fund in response to the reduction in park funding contributions from Citrus County. The Capital Projects fund balance decreased by \$1,661,616 as a result of a planned transfer to the General Fund in the amount of \$3,849,048 to partially fund the bond defeasance program.

Proprietary Funds

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

Unrestricted net assets of the Water and Sewer Utility and Cemetery Funds at September 30, 2013 amounted to \$7,014,032 and \$288,639 respectively. The Cemetery Fund has a restricted fund balance of \$571,954 for perpetual care.

General Fund Budgetary Highlights

Differences between the original expenditure budget and the final amended budget amounted to \$5,590,112. In April, 2013 City Council authorized a budget amendment in the amount of \$5,038,825 to fund the 2005A Bond Defeasance. Amounts were provided by General Fund reserves in the amount of \$1,189,777, Capital Project Fund reserves in the amount of \$1,349,048, and Capital Project Fund Contingencies in the amount of \$2,500,000.

Additional differences in the original budget and the final amended budget included the following: \$454,000 building reserve fund transfer to the Capital Projects Fund for a construction build-out project to the second floor of the Inverness Government Center, increased funding \$16,000 for building inspection contractual services which was offset by an increase in building permit fee revenues, \$15,800 carry-forward reserves to continue funding of the Public Works Building Roof Replacement project, \$501,050 to appropriate unforeseen commercial sanitation revenues to sanitation collection and disposal services to fund the first year of internal billing for these services, and \$5,437 for 2012 carry-forward reserve administrative projects including funding for the City newsletter, 2012 updates to the municipal code and advertising expenses.

The variations from budget to actual are from a variety of causes. On the revenue side, the largest variation is in the area of charges for services (\$284,223). The City originally anticipated implementing a fee based residential recycling program but determined to fund the program with ad-valorem tax revenues. The City collected \$35,105 less in taxes than originally anticipated primarily in the current ad-valorem tax. Additionally, the City experienced a revenue shortfall in Electric Franchise Fees in the amount of (\$44,762) resulting from an increase in vacant properties due to foreclosures within the City. When revenues are uncertain, expenditures are more closely monitored

to preclude deficit spending. The City collected \$457,863 less than originally projected but in response the City's General Fund expenditures were \$1,444,671 less than originally projected.

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, 2013 amounts to \$29,174,812 (net of related debt). This investment in capital assets includes land, buildings, improvements, infrastructure, vehicles, and equipment. Infrastructure for the governmental activities is reported prospectively beginning October 1, 2003.

Major capital projects completed during the current fiscal year included the following:

Governmental Activities:

• North Apopka Avenue Trailhead	\$575,930
• Wayfind Signage	
Downtown District and Satellite Parks	\$ 37,186
• Solar Compacting Trash Cans	\$ 37,032
• Liberty Park – Parking Lot Improvements	\$ 35,934
• Pool Resurfacing	\$ 31,500
• Shuffleboard Court Resurfacing	\$ 23,306
• Road Resurfacing	\$ 19,884
• North Apopka Median Improvements	\$ 16,695
• Parks – Infield Groomer Replacement	\$ 16,490
• Wallace Brooks Park – Play Structure	\$ 14,940
• Information Technology – Server Upgrades	\$ 12,061
• Aquatics Storage Building	\$ 9,693
• Façade Program	\$ 7,500
• Liberty Park Walkway Improvements	\$ 7,065
• Aquatics Office – Lightning Protection	\$ 4,950

Business-Type Activities

• Water Line Improvements & Upgrades	\$45,861
• Lift Station Fencing	\$33,458
• Water Line Replacements	\$13,000
• Field Equipment	\$10,920
• Water Line Extensions	\$ 9,990
• Lift Station Rehabilitation	\$ 8,223
• Citrus Storage Tank Rehab	\$ 3,145

**City of Inverness' Capital Assets
(net of depreciation)**

	GOVERNMENTAL ACTIVITIES	BUSINESS ACTIVITIES	TOTAL PRIMARY GOVERNMENT
Land	\$ 2,523,219	\$ 651,857	\$ 3,175,076
Buildings and improvements	13,907,212	23,014,890	36,922,102
Equipment	516,841	622,346	1,139,187
Construction in progress	498,070	28,943	527,013
Totals	\$ 17,445,342	\$ 24,318,036	\$ 41,763,378

Additional information on the City's capital assets can be found on pages 53 through 54 of the Notes to the Financial Statements in this report.

Long-Term Debt

At the end of the current fiscal year, the City's general fund had no outstanding debt. The City of Inverness City Council completed the legal defeasance of the City's portion of the Florida Municipal Loan Council (FMLC) 2005A Revenue Bonds in the amount of \$5,038,825. The bond was scheduled to be paid over a thirty year period with a final payment date of February 1, 2035. The City supported the bond defeasance with funding provided by the General Fund in the amount of \$1,189,77 (unrestricted fund balance) and the Capital Projects Fund in the amount of \$3,849,048 (unrestricted fund balance - \$1,349,048 and contingency funds - \$2,500,000). The costs to defease the bonds included bond counsel, escrow agent fees, advance refunding waivers and verification reports. Bond defeasance will provide a net interest savings over the life of the loan in the amount of \$2,450,093.

During Fiscal Year 2009 the City borrowed \$16,438,625 through the Department of Environmental Protection State Revolving Fund program for the purpose of constructing a Wastewater Treatment Plant and Reclamation Facility. The City received grant funding in the amount of \$10,000,000 which offset debt principal and interest payments for a period of twenty years from January 1, 2011 through July 1, 2030. The City made a principal payment in the amount of \$4,000,000 on January 15, 2012 to offset the debt and to reduce future payments. The City will be responsible for repayment of \$10,705,788 of the loan principal for a period of twenty six years commencing January 1, 2011 through July 1, 2036.

In September, 2013 the City entered into a \$1,883,000 Master Lease Agreement with SunTrust Bank. The purpose of the lease is to finance a portion of the City's Energy Performance Program of \$2,255,246 for installation of the energy conservation measures including automated metering infrastructure. The total cost savings and revenue improvements annually for the combined program is \$207,314. The City provided \$375,000 in committed capital funding from the Utility Fund to offset the total financed investment cost of the program. The remaining project balance is financed with a Master Lease Purchase Agreement with SunTrust in the amount of \$1,883,000 at a rate of 2.8% for a period of 12 years. Repayment of the agreement will commence on June 15, 2014, payable twice annually starting with payments of \$66,500 and increasing annually to a maximum payment of \$114,500 due in June and December, 2025.

	GOVERNMENTAL ACTIVITIES	BUSINESS ACTIVITIES	TOTAL PRIMARY GOVERNMENT
Revenue bonds payable	\$ -	\$ -	\$ -
Notes payable	-	12,588,566	12,588,566
Totals	\$ -	\$ 12,588,566	\$ 12,588,566

Additional information on the City's long-term debt can be found on pages 56 and 57 of the Notes to the Financial Statements in this report.

Next Year's Budgets and Rates

During the current fiscal year, committed and unassigned fund balance in the General Fund decreased \$2,459,083 to \$5,811,589 following a managed use of the reserves to defease the 2005A General Fund Debt. Use of available fund balance may be used to fund one time capital purchases and accordingly reduce the need to raise taxes or fees during the 2014 fiscal year. The fund balance has certain designations set by Council to insure adequate emergency funding during disasters.

Other Factors Affecting the City

The City of Inverness represents real Florida. It's rich in history; revitalized and transformed, and is the main center of activity in Citrus County. The strength of Inverness is measured by people, the community's ethical code, strong values, visionary outlook and progressive attitude. Recessiary conditions have continued longer than expected and will remain for another two to three years. City Leaders have had to confront a steady decline in property values and revenue reduction. While that reality persists, City Government maintains an aggressive position to invest in infrastructure and refurbish sectors of the community to attract investment and growth. The community enjoys natural amenities found in lakes and forest habitat. City Leaders are committed to protect natural resources and scenic waterfront facilities that support residential interests, business investment and development. With a 15-year transformation the City has grown and improved, but modeled to maintain its original small town charm.

The 2013 fiscal appropriation supported what had been started and was structured for an energetic and aggressive vision of capital improvement, facility and infrastructure maintenance, without curtailment of services, improvement projects or cultural planning. Events and special activities are a main stay and attract tens of thousands of visitors annually. A growing list of accomplishments is a trend that will continue with adoption of this document.

By a comparison of size and effectiveness, Inverness has progressed by a business-oriented Council and the efforts of a dedicated yet small staff that enjoys low overhead. This budget recognizes the need to remain within limited resources. For Fiscal Year 2013, the number of funded positions remained same. Operation of the City Utility System is stable and managed through a public private partnership (3P). The private firm is a willingly extension of City staff. The same holds true for the City-Wide sanitation program and Law Enforcement effort. Law Enforcement service is provided by an agreement with the County Sheriff. The relationship is effective and produced the ability to stabilize costs and improve services. Employees of the City and Sheriff's Office perform seamlessly, which benefits the total community. Sanitation Services are provided by a public private partnership (3P). The relationship brings an excellent service level that Inverness boasts as being the highest in the County. The 3P for Sanitation doubles as an extension of City Staff, which is an enabling component of good government. Generally, residents of the Inverness community enjoy the most

extensive service program in Citrus County. Basic services are: law enforcement, a safety program to illuminate all streets throughout the City, roads, streets and boulevard maintenance; a tree propagation and care program that earns the Tree City USA designation; the maintenance and improvement of storm water drainage structures, sidewalk and bicycle path development of an "intermodal" design, a beautification program for main intersections and high profile locations, a capital improvement program to expand storm water drainage, street cleaning, sidewalk development and related infrastructure as needed. The service package includes an expanded residential solid waste, yard waste and bulk item collection/disposal system that is delivered without added charge. City residents receive a service level that is second to none in the entire county with respect to waste collection and disposal. The public private partnership is time tested and extremely cost effective. Recreational planning, facility management and cultural events by Inverness are outstanding items that promote a commitment to "quality of life." Whispering Pines Regional Park is a jewel of a recreational facility that sets the standard for quality and service scope. The recreational experience at "The Pines" is so well received, the facility has been proclaimed by an independent poll as the best park in Citrus County.

To compliment neighborhoods and the downtown business district, satellite parks have been developed. Satellite Park operations provide the ability to promote the community by way of cultural and musical events at waterfront park features. The result brings flexibility to a community that is vibrant and proud.

The effect of proper planning and leadership promotes investment by the private and public sectors. In addition to project and service orientation, City Government provides the community with land/development planning, zoning and code enforcement activities; cemetery operations; and general administrative services. The Inverness Utility System brings potable water and wastewater treatment to a growing City and beyond. Sufficient capacity exists to expand the system beyond the municipal boundary. The stated goal for Inverness is to be the dominant provider of water and sewer services to a vast area of eastern Citrus County. The operation of a Reclaimed Water Transmission line to irrigate the Inverness Golf Course with reclaimed water produced from a new Class-One Wastewater Treatment Facility is an added benefit to protect the environment. By comparison to other elements of public infrastructure, utility system upgrades are costly and at times mandated. The sewer plant and water reclamation system represents the largest public project in Inverness to date in size, scope and cost. The City is positioned to work with County government in an effort to remove septic systems from canals and lake system. Developer agreements for projects beyond city limits will include provisions for annexation and place the city on a positive path of growth.

Geographically, Inverness is small and boasts a good mixture of retail outlets, general shopping, specialty shops, service-oriented businesses, restaurants and medical facilities, and the number is growing. Tourist type attractions include the Withlacoochee Bicycle and equestrian Trail, Tsala Apopka Chain of Lakes, Historic Courthouse, Historic Homes and walking tour, Withlacoochee State Forest, and an array of waterfront park improvements, and connectivity to Historic Floral City, which is an easy bicycle ride on the Trail. The central business core accommodates County Governmental and Judiciary Operations, Constitutional Officers, fine eateries and specialty shops. Waterfront parks and beautification projects with pedestrian accessibility are integrated to provide a high quality lifestyle that yields to a small town experience.

The 2013 fiscal appropriation included several initiatives, which will shape the future of Inverness as they materialize:

- Restoration of the Historic Valerie Theatre and Plaza Development

- Bicycle Boulevard (Phase I) of the Bicycle Master Plan to link Historic Downtown to the Withlacoochee Trail
- Special Event Program Re-Structuring with the goal to expand opportunities and increase revenue generation
- Farmer Market Program to broaden base appeal; involve the Agricultural Community, Future Farmers of America, and increase revenue generation
- Festival of the Arts on Courthouse Square Forty-First Anniversary
- Whispering Pines Park restructuring to improve community interaction; increase internal efficiency and improve revenue production
- Full phased single stream curbside recycling program for all residents of the City became part of the overall service package in 2013.
- A (city) Functional Re-Org to join like departmental functions; promote cross training, share equipment and reduce red-tape and overhead costs.

Economic Condition and Outlook

The City of Inverness is the largest and most populous municipality in Citrus County, and is viewed as a center of commerce, governmental activity, medical services, social development, education system, cultural and historical significance, community event activity and as an energized community. The City's population stabilized at 7200 residents. City Government makes an effort to maintain productive relations with County Government, State Officials, surrounding cities and federal representatives. Our leadership role with broad planning models and promotion of the area is well received. The ability to accommodate the needs of the County Seat to include judicial operations is an expense to the community, but is also an asset to the local economy. The distinction of being the County Seat of Government for greater than 115 years brings a responsibility that bridges social and fiscal interests. We have a well-recognized development plan in place that supports the need to expand office space for County Seat activity.

General City operational costs are managed to keep from rising and we do not rely on the local economy to fund every project. Grants have been secured to supplement funding to complete scheduled improvement projects affordably.

Completed projects are well received by business interests and general public. Physical improvements to the community additionally build a sense of independence, innovation and confidence. The City of Inverness is recognized as a progressive community with an overall goal to provide for the present and build for the future. We have been able to meet the needs of citizens, visitors and commerce by creating vibrancy for the future of Inverness.

Objectively, the outlook is positive with a strong commitment to make Inverness more attractive. We have constructed Phase I of the Bicycle Master Plan which will dramatically improve connectivity of cyclists from the State Trail to the business district.

Through implementation of an annually funded program, streets are repaved and general landscape enhancements are made throughout the City. Intermodal planning is important and target roadways will receive enhancements such as traffic calming, landscaping and theme lights.

The use of grant funds, and the continuation of various beautification projects, has been a measurement of successful operations. The City has secured cultural grant funds as well as local resources to restore the Historic Valerie Theatre. When complete, the revitalized Theatre will be an immediate added benefit to a restored and active historic downtown district.

Citrus Memorial Regional Hospital is an asset that encourages investment by the medical community. New shops and small storefronts continue to open in the City. The addition of a new shopping center hosting a Publix grocery store and an awaited opening in 2014 of Panera Bread has added considerable private investment in the community. An illuminated boardwalk in and around Cooter Pond will serve as an attractive welcome to the downtown, particularly to traffic along the Highway 41/44 corridor. In the downtown core, we intend to remove undesirable vegetation from lake areas to visibly open the waterway to the Central Business District. Completing these projects will further promote tourism and improve connectivity from the Central Business District to population centers and tourist locations.

The attraction for bicycle use is partly driven by environmental consciousness, economics, and personal health. More than most, cyclists enjoy the benefit of our beautiful lakes, historic amenities and natural areas. Dampier Street was improved by use of a third CDBG grant and is a connector to the Bicycle Trail. The City intends to secure a fourth grant to complete the Central Business District in 2015. Pending expansion of US 41 North is long overdue and further delayed by State Budget cuts. Delays to this project will have a negative effect to business investment along the corridor, which is unfortunate. The City will pursue funding options through participation on the County Transportation Planning Organization, but the short-term outlook is not favorable.

The City constructed the new Wastewater Treatment and Reclamation Facility to provide the ability of the County to improve the Inverness Airport and promote development of a business park. While the project has been stalled at the level of County Government, we are finally witnessing some activity by the Economic Development Council. The long awaited business park will have the potential effect to enhance the town, improve economic conditions; increase the concept of mixed-use and intermodal design and, at the same time, increase the customer base provided service area and capacities of the utility system for future occupants. As projects and concepts materialize, the City will be better positioned for annexation and general growth.

We have ambitiously worked to promote the City through a focus of large-scale, high-profile activities such as the nationally recognized Great American Cooter Festival, which when coupled with the local Fine Arts Show, Patriotic Evening Fireworks, Taste of Inverness, Street Go-Cart Race, parades, craft shows and concerts on Historic Courthouse Square, bring a heightened level of exposure and cultural vibrancy to Inverness. The business community welcomes the monthly Thunder Car Show and Farmer Market that take place on City Square. The Annual St. Patrick's Day Parade continues to grow and exceeds expectations. The extremely well received Patriotic Evening Program broke records with almost 15,000 spectators to partake in the festivities.

For two days the Annual Festival of the Arts on Historic Courthouse Square is a tradition that is sponsored and managed by the City that generates tourism in a cultural manner. The 2013 event marked the 42nd year. The Taste of Inverness developed into a fine attraction and fundraiser for the Boys and Girls Club. The economic effects of the Art Festival and Great American Cooter Festival

and most all events are significant and will grow in size and stature. As is the case, good planning and growth takes work, and to maintain the lifestyle and qualities of Inverness is a challenge that comes with success. To expand services we must resist the temptation to curtail funding in other areas. The responsibility of a community's welfare requires fiscal stewardship that mandates the proper allocation and use of funds throughout the various elements of government – to include services and projects – along with new resident and business needs. Equally important is to conduct and/or sponsor festivals, parades and cultural endeavors, which bring attention and resident satisfaction.

Great strides and a proven record of accomplishment have been achieved. We must resist tampering with the fiscal status of what works and not yield to gimmicks. The City has received years of favorable audit reports and has performed well with the collection of funds; budgeting, investments and reconciliations. Investments and fund balances have been achieved with prudence.

Local government exists to provide services, maintain and invest in infrastructure, provide a law abiding environment, perform community planning, shape a vision and chart a course. We diligently work to meet those elements and strive to provide services at the lowest possible cost and at a customary or enhanced level. We believe people are best served when government works in harmony to deliver services and fund project development. The cooperative nature of Inverness extends to service obligations and to instill confidence in the local constituency by carefully aligning capital investment with community aspirations. An important quotient is the economic base, sales tax revenues, job opportunities and stable property values. So too is the outlook that citizens have about their local government. In that regard, the planning of public facilities and delivery of services must meet or exceed the expectations of business interests and citizenry at large. That means we must be driven to be more successful and improve working relations and cost sharing with other governments. We must remain effective to earn the public's trust, realizing that we have their best interests at the forefront. We must reduce or eliminate any unwarranted cost to maintain or improve services rendered. This is not easy or supported by all in Government, but it is the most responsible manner to serve tax paying residents. A final indicator of the status of the City may be found by the support of major media outlets, business community, community groups, youth associations and local veterans. The City of Inverness received the honor "Most Veteran Friendly City" and we are fortunate to be part of a wonderful community. Community sectors are positive and appreciative of the direction of City Government.

MAJOR INITIATIVES

Taxation

Taxation is never well received. Florida suffers from a dysfunctional tax structure that is inequitable and aggravated by actions of the Florida Legislature. For the past six years we started budgeting with a revenue shortfall. The Legislature has meddled to erode home rule and the ability of the local populace to vote their will. The intrusion into local affairs by State Government has further maligned the tax code to render it more inequitable compared to prior budget cycles.

With exemptions, a majority of residents are insulated from the effects of service costs and (new) taxation, shifting the burden to business and new home buyers. To the good, Inverness City Council Members have a history of progressive stewardship. By working in harmony, Elected Officials and City Administration have been able to develop budgets that fund all programs, services and projects without compromise to residents. This budget program is affected by property valuations in decline. Inverness experienced more than a four percent drop this year alone. The cumulative revenue loss for

the last four years hovers at thirty-six percent. The situation is not desirable. At this point, we are able to manage using the Roll-Back/Roll Forward Rate; however, to properly fund all operational service levels and maintenance requires that proper funding be in place. The necessary Tax Rate levy was 6.4923 mills. By all evaluations, this is a conservative tax and spending approach that protects services and improvement projects has been successful. The City of Inverness has made improvements at an unprecedented rate, and provides the highest service program by comparison in Citrus County. We do not view intrusion into home-rule by state government as short term and built the budget to position City Government to meet fiscal expectations into the future.

Programs and Expenditures

Operational costs are controlled with little growth or change. Overhead is low and internal connectivity and efficiencies have increased output and reduced cost. The concern involves drastic changes in the economy and the pressure of inflation. The cost for medical benefits, general commodities construction and liability insurance are moving higher. Fuel charges are anything but stable and rebounded to push \$4.00 per gallon during the fiscal cycle. Fortunately, Worker's Compensation Insurance remains low as a result of contracting law enforcement, sanitation services and utility system operations. We predict the cost of technically skilled labor will rise, but rates for general labor will remain favorable for the next two years.

Inflation as a measure is low, but all inflationary pressures are high. Indicators show inflation will be at more than 3% the next fiscal year. Economic activity remains low, which makes available the ability to mitigate cost increases. We do not expect a dramatic shift of recessionary conditions for two or more years. However, once conditions improve, it should be expected that prices will rise categorically. Increased costs will burden the fiscal climate of the City, and many factors must "settle-out" with time before the full effect may be realized. The effects of the Homeland Security program are costly as is the shifting of Federal and State mandates to the local level. To keep remaining expenditures in check requires that we secure contractual relationships to replace the high cost of public sector labor. To balance the fiscal program it was imperative that outlays not be allowed to rise categorically. The General Fund (tax side of the ledger), has been managed to achieve balance without placing undo pressure on property taxes.

From the standpoint of general expenditures, departmental allocations demonstrate little change, with reductions where possible, without affecting output. Technology and related advances are a large part of how the city operates. Much attention is given to the upkeep function of web sites and social media outlets to promote the City and keep people informed. Financial software; project management software, grant reconciliation and work order management program are all in place to capture how resources are applied and consumed. The outlook to invest in technology and keep personnel expansion "in check" is working and we continue to improve web page functionality to promote greater interaction between residents and their government. Using technology, the City is able to 'connect' with the community to stream and review agenda items, provide meeting minutes, events, policies, programs, projects, etc. Use of Twitter as a means to communicate and improve transparency has already proven to be effective.

Finally, the City Reorganization Model has been updated and remains a continuum. The goal is to improve internal function, reduce process and cost, and improve output. Conducting business in Inverness should not be stressful, but an informative experience for all concerned.

Capital Purchases & Equipment

The Capital Improvement Plan (CIP) is the driving force of the overall budget and incorporates investment, improvement projects and large expenditures using an affordable, planned multi-year approach. The goal of the CIP is to invest, not spend. Major projects continued in process during the 2013 Fiscal Year, and even with a large commitment this year, much remains. Storm water management projects; potable water storage and system capacity; FDOT project impacts; planning and development of a bicycle network, CDBG Phase IV to improve the Central Business District; design, engineering and construction to restore the Historic Valerie Theatre, widening of a main section of Highlands Boulevard, expansion of the Central Business District; the need to upgrade technical equipment, computer software, and heavy equipment represent significant monetary commitments. Grants, special assessments, impact fees, and utility user rates will be secured and necessary to meet the needs of one or more of these issues.

The ability to support projects from non-ad valorem revenue sources is attractive but not guaranteed. During periods of fiscal downturn, the largest project appropriations in the CIP are: restoration of the Valerie Theatre followed by widening Highlands Blvd. and CDBG IV (improvements to Dampier Street and MLK).

Utilities System

The purpose of the Inverness Utility system is to provide water and wastewater services to the city and expanded service area. The goal of the system is to meet and exceed regulatory parameters. System management may be divided into three components: physical condition, operational integrity and outcome. Action has been taken to adopt a conservation rate structure. While rates alone will not cause a reduction in use, they are a primary incentive to consumers. Future water needs will be met by a combination of programs to include elements of conservation, additional user rate alignment and education of using water wisely. During 2013 the program to provide the Inverness Golf & Country Club with reclaimed water was working well. The customer base and related growth is modest, but indicators show the potential for customer base increases on the horizon. The City has worked with members of County Government for years to purchase three water systems from County Government which at least one should materialize next year. With this acquisition, 80 customers will be added to the system. A bright spot for the Utility System is with county plans to improve the Inverness Airport and develop an Industrial Area. If successful, the business park will add customers and the system will be poised for additional development south of town. We plan to offer the County the ability to levy assessment programs to remove septic tanks from the fragile lake system, but are disappointed with the fact County Water Quality Funds have been redirected to other priorities. These opportunities may still be a few years away, but all will eventually materialize to benefit the fiscal position of the system.

The Utility System is affected by mandates, which increase operational costs. The system is continually under the scrutiny of State and Federal Agencies. To balance the cost of operations and capital improvements, we reduced the amount of reserves that are needed. Implementation of a recent Rate Study will best position the water and wastewater components of the Utility System to meet compliance for water quality and waste treatment standards.

Law Enforcement Services

Law enforcement services are essential. These services are provided in an expanded manner through a contractual arrangement with the County Sheriff's Office. The City of Inverness was the lead

agency in the area of developing a partnership with the Sheriff's Office and reaction has been positive and effective. Initial fears were addressed, and the Sheriff's Office seamlessly provides a full range of services that include patrol, investigations, community service, home inspections and media management. The operation is well received and a positive element of the community. Inverness enjoys low crime statistics within Citrus County, and relations between the County Sheriff and the City Administrative staff are effective. The cost associated with the delivery of law enforcement is stable and closely evaluated in the current fiscal climate. Objectively, the goal is to maintain the same level of service. The program was modified two years ago to reduce costs, and yet the service delivery remained positive and effective. The largest impacts to this service program are personnel (pay and benefits) and petroleum. The budget for 2013 was at the same level as 2012.

Administration, Development Services, IT & Finance

The automation of office operations, the ability to better manage the delivery of projects and the central location of major agency functions is found at the Inverness Government Center. A concerted effort continues to digitize city records and files. We also continue to evaluate all costs, components of centralize purchasing; personnel functions (hiring, promotion, compensation, discipline, loss time management and separation from service), inventory controls, computer functions, and telephonic needs. In turn, community growth, and high profile achievements of the City, has had a dramatic affect to increase the workload. The current situation warrants additional staff, but that did not occur in 2013. The situation has been improved by the recruitment of experienced personnel. For 2013 we upgraded the telephone system to bring added automated features to reduce staff time and improve customer service. Investments were made to upgrade software of the mail system and general operations. Improvements continue with the internal computer system (hardware and software) and the ability for citizens to receive information and interact with the government through the City web page. The Internet is an effective means of bringing government to the people when offices are closed.

The Finance Department continues to implement customer interaction of utility bills, payments, and payment of fines and related items. The Department of Development Services will work to recommend changes to the City Code and Land Development Code as related to Green Initiatives. Importantly, through a balanced regulatory approach, we plan to reduce the dependency on irrigation, reduce and/or eliminate the administration of pesticides, herbicides and fertilizers in a manner that impacts the natural water supply, and promote investment in both construction practices and retrofitting to support a Green community.

City Administration continued to work with Info-Tech and Finance to restructure management and to continue toward a launch of the iGovTech initiative. The initiative will be led by Inverness as a city consortium to reduce IT costs, hosting services, web page management and financial software programming. Additionally, the City Administration will direct changes to Satellite Parks to manage facilities and review all polices for park use and event management. The goal will be to fully capture governmental costs to evaluate, permit and manage external event requests.

Public Works

Public Works is the broadest of any department in a City. Their area of responsibility covers streets, drainage, sidewalks, trees, grounds and park maintenance, sanitation services and utility operations. We have made strides to improve operational conditions of this agency and further changes are planned to realign the City's program to achieve better results. Prior reorganization efforts combined the Departments of Utilities & Public Works. Changes continued with the outsourcing of sanitation

services and the elimination of sanitation trucks, dumpsters, trash truck operations, plus the billing and collection of commercial accounts. Satellite Park maintenance has been shifted to Public Works to improve efficiencies and better align staff to where needed. This move consolidated labor and grounds maintenance functions. We furthered this program in 2013 by increasing the interaction of the labor pool in Whispering Pines Park with Public Works. Significant improvements were made to operational efficiencies. This budget maintains a traditional allocation for the resurfacing of residential streets, sidewalk development, and improvement to storm water issues. The Tree City USA designation, again awarded to Inverness, is an element of Public Works and Parks and Recreation. Funding was provided for the propagation, maintenance of trees and when necessary, tree removal. Public Works also has the responsibility to oversee and maintain an expanding sidewalk program. Manpower has again been restricted this fiscal cycle, but has been supported by outsourcing most mowing and trimming of park grounds. The addition of solar power trash compactors in parks will reduce labor demands and allow the available employees to complete what otherwise cannot be automated or outsourced. The department will benefit by a better, more defined work focus and capture of information through the work order system. As we expand and intensify operations, a critical component of personnel management will be to attract staff that has the ability to perform at higher skill levels, and be able to work independently. The alternative will be to expand and evaluate use of public-private contracts.

Parks & Recreation

Parks & Recreation represents a broad and significant investment by City Government to the community. The Department mostly manages the 280 acre Whispering Pines Park, which remains the jewel of recreational outlets, and a network of twelve (12) parks and The City boasts several waterfront parks linked by the Withlacoochee State Trail. Maintenance of Liberty Park and Liberty Trail, as highly attractive waterfront parks is a responsibility of Public Works and achieved by contract with the private sector. The first phase of Cooter Pond was completed in September 2003; the final phase in 2008. The only remaining item is lighting the boardwalk in 2014.

From the standpoint of project cost, the good news is that the majority of park improvements were mostly funded by grants. The reality is that as areas are built and landscaped and put into operation; as parks are developed and streets/sidewalks improved and brought into service, maintenance expenditures are a growing cost item. There is pressure to increase staff and expenditures to maintain improved areas. We have opted to outsource work and will continue to consider service contracts to maintain the downtown area, Liberty Park, Liberty Trail, Wallace Brooks Park, Cooter Pond and small park facilities.

The big initiative for 2013 was to improve collected revenues and increase the volunteer pool. The City will launch a "Friends of the Park" to support Whispering Pines and volunteers will be recruited to support staff with event management. To improve the value to Inverness residents, a discount fee program was launched for qualifying City residents to reserve park amenities. That program will eventually be expanded to Whispering Pines Park as well. As an on-going program, Parks and Recreation continues to upgrade general park amenities to include the downtown business district, children's play areas, decorative fencing, benches, tables, grills, parking, sidewalks, and accessibility to those physically challenged, and it is the parks department that organizes and manages all special events.

Fiscal Stability – Reserves

A misunderstood and often discussed component of financial status has to do with reserve holdings. Reserve funds should not be addressed as only a “rainy day” fund; nor should reserves be “tapped” when convenient. Reserves exist to provide a broader level of opportunity when managed as a means of tax stabilization. The strength of reserve funds allows Inverness to embrace projects and unexpected opportunities as they arise without the need to increase millage or decline grants. A poor situation is created when a government reduces reserves to an insufficient amount that may cause the local government to miss grant opportunities or cancel project proposals that would otherwise benefit the community. Fiscal strength lies in available funding sources in the form of reserves, which cannot be overstated during the time of a natural disaster. Citizens have greatly benefited by a stabilized tax rate and capital improvement program that is dependable, and leads to improved investment value. The City Auditor speaks highly of the current level of reserves of the City and commented at length with respect to the favorable fiscal status residents enjoy.

Requests for Information

This financial report is designed to provide a general overview of the City of Inverness’s finances for all those with an interest in the City’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 212 West Main Street, Inverness, FL 34450.

CITY OF INVERNESS, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2013

	PRIMARY GOVERNMENT			COMPONENT
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	UNIT COMMUNITY REDEVELOPMENT
Assets:				
Cash and cash equivalents	\$ 8,216,939	\$ 4,751,149	\$ 12,968,088	\$ 47,577
Investments	4,481,293	2,731,742	7,213,035	-
Receivables (net)	326,662	471,405	798,067	-
Inventories	-	98,112	98,112	-
Due from other governments	81,000	36,215	117,215	-
Prepaid expenses	77,544	19,514	97,058	-
Unamortized loan costs	-	295,367	295,367	-
Capital assets:				
Land, improvements, and construction in progress	3,021,289	680,800	3,702,089	-
Other capital assets, net of depreciation	14,424,053	23,637,236	38,061,289	74,493
Total capital assets	17,445,342	24,318,036	41,763,378	74,493
Total assets	30,628,780	32,721,540	63,350,320	122,070
Liabilities:				
Accounts payable and accrued expenses	567,258	319,016	886,274	392
Long-term liabilities:				
Due within one year				
Compensated absences	35,148	5,370	40,518	-
Deferred charges - sanitation	64,134	-	64,134	-
Notes payable - current	-	491,046	491,046	-
Due in more than one year				
Notes payable	-	12,097,520	12,097,520	-
Customer deposits	-	204,493	204,493	-
OPEB liability	16,860	-	16,860	-
Compensated absences	157,305	-	157,305	-
Total liabilities	840,705	13,117,445	13,958,150	392
Net Assets				
Invested in capital assets, net of related debt	17,445,342	11,729,470	29,174,812	-
Restricted for:				
Debt service	350,010	-	350,010	-
Cemetery perpetual care	-	571,954	571,954	-
Other purposes	-	-	-	121,678
Unrestricted	11,992,723	7,302,671	19,295,394	-
Total net assets	\$ 29,788,075	\$ 19,604,095	\$ 49,392,170	\$ 121,678

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

CITY OF INVERNESS, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	EXPENSES	OPERATING		GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNIT
		CHARGES FOR SERVICES	GRANTS AND CONTRIBUTIONS				
Primary government:							
General government	\$ 1,629,809	\$ 611,506	\$ -	\$ (1,018,303)	\$ -	\$ (1,018,303)	
Development services	188,053	200,304	-	12,251	-	12,251	
Public safety	728,800	17,098	-	(711,702)	-	(711,702)	
Physical environment	976,366	-	-	(976,366)	-	(976,366)	
Economic environment	54,916	-	-	(54,916)	-	(54,916)	
Highways and streets	472,832	-	306,338	(166,494)	-	(166,494)	
Culture and recreation	1,021,935	90,294	7,500	(924,141)	-	(924,141)	
Interest on long-term debt	505,443	-	-	(505,443)	-	(505,443)	
Total governmental activities	5,578,154	919,202	313,838	(4,345,114)	-	(4,345,114)	
Business-Type Activity:							
Public utility	2,646,989	3,071,504	-	-	922,978	922,978	
Cemetery	39,438	-	-	-	(39,438)	(39,438)	
Total business-type activities	2,686,427	3,071,504	-	-	883,540	883,540	
Total primary government	\$ 8,264,581	\$ 3,990,706	\$ 313,838	\$ (4,345,114)	\$ 883,540	\$ (3,461,574)	
Component units:							
Community redevelopment	\$ 17,142	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,142
Total component units	\$ 17,142	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,142
General Revenues							
Taxes:							
Impact fees				211,598		211,598	
Property taxes				2,185,897		2,185,897	64,653
Sales taxes				335,829		335,829	-
Gas taxes				288,775		288,775	-
Franchise fees				637,907		637,907	-
Communication tax				356,833		356,833	-
Utility tax				700,940		700,940	-
Investment income				38,812	(250,939)	(212,127)	693
Miscellaneous				30,072	45,964	76,036	-
Transfers				595,909	(353,500)	242,409	(162,409)
Total General Revenues and Transfers				5,382,572	(558,475)	4,824,097	(97,063)
Change in Net Assets				1,037,458	325,065	1,362,523	(114,205)
Net Assets at Beginning of Year				28,750,617	19,279,030	48,029,647	235,883
Net Assets at End of Year				\$ 29,788,075	\$ 19,604,095	\$ 49,392,170	\$ 121,678

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

CITY OF INVERNESS, FLORIDA
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2013

	<u>GENERAL</u>	<u>MAJOR SPECIAL REVENUE FUND WHISPERING PINES PARK</u>
<u>ASSETS</u>		
1 Cash	\$ 2,088,363	\$ 293,395
2 Investments	3,812,080	-
Accounts receivable (net of allowance 3 for uncollectible accounts)	310,810	3,331
4 Assessments receivable	-	-
5 Due from other governments	-	-
6 Prepaid expenses	73,573	3,971
TOTAL ASSETS	<u>\$ 6,284,826</u>	<u>\$ 300,697</u>
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
7 Accounts payable	\$ 310,933	\$ 6,368
8 Deferred revenue	64,134	-
9 Accrued liabilities and compensated absences	98,170	13,669
Total Liabilities	<u>473,237</u>	<u>20,037</u>
Fund Balance:		
Nonspendable:		
10 Prepaids	73,573	-
11 Inventory	1,000	-
Restricted for:		
12 Debt service	350,010	-
Committed to:		
13 Capital Equipment Replacement	850,000	-
14 Land Acquisition	900,000	-
15 Inverness Govt Center Sustainability	397,243	-
16 Disaster Preparedness/Mitigation	1,000,000	-
17 Tort Litigation	200,000	-
18 Parks Operation/Capital	-	280,660
19 Road Improvements	-	-
20 Capital Projects	-	-
21 Unassigned:	2,039,763	-
Total Fund Balances	<u>5,811,589</u>	<u>280,660</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 6,284,826</u>	<u>\$ 300,697</u>

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

	<u>CAPITAL PROJECTS</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
1	\$ 5,330,966	\$ 504,215	\$ 8,216,939
2	669,213	-	4,481,293
3	-	-	314,141
4	-	12,521	12,521
5	81,000	-	81,000
6	-	-	77,544
	<u>\$ 6,081,179</u>	<u>\$ 516,736</u>	<u>\$ 13,183,438</u>
7	\$ 173,266	\$ -	\$ 490,567
9	-	-	64,134
8	-	-	111,839
	<u>173,266</u>	<u>-</u>	<u>666,540</u>
10	-	-	73,573
11	-	-	1,000
12	-	-	350,010
13	-	-	850,000
14	-	-	900,000
15	-	-	397,243
16	-	-	1,000,000
17	-	-	200,000
18	-	-	280,660
19	-	154,655	154,655
20	5,907,913	362,081	6,269,994
21	-	-	2,039,763
	<u>5,907,913</u>	<u>516,736</u>	<u>12,516,898</u>
	<u>\$ 6,081,179</u>	<u>\$ 516,736</u>	<u>\$ 13,183,438</u>

CITY OF INVERNESS, FLORIDA
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

Total fund balance of governmental funds \$ 12,516,898

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets are \$23,894,528 and the accumulated depreciation is \$6,453,220 17,445,341

Long-term liabilities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets. Long-term liabilities at year end consist of:

OPEB liability	(16,860)	
Compensated absences	<u>(157,304)</u>	<u>(174,164)</u>

Net assets of governmental activities \$ 29,788,075

CITY OF INVERNESS, FLORIDA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>GENERAL</u>	<u>MAJOR SPECIAL REVENUE FUND WHISPERING PINES PARK</u>
Revenues:		
1 Taxes and special assessments	\$ 3,590,609	\$ -
2 Licenses and permits	789,186	-
3 Intergovernmental revenue	642,167	7,500
4 Charges for services	602,367	90,294
5 Fines and forfeitures	17,098	-
6 Impact fees	-	-
7 Miscellaneous revenues	49,739	5,583
Total Revenues	<u>5,691,166</u>	<u>103,377</u>
Expenditures:		
Current:		
8 General government	1,476,613	-
9 Development services	186,342	-
10 Physical environment	834,249	-
11 Public safety	728,800	-
12 Highways and streets	472,716	-
13 Culture and recreation	239,120	592,216
14 Capital outlay	-	-
Debt Service:		
15 Principal retirement	4,725,000	-
16 Interest and fiscal charges	505,443	-
Total Expenditures	<u>9,168,283</u>	<u>592,216</u>
Excess (Deficiency) of Revenues Over Expenditures	(3,477,117)	(488,839)
Other Financing Sources (Uses)		
17 Transfers in	4,214,048	314,555
18 Transfers out	<u>(3,196,014)</u>	<u>(89,500)</u>
Total Other Financing Sources (Uses)	<u>1,018,034</u>	<u>225,055</u>
Net Change in Fund Balances	(2,459,083)	(263,784)
Fund Balance - October 1	<u>8,270,672</u>	<u>544,444</u>
Fund Balance - September 30	<u>\$ 5,811,589</u>	<u>\$ 280,660</u>

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

	<u>CAPITAL PROJECTS</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
1	\$ -	\$ -	\$ 3,590,609
2	-	-	789,186
3	-	-	649,667
4	-	-	692,661
5	-	-	17,098
6	-	211,598	211,598
7	16,831	760	72,913
	<u>16,831</u>	<u>212,358</u>	<u>6,023,732</u>
8	8,304	-	1,484,917
9	-	-	186,342
10	-	-	834,249
11	-	-	728,800
12	-	-	472,716
13	-	-	831,336
14	1,022,963	803	1,023,766
15	-	-	4,725,000
16	-	-	505,443
	<u>1,031,267</u>	<u>803</u>	<u>10,792,569</u>
	(1,014,436)	211,555	(4,768,837)
17	3,201,868	-	7,730,471
18	(3,849,048)	-	(7,134,562)
	<u>(647,180)</u>	<u>-</u>	<u>595,909</u>
	(1,661,616)	211,555	(4,172,928)
	<u>7,569,529</u>	<u>305,181</u>	<u>16,689,826</u>
	<u>\$ 5,907,913</u>	<u>\$ 516,736</u>	<u>\$ 12,516,898</u>

CITY OF INVERNESS, FLORIDA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

Net change in fund balances - total governmental funds \$ (4,172,928)

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current year. 1,008,140

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (570,700)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 4,823,972

Principal retirement

Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore, are not reported as expenditures in the governmental funds. The amounts comprising the difference in the treatment of expenses are:

Increase in OPEB	(3,080)	
Compensated absences	(47,946)	(51,026)

Change in net assets of governmental activities \$ 1,037,458

CITY OF INVERNESS, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues:				
Taxes and special assessments	\$ 3,625,714	\$ 3,625,714	\$ 3,590,609	\$ (35,105)
Licenses and permits	832,800	848,800	789,186	(59,614)
Intergovernmental revenue	637,507	637,507	642,167	4,660
Charges for services	334,770	886,590	602,367	(284,223)
Fines and forfeitures	25,000	25,000	17,098	(7,902)
Miscellaneous revenues	127,443	125,418	49,739	(75,679)
Total Revenues	<u>5,583,234</u>	<u>6,149,029</u>	<u>5,691,166</u>	<u>(457,863)</u>
Expenditures:				
Current:				
General government	2,204,707	2,210,712	1,476,613	734,099
Development services	225,954	241,954	186,342	55,612
Physical environment	529,500	1,030,550	834,249	196,301
Public safety	728,800	728,800	728,800	-
Highway and streets	668,926	684,726	472,716	212,010
Culture and recreation	317,985	317,417	239,120	78,297
Capital outlay	-	13,000	-	13,000
Debt Service:				
Principal retirement	120,000	4,725,000	4,725,000	-
Interest and fiscal charges	226,970	660,795	505,443	155,352
Total Expenditures	<u>5,022,842</u>	<u>10,612,954</u>	<u>9,168,283</u>	<u>1,444,671</u>
Excess of Revenues Over Expenditures	560,392	(4,463,925)	(3,477,117)	986,808
Other Financing Sources (Uses)				
Transfers in	365,000	4,214,048	4,214,048	-
Transfers out	(2,755,923)	(3,196,923)	(3,196,014)	909
Total Other Financing Sources (Uses)	<u>(2,390,923)</u>	<u>1,017,125</u>	<u>1,018,034</u>	<u>909</u>
Net Change in Fund Balance	(1,830,531)	(3,446,800)	(2,459,083)	987,717
Fund Balance - October 1	<u>8,270,672</u>	<u>8,270,672</u>	<u>8,270,672</u>	<u>-</u>
Fund Balance - September 30	<u>\$ 6,440,141</u>	<u>\$ 4,823,872</u>	<u>\$ 5,811,589</u>	<u>\$ 987,717</u>

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

CITY OF INVERNESS, FLORIDA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL
 MAJOR FUND - SPECIAL REVENUE FUND - WHISPERING PINES PARK
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues:				
Intergovernmental revenue	\$ 307,500	\$ 307,500	\$ 7,500	\$ (300,000)
Charges for services	107,200	107,200	90,294	(16,906)
Miscellaneous revenues	4,300	4,300	5,583	1,283
Total Revenues	<u>419,000</u>	<u>419,000</u>	<u>103,377</u>	<u>(315,623)</u>
Expenditures:				
Current:				
Culture and recreation	739,682	754,282	592,216	162,066
Total Expenditures	<u>739,682</u>	<u>754,282</u>	<u>592,216</u>	<u>162,066</u>
Deficiency of Revenues Over Expenditures	(320,682)	(335,282)	(488,839)	(153,557)
Other Financing Sources (Uses)				
Transfers in	314,555	314,555	314,555	-
Transfers out	<u>(483,618)</u>	<u>(483,618)</u>	<u>(89,500)</u>	<u>394,118</u>
Total Other Financing Sources (Uses)	<u>(169,063)</u>	<u>(169,063)</u>	<u>225,055</u>	<u>394,118</u>
Net Change in Fund Balance	(489,745)	(504,345)	(263,784)	240,561
Fund Balance - October 1	<u>544,444</u>	<u>544,444</u>	<u>544,444</u>	<u>-</u>
Fund Balance - September 30	<u>\$ 54,699</u>	<u>\$ 40,099</u>	<u>\$ 280,660</u>	<u>\$ 240,561</u>

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

CITY OF INVERNESS, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
MAJOR FUND - CAPITAL PROJECTS FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues:				
Intergovernmental revenue	\$ 1,526,700	\$ 1,650,700	\$ -	\$ (1,650,700)
Miscellaneous revenues	205,000	280,000	16,831	(263,169)
Total Revenues	<u>1,731,700</u>	<u>1,930,700</u>	<u>16,831</u>	<u>(1,913,869)</u>
Expenditures:				
Current:				
General government	-	2,000	8,304	(6,304)
Capital outlay	<u>3,416,518</u>	<u>5,498,736</u>	<u>1,022,963</u>	<u>4,475,773</u>
Total Expenditures	<u>3,416,518</u>	<u>5,500,736</u>	<u>1,031,267</u>	<u>4,469,469</u>
Excess (Deficiency) of Revenues Over Expenditures	(1,684,818)	(3,570,036)	(1,014,436)	2,555,600
Other Financing Sources				
Transfers in	2,680,868	3,121,868	3,201,868	80,000
Transfers out	<u>-</u>	<u>(3,849,048)</u>	<u>(3,849,048)</u>	<u>-</u>
Total Other Financing Sources	<u>-</u>	<u>(727,180)</u>	<u>(647,180)</u>	<u>80,000</u>
Net Change in Fund Balance	(1,684,818)	(4,297,216)	(1,661,616)	2,635,600
Fund Balance - October 1	<u>7,569,529</u>	<u>7,569,529</u>	<u>7,569,529</u>	<u>-</u>
Fund Balance - September 30	<u>\$ 5,884,711</u>	<u>\$ 3,272,313</u>	<u>\$ 5,907,913</u>	<u>\$ 2,635,600</u>

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

CITY OF INVERNESS, FLORIDA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2013

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS

ASSETS	WATER AND SEWER UTILITY	CEMETERY FUND	TOTAL
Current Assets:			
Cash	\$ 2,337,516	\$ 192,718	\$ 2,530,234
Investments	58,345	-	58,345
Receivables,			
Accounts receivable	413,920	-	413,920
Connection fees receivable - current	2,943	-	2,943
Accrued interest receivable	29,491	-	29,491
Due from other government units	36,215	-	36,215
Prepaid expenses	18,908	606	19,514
Inventory	-	98,112	98,112
Total Current Assets	<u>2,897,338</u>	<u>291,436</u>	<u>3,188,774</u>
Restricted Assets:			
Cash	2,220,915	-	2,220,915
Investments	2,101,443	571,954	2,673,397
Total Restricted Assets	<u>4,322,358</u>	<u>571,954</u>	<u>4,894,312</u>
Property and equipment, net of accumulated depreciation and amortization	24,312,744	5,292	24,318,036
Assesments receivable - long-term	25,051	-	25,051
Unamortized loan costs	295,367	-	295,367
Total Assets	<u>\$ 31,852,859</u>	<u>\$ 868,682</u>	<u>\$ 32,721,541</u>

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

CITY OF INVERNESS, FLORIDA
STATEMENT OF NET ASSETS (CONTINUED)
PROPRIETARY FUNDS
SEPTEMBER 30, 2013

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS

	WATER AND SEWER UTILITY	CEMETERY FUND	TOTAL
<u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities (payable from current assets):			
Accounts payable	\$ 259,441	\$ 2,797	\$ 262,238
Other accrued liabilities and compensated absences	7,971	-	7,971
Current portion - notes payable	491,046	-	491,046
Total Current Liabilities (payable from current assets)	<u>758,458</u>	<u>2,797</u>	<u>761,255</u>
Current Liabilities (payable from restricted assets):			
Accrued interest	54,177	-	54,177
Deposits	204,494	-	204,494
Total Current Liabilities (payable from restricted assets)	<u>258,671</u>	<u>-</u>	<u>258,671</u>
Long - term Liabilities, less current portion			
Notes payable	12,097,520	-	12,097,520
Total Long - Term Liabilities	<u>12,097,520</u>	<u>-</u>	<u>12,097,520</u>
Total Liabilities	<u>13,114,649</u>	<u>2,797</u>	<u>13,117,446</u>
Net Assets:			
Invested in capital assets, net of related debt	11,724,178	5,292	11,729,470
Restricted for			
Perpetual care	-	571,954	571,954
Unrestricted	7,014,032	288,639	7,302,671
Total Net Assets	<u>18,738,210</u>	<u>865,885</u>	<u>19,604,095</u>
Total Liabilities and Net Assets	<u>\$ 31,852,859</u>	<u>\$ 868,682</u>	<u>\$ 32,721,540</u>

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

CITY OF INVERNESS, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTMEBER 30, 2013

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER AND SEWER UTILITY	CEMETERY FUND	TOTALS
Operating Revenues :			
Charges for services	\$ 3,071,504	\$ -	\$ 3,071,504
Miscellaneous	30,776	15,188	45,964
Total Operating Revenues	<u>3,102,280</u>	<u>15,188</u>	<u>3,117,468</u>
Operating Expenses :			
Personal services	133,885	-	133,885
Contractual services	1,441,653	32,400	1,474,053
Materials and supplies	37,055	-	37,055
Utilities	92,854	2,734	95,588
Other operating expenses	168,039	3,654	171,693
Depreciation	773,503	650	774,153
Total Operating Expenses	<u>2,646,989</u>	<u>39,438</u>	<u>2,686,427</u>
Operating Income (Loss)	455,291	(24,250)	431,041
Nonoperating Revenues (Expenses)			
Grants	498,463	-	498,463
Interest income	15,508	1,179	16,687
Interest expense	(254,784)	-	(254,784)
Bond issuance costs	(12,842)	-	(12,842)
Bond rebate	-	-	-
Total Nonoperating Revenues (Expenses)	<u>246,345</u>	<u>1,179</u>	<u>247,524</u>
Income (Loss) Before Contributions and Transfers	701,636	(23,071)	678,565
Transfers out	<u>(350,000)</u>	<u>(3,500)</u>	<u>(353,500)</u>
Change in Net Assets	351,636	(26,571)	325,065
Net Assets - Beginning	18,386,574	892,456	19,279,030
Net Assets - Ending	<u>\$ 18,738,210</u>	<u>\$ 865,885</u>	<u>\$ 19,604,095</u>

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

CITY OF INVERNESS, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER AND SEWER FUND	CEMETERY FUND	TOTALS
Cash flows from operating activities :			
Cash received from customers	\$ 3,068,616	\$ 15,138	\$ 3,083,754
Cash payments to suppliers for goods and services	(1,594,614)	(37,179)	(1,631,793)
Cash payments to employees for services	(133,885)	-	(133,885)
Net cash provided by (used in) operating activities	<u>1,340,117</u>	<u>(22,041)</u>	<u>1,318,076</u>
Cash flows from noncapital financing activities :			
Transfers to other funds	<u>(350,000)</u>	<u>(3,500)</u>	<u>(353,500)</u>
Net cash used in noncapital financing activities	<u>(350,000)</u>	<u>(3,500)</u>	<u>(353,500)</u>
Cash flows from capital and related financing activities:			
Grant revenue	498,463	-	498,463
Acquisition of capital assets	(134,321)	-	(134,321)
Principal paid on notes payable	(454,166)	-	(454,166)
Bond issuance cost amortization	12,842	-	12,842
Master lease proceeds	1,877,810	-	1,877,810
Interest paid	(254,784)	-	(254,784)
Net cash used in capital and related financing activities	<u>1,545,844</u>	<u>-</u>	<u>1,545,844</u>
Cash flows from investing activities :			
Interest on investments	<u>15,508</u>	<u>1,179</u>	<u>16,687</u>
Net cash provided by investing activities	<u>15,508</u>	<u>1,179</u>	<u>16,687</u>
Net increase (decrease) in cash	2,551,469	(24,362)	2,527,107
Cash at beginning of year	4,166,750	789,034	4,955,784
Cash at end of year	<u>\$ 6,718,219</u>	<u>\$ 764,672</u>	<u>\$ 7,482,891</u>
Classified as:			
Cash	\$ 2,337,516	\$ 192,718	\$ 2,530,234
Investments	58,345	-	58,345
Restricted cash	2,220,915	-	2,220,915
Restricted investments	2,101,443	571,954	2,673,397
Total	<u>\$ 6,718,219</u>	<u>\$ 764,672</u>	<u>\$ 7,482,891</u>

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

CITY OF INVERNESS, FLORIDA
 STATEMENT OF CASH FLOWS (CONTINUED)
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER AND SEWER FUND	CEMETERY FUND	TOTALS
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ 455,291	\$ (24,250)	\$ 431,041
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	773,503	650	774,153
Changes in assets and liabilities :			
Increase in accounts receivable	(36,160)	-	(36,160)
Increase in prepaid expense	(1,194)	(34)	(1,228)
Increase in accounts payable	109,530	1,643	111,173
Increase in accrued liabilities	1,977	-	1,977
Increase (decrease) in deposits	37,170	(50)	37,120
Total adjustments	<u>884,826</u>	<u>2,209</u>	<u>887,035</u>
Net cash provided by (used in) operating activities	<u>\$ 1,340,117</u>	<u>\$ (22,041)</u>	<u>\$ 1,318,076</u>

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Inverness (the "City") was incorporated in 1919, under the laws of Florida, Chapter 8274 (Act 492).

In accordance with the provisions of accounting standards generally accepted in the United States of America, these financial statements present the financial position, results of operations, and changes in cash flows of the applicable fund types governed by the City of Inverness, Florida. As required by the Governmental Accounting Standards Board (GASB) Statement 14, these financial statements include the City (the primary government) and its component unit, for which the City is considered to be financially accountable. The City is financially accountable if (a) it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City, (b) the organization is fiscally dependent upon the City, or (c) it would cause the financial statements to be misleading by excluding the organization.

The reporting entity's financial statements should allow users to distinguish between the primary government (the City) and its component unit. However, some component units, because of the closeness of their relationships with the City should be blended as though they were part of the City. Otherwise, component units should be discretely presented. The City has no blended component units but provides an overview of one discretely presented component unit in a separate column.

Discretely presented component unit governmental type – The City of Inverness Downtown Redevelopment Agency (the "Agency") was created by City Resolution No. 90-07 as authorized by Part III of Chapter 163 of the Florida State Statutes. The members of the agency board are appointed by the City Council. The Agency is fiscally dependent on the City and the City Council approves the Agency's annual budget. This component unit is reported in a separate column in the accompanying financial statements to emphasize that it is legally separate from the City and in accordance with the provisions of GASB 14. Complete financial statements of the Agency can be obtained from the City of Inverness.

B. Government-Wide and Fund Financial Statements

The basic financial statements are composed of the Government-Wide Financial Statements, the Fund Financial Statements and the Notes to the Financial Statements.

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

Government-Wide Financial Statements:

The government-wide financial statements consist of a Statement of Net Assets and a Statement of Activities. These statements report on the government as a whole and include separate columns for the governmental and business-type activities of the primary government. An additional separate column is presented for the component unit for which the City is accountable.

The Statement of Net Assets presents information on all of the assets and liabilities of the City. The difference between assets and liabilities is reported as net assets. Changes in net assets may serve as an indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities reports functional categories of programs provided by the City, and demonstrates how and to what degree those programs are supported by specific revenue. The "Expenses" column reports direct expenses that are clearly identifiable with a specific function or program. "Program Revenues" are directly attributable to a specific function or program and are categorized as charges for services, operating grants and contributions, and capital grants and contributions. The net of program expenses less program revenues reflects the net cost of each function or program. The general revenues section includes revenues that are not program specific, such as taxes and investment earnings.

As a general rule, the effect of interfund activity has been removed from the government-wide financial statements, except for the residual amounts between governmental and business-type activities reported as "internal balances." These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

Fund Financial Statements:

The underlying accounting system of the City is organized and operated on the basis of separate funds. A fund is a group of related accounts that are used to maintain control over resources that have been segregated for specific activities or purposes. Fund accounting is used to ensure and demonstrate compliance with legal, legislative, contractual and other finance-related provisions. All of the funds of the City may be divided into two categories: governmental funds and proprietary funds.

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

The City's major funds are reported as separate columns in the fund financial statements, and non-major funds are aggregated and presented as a single column on each statement. Fund financial statements are presented after the government-wide financial statements. A reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentation.

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

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governments in accordance with the Government Accounting Standards Board (GASB). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The following is a summary of the more significant policies:

The City applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989 in accounting and reporting for its business-type and proprietary operations, but has elected not to apply FASB pronouncements issued after November 30, 1989.

Basis of accounting refers to when revenues and expenditures, or expenses, are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements, as well as the proprietary fund financial statements, are prepared on a full accrual basis using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements have been met.

Proprietary funds record both operating and non-operating revenues and expenses. Operating revenues are those that are obtained from the operations of the proprietary fund, such as user fees. Non-operating revenues are not related to the operations of the proprietary fund and include interest income and grants.

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Operating expenses represent the cost of operations, which includes depreciation. Non-operating expenses are not related to operations, such as interest expense.

Governmental fund financial statements are prepared on the modified accrual basis using the current financial resources measurement focus. Under the modified accrual basis, revenues are recognized when they become measurable and available as net current assets. The City considers all revenues available if they are collected within sixty days after year-end, with the exception of grant revenue, which is considered susceptible to accrual if collected within six months of year-end. Primary revenues, such as property taxes, special assessments, intergovernmental revenues, charges for services and interest are treated as susceptible to accrual under the modified accrual basis and so have been recognized as revenues. Expenditures reported in governmental fund financial statements are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule includes accumulated sick and vacation pay and principal and interest on general long-term debt, which are recognized when they have matured.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

GASB Statement 34 sets forth minimum criteria for the determination of what are to be considered major funds for financial statement presentation. The City has used GASB 34 minimum criteria for major fund determination as well as a determination of those funds that would be of particular interest to the users of the financial statements. The non-major funds are combined into one column in the fund financial statements and are detailed in the combining schedules, which appear after the notes.

The following are reported as major governmental funds:

General Fund – This fund is the general operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Whispering Pines Park Fund – This fund accounts for the operations of the Whispering Pines Park, financed principally by contributions from Citrus County, the School Board of Citrus County and transfers from the General Fund.

Capital Projects Fund – This fund accounts for the acquisition and construction of major capital assets other than those financed by proprietary funds.

The following are reported as major enterprise funds:

Water and Sewer Utility Fund – Accounts for the operation of water and wastewater facilities.

Cemetery Fund – This fund accounts for the sale of lots and maintenance of the Oak Ridge Cemetery.

D. Budgetary Information

Budgets and Budgetary Accounting:

The annual budget, formally adopted by the City Council, serves as the legal authorization for expenditures. Legal budgetary authority and control is established on a fund basis in accordance with Florida Statutes 129.03; however, operational control for management purposes is maintained during the year at the lower of the department or fund level. The adopted budget can only be changed by a budget amendment or a budget supplement. Management can transfer appropriations within a department without the City Council approval unless the transfer affects a budgeted reserve. Pursuant to Florida Statutes 129.06, budget amendments require the approval of the City Council whenever the effect of the amendment is to increase the total appropriations of the fund, to transfer monies between the lower of the department or fund level, or to transfer budgeted reserve funds.

The City's annual budgetary process is governed by Florida Statutes, Chapters 129 and 200. The total of the estimated receipts, including balances brought forward, must equal the total of the appropriations and reserves, therefore enabling a balanced budget. During the budgeting process, budgets are prepared on a basis consistent with accounting principles generally accepted in the United States of America. All appropriations lapse at year-end.

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgetary Information (Continued)

The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations and other legally authorized executive changes applicable to the fiscal year, whenever legally authorized.

E. Encumbrances:

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 the General and Special Revenue Funds. Encumbrances at year-end do not constitute expenditures or liabilities and the unfulfilled obligations of the current year are re-appropriated in the succeeding year.

F. Cash and Investments

The City considers cash and cash equivalents to be cash on hand, demand deposits, highly liquid investments, including those held as restricted assets, with original maturities of three months or less when purchased.

G. Receivables and Payables

The accounts receivable of the City are recorded in the government-wide and fund financial statements, and are net of allowance for uncollectibles, which generally is equivalent to the receivables that are over 90 days in arrears.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Inventories and Prepaid items

Inventories are determined by physical count and are valued at cost using the first-in, first-out method. The cost is recorded as an expenditure using the consumption method at the time the individual inventory items are used.

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

I. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements as well as the proprietary fund financial statements.

The City has established the following thresholds for additions to capital assets, and estimated useful lives for depreciation purposes:

	<u>Threshold</u>	<u>Useful Life In Years</u>
Land	\$ 5,000	-
Buildings	\$ 5,000	10 - 50
Infrastructure	\$ 50,000	10 - 50
Equipment	\$ 5,000	5 - 20

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Interest incurred during the construction phase of capital assets in business-type activities is included as part of the capitalized value of the assets constructed.

Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. Depreciation is charged as an expense against the operations of the governmental and business-type activities in the government-wide financial statements. Depreciation of assets in the proprietary funds is also charged as an expense at the fund level. Since the purpose of the governmental fund level statements is to show the sources and uses of current assets, capital assets and depreciation are not shown.

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets (Continued)

GASBS No. 34 requires the City to report and depreciate new infrastructure assets effective with fiscal year ended September 30, 2004. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation was historically reported in the financial statements prior to GASB 34. The retroactive reporting of infrastructure is not required for the City. The City elected to implement the general provisions of GASBS No. 34 as of September 30, 2004 and elected not to implement the infrastructure provisions retroactively.

J. Compensated Absences

The City incurs liability for employees' rights to receive compensation for future absences when certain conditions are met. Both the current and long-term portion of compensated absences are accrued and reported in the government-wide and proprietary fund financial statements.

K. Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, material discount, premium and bond issuance costs related to long-term debt are deferred and amortized over the life of the bonds using the straight-line method of accounting. Discount, premium and issuance costs related to debt in the governmental fund financial statements are recorded as expenditures when paid and therefore are not accounted for in subsequent periods.

L. Property Taxes

Property tax collections, sales, and liens are governed by Chapter 197 of the Florida Statutes. Property taxes attach as an enforceable lien on property as of January 1. Taxes are due and payable on November 1, or as soon as the assessment roll is available to the county tax collector. Discounts, ranging from 4% to 1%, are given for payments prior to March 1 of the following calendar year. Taxes become delinquent April 1. Taxes are collected by the Citrus County Tax Collector and remitted to the City. The tax collector sells tax certificates on all delinquent property on or before June 1 each year and such proceeds are remitted to the City. Under this system there remains no uncollectible delinquent taxes at year-end.

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Due From Other Governments

Receivables from other governments include amounts due for entitlements from state revenue sharing, gas taxes, sales taxes, and other amounts collected by the State of Florida on behalf of the City and various grants.

N. Post-Retirement Health and Life Insurance Benefits

The City does not provide, at the City's expense, health and life insurance coverage for former employees.

O. Restricted Net Assets

In the accompanying statement of net assets, restricted net assets are subject to restrictions beyond the City's control. The restriction is either externally imposed (for instance, by creditors, grantors, contributors, or laws/regulations of other governments) or is imposed by law through constitutional provisions or enabling legislation. It is the practice of the City to utilize restricted assets before unrestricted assets.

P. Governmental fund balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used only for specific purposes determined by a formal action of City Council – the government's highest level of decision making authority. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by City Council.

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Governmental fund balances (Continued)

Assigned fund balance. This classification reflects the amounts constrained by the City's "intent" to be used for specific purposes. Under the City's adopted policy, only City Council may assign amounts for specific purposes. Assigned fund balances include all remaining amounts, (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council has provided otherwise in its commitment or assignment actions.

NOTE 2 - CASH AND INVESTMENTS

At September 30, 2013, the City's deposits were entirely covered by federal depository insurance or by collateral pledged with the State Treasurer pursuant to Chapter 280, Florida Statutes. Under this Chapter, in the event of default by a participating financial institution (a qualified public depository), all participating institutions are obligated to reimburse the governmental entity for the loss.

A reconciliation of cash as shown on the Statement of Net Assets is as follows:

	Statement of Net Assets	Total
Primary Government:		
Cash	\$ 12,968,088	\$ 12,968,088
Total	<u>\$ 12,968,088</u>	<u>12,968,088</u>
Component Unit:		
Cash		47,577
Total		<u>47,577</u>
Total		<u>\$ 13,015,665</u>

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

As of September 30, 2013, the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
Insurance & Annuities	\$ -	\$ -	\$ -	\$ -	\$ -
Local Government Investment Pool	38,885	38,885	-	-	-
Florida Municipal Investment Trust	7,174,150	-	7,174,150	-	-
Total	\$ 7,213,035	\$ 38,885	\$ 7,174,150	\$ -	\$ -

Investments are reflected in the financial statements as follows:

Governmental funds	\$ 4,481,293
Enterprises funds	<u>2,731,742</u>
Total Primary Government	<u>\$ 7,213,035</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 is structured so that securities mature to meet anticipated cash requirements for ongoing operations.

Credit Risk:

Statute 218.415 of the State of Florida allows municipalities to invest in the following:

1. The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, as provided in s.163.01.
2. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
3. Savings accounts in state-certified qualified public depositories, as defined in s.280.02.
4. Certificates of deposit in state-certified qualified public depositories, as defined in s.280.02.
5. Direct obligations of the U.S. Treasury.

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Credit Risk (Continued):

6. Federal agencies and instrumentalities.
7. Other investments authorized by a written policy adopted under s.218.415.

The credit quality distribution of securities with credit exposure as a percentage of total investments is as follows:

	Fitch Ratings		Total
	AAA	AA	
Local Government Investment Pool	50.00%	-	50.00%
Florida Municipal Investment Pool	50.00%	-	50.00%
Total	100.00%	0.00%	100.00%

Foreign Currency Risk:

The City does not have a formal investment policy that limits its investment in foreign currency. The City has no investments that are exposed to foreign currency risk at September 30, 2013.

External Investment Pool

Separate copies of financial statements for the external investment pools can be obtained through www.flcities.com and www.sbafla.com

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at September 30, 2013, for the City's individual major funds and non-major funds in total, net of allowance for uncollectibles of \$71,579 for the Utility Fund, were as follows:

Primary Government:	
General Fund	\$ 310,810
Whispering Pines Park Fund	3,331
Nonmajor Governmental Funds	12,521
Business Type Activities	471,405
Total Primary Government	<u>\$ 798,067</u>

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 4 - INTERFUND TRANSACTIONS

Interfund Transfers:

Individual interfund transfers were as follows:

	Transfers In	Transfers Out
General Fund	\$ 390,000	\$ 3,196,014
Whispering Pines Park Fund	314,555	89,500
Capital Projects Fund	3,199,368	-
Business-type activities:		
Public Utilities	3,598,869	4,051,369
Cemetery	52,828	56,328
Component Unit	59,091	221,500
Total Transfers In/Transfers Out	<u>\$ 7,614,711</u>	<u>\$ 7,614,711</u>

Transfers between funds are primarily to move unrestricted revenues collected in funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,523,219	\$ -	\$ -	\$ 2,523,219
Construction in progress	442,022	824,274	768,226	498,070
Total capital assets, not being depreciated	<u>2,965,241</u>	<u>824,274</u>	<u>768,226</u>	<u>3,021,289</u>
Capital assets, being depreciated:				
Buildings and improvements	17,533,922	863,256	-	18,397,178
Machinery and equipment	2,387,227	88,836	-	2,476,063
Total capital assets being depreciated	<u>19,921,149</u>	<u>952,092</u>	<u>-</u>	<u>\$ 20,873,241</u>
Less accumulated depreciation for:				
Buildings and improvements	4,026,687	463,280	-	4,489,967
Machinery and equipment	1,855,831	103,391	-	1,959,222
Total accumulated depreciation	<u>5,882,518</u>	<u>566,671</u>	<u>-</u>	<u>6,449,189</u>
Total capital assets, being depreciated, net	<u>14,038,631</u>	<u>385,421</u>	<u>-</u>	<u>14,424,052</u>
Governmental activities capital assets, net	<u>\$ 17,003,872</u>	<u>\$ 1,209,695</u>	<u>\$ 768,226</u>	<u>\$ 17,445,341</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 651,857	\$ -	\$ -	\$ 651,857
Construction in progress	167,626	60,677	199,360	28,943
Total capital assets, not being depreciated	<u>819,483</u>	<u>60,677</u>	<u>199,360</u>	<u>680,800</u>
Capital assets, being depreciated:				
Buildings and improvements	27,513,264	255,809	-	27,769,073
Machinery and equipment	7,600,691	10,920	41,671	7,569,940
Total capital assets being depreciated	<u>35,113,955</u>	<u>266,729</u>	<u>41,671</u>	<u>35,339,013</u>

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 5 - CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Buildings and improvements	4,130,078	624,105	-	4,754,183
Machinery and equipment	6,839,216	150,047	41,671	6,947,592
Total accumulated depreciation	<u>10,969,294</u>	<u>774,152</u>	<u>41,671</u>	<u>11,701,775</u>
Total capital assets, being depreciated, net	<u>24,144,661</u>	<u>(507,423)</u>	<u>-</u>	<u>23,637,238</u>
Business-type activities capital assets, net	<u>\$ 24,964,144</u>	<u>\$ (446,746)</u>	<u>\$ 199,360</u>	<u>\$ 24,318,038</u>
Component Unit:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 168,397	\$ -	\$ -	\$ 168,397
Less accumulated depreciation for:				
Buildings and improvements	<u>90,993</u>	<u>2,911</u>	<u>-</u>	<u>93,904</u>
Component unit capital assets, net	<u>\$ 77,404</u>	<u>\$ 2,911</u>	<u>\$ -</u>	<u>\$ 74,493</u>

Depreciation expense was charged to functions as follows:

Government activities:	
General government	\$ 176,593
Physical Environment	142,117
Economic Environment	2,492
Culture and Recreation	190,553
Development Services	54,916
Total depreciation for governmental activities	<u>\$ 566,671</u>
Business-type activities:	
Public Utility	\$ 773,502
Cemetery	650
Total depreciation for business-type activities	<u>\$ 774,152</u>

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The major components of accounts payable and accrued expenses as of September 30, 2013, were as follows:

	Government Activities			Business-Type Activities		Total	
	General Fund	Whispering Pine Park Fund	Capital Projects Fund	NonMajor Governmental Funds	Water and Sewer Fund		Cemetery Fund
Suppliers	\$ 310,933	\$ 6,368	\$ 173,266	\$ -	\$ 259,442	\$ 2,797	\$ 752,806
Interest		-	-	-	54,177	-	54,177
Accrued Wages and Benefits	63,022	13,669	-	-	2,600	-	79,291
	<u>\$ 373,955</u>	<u>\$ 20,037</u>	<u>\$ 173,266</u>	<u>\$ -</u>	<u>\$ 316,219</u>	<u>\$ 2,797</u>	<u>\$ 886,274</u>

NOTE 7 - LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable	\$ 4,725,000	\$ -	\$ 4,725,000	\$ -	\$ -
Compensated Absences	254,666	-	62,213	192,453	35,148
Less deferred amount	126,368	-	126,368	-	-
Total	<u>\$ 5,106,034</u>	<u>\$ -</u>	<u>\$ 4,913,581</u>	<u>\$ 192,453</u>	<u>\$ 35,148</u>
Business-Type Activities:					
Notes Payable	\$ 11,159,732	\$ 1,883,000	\$ 454,166	\$ 12,588,566	\$ 491,046
Compensated Absences	4,018	5,370	4,018	5,370	5,370
Total	<u>\$ 11,163,750</u>	<u>\$ 1,888,370</u>	<u>\$ 458,184</u>	<u>\$ 12,593,936</u>	<u>\$ 496,416</u>

The governmental bonds payable are paid by the General Fund. Governmental compensated absences will be liquidated by the General and Whispering Pines Park Funds. The General Fund pays for approximately 95% of compensated absences, while the Whispering Pines Park Fund pays 5%.

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

Notes Payable

Business-Type Activities:

The following is a schedule of notes payable at September 30, 2013:

	Purpose of Loan	Amount Issued	Amount Outstanding	Interest Rates
Note Payable	Utility System	\$ 19,673,759	\$ 12,588,788	0.25 -1.1
Total Notes Payable - Business-Type Activities		<u>\$ 19,673,759</u>	<u>\$ 12,588,788</u>	

Below is a summary of debt service requirements until maturity for the business-type activities notes payable:

Year Ended September 30,	Principal	Interest	Total
2014	\$ 491,046	\$ 283,702	\$ 774,748
2015	564,195	284,053	848,248
2016	591,284	270,464	861,748
2017	619,072	256,176	875,248
2018	648,092	241,156	889,248
2019-2023	3,593,216	957,524	4,550,740
2024-2028	3,596,201	505,538	4,101,740
2029-2033	1,885,332	155,907	2,041,240
2034-2036	600,349	24,394	624,744
Total	<u>\$ 12,588,788</u>	<u>\$ 2,978,915</u>	<u>\$ 15,567,703</u>

The City is eligible for grant reimbursement from the State on these loans, and as such, the balances due on long-term debt are subject to change.

The City incurred interest cost of \$505,443 of which \$0 was capitalized and \$505,443 was charged to operations.

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 8 - STATE OF FLORIDA RETIREMENT SYSTEM

City employees, except for participants in the separate general employees pension fund (See Note 9) and the City Manager, participate in the State of Florida Retirement System (the "System"), a multiple-employer public employee retirement system. However, as discussed in Note 9, the City elected to opt out of the System beginning with employees hired after January 1, 1996, then elected to re-enter with employees hired effective January 1, 2005. The payroll for employees covered by the System for the year ended September 30, 2013 was \$1,184,631; the City's total payroll was \$1,460,974.

All City employees, other than those described above, participate in the System. Employees who retire at or after age 62 with 10 years of credited service, or 30 years of credited service regardless of age, are entitled to a retirement benefit equal to 1.60% to 1.68% (dependent upon age and years of service) of their average final compensation. The average final compensation is the average of the five highest fiscal years of earnings. Benefits are adjusted annually for a cost of living increase in the Consumer Price Index up to a maximum of 3%.

Benefits are payable monthly under one of four options elected by the participant upon retirement. The options range from a full benefit during life of the member to reduced benefits paid to survivors upon the death of the member. Benefits fully vest on reaching 6 years of service. Vested employees may retire at any time after vesting and receive a 5% benefit reduction for each year prior to normal retirement age or date. The System also provides death and disability benefits.

Current membership in the plan is comprised of the following:

Group	Number of Participants
Retirees and beneficiaries receiving benefits	39
Terminated plan members entitled to but not yet receiving benefits	2
Active employees	46
Total	<u>87</u>

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 8 - STATE OF FLORIDA RETIREMENT SYSTEM (Continued)

Contribution rates are established statewide for all participating governmental units by acts of the state legislature. These acts provide that if the accumulated funds are insufficient to pay the benefits due, future contributions to the plan will be adjusted upward accordingly. For the year ended September 30, 2013, the City contributed 6.95% for regular employees, 33.03% for elected officials and 18.31% for covered salaries of senior management. The total contribution for the year ended September 30, 2013, and the preceding three years is as follows:

<u>Years Ending September 30,</u>	<u>Total Contribution</u>	<u>Percentage of Required Contribution</u>
2010	\$ 156,125	100%
2011	\$ 133,904	100%
2012	\$ 68,642	100%
2013	\$ 96,899	100%

The System's comprehensive annual financial report may be obtained from the State of Florida, Department of Management Services, Division of Retirement.

As further discussed in Note 9, employees hired after January 1, 1996, but before January 1, 2005, participate in a defined contribution plan.

NOTE 9 - GENERAL EMPLOYEES PENSION PLAN

All of the City's full-time general employees hired after January 1, 1996, but before January 1, 2005, participate in a single-employer, defined contribution pension plan.

Chapter 112 of the Florida Statutes provides for a system of retirement plans for general employees. Chapter 112 sets forth maximum benefits, administrative arrangements, and fiduciary responsibilities. Non-bargaining unit employees contribute 3% of their earnings to the fund, union employees make voluntary contributions only, not to exceed 7%, and the City is required to make contributions from general revenues at the rate of 10% of covered earnings.

The plan assets are held in trust for the employees by a third party administrator and are not subject to creditors of the City. Therefore, the assets, liabilities, net assets and operations of this plan are not presented on the City's financial statements.

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 9 - GENERAL EMPLOYEES PENSION PLAN (Continued)

The City contributes to the plan, which is a single-employer pension employees retirement system. It is the responsibility of the plan to function as an investment and administrative agent for the City with respect to the pension plan. However, the plan may not be amended without the City's approval.

The payroll for employees covered by the plan for the year ended September 30, 2013, was \$47,128; the City's total payroll was \$1,460,974.

Contributions Required and Contributions Made

The City's funding policy for the general employees' pension fund is to provide for periodic employer contributions based on a percentage of the employees' compensation as outlined in the pension agreement. The City's contribution to the plan for the year ended September 30, 2013, was \$420.

Effective January 1, 2005, the City elected to reenter the Florida Retirement System for employees hired after the effective date.

NOTE 10 - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The plan assets are held in trust for the employees by a third party administrator and investments are directed by the participating employees. Therefore, the assets, liabilities, net assets and operations of this plan are not presented on the City's financial statements.

NOTE 11 - RISK MANAGEMENT

The City has purchased commercial insurance to cover its risk of loss on the following categories:

<u>Type of Coverage</u>	<u>Limits</u>
General/Professional liability	\$ 2,000,000
Automobile liability	\$ 2,000,000
Property damage	\$ 23,044,495
Public officials and employee benefit liability	\$ 2,000,000

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 11 - RISK MANAGEMENT (Continued)

There have been no significant reductions in insurance coverage for the past three years and the City does not participate in a risk sharing pool. No settlements exceeded insurance over the past three years.

NOTE 12 - SEGMENT INFORMATION - PROPRIETARY FUND TYPES

The City maintains two proprietary funds and has elected to separately report each as major funds in the financial statements. For this reason, segment information is not provided in the notes to the financial statements.

NOTE 13 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION

Plan Description

The City administers a single-employer defined benefit healthcare plan (the "Retiree Health Plan"). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the City's group health insurance plan, which covers both active and retired members. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy

The City does not contribute to the cost of the current-year premiums for eligible, retired plan members and their spouses.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and the related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to 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 to the Retiree Health Plan:

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 13 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

Annual required contribution	\$ 10,676
Interest on net OPEB obligation	620
Adjustment to Annual Required Contribution	<u>(850)</u>
Annual OPEB cost (expense)	10,446
Employer contributions made	<u>(7,366)</u>
Increase in net OPEB obligation	3,080
Net OPEB obligation - beginning of year	13,780
Increase in net OPEB obligation	<u>3,080</u>
Net OPEB obligation - end of year	<u><u>\$ 16,860</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended September 30, 2013 is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
9/30/2010	\$ 11,032	58.1%	\$ 4,621
9/30/2011	\$ 10,157	-516.5%	\$ 62,616
9/30/2012	\$ 10,012	-37.6%	\$ 13,780
9/30/2013	\$ 10,446	-61.4%	\$ 16,860

Funded Status and Funding Progress

As of September 30, 2013, the actuarial accrued liability for benefits was \$40,955, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,337,771 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 3 percent.

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 City Council
City of Inverness
Inverness, Florida

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Inverness, Florida, as of and for the year ended September 30, 2013, which collectively comprise the City of Inverness, Florida's basic financial statements and have issued our report thereon dated June 17, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of City of Inverness, Florida, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Inverness, Florida'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 City of Inverness, Florida's, internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Inverness, Florida's, internal control over financial reporting.

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

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

Honorable City Council
City of Inverness

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Inverness in a separate letter dated June 17, 2014.

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

William McLean, CPA; Cash, P.A.

Inverness, Florida
June 17, 2014

SUPPLEMENTARY INFORMATION

CITY OF INVERNESS
FLORIDA

FOR THE YEAR ENDED SEPTEMBER 30, 2013

CITY OF INVERNESS, FLORIDA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2013

	<u>SPECIAL REVENUE</u>		
	<u>ROAD IMPROVEMENT FUND</u>	<u>IMPACT FEE FUND</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>			
Cash	\$ 142,134	\$ 362,081	\$ 504,215
Assessments receivable	12,521	-	12,521
Total Assets	<u>\$ 154,655</u>	<u>\$ 362,081</u>	<u>\$ 516,736</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Capital outlay</u>			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Total Liabilities	-	-	-
Fund Balances:			
Committed to:			
Road Improvements	154,655	-	154,655
Capital Projects	-	362,081	362,081
Total Fund Balance	<u>154,655</u>	<u>362,081</u>	<u>516,736</u>
Total Liabilities and Fund Balances	<u>\$ 154,655</u>	<u>\$ 362,081</u>	<u>\$ 516,736</u>

CITY OF INVERNESS, FLORIDA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

SPECIAL REVENUE

	ROAD IMPROVEMENT FUND	IMPACT FEE FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES:			
Impact fees	\$ -	\$ 211,598	\$ 211,598
Miscellaneous revenue	760	-	760
Total Revenues	760	211,598	212,358
EXPENDITURES:			
Current:			
Capital outlay	-	803	803
Total Expenditures	-	803	803
Excess of Revenues Over Expenditures	760	210,795	211,555
Net Change in Fund Balances	760	210,795	211,555
Fund Balance - October 1	153,895	151,286	305,181
Fund Balance - September 30	\$ 154,655	\$ 362,081	\$ 516,736

INDEPENDENT AUDITOR'S MANAGEMENT LETTER REQUIRED BY
CHAPTER 10.550, RULES OF THE STATE OF FLORIDA,
OFFICE OF THE AUDITOR GENERAL

Honorable City Council
City of Inverness
Inverness, Florida

We have audited the financial statements of the City of Inverness, Florida, as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated June 17, 2014.

We conducted our audit in accordance with auditing standards 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; and Chapter 10.550, Rules of the Florida Auditor General. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, Independent Auditor's Report on Compliance with Requirements that could have a direct and material effect on each to each Major State Project and on Internal Control over Compliance in Accordance with Chapter 10.550, Rules of the Florida Auditor General.

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

Section 10.554(1)(i)1., Rules of the Auditor General require that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. There were no recommendations made in the preceding annual financial audit report.

Section 10.554(1)(i)2., Rules of the Auditor General require 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 Inverness complied with Section 218.415, Florida Statutes.

Honorable City Council
City of Inverness
Inverness, Florida

Section 10.554(1)(i)3., Rules of the Auditor General require that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)4., Rules of Auditor General require that we address violations of provisions of contracts and 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 require, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)6., Rules of the Auditor General require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. The City of Inverness, the primary government, was incorporated in 1919 under a special act of the State of Florida, Chapter 8274, Act 792. The City's component unit, the City of Inverness Downtown Redevelopment Agency, was created by Resolution No. 90-07 as authorized by Part III of Chapter 163, Florida State Statutes.

Section 10.554(1)(i)7.a., Rules of the Auditor General require 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 Inverness did not meet any of the conditions described in Section 218.053(1), Florida Statutes.

Section 10.554(1)(i)7.b., Rules of the Auditor General require that we determine whether the annual financial report for the City of Inverness for the fiscal year ended September 30, 2013, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2013. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(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 Inverness, 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.

Honorable City Council
City of Inverness
Inverness, Florida

Pursuant to Chapter 119, Florida Statutes, this management letter is public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of the City of Inverness, Florida's management, the City Council, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

William, McCain, Wal & Cash, P.A.

Inverness, Florida
June 17, 2014

FINANCE DEPARTMENT



212 W. Main Street
Inverness, FL 34450
(352) 726-5016 Phone
(352) 726-5534 Fax

June 18, 2014

Mr. David W. Martin, Auditor General
State of Florida
Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin;

In accordance with Chapter 10.550 RULES OF THE AUDITOR GENERAL – LOCAL GOVERNMENT ENTITY AUDITS, enclosed are two (2) copies of the fiscal year 2011 audited Financial Statements for the City of Inverness. Williams, McCranie, Wardlow & Cash, P.A., Certified Public Accountants prepared the audit report.

The City of Inverness respectfully submits the following corrective action plan for the year ending September 30, 2012. Findings from the “schedule of findings” and questioned costs are discussed below:

PART B – FINANCIAL STATEMENT FINDINGS

No findings in the current year.

PART C - MAJOR FEDERAL AWARD PROGRAM AUDIT FINDINGS AND QUESTIONED COSTS

No findings in the current year.

PART D – PRIOR YEAR FINANCIAL STATEMENT FINDINGS

Condition – Reference Number 2012-01

The City did not properly reconcile the depreciation schedule of the governmental fixed assets. The depreciation schedule agreed to the general ledger, however, the formulas totaling depreciation expense for the current year were not updated to reflect depreciation expense for current year additions.

The weakness resulted in a material adjustment to depreciation expense and accumulated depreciation of the General Fixed Asset Accounting Group.

We recommend that the City maintain an updated depreciation schedule (which should include all fixed asset items even if fully depreciated) and reconcile it to the general ledger on a monthly basis.

Response

The City has developed procedures to ensure an updated depreciation schedule is maintained and reconciled on a monthly basis.

Condition – Reference Number 2012-02

A material weakness in internal control over financial reporting existed because an adjustment was required to be posted to the Capital Improvement Fund during the fiscal year ended September 30, 2012.

The City improperly recorded funds due from the State and the corresponding grant revenue.

This weakness resulted in a material adjustment to the fund due from the State and to grant revenue of the Capital Improvement Fund, as of September 30, 2012.

We recommend the city establish procedures to ensure that grant funds due from the State are properly recorded.

Response

Procedures have been developed to request copies of grant confirmations at fiscal year-end and to ensure grant receivables reconcile to the confirmations as well as general ledger control balances.

PART E – PRIOR YEAR MAJOR FEDERAL AWARD PROGRAM AUDIT FINDINGS AND QUESTIONED COSTS

No findings reported in the prior year.

Respectfully Submitted,



Cheryl A. Chiodo, PMP
Director of Finance