CITY OF OAK HILL, FLORIDA

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

CITY COMMISSION

HONORABLE DOUGLAS GIBSON, MAYOR

JEFF BRACY, VICE MAYOR
KATHY BITTLE
RON ENGELE
ROBERT LIVINGSTON

CITY CLERK

KOHN EVANS

CITY ATTORNEY

SCOTT E. SIMPSON, ESQ.

INDEPENDENT AUDITORS

BRENT MILLIKAN & COMPANY, P.A.

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September 30, 2013
CITY OF OAK HILL, FLORIDA

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INDEPENDENT AUDITORS' REPORT

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BM&C

BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor, and
Members of the City Commission
City of Oak Hill, Florida

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2013, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity 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 schedules of funding progress and employer contributions for the postemployment benefit obligation, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing 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's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Brent Milliken & Co., P.A.

June 27, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As financial management of City of Oak Hill, Florida, (hereinafter referred to as the "City"), we offer the readers of these basic financial statements this narrative overview and analysis of the City's financial activities for the fiscal year that ended on September 30, 2013. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements, which follow this section, taken as a whole.

Financial Highlights

- The total assets of the City exceeded its liabilities (net position) at the close of the most recent fiscal year by $1,157,798, compared to $1,150,033 one year earlier. Of this amount, $528,791 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.

- The City's total net position remained relatively stable for the third consecutive year. Total net position increased by $7,765 in 2013, compared to an increase of $22,635 in 2012.

- The City's general fund reported a total fund balance of $587,888 at the end of the current fiscal year, which included an increase of $31,484 over the $556,404 reported at the end of the prior fiscal year. Approximately 89.8% of this amount ($527,770) is available for spending at the City's discretion (unassigned fund balance).

- The unassigned portion of fund balance in the general fund totaled $527,770, which represents 32.1% of prior year expenditures or 117 days in reserve, compared to 46.5% and 170 days in reserve at the end of the prior year. The significant reduction of this ratio in 2013 was the direct result of a one-time increase in expenditures of $579,191 associated with its federal awards programs. Had these costs not been included, the ratio would have remained substantially the same as in 2012.

- The City's total long-term debt principal decreased by $1,366 during the fiscal year, due to a combination of scheduled current-year principal maturities/reductions on capital lease obligations. The outstanding principal balance on the capital lease obligations totaled $4,106 at year end.

Overview of the Financial Statements

The City's basic financial statements are comprised of three parts: 1) management's discussion and analysis, 2) the basic financial statements, including notes to the financial statements, and 3) required supplementary information, including budgetary comparisons.

Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the basic financial statements and required supplementary information. The MD&A represents management's examination and analysis of the City's financial condition and financial performance as a whole. Summary financial statement data, key financial and operational indicators used in the strategic plan, budget, and other management tools were used for this analysis.

The basic financial statements include two kinds of statements that present different views of the City. The first two statements consist of entity-wide financial statements that provide both the short- and long-term financial information about the City's overall financial status. These statements report information about the City using full accrual accounting methods and economic resources focus as utilized by similar business activities in the private sector. Information concerning all of the City's assets and liabilities, both financial and capital, and short-term and long-term debt are included. Likewise, all revenues and expenses received

during the year, regardless of when cash is received or paid are reported. The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide financial statements. The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending.

The financial statements also include notes which provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the City's significant accounting policies, account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. This section also contains budgetary comparisons for the City's governmental fund activities.

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 basic financial statements of the City include a statement of net position and a statement of activities, which are described as follows:

- A statement of net position presents information on all of the City's assets and liabilities at the end of its fiscal year, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the City's financial position is improving or deteriorating. Net position increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net position, which indicates an improved financial condition.

- The statement of activities presents the results of business operations over the course of the fiscal year and information as to how the City's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., delinquent taxes and earned but unused personal leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*government activities*). The governmental activities of the City include general government services, public safety (police and building inspection), roads and streets maintenance, solid waste management, and recreation and leisure services. The City does not have any business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds and not the City as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City utilizes a single General Fund to account for all governmental activities.

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.

These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted into cash. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City maintains one governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund.

Financial Analysis of the City as a Whole

Net Position. As noted previously, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $1,157,798 at the close of the most recent fiscal year. This represents an increase of $7,765, or 0.7%, over the previous year, all of which is attributable to operations. The following is a summary of Net Position at year end:

Net Position
September 30, 2013 and 2012

	Governmental Activities	
	2013	2012
Assets:		
Current and other assets	$ 620,728	$ 600,746
Capital assets, net	583,142	601,683
Total assets	1,203,870	1,202,429
Liabilities:		
Long-term liabilities outstanding	2,387	4,106
Other liabilities	43,685	48,290
Total liabilities	46,072	52,396
Net position:		
Invested in capital assets, net of related debt	579,036	596,211
Restricted	49,971	35,645
Unrestricted	528,791	518,177
Total net position	$ 1,157,798	$ 1,150,033

The most significant component of the City's net position ($579,036 or 50.0%) is, by far, its investment in capital assets (land, buildings and equipment), less any related debt used to acquire or construct those assets. 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.

An additional portion of the City's net position ($49,971 or 4.3%) represents resources that are subject to external restrictions on how they may be used. Consequently, the remaining 45.7% of unrestricted net position, representing amounts that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, totaled $528,791 at the end of 2013, compared to $518,177 at the end of 2012.

Changes in Net Position. While the statement of net position shows a snapshot of the City's financial position at the end of the fiscal year, the statement of changes in net position provides answers as to the nature and source of those changes. During 2013, the City's total revenues increased for the first time after four consecutive years of decline. Governmental revenues totaled $1,677,959 in 2013, which was $538,440 greater than the $1,154,389 reported one year earlier. The increase in 2013 was primarily attributed to the one-time receipt of federal awards totaling $579,191 from the U.S. Department of Housing and Urban Development for the City's housing rehabilitation program. This program was completed in 2013.

Approximately 27.7 % of the City's gross revenues came from property tax collections in 2013, compared to 43.0% in 2012. Approximately 34.5% of the City's gross revenues came from the above described HUD housing rehabilitation program, while approximately 24.4% of all other revenues earned by the City come from intergovernmental sources, other taxes and shared local taxes. Another 13.4% comes from fees that are charged to citizens for City services, while most (1.0%) of the remaining revenue is interest and other earnings.

The following is a summary of changes in net position at year end:

Changes in Net Position
For the Fiscal Years Ended September 30, 2013 and 2012

	Governmental Activities	
	2013	2012
Revenues:		
Program revenues:		
Charges for services	$ 224,432	$ 216,656
Operating grants/other	579,705	41,441
Capital grants/other	-	-
General revenues:		
Property taxes	464,276	496,871
Other taxes	342,773	328,681
Intergovernmental	50,592	48,047
Other revenues	16,181	22,693
Total revenues	1,677,959	1,154,389
Expenses:		
General government	265,490	262,061
Public safety	506,525	517,388
Physical environment	162,408	142,118
Transportation	124,475	132,903
Economic environment	574,100	41,250
Culture/recreation	36,087	34,271
Interest on long-term debt	1,109	1,763
Total expenses	1,670,194	1,131,754
Increase (decrease) in net position	7,765	22,635
Net position, beginning of year	1,150,033	1,127,398
Net position, end of year	$ 1,157,798	$ 1,150,033

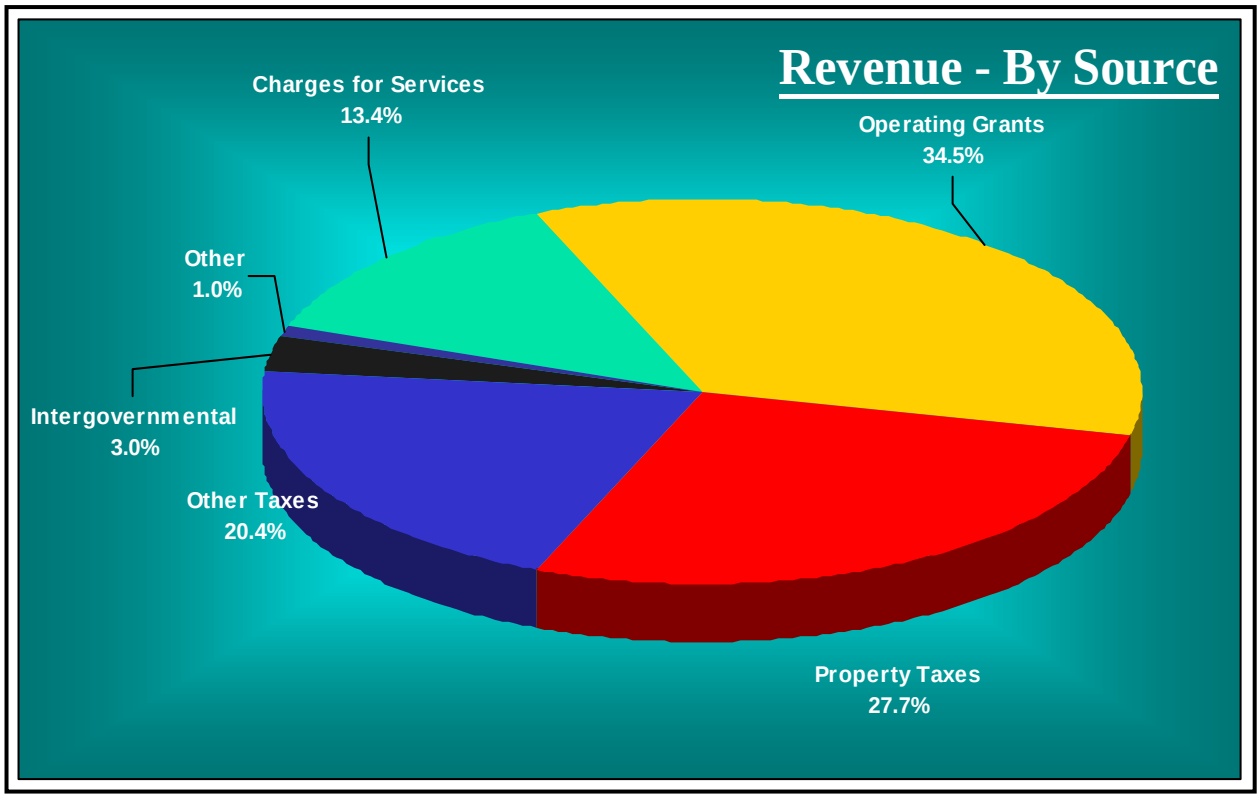
The total costs for all routine programs and City services remained relatively stable in 2013 and in 2012 and totaled $1,098,768, compared to $1,112,948, respectively. These amounts do not include the supplemental one-time program spending associated with the HUD grant program of $579,191 and 41,441, in 2013 and 2012, respectively. Fiscal stability in 2013 and 2012 was primarily attributable to changes made in the City's Police Department, which on August 1, 2011, was eliminated by the City Commission. Subsequent to the elimination of the City's police department, the City entered into an interlocal agreement with the Volusia County Sheriff's Department to provide exclusive law enforcement services. As a part of the transition, additional costs were incurred with paying all pending loans on police vehicles and other equipment in the prior year.

During the end of fiscal 2011, the City also restructured its general government operations with the elimination of two management positions, one of which was replaced with an internal staff member. This resulted in some continued overall savings recognized in 2013 and will benefit future years. Since the City's expenses historically have covered a wide range of services, the largest portion of which is represented by public safety and administration (approximately 70% this year compared to 63% last year), it realized an overall net reduction of $14,180 in 2013 and $68,865 in 2012, which is expected to remain stable in future periods.

Governmental Activities

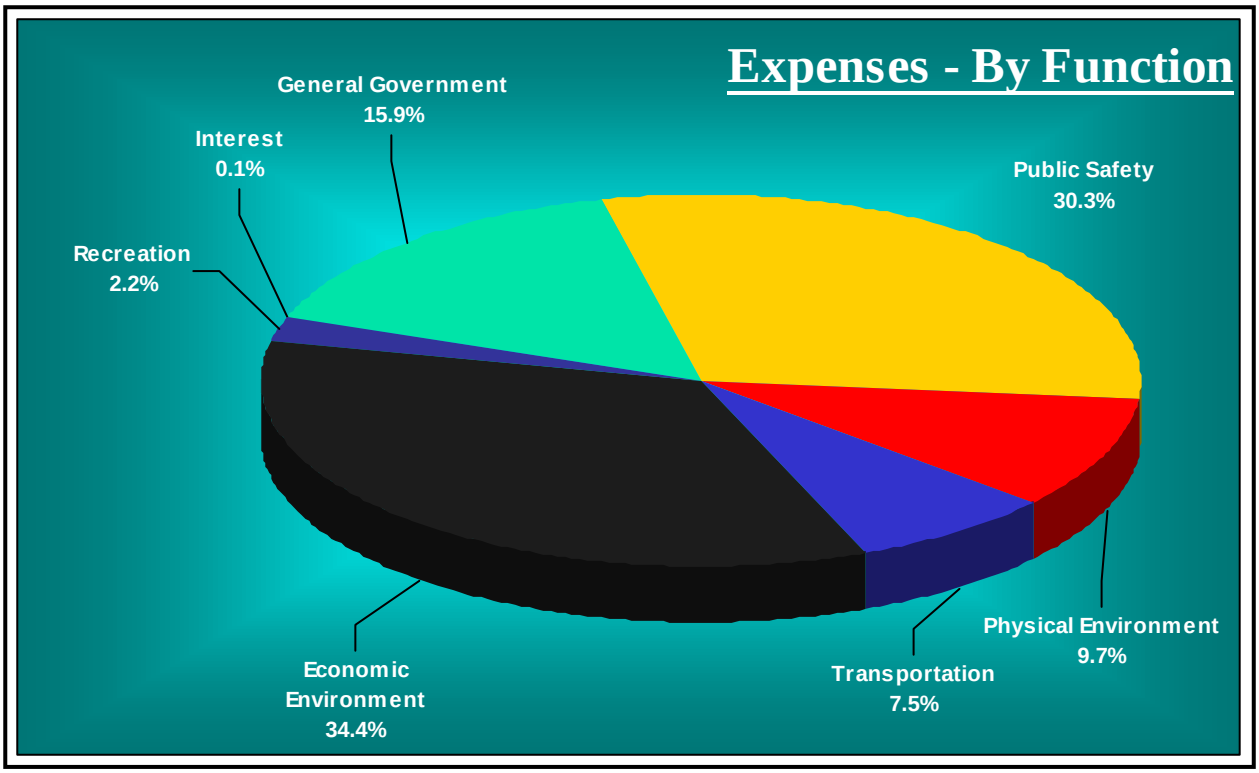
Revenues for the City's governmental activities totaled $1,677,959 this year, which represents an increase of $523,570 over the $1,154,389 reported one year earlier. This combined net increase was primarily attributable to the City's HUD Housing rehabilitation grant program which included $579,191 in federal awards in 2013. In other areas, the City's ad valorem property taxes dropped by $32,595, while other external tax sources increased by $14,092. Miscellaneous donations and investment earnings decreased by $6,512 in 2013, while charges for municipal services recognized an increase of $7,776.

The following is a summary of the City's governmental revenue by source:



Expenses for the City's governmental activities experienced a 47.5% increase during 2013, primarily the direct result of the HUD Housing Rehabilitation Program which included expenses of $579,191. Combined other governmental activities expenses totaled $1,096,094 in 2013, compared to $1,090,504, one year earlier. This represents a slight increase of $5,590, or 0.5% compared to last year's reported expenses. This combined net increase was attributable to increases in general government services ($3,429), physical environment ($20,290), and culture and recreation ($1,816). Overall, net reductions were recognized in the City's public safety costs ($10,863) and long-term debt interest and fiscal charges ($654). Each of these departments was altered in 2011 to meet new City Commission expectations and service levels. During 2013, the City's capital spending was reduced for the fourth consecutive year to $8,066 invested in capital assets, which compares to capital spending of $22,804 spent in 2012. The City's expenditures for debt service totaled $2,496 in 2013, which was substantially less than the $16,184 expended one year earlier due to the elimination of three existing capital lease obligations associated with the termination of police services now contracted for with Volusia County.

The following is a summary of the City's governmental expenses - by function:



Financial Analysis of the City's Funds

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

Governmental Fund. The focus of the City's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As the City completed the year its governmental fund reported a fund balance of $587,888, which was $31,484, or 5.7%, greater than the $556,404 reported last year.

The general fund is the only operating fund of the City. As of September 30, 2013, the unassigned fund balance in the general fund totaled $527,770 which was $7,131, or 1.4% more than the $520,639 reported last year. The unassigned fund balance in the general fund which represents 32.1% of prior year expenditures or 117 days in reserve, compared to 46.5% and 170 days in reserve at the end of the prior year. The significant reduction of this ratio in 2013 was the direct result of a one-time increase in expenditures of $579,191 associated with its federal awards programs. Had these costs not been included, the ratio would have remained substantially the same as in 2012.

General Fund Budgetary Highlights

Over the course of the year, the City Commission reviews their operating budgets to determine of any budget amendments are necessary. During 2013, one budget amendment was made. Differences between the original enacted budget and the final amended budget were not significant.

Actual earned revenues were $587,065 greater than the amounts originally anticipated to be received ($1,090,714) during the year in the City's General Fund. The primary reason for the increase was the inclusion of federal awards totaling $579,191 which were not budgeted during the fiscal year. All other revenues from taxes, permits and fees, intergovernmental revenue, charges for services, fines and forfeitures, and miscellaneous revenues exceeded budgeted amounts by $7,874 in aggregate. During 2013, the City reduced its reliance on property taxes and recognized a reduction of $32,595, compared to 2012. Actual expenditures were $555,581 greater than the amounts budgeted; this was primarily due to the fact that grant related expenditures ($579,191) and lease payments ($2,496) were not budgeted on an annual basis during 2013.

Capital Assets and Debt Administration

Capital Assets. At September 30, 2013, the City had $583,142 invested in a broad range of capital assets, including land buildings, park facilities, police equipment, public works equipment and water lines. This investment in capital assets, net of depreciation, for all activities is reflected in the following schedule.

Capital Assets
For the Fiscal Years Ended September 30, 2013 and 2012

	Governmental Activities	
	2013	2012
Land	$ 158,496	$ 158,496
Buildings	568,810	568,810
Improvements other than buildings	285,247	285,247
Machinery and equipment	282,651	274,585
	1,295,204	1,287,138
Accumulated depreciation	(712,062)	(685,455)
Net total	$ 583,142	$ 601,683

Additional information on the City's capital assets can be found in Note 7 to the financial statements.

Long-term Debt. At year end, the City had $4,106 in capital lease obligations outstanding, compared to $5,472 one year earlier. The significant portion of this reduction is related to the payment of scheduled lease obligations during 2013. More detailed information about the City's long-term debt is presented in Note 8 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Many factors are considered each year by the City Commission in its efforts to establish an operating budget, to evaluate its personnel needs, and to develop uniform user fees that are reasonable, and more importantly, capable of cost recovery. Some of the major factors considered in this process are the local economy, civilian labor force, unemployment rates, and inflation rates.

- The most recent estimates available for unemployment data in Volusia County, Florida are compiled by the Florida Agency for Workforce Innovation on the Florida Research and Economic Information Database Application (FREIDA). This agency estimates a countywide unemployment rate of 6.8% at the end of September 2013, which is slightly lower than the 8.4% rate experienced one year earlier. These estimates are consistent with the State of Florida 6.2% and 8.4% unemployment rates at September 2013 and 2012, respectively.

- Property tax revenue in fiscal year 2014 is expected to be approximately the same as the property taxes collected in fiscal year 2013. Based on state forecasts, other state shared revenues are expected to increase due to signs of economic recovery.

- Inflationary trends for Volusia County are consistent with those trends experienced at the state and national levels.

The budget adopted for the General Fund for 2013-2014 utilized the prior year's final adopted budget as the baseline from which priority setting and decisions were made to formulate the new budgets, as well as analysis of previous, current and projected revenue and expenditure trends.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to the Office of the City Clerk, City of Oak Hill, Florida, 234 S. US 1, Oak Hill, Florida 32759.

BASIC FINANCIAL STATEMENTS

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STATEMENT OF NET POSITION
September 30, 2013
CITY OF OAK HILL, FLORIDA

	Primary Government Governmental Activities	
Assets:		
Cash and cash equivalents	$ 544,634	
Receivables, net of $185 allowance for uncollectible accounts	26,737	
Due from other governments	39,210	
Prepaid expenses	10,027	
Refundable deposits	120	
Capital assets, net of accumulated depreciation	583,142	
Total assets		1,203,870
Liabilities:		
Accounts payable and accrued liabilities	27,816	
Unearned revenue	2,423	
Compensated absences payable	9,237	
Long term liabilities:		
Portion due or payable within one year	1,719	
Portion due or payable after one year	2,387	
Net post-employment benefits obligation	2,490	
Total liabilities		46,072
Net Position:		
Invested in capital assets, net of related debt	579,036	
Restricted for transportation improvements	46,586	
Restricted for law enforcement training	3,385	
Unrestricted	528,791	
Total net position		$ 1,157,798

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES
September 30, 2013
CITY OF OAK HILL, FLORIDA

Functions / Programs	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net Revenue (Expense) and Changes in Net Assets-Primary Government: Governmental Activities
Primary Government:					
Governmental activities:					
General government	$ 265,490	6,953	-	-	(258,537)
Public safety	506,525	19,066	-	-	(487,459)
Physical environment	162,408	155,761	-	-	(6,647)
Transportation	124,475	42,652	514	-	(81,309)
Economic environment	574,100		579,191	-	5,091
Culture/recreation	36,087	-	-	-	(36,087)
Interest on long-term debt	1,109	-	-	-	(1,109)
Total primary government	$ 1,670,194	224,432	579,705	-	(866,057)

General revenues:	
Taxes:	
Property taxes, levied for general purposes	464,276
Local option sales taxes	33,369
Public service taxes	125,333
Sales taxes	82,488
Franchise fees	101,583
Intergovernmental revenues	50,592
Investment earnings	291
Miscellaneous	15,890
Total general revenues	873,822
Change in net position	7,765
Net position - beginning of year	1,150,033
Net position - end of year	$ 1,157,798

The accompanying notes are an integral part of the financial statements.

BALANCE SHEET
GOVERNMENTAL FUND
September 30, 2013
CITY OF OAK HILL, FLORIDA

	Governmental Fund General Fund	
Assets:		
Cash and cash equivalents	$ 544,634	
Receivables, net of $185 allowance for uncollectible accounts	26,737	
Due from other governments	39,210	
Prepaid expenses	10,027	
Refundable deposits	120	
Total assets		$ 620,728
Liabilities:		
Accounts payable	$ 23,622	
Accrued liabilities	4,131	
Unearned revenue	5,087	
Total liabilities		32,840
Fund Balance:		
Nonspendable:		
Prepaid expenses	10,027	
Refundable deposits	120	
Restricted for:		
Transportation	46,586	
Police education/training	494	
Police investigations	2,891	
Unassigned	527,770	
Total fund balance		587,888
Total liabilities and fund balance		$ 620,728
Reconciliation of the Balance Sheet of the Governmental Fund to the Statement of Net Position:		
Total fund balance		$ 587,888
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	583,142	
Other long-term assets are not available to pay current-period expenditures and are recognized as unearned revenue in the funds	2,664	
Net post-retirement benefits obligation which is actuarially due and payable in the current period which will be accumulated in future periods	(2,490)	
Compensatory wages obligation which is due and payable in the current period which will be paid in future periods	(9,237)	
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds	(4,106)	
Unmatured interest payable on general long-term debt is not due and payable in the current period and therefore is not reported in the funds	(63)	569,910
Net position of governmental activities		$ 1,157,798

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Year Ended September 30, 2013
CITY OF OAK HILL, FLORIDA

	Governmental Fund General Fund	
Revenues:		
Taxes	$ 627,678	
Permits and fees	117,804	
Intergovernmental revenue	712,271	
Charges for services	199,494	
Fines and forfeitures	3,837	
Miscellaneous revenue	16,695	
Total revenues		1,677,779
Expenditures:		
Current:		
General government	257,309	
Public safety	503,510	
Physical environment	162,408	
Transportation	128,673	
Economic environment	574,100	
Culture/recreation	17,799	
Debt Service:		
Principal retirement	1,366	
Interest and fiscal charges	1,130	
Total expenditures		1,646,295
Excess of revenues over (under) expenditures		31,484
Fund balance, beginning of year		556,404
Fund balance, end of year		$ 587,888

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2013
CITY OF OAK HILL, FLORIDA

Net change in fund balances - total governmental funds.....		$ 31,484
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:		
Expenditures for capital assets.....	8,066	
Less: current year provision for depreciation.....	(26,607)	(18,541)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Increase (decrease) in delinquent taxes receivable.....		180
Repayment of debt principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus the change in net assets differs from the change in fund balance by principal payments on long-term debt:		
Principal payments on long - term debt obligations.....		1,366
Compensated employee leave time is not due and payable in the current period and therefore is not reported in the funds:		
(Increase) decrease in compensated absences payable.....		(6,745)
Unmatured interest payable on general long-term debt is not due and payable in the current period and therefore is not reported in the funds:		
(Increase) decreae in accrued interest payable.....		21
Change in net position of governmental activities.....		$ 7,765

The accompanying notes are an integral part of the financial statements.

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - (Continued)
For the Fiscal Year Ended September 30, 2013
CITY OF OAK HILL, FLORIDA

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance With Final Budget Positive (Negative)
Revenue:				
Taxes:				
General property taxes	$ 479,628	479,628	464,096	(15,532)
Local option gas tax	31,500	31,500	33,369	1,869
Public service taxes	112,600	113,600	125,333	11,733
Local business taxes	5,000	5,000	4,880	(120)
	628,728	629,728	627,678	(2,050)
Permits and Fees:				
Building permits	7,000	13,000	15,141	2,141
Franchise fees	101,000	105,000	101,583	(3,417)
Other permits and fees	400	900	1,080	180
	108,400	118,900	117,804	(1,096)
Intergovernmental Revenue:				
Federal grants	-	-	579,191	579,191
State shared revenues:				
State revenue sharing	45,000	45,000	46,674	1,674
Mobile home licenses	1,500	1,500	1,650	150
Alcoholic beverage licenses	500	500	266	(234)
Local one-half cent sales tax	74,000	74,000	82,488	8,488
Motor fuel tax rebate	-	-	225	225
Other shared revenues:				
County shared revenue	1,000	1,200	1,777	577
	122,000	122,200	712,271	590,071
Charges for Services:				
General Government	670	945	993	48
Public Safety	-	50	88	38
Transportation	42,221	42,221	42,652	431
Garbage/solid waste charges	155,900	155,900	155,761	(139)
	198,791	199,116	199,494	378
Fines and Forfeitures:				
Fines and forfeitures	-	3,500	3,835	335
Police education	-	-	2	2
	-	3,500	3,837	337
Miscellaneous Revenues:				
Interest earnings	500	400	291	(109)
Lease and rental revenue	15,870	15,870	15,870	-
Sale of assets	1,000	1,000	-	(1,000)
Other grants	-	-	514	514
Miscellaneous revenue	-	-	20	20
	17,370	17,270	16,695	(575)
Total revenues	1,075,289	1,090,714	1,677,779	587,065

The accompanying notes are an integral part of the financial statements.

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - (Continued)
For the Fiscal Year Ended September 30, 2013
CITY OF OAK HILL, FLORIDA

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance With Final Budget Positive (Negative)
Expenditures:				
General Government:				
Legislative:				
Personal services	$ 29,065	29,065	30,519	(1,454)
Financial and Administrative:				
Personal services	88,771	93,221	92,221	1,000
Operating expenditures	19,500	19,500	24,635	(5,135)
	108,271	112,721	116,856	(4,135)
Legal Counsel:				
Operating expenditures	25,000	25,000	21,905	3,095
Comprehensive Planning:				
Operating expenditures	38,000	38,000	21,517	16,483
Other General Government:				
Operating expenditures	60,210	68,460	66,512	1,948
Total general government	260,546	273,246	257,309	15,937
Public Safety:				
Law Enforcement:				
Operating expenditures	482,629	482,354	482,925	(571)
Protective Inspections:				
Operating expenditures	20,504	20,504	20,405	99
Public Safety Other	1,000	1,000	180	820
Total public safety	504,133	503,858	503,510	348
Physical Environment:				
Garbage/Solid Waste Control Services:				
Operating expenditures	152,000	152,000	157,508	(5,508)
Other Physical Environment:				
Operating expenditures	1,000	1,000	4,900	(3,900)
Total physical environment	153,000	153,000	162,408	(9,408)

The accompanying notes are an integral part of the financial statements.

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - (Continued)
For the Fiscal Year Ended September 30, 2013
CITY OF OAK HILL, FLORIDA

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance With Final Budget Positive (Negative)
Transportation:				
Road and Street Facilities:				
Personal services	76,290	76,290	73,274	3,016
Operating expenditures	50,520	52,220	47,333	4,887
Capital outlay	10,500	10,500	8,066	2,434
Total transportation	137,310	139,010	128,673	10,337
Economic Environment:				
Housing Development:				
Operating expenditures	-	-	42,000	(42,000)
Grants and aids	-	-	532,100	(532,100)
Total economic environment	-	-	574,100	(574,100)
Culture/Recreation:				
Parks and Recreation:				
Operating expenditures	20,300	21,600	17,799	3,801
Total culture/recreation	20,300	21,600	17,799	3,801
Debt Service:				
Principal retirement:				
General government	-	-	1,366	(1,366)
Interest and fiscal charges:				
General government	-	-	1,130	(1,130)
Total debt service	-	-	2,496	(2,496)
Total expenditures	1,075,289	1,090,714	1,646,295	(555,581)
Excess of revenue over (under) expenditures	-	-	31,484	31,484
Fund balance, beginning of year	556,404	556,404	556,404	-
Fund balance, end of year	$ 556,404	556,404	587,888	31,484

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of City of Oak Hill, Florida (the "City"), have been prepared in conformance with accounting principles generally accepted in the United States of America, as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted body for promulgating governmental accounting and financial reporting principles. The following is a summary of its significant accounting policies:

A. Reporting Entity

The City was incorporated on June 4, 1927, under the Laws of Florida, Special Acts of 1927, Chapter 13156 - (No. 1351) and operates under the City Commission form of government. The legislative branch of the City is composed of an elected five-member City Commission consisting of the Mayor and four commissioners. The City Commission is governed by the City Charter and by state and local laws and regulations. The City Commission is responsible for the establishment and adoption of policy. The execution of such policy is the responsibility of the City's appointed department heads, who serve at the discretion of the Commission.

The accompanying financial statements present the financial position and results of operations of the applicable funds governed by or dependent on the City Commission of the City of Oak Hill, Florida (the primary government). In evaluating the City as a reporting entity, management has addressed all potential component units for which the entity may or may not be financially accountable and, as such, be included within the City's financial statements. No component units exist that require inclusion in the City's financial statements.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements, comprised of the statement of net position and the statement of activities, report aggregated information for the overall government for all of the activities of the primary government. These statements do not report fiduciary funds or fiduciary component units such as retirement trust funds. Those activities are reported only in fund financial statements, when required. The effect of interfund activity has been removed from these statements as is further disclosed below under the heading Interfund Activity Eliminations and Reclassifications.

All of the City's activities are governmental activities which are supported from ad valorem and other taxes, licenses and permits, intergovernmental revenues, charges for services, fines and forfeitures, and other miscellaneous revenues. The City does not engage in any business-type activities.

The statement of net position presents the government's overall financial position at year-end. The statement of activities presents direct expenses of a given function or segment offset by program revenues for the fiscal reporting period. The resulting net expense or revenue is then totaled and offset by general revenues producing the aggregate change in net position for the period. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other nonexchange revenues not properly included among program revenues are reported instead as general revenues.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded as earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Taxes, intergovernmental revenue, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Nonexchange transactions are grouped into four classes, based on their principal characteristics. The accounting treatment for each type of transaction is as follows:

> *Derived Tax Revenue*, defined as assessments imposed on exchange transactions. Examples include: sales taxes, franchise tax, utility taxes, etc. Assets from derived tax revenue are recognized in the period when the exchange transaction on which the tax is imposed or when resources are received, whichever occurs first. Revenues are recognized, net of estimated uncollectible amounts, in the same period that the assets are recognized. Resources received in advance are recorded as unearned revenue until the period of the exchange.
>
> *Imposed Nonexchange Revenue*, result from assessments on nongovernmental entities, other than assessments on exchange transactions. Examples include: ad valorem (property) taxes, fines and penalties, and property forfeitures. Assets from imposed nonexchange revenues are recognized in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. Property taxes are recognized in the period for which the taxes are levied. All other imposed nonexchange revenues are recognized in the same period that the assets are recognized.
>
> *Government-mandated Nonexchange Transactions*, frequently establish eligibility requirements before a transaction can occur. Examples include federal awards and state financial assistance. Until the requirements are met, the recipient does not have a receivable and the recognition of revenue received in advance is deferred. The providers (usually federal, state, and county governments) often

offer resources on a reimbursement ("expenditure-driven") basis at the time the recipient has incurred allowable costs under the applicable program.

Voluntary Nonexchange Transactions, result from legislative or contractual agreements other than exchanges, entered into willingly by two or more parties. Examples include certain grants, entitlements, and donations by nongovernmental entities. Principal characteristics of these types of transactions are (1) they are not imposed on the provider or recipient, and (2) fulfillment of eligibility requirements is essential for a transaction to occur. Assets and revenues are recognized when all applicable eligibility requirements, including time requirements, are met. Resources received in advance are reported as unearned revenue.

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

The City reports the following major governmental fund:

General Fund - The General Fund is the principal fund of the City which accounts for all financial transactions not accounted for in other funds. The majority of current operating expenditures of the City are financed through revenues received by the General Fund.

Amounts reported as program revenues include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments (when applicable). Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, except those that are statutorily restricted for special functional cost elements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City's investment policies are governed by state statutes and local resolution. Allowable investment instruments include: bonds, notes, certificates of indebtedness, treasury bills, or other securities which are guaranteed by the full faith and credit of the United States of America, interest bearing savings accounts, interest bearing certificates of deposit and interest bearing time deposits.

2. Receivables and payables

All trade and property tax receivables and amounts due from other governments are reported net of an allowance for uncollectible accounts, which is based upon management's analysis of historical trends.

All unpaid property taxes receivable at year end are at least 180 days past due, at which time the applicable property is subject to lien, and penalties and interest are assessed.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/ expenses when consumed rather than when purchased.

4. Restricted Assets

Certain proceeds from the imposition of the City's impact fee requirements and from building permits are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable legal indentures.

5. Capital Assets

Capital assets include property, plant, equipment and infrastructure assets. The terms general capital assets and general infrastructure assets relate only to the assets associated with governmental activities, whereas the terms capital assets and infrastructure assets relate to all such assets belonging to the City. In accordance with the implementation efforts of GASB Statement No. 34, the City is exempt from reporting all general infrastructure assets and related depreciation expense on these assets, for those assets acquired prior to the year of implementation of the pronouncement in the entity-wide statement of net assets and statement of activities. All known infrastructure assets acquired in current and prior years are reported in the financial statements.

Capital assets, which include buildings, substantial improvements, office furniture, fixtures and equipment, are reported in the governmental activities section of the government-wide financial statements. Property, plant and equipment with initial, individual costs that equal or exceed $750 and have estimated useful lives of over one year are recorded as capital assets. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized, but charged to operating expense as incurred. Major outlays for capital assets and improvements are capitalized as projects are constructed. Construction period interest is capitalized net of interest earned on unexpended construction funds and, therefore, depreciated over the remaining useful life of the related asset, when applicable.

Depreciation is provided for by utilization of the straight-line method calculated on a service-life basis to amortize the cost of the assets over their economic estimated useful lives which are as follows:

Buildings	15 - 40 years
Improvements other than buildings	15 - 40 years
Equipment and furniture	5 - 7 years
Infrastructure	15 - 50 years

The City has historically recorded all easements and rights of way that are determined to have limited useful lives at estimated fair market value on the date received. The City has elected to not retroactively report intangible assets that are determined to have indefinite useful lives. The City does not have any intangible assets previously subjected to amortization that have now been determined to have indefinite useful lives.

6. Accrued Payroll and Compensated Absences

The portion of employees' payroll costs paid subsequent to year end attributable to services performed prior to year end is recorded and recognized as a current liability.

The City's personnel policies permit employees to accumulate a limited amount of earned, but unused personal, vacation, and sick leave. Accumulated unused personal and vacation leave is payable to employees upon separation from service. Accumulated unused sick leave does not vest with the employee and all credits are forfeited upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences included salary related benefits, where applicable.

All regular full-time and probationary full-time employees are eligible to earn and use vacation leave benefits after three months of service. Sick leave accumulates at the rate of one day for every full month of service, not to exceed 50 days of accumulated benefits. Vacation benefits vest with the employee while sick leave credits can only be used during the employee's term of employment.

The following is a summary of the annual benefits:

	Annual Leave	Sick Leave	Personal Leave
All personnel:			
After 3 months to 5 years service (earned in monthly increments)	10 days	12 days	0 days
After 5 years service	15 days	12 days	0 days

7. Unearned Revenue

Unearned revenues are reported when potential revenue does not meet both the "measurable" and "available" criteria for the current period. Unearned revenue also arises when resources are received before it has legal claim to them. The revenue received in advance in the General Fund consists of prepaid occupational license revenue which will be recognized as revenue in future periods when collected and/or earned, and grant funds which will be recognized as revenue when they become available or as qualified grant expenditures are incurred.

8. Deferred outflows/inflows of resources

In addition to assets, when applicable the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has no items that qualify for reporting in this category.

In addition to liabilities, when applicable the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has no items that qualify for reporting in this category.

9. Net position flow assumption

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

10. Fund balance flow assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

11. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Commission is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Commission has by resolution authorized the City Clerk to assign fund balance. The Commission may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash such as inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

12. Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates assumed in preparing the financial statements.

E. New Accounting Standards

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is intended to enhance usefulness of GASB codification by incorporating guidance which previously could only be found in FASB or American Institute of Certified Public Accountants (AICPA) pronouncements. The statement is effective for periods beginning after December 15, 2011. This statement incorporates existing generally accepted accounting guidance into GASB authoritative literature and is not expected to have a material impact on the City's financial position.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement is intended to provide guidance for reporting deferred outflows of resources, deferred inflow of resources, and net position in a statement of financial position and related disclosures. The adoption of this statement requires the City to modify the balance sheets and replace the statements of revenues, expenses and changes in net assets with a statement of revenues, expenses and changes in net position, when applicable. There is no material impact to the City's financial position as a result of this statement.

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions -- an amendment of GASB Statement No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The statement is effective for financial statements for periods beginning after June 15, 2011 and is not expected to have a material impact on the City's financial position because it is not a party to any hedging activities.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this Statement recognizes certain items currently

being reported as assets and liabilities as outflows of resources and inflows of resources. This statement is effective for periods beginning after December 15, 2012 and is not expected to have a material impact on the City's financial position.

In April 2012, GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. This statement amends GASB No. 10 by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. As a result, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This statement also amends GASB No. 62 by modifying the specific guidance on accounting for certain operating lease payments, loan transactions, and loan servicing fees. The statement is effective for financial statements for periods beginning after December 15, 2012 and is not expected to have a material impact on the City's financial position.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. This Statement replaces the requirements of GASB No. 25 and GASB No. 50 as they relate to pension plans that are administered through trusts or equivalent arrangements. This statement is not applicable to the City.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This Statement establishes new accounting and financial reporting standards for governments that provide their employees with pension plans in which a government's contributions to the trust used to administer a pension plan are irrevocable, restricted to paying pension benefits, and are beyond the reach of creditors. Under the new standards, governments will be required to report the amount of unfunded pension obligations in their balance sheets. The liability that must be recognized (net pension obligation) is the total pension liability less the amount of plan assets formally set aside for payment of benefits as of the reporting date. Annual pension expense will be based on a comprehensive measurement of the annual cost of pension benefits, rather than on required funding amounts. Governments participating in multi-employer cost-sharing plans will be required to report a liability equivalent to their proportionate share of the collective net pension liability of the plan. The proportion would essentially equal the government's long-term expected contributions to the plan divided by those of all governments in the plan. Each cost-sharing employer will also be required to recognize its estimated allocated share of the plan's collective pension expense. This statement, which is effective for financial statements for periods beginning after June 15, 2013, is expected to have a material future impact on the City's net position. However, the City's proportionate share of its net pension liability associated with the Florida Retirement System has not yet been determined.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

Following the governmental fund balance sheet is reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. A detailed explanation of these differences is provided in this reconciliation.

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and the Government-Wide Statement of Activities

Following the governmental fund statement of revenues, expenditures, and changes in fund balances, there is reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. A detailed explanation of these differences is provided in this reconciliation.

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information - An annual budget was adopted for the City's sole governmental fund. The basis on which the budget was prepared is consistent with generally accepted accounting principles for the fund. The City uses the following procedures in establishing the budgetary data reflected in the accompanying financial statements:

1. On or before July 1st, the City Clerk submits a preliminary budget to the City Commission for the ensuing fiscal year.

2. Budget workshop sessions are scheduled by the City Commission, as needed.

3. A general summary of the budget and notice of public hearing is published in a local newspaper.

4. Prior to October 1st, the budget is legally enacted through passage of an ordinance.

5. The City Commission, by ordinance, may make supplemental appropriations in excess of those estimated for the year up to the amount of available revenue in accordance with Section 13.05 of the City Charter. Prior to the end of the fiscal year, supplemental appropriations are made for unanticipated spending requirements by the Commission.

6. The City Commission must approve all inter-departmental budget amendments and/or appropriations transfers. Budgetary control is exercised at the fund level.

7. Every appropriation lapses at the close of the fiscal year

B. Excess of Expenditures over Appropriations - During the year ended September 30, 2012, actual expenditures in the General Fund exceeded budgetary appropriations by $555,581, or 51% of total approved appropriations. The over-expenditure was mostly the result of unbudgeted amounts recognized for expenditures related to the development of community housing in 2013. This amount was funded in its entirety from Community Development Block Grant funds.

NOTE 4 - PROPERTY TAX CALENDAR

Under Florida law, the assessment of all properties and the collection of all county, municipal and school district property taxes are consolidated in the offices of the County Property Appraiser and County Finance Director. The laws of the state regulating tax assessment are also designed to assure a consistent property valuation method statewide. State Statutes permit municipalities to levy property taxes at a rate of up to 10 mills. The millage rate assessed by the City was 5.9669 mills (2012 levy collected in the year ended September 30, 2013).

The property tax calendar is as follows:

Valuation Date	January 1
Property Appraiser prepares the assessment roll with values as of January 1, submits preliminary roll for approval by the State and notifies each taxing authority of their respective valuations.	July 1
City Commission holds two required public hearings and adopts a budget and ad valorem tax millage rate for the coming fiscal year.	September
Property Appraiser certified the assessment roll and all real and tangible personal property taxes are due and payable (Levy date).	November 1
A Notice of Taxes is mailed to each property owner on the assessment roll. Taxes are paid November through March, with the following applicable discounts:	November 1

Month Paid	Discount
November	4%
December	3%
January	2%
February	1%
March	None

All unpaid taxes on real and tangible personal property become delinquent.	April 1
A list of unpaid tangible personal property taxes and a list of unpaid real property taxes are advertised.	April/May
Tax certificates are sold on all real estate parcels with unpaid real property taxes (Lien date).	June 1
A court order is obtained authorizing the seizure and sale of personal property if the taxpayer fails to pay the delinquent taxes	August

NOTE 5 -CASH DEPOSITS AND INVESTMENTS

Deposits. At September 30, 2013, the carrying value of the City's cash deposit accounts totaled $544,484 and the bank balance totaled $544,509. The cash deposits are held by banks that qualify as public depositories under the Florida Security for Public Deposits Act (mentioned below) as required by Chapter 280, Florida Statutes and are fully insured. Amounts do not include $150 in cash funds on hand at the end of the fiscal year.

Interest Rate Risk. Generally, the City limits its exposure to fair value losses arising from increases in interest rates by limiting the investment of its operating funds in investments with maturities of less than one year. Substantially all of the City's surplus funds are invested in the City's interest bearing demand deposit (Savings Account).

Credit Risk. The provisions of Section 218.415, Florida Statutes, require that the investment activity of the City be conducted in accordance with a written investment plan adopted by the governing body. Under that plan, allowable investment instruments include: bonds, notes, certificates of indebtedness, treasury bills, or other securities which are guaranteed by the full faith and credit of the United States of America, interest bearing savings accounts, interest bearing certificates of deposit and interest bearing time deposits, including those held with the Florida State Board of Administration investment pool.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Pursuant to the applicable provisions of Chapter 280, Florida Statutes, *The Florida Security for Public Deposits Act* ("the Act"), the State of Florida, Department of Financial Services, Division of Treasury, Bureau of Collateral Management have established specific requirements relative to the security and collateralization for public deposits. Accordingly, banks qualifying as a public depository in the State of Florida must adopt the necessary procedures outlined in these statutes and meet all of the requirements of this chapter to be designated by the State's Chief Financial Officer as eligible to receive deposits from municipal depositors. Collateral having a market value equal to 50% of the average daily balance for each month of all public deposits in excess of any applicable depository insurance is required to be pledged or deposited with the State's Chief Financial Officer to secure such deposits. Additional collateral, up to a maximum of 125% may be required if deemed necessary under the conditions set forth in the Act. Securities eligible to be pledged as collateral are generally limited to obligations of the United States government and any state thereof and are held in the name of the State Chief Financial Officer's office. Compliance with the provisions of Chapter 280, Florida Statutes, is monitored by a Qualified Public Depository Oversight Board with members appointed by the State Chief Financial Officer.

At September 30, 2013, all of the City's deposits were adequately covered by a combination of federal depository insurance and the statutory provisions of the Act.

NOTE 6 – DISAGGREGATION OF RECEIVABLES AND PAYABLES

***Receivables*:** Amounts are aggregated into single accounts receivable (net of allowance for uncollectible accounts) lines for certain funds and aggregated columns. Below is a detail of receivables anticipated to be collected within an operating cycle:

Delinquent taxes receivable	$ 2,664	
Franchise/utility fees	24,073	
Other miscellaneous receivables	185	
	23,922	
Less: allowance for doubtful accounts	(185)	
Total governmental activities receivables, net		$ 26,737

***Payables*:** Amounts are aggregated into single accounts payable and accrued liabilities lines for certain funds and aggregated columns. Below is a detail of payables anticipated to be paid within an operating cycle:

Accounts payable	$ 23,232	
Abandoned property	390	
Accrued wages payable	3,494	
Withholding taxes payable	267	
Employee benefits payable	370	
Total governmental activities payables		$ 27,752

NOTE 7 - CAPITAL ASSETS

The following is a summary of changes in capital assets during the year:

A. Governmental Activities

	Balances 9/30/2012	Additions	Deletions	Balances 9/30/2013
Capital assets not being depreciated:				
Land	$ 158,496	-	-	158,496
Total capital assets not being depreciated	158,496	-	-	158,496
Capital assets being depreciated:				
Buildings	568,810	-	-	568,810
Improvements other than buildings	285,247	-	-	285,247
Machinery and equipment	274,585	8,066	-	282,651
Total capital assets being depreciated	1,128,642	8,066	-	1,136,708
Less accumulated depreciation for:				
Buildings	(197,197)	(14,186)	-	(211,383)
Improvements other than buildings	(228,642)	(4,215)	-	(232,857)
Machinery and equipment	(259,616)	(8,206)	-	(267,822)
Total accumulated depreciation	(685,455)	(26,607)	-	(712,062)
Total capital assets being depreciated, net	443,187	(18,541)	-	424,646
Total capital assets, net	$ 601,683	(18,541)	-	583,142

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

General government	$ 4,808	
Public safety	3,015	
Transportation	496	
Culture/recreation	18,288	
Total depreciation expense - governmental activities		$ 26,607

NOTE 8 - GENERAL LONG-TERM DEBT

The City's long-term debt outstanding at September 30, 2013, is as follows:

	Balance Due	Current Maturities
Capital Lease Obligations:		
$7,667 capital lease for machinery and equipment, for the City's administrative and finance department, dated 5/6/2010, payable in annual installments of $208 through 5/6/2015, unstated interest rate of 23.189%, secured with machinery and equipment with a book value of $2,556 as of 9/30/2013	$ 4,106	1,719
Other postemployment benefit obligation	2,490	-
Compensated absences (current portion estimated)	9,237	2,309
Total long-term debt	$ 15,833	4,028

A summary of changes in the City's long-term debt for the year is as follows:

	Balances 9/30/2012	Additions	Deletions	Balances 9/30/2013
Capital Lease Obligations:				
$7,667 capital lease dated 5/6/2010	$ 5,472	-	(1,366)	4,106
Other postemployment benefit obligation	2,490	-	-	2,490
Compensated absences	2,492	7,368	(623)	9,237
Totals	$ 10,454	7,368	(1,989)	15,833

Annual debt service requirements to maturity, including principal and interest, on long-term debt obligations as of September 30, 2013 are as follows:

	Capital Lease Obligations	
Fiscal Year	Principal	Interest
September 30, 2014	$ 1,719	777
September 30, 2015	2,387	278
Total	$ 4,106	1,055

Total interest incurred for governmental activities for the year ended September 30, 2013 totaled $1,130.

NOTE 9 – OPERATING LEASES

The City leases equipment under operating leases with the exception of the non-cancelable operating lease listed below, these leases have cancellation provisions and are subject to annual appropriations. For the year ended September 30, 2013, lease expenditures totaled $2,078 for all types of leases.

Non-cancelable Lease. The City leases office equipment under an agreement with an original term of 63 months, which is scheduled to expire in November, 2018. The minimum lease payments under this lease agreement are as follows: 2014-$2,900; 2015-$2,900; 2016-$2,900; 2017-$2,900 2018-$2,900; and thereafter $483.

NOTE 10 -LEASE INCOME

The City entered into an operating lease agreement to lease a portion of its real property for the construction of a cellular telephone tower. This lease was dated September 20, 2000, and had an initial term of five years, with four successive five-year renewal options. The second of the four successive five year renewals was exercised in September 2010, and will expire in 2015. The lease provides for rentals of $12,000 annually through each of the first 5 years, and for successive 15% increases for each subsequent 5-year renewal period. The rentals for the second renewal period will be $15,870 per annum. In addition, the City is entitled to 25% of any future revenue obtained by the lessee from any sublease or assignment of the lease. Lease revenue totaled $15,870 for the year ended September 30, 2013. There was no revenue from subleases or assignments. Future minimum rentals to be received over the remaining term of the lease are as follows: 2014 - $15,870 and 2015 - $15,870.

NOTE 11 - RESTRICTED NET POSITION

The government-wide statement of net position reports $49,971 in restricted net position, of which $46,586 is restricted for capital projects through local resolution and state legislation related to the use of revenues collected for impact fees and development reviews; and $3,385 is restricted for police education and training by enabling state legislation.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description. City of Oak Hill, Florida, Post-employment Benefits Plan (the "Plan") is a single-employer healthcare plan administered by the City. Pursuant to Section 112.0801, Florida Statutes, the City is required to permit participation in the Plan to retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active employees. Eligible individuals include all regular employees of the City who retire from active service under the pension plan sponsored by the City. Under certain conditions, eligible individuals also include spouses and dependent children. The Plan does not issue a publicly available financial report.

Funding Policy. The contribution requirements of plan members and the City are established by state statutes and may be amended by the state legislature. The required contribution is based on projected pay-as-you-go financing requirements and is subject to constant revision. In August of 2011, the City substantially reduced its workforce to a total of four employees. Given that the most recent actuarial valuation was performed on October 1, 2009 and utilized payroll figures based on a much larger workforce, management believes that the

actuarially calculated OPEB liability is not representative of the true obligation at September 30, 2013. As a result, the City has opted to not increase the reported value of the net OPEB obligation for 2013.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City's annual OPEB for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the Plan based on the most recent actuarial valuation dated October 1, 2009:

	Estimated 09/30/2010
Annual required contribution (ARC)	$ 3,990
Interest on prior Net OPEB obligation	0
Prior Net OPEB obligation adjustment	0
Annual OPEB cost (expense)	3,990
Estimated net contributions made	(1,500)
Increase in net OPEB obligation	2,490
Net OPEB obligation-beginning of year	0
Net OPEB obligation-end of year	$ 2,490

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

Fiscal Year Ended	Annual OPEB Cost	Percent of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/13	n/a	n/a	n/a
09/30/12	n/a	n/a	n/a
09/30/11	n/a	n/a	n/a
09/30/10	$ 3,990	37.6%	$ 2,490

Funded Status and Funding Progress. Based on the October 1, 2009 actuarial valuation, the funded status of the OPEB Plan was as follows:

Actuarial accrued liability (AAL)	$ 8,185
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	$ 8,185
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (annual payroll of active employees covered by the plan)	$ 284,795
UAAL as a percentage of covered payroll	2.9%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Calculations are based upon the types of benefits provided under the terms of the substantive plan (the plan as understood by the employer and the plan members) at the time of the valuation and on the pattern of sharing costs between the employer and plan members to that point. Calculations reflect a long-term prospective, so methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the October 1, 2009 actuarial valuation, the Entry Age Normal (level % of pay) Method was used. The actuarial assumptions included a 4.5% funding investment rate (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8.0% percent initially, trending to 5.0% in 2012. If, and when, funded, the actuarial value of assets will be determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll (closed amortization over 30 years).

NOTE 13 - EMPLOYEES' PENSION PLAN

Florida Retirement System

Plan Description. Effective 11/01/2003, the City became a member of the Florida Retirement System. The Florida Retirement System is a cost-sharing multiple-employer retirement plan created in December, 1970, that acts as a common investment and administrative agent for municipalities and other qualifying political subdivisions in the State of Florida. The defined benefit pension plan, which is administered by the State of Florida, Department of Management Services, Division of Retirement, provides retirement and disability benefits and death benefits to plan members and beneficiaries. Benefit provisions are established under Chapter 121, Florida Statutes, which may be amended by the Florida Legislature. The Florida Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to Division of Retirement, P.O. Box 9000, Tallahassee, FL 32315-9000, or calling (850) 488-5706.

Funding Policy. The FRS funding policy provides for required monthly employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll are adequate to accumulate sufficient assets to pay benefits when due. Level percentages of payroll employer contribution rates, established by state law, are determined using the entry-age actuarial funding method. If an unfunded actuarial liability reemerges, future plan benefit changes, assumption changes, and methodology changes are amortized within 30 years, using level dollar amounts. Except for gains reserved for rate stabilization, it is anticipated future actuarial gains and losses are amortized on a rolling 10% basis, as a level dollar amount.

The City made the required contributions to the plan for the fiscal years ended September 30, 2013, 2012, and 2011, which were $7,905, $5,850, and $62,916, respectively. Employees are required to contribute 3% of covered wages to the plan effective July 1, 2011. The employee contributions to the plan for the fiscal years ended September 30, 2013, 2012, and 2011 totaled $3,467, $3,365, and $1,878, respectively.

Effective July 1, 2011, all covered employees, other than those who have elected to enter the Deferred Retirement Option Program (DROP), are required to contribute 3% of their covered payroll. The following is a summary of employer contribution percentages for qualifying compensation paid to general participants, special risk participants, and senior management service (SMSC) participants in effect during each of the past three fiscal years (rates specified below include an additional 1.11% for the City's option to include the health insurance subsidy contribution and excludes the 3% employee contribution):

	Regular Employees	Special Risk	SMSC Employee
From July 1, 2010 to June 30, 2011	10.77%	23.25%	--
From July 1, 2011 to June 30, 2012	4.91%	14.10%	--
From July 1, 2012 to June 30, 2013	5.18%	--	6.30%
From July 1, 2013 to June 30, 2014	6.95%	--	18.30%

NOTE 14 - LEGAL MATTERS

The City is from time to time engaged in routine litigation incidental to the conduct of its municipal affairs. In the opinion of Counsel to the City, no legal proceedings are pending or threatened against the City, not covered by insurance, which would inhibit the City's ability to perform its operations or materially affect its financial condition at September 30, 2013.

NOTE 15 -RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, all of which is satisfactorily insured by general liability insurance. Commercial insurance policies are also obtained for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies in current and prior years are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund(s). The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

On October 1, 2012, the City renewed its Interlocal Agreement with the County of Volusia, Florida, whereby the County will continue to provide municipal law enforcement services and equipment to the City in lieu of the City using its own personnel and equipment. The City has committed to pay $480,829 annually for the following three fiscal years ending September 30, 2015. The commitment may be increased annually to compensate for increases in the actual costs of services provided.

NOTE 17 - SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through June 27, 2014, the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS - OTHER POST-EMPLOYMENT BENEFITS
September 30, 2013
CITY OF OAK HILL, FLORIDA

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Assets in Excess of) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
10/01/2013	n/a	n/a	n/a	n/a	n/a	n/a
10/01/2012	n/a	n/a	n/a	n/a	n/a	n/a
10/01/2011	n/a	n/a	n/a	n/a	n/a	n/a
10/01/2010	n/a	n/a	n/a	n/a	n/a	n/a
10/01/2009	$ -	$ 8,185	$ 8,185	0.00%	$ 284,795	2.87%

Schedule of Employer Contributions

Year Ended September 30,	Annual Required Contribution (ARC)	Employer Contributions	Total Contributions	Percentage Contributed
2013	n/a	n/a	n/a	n/a
2012	n/a	n/a	n/a	n/a
2011	n/a	n/a	n/a	n/a
2010	$ 3,990	$ 1,500	$ 1,500	37.59%
2009	n/a	n/a	n/a	n/a

Note:
The most recent OPEB valuation report dated October 1, 2009 is the only valuation report available.

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SUPPLEMENTAL AUDIT REPORTS

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended September 30, 2013
CITY OF OAK HILL, FLORIDA

Federal Grantor/ Pass-through Grantor/ Federal Program or Cluster Title	Federal CFDA/ No.	Agency or Pass-through Entity Identifying Number	Federal Expenditures	
Other Programs:				
U.S. Department of Housing and Urban Development:				
Indirect Programs:				
Passed through Florida Department of Economic Opportunity:				
Community Development Block Grants/Entitlements:	14.228	11DB-C5-06-74-02-H06	$ 579,191	*
Total-Community Development Block Grant/Entitlements……			579,191	
Total-U.S. Department of Housing and Urban Development……			579,191	
Total Expenditures of Federal Awards.....			$ 579,191	

* Designates a major program

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

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1. **BASIS OF PRESENTATION**

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

2. **LOANS OUTSTANDING**

The City had no loan balances outstanding at September 30, 2013 from federal funding sources.

3. SUBRECIPIENTS

The City provided no federal awards to subrecipients for the fiscal year ended September 30, 2013.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2013
CITY OF OAK HILL, FLORIDA

Part I — Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified Opinion

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes __X__ no
- Significant deficiency(ies) identified? __X__ Yes _____ no

Noncompliance material to financial statements noted? _____ Yes __X__ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes __X__ no
- Significant deficiency(ies) identified? _____ Yes __X__ none reported

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

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133 _____ Yes __X__ no

Identification of Major Federal Programs:

The programs/projects tested as major programs/projects included the following:

Name of Federal Program(s):	CFDA No.
U.S. Department of Housing and Urban Development:	
Community Development Block Grant	14.228

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Auditee qualified as low-risk auditee? _____ Yes __X__ no

Part II — Financial Statement Findings Section

This section identifies findings related to the financial statement audit, as required to be reported in accordance with *Government Auditing Standards*.

SIGNIFICANT DEFICIENCIES

The following significant deficiencies were identified and reported for the year ended September 30, 2013. These findings are discussed in detail in the accompanying schedule of findings and responses which accompanies the *Independent Auditors' 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*

#2009 SD01: Capital Asset Records and Inventory
#2009 SD02: Segregation of Duties
#2011 SD01: Accounts Payable- Cutoff Procedures
#2012 SD01: Uniform Accounting System Manual

Part III — Federal Award Findings and Questioned Costs Section

This section identifies the federal award findings and questions costs section reported in accordance with OMB Circular A-133.

No matters were identified and reported.

Part IV – Status of Prior Year Findings

There were no audit findings reported in the prior year affecting federal awards programs.

Corrective Action Plan

There were no audit findings for the year ended September 30, 2013 relative to federal awards that require a corrective action on the part of the auditee.

BM&C

BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Honorable Mayor, and
Members of the City Commission
City of Oak Hill, Florida

Report on Compliance for Each Major Federal Program

We have audited City of Oak Hill, Florida (the "City")'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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MEMBER: American Institute of Certified Public Accountants and AICPA Private Companies Practice Section

The Honorable Mayor, and
Members of the City Commission
City of Oak Hill, Florida

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

Brent Millikan & Co., P.A.

June 27, 2014

BM&C

BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

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

The Honorable Mayor, and
Members of the City Commission
City of Oak Hill, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Oak Hill, Florida (the "City"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 27, 2014.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. Those matters are referenced as #2009 SD01, #2009 SD02, #2011 SD01, and #2012 SD01.

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Compliance and Other Matters

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

Purpose of this Report

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

Brent Millikan & Co., P.A.

June 27, 2014

The following table summarizes the status of the prior year findings and responses included in the external audit report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with G*overnment Auditing Standards* issued by the external auditor in fiscal year 2012. The prior year reference number indicates the fiscal year that the comment was first addressed in the schedule of findings and responses.

	Corrective Action Not Yet Complete	Comment Has Been Addressed Or Is No Longer Relevant	Prior Year Reference Number
Internal Control:			
#2009 SD01 Capital Asset Records and Inventory	x		2009-01
#2009 SD02 Segregation of Duties	x		2009-02
#2011 SD01 Accounts Payable- Cutoff Procedures	x		2011-03
#2012 SD01 Uniform Accounting System Manual	x		2012-01
Accuracy of Bank Reconciliations		x	2012-02

The following is a summary of the status of items for which corrective action is not yet completed:

Internal Control Over Financial Reporting

#2009 SD01: Capital Asset Records and Inventory

As has been the case for many years, we continued to note that the City has not made any substantial improvements in its efforts to develop a property control system that includes all data elements necessary in recording assets. The City continues to have difficulty in developing and maintaining the records necessary to support the acquisition costs for prior years' qualifying fixed asset purchases. We also continued to note that a physical inventory of the City's personal property items could not be completed until such records are generated. An inventory should not only include those assets that meet the capitalization thresholds, but also those assets that are most susceptible to misappropriation or theft in which the City has invested. Typically, these investments are composed of electronic equipment and other personal property that are small in size relative to their costs (i.e., desktop/laptop computers, printers, audio/visual equipment, firearms, etc.). The asset types in question are: (1) used more frequently; (2) capable of being shared by more than one employee; (3) readily usable by virtually everyone in, or outside, of their work environment; and (4) more susceptible to theft for these reasons.

Recommendation: We continue to strongly recommend that the City develop authoritative procedures and policies to make certain that a process of recording and maintaining fixed asset records is put in use. We also recommend that the City should perform a complete physical inventory of the City's fixed assets, which will be the best and most efficient method for developing an accurate listing of all fixed assets and essential in developing the above-mentioned procedures. Specifically, the listing should include the following data:

- Description of the asset
- Cost, voucher number, and vendor name
- Date placed in service
- Estimated useful life

- Depreciation method
- Depreciation expense and accumulated depreciation for the year
- Date asset was retired and selling price if applicable

Complete information such as the above on all fixed assets would provide excellent control for the safeguarding of these assets, which are a significant cost of the City. A better assessment and evaluation could also be made regarding the reliability of certain fixed assets and the need for replacements, and the timing of such replacements.

Auditee Response: Due to limited staffing capabilities, we were not able to sufficiently resolve this matter during 2013. We are currently attempting to create a complete physical inventory and procedures to acquire new assets. The city is also developing procedures and policies to maintain records of all fixed assets.

#2009 SD02: Segregation of Duties

The City's general stewardship responsibilities include the development and utilization of management and internal control systems that provides reasonable assurance to management and the City's elected officials that its governmental resources are effectively and efficiently used in accordance with applicable laws, ordinances, and other guidelines. During the current year audit, we continued to note that the City's ability to implement adequate managerial and internal control systems is affected by the City's limited staffing and financial resources. Furthermore, we noted that the City began the process of drafting and reviewing formal accounting policies and procedures in order to provide adequate controls as it relates to the accounting functions and processes. Due to the limited number of staff working within the administrative and finance departments, many of the critical duties are combined and assigned to the available employees. Presently, a single individual performs the majority of the accounting functions. To the extent possible, duties should be segregated to serve as a check and balance and to maintain the best control system possible.

Recommendation: We continue to recommend the City complete formal written accounting policies and procedures. Strictly following formal written procedures will ensure that all accounting functions are performed in a timely manner while maintaining proper segregation of duties. This change will greatly benefit the organization with more efficient accounting processes that produce more timely financial statements, which will aid in the planning and budgeting process. We also suggest that the segregation of duties be reviewed and adjusted where possible to strengthen the system of internal control.

Auditee Response: Due to budgetary constraints the City's finance functions were performed by only two staff members during 2013. The City will continue to explore its options to separate the important finance functions and duties to further strengthen internal controls. The administrative staff is in the process of compiling and finalizing an accounting policies and procedures handbook to further address this matter.

#2011 SD01: Accounts Payable- Cutoff Procedures

During our search for unrecorded liabilities, we noted numerous exceptions in which invoices relating to goods received or services performed prior to the year-end date were not recorded as payables in the proper period. Proper cutoffs are critical for the accuracy of the modified accrual basis of accounting. Since the City currently does not have any purchasing and/or accounts payable cutoff procedures in place, many of the current year expenditures were not being recorded within the correct accounting period.

Recommendation: We recommend that the City prepare written instructions to be included as a part of the City's accounting policies and procedures manual which indicates the basic concept of proper cutoffs and the responsibility for accruing payables in the proper fiscal period.

Auditee Response: The City is currently in the process of developing procedures and training staff to ensure that these cutoff procedures are being employed throughout the year.

#2012 SD01: Uniform Accounting System Manual

The Florida Department of Financial Services, assisted by representatives of various local governments, has developed the Uniform Accounting System Chart of Accounts to be used as the standard for recording and reporting financial information to the State of Florida in the form of a standard Chart of Accounts and Standard Annual Reporting Form. As mandated by Section 218.33, F.S., reporting units should use this chart of accounts as an integral part of their accounting system so that the preparation of their annual financial reports will be consistent with other local reporting entities.

In the course of our audit, we noted frequent discrepancies between the account numbers used to identify revenue and expense accounts in the approved budget and the account numbers included in the general ledger. Additional instances of account miscodings were found over various expense accounts, specifically including capital outlay, debt payments and payroll expense accounts. The use of inappropriate account codes causes budget and actual amounts to be skewed and promotes difficulty in understanding the intent of the City Commission with the adoption of the annual budget.

Recommendation: We recommend that the City revise its internally developed budget worksheets and general ledger chart of accounts to ensure that the account numbers used by the City are consistent with the account numbers specified in the UAS Manual to comply with the intent of Section 218.33, F.S.

Auditee Response: The City will review its current budget spreadsheet system for the purpose of revising its revenue and expenditure codings to conform to the UAS Manual.

Matters Related to Compliance and Other Matters - None

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CERTIFIED PUBLIC ACCOUNTANTS

MANAGEMENT LETTER

The Honorable Mayor, and
Members of the City Commission
City of Oak Hill, Florida

We have audited the financial statements of City of Oak Hill, Florida (the "City"), as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated June 27, 2014.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.550, Rules of the Florida Auditor General. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required By OMB Circular A-133and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated June 27, 2014, should be considered in conjunction with this management letter.

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

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, except as noted below under the heading Prior Year Matters.

- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City complied with Section 218.415, Florida Statutes.

- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, our recommendations are in the accompanying pages under the headings Current Year Matters.

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- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

- Section 10.554(1)(i)5., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The legal authority is disclosed in the notes to the financial statements.

- Section 10.554(1)(i)6.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

- Section 10.554(1)(i)6.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2013, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2013. In connection with our audit, we determined that these two reports were in agreement.

- Pursuant to Sections 10.554(l)(i)6.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based, in part, on representations made by management and the review of financial information provided by same.

- Section 10.558(1) Rules of the Auditor General, requires the local government to provide a written statement of explanation or rebuttal concerning the auditor's findings and recommendations, including corrective action to be taken which must be filed with the governing body of the local governmental entity and included in the auditor's reports or management letter prepared pursuant to Section 218.39(4), Florida Statutes. The City's statements of explanation or rebuttal are described herein in the "*Auditee Response*" section, which follows each of the auditor's findings and recommendations. We did not audit the City's response and, accordingly, we express no opinion on it.

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

Brent Milliken & Co., P.A.

June 27, 2014

PRIOR YEAR MATTERS

Pursuant to Section 10.554(1)(i)1., Rules of the Auditor General the following is a summary of the status of any prior year findings and management letter comments issued by the external auditor in fiscal year 2012:

	Corrective Action Not Yet Complete	Comment Has Been Addressed Or Is No Longer Relevant	Prior Year Reference Number
Uniform Accounting Policies and Procedures Manual	x		ML 2009-01
Personnel Policies and Procedures Manual	x		ML 2009-02
Information Technology – Data Backups of Network	x		ML 2009-03
Maintenance of Personnel Files		x	ML 2011-02
Disposition of Restricted Police Funds	x		ML 2011-04
Federal Information & Tax Reporting Requirements- 1099	x		ML 2011-05
Updated OPEB Actuarial Report	x		ML 2011-06

The following is a summary of the status of items for which corrective action is not yet completed:

ML 2009-1: Uniform Accounting Policies and Procedures Manual

Although progress has been made on drafting formal accounting policies, we continued to note that the City has not yet fully developed a formal accounting policies and procedures manual.

Recommendation: Due to the nature of the City's accounting requirements and inability to delegate important internal control functions to more than three persons, we continue to believe that significant additional emphasis should be placed on completing the development of this manual as quickly and efficiently as possible. The preparation and maintenance of written standard procedures is very useful and serves to:

- Establish consistent City accounting practices.
- Establish and designate accounting and bookkeeping responsibilities.
- Reduce the likelihood of coding errors and assist in the preparation of timely and accurate financial statements.
- Aid in review by management for adherence to City policies.
- Aid in exchange of management ideas.
- Provide the City with a source of information that will not be lost if key personnel leave.
- Aid in the training of new employees, especially in the event of an untimely resignation of key accounting staff.
- A well-devised accounting manual can also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management.
- Also, in the process of the comprehensive review of existing accounting procedures, for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.

This manual should include (1) a summary of the City's detailed general ledger chart of accounts, (2) a detailed explanation of functional and object account content, (3) an appropriately detailed description of all accounting procedures and routines, (4) a linear organization chart for all accounting functions, and (5) complete definitions of individual job authority and associated responsibilities. All such information must be developed in conformance with the Uniform Account System adopted by the Florida Department of Financial Services. Management should also periodically review each Department's compliance with standard procedures.

Auditee Response: The city continues to be aware of the need and is in the process of finalizing a Accounting Procedures and Policy Manual.

ML 2009-2: Personnel Policies and Procedures Manual

In December 2005, the City revised its formal Personnel Policy Manual (the "Manual") which was developed to formally document the City's various personnel issues. During the prior year audits, we noted that many of the City's formal policies are subject to varying interpretations by management. We specifically noted several instances where conflict existed between the Manual and the applicable provisions of the Fair Labor Standards Act (the "Act"). Although the City has made progress in revising the Manual, we continue to note that this has not been completed as of the completion of our audit and has not yet been formally adopted by the City Commission.

Recommendation: We recommend that management continue the revisions to ensure City policies and procedures conform to provisions of the Act, as well as other Federal and State laws and regulations.

Auditee Response: The City is continuing to work with the city attorney and will make the necessary changes hoping to adopt the new manual as soon as possible.

ML 2009-3: Information Technology - Data Backups of Network

We continue to note, the City backs up server data to a single DVD once a week. This is a tedious and inefficient process because the process requires physical delivery of the DVD to an off-site location and each snapshot of the network is at least one week old, which in some instances make the backup useless as the information is no longer relevant. In accordance with the Sunshine Law, data on the network, including electronic correspondence (email) records are public records. Therefore, such information must be secured, backed up, and maintained by the City in accordance with applicable state statutes. While we noted that the City's email records are effectively backed up on the City's secondary backup server, we continue to be concerned that the backup records are still retained in the same physical location (City Hall).

Recommendation: We continue to recommend that the City immediately change the backup strategy for the network to be in compliance with the Sunshine Law and best practices for the retention of backup data. We advise that the backup strategy should include the following:

- Daily backups of the server, electronic correspondence (email), operating systems and all applications that are stored off-site.
- The inclusion of emergency startup CDs necessary for booting the City's computers.

Auditee Response: The city is actively working with our Information Technology Department to acquire the proper tools to actively produce an off-site back up of all electronic material.

ML 2011-04: Disposition of Restricted Police Funds

The City continues to hold balances of police funds that are exclusively restricted pursuant to Chapters 938.15 and 932.7055, Florida Statutes for police education and protracted investigations. Since the City no longer operates in the capacity to utilize these funds, all retained amounts should be forwarded to the Volusia County Sheriff's Department for disposition.

Recommendation: We recommend that the City remit all remaining funds restricted for authorized law enforcement purposes to the county.

Auditee Response: The City is in the process of remitting all restricted funds to the County.

ML 2011-05: Federal Information and Tax Reporting Requirements-IRS Form 1099

In accordance with federal requirements, the City must file a Form 1099-MISC for each person the City paid at least $600 to in rents, services (including parts and materials), prizes and awards, other income payments, medical and healthcare payments, including all attorneys. To be partially exempt from these filing requirements, additional documentation is required to be retained with each year's data that is sufficient to support the exemptions (e.g. proof of corporation status, completed form W-9, etc.). In addition, there are no exemptions for attorney's paid in excess of $600. During the current year audit, we continued to note that the City did not prepare and file all required Form 1099- MISCs which could potentially lead to future IRS complications for not being in compliance with federal reporting requirements.

Recommendation: We recommend that you consider preparing Form 1099-MISCs for all nonexempt entities for payments made by the City. Further, we recommend that you should examine all your current year vendor payment files to determine if you have the necessary documentation to exempt you from the filing of these required forms. For all entities that are determined to be exempt, we recommend that you should solicit and obtain a completed and signed Form W-9 Request for Taxpayer Identification Number and Certification. For all non-responding entities, and those who confirm to you that they are not exempt, steps should be considered to obtain sworn affidavits from each entity affirming all amounts paid by the City were included in their respective federal tax returns. For all future payments, we recommend that steps should be implemented that require a signed Form W-9 in each vendor file as a minimum condition of payment.

Auditee Response: The City will take immediate steps to ensure compliance with all federal reporting requirements.

ML 2011-06: Updated OPEB Actuarial Report

The City's most recent actuarial valuation of its other post-employment benefit (OPEB) obligation(s) was conducted on October 1, 2009. This valuation was performed to determine annual expenses associated with providing OPEB benefits and the current funded status of the Plan. In the fiscal year ended 2011, there was a significant change in the City's number of employees due to the disbanding of the City Police Department in August 2011. Due to this significant change, we believe that the previous valuation is no longer materially accurate and the obligation liability is substantially overstated.

Recommendation: We recommend that the City obtain an updated Other Postemployment Benefits Actuarial Report, due to the recent significant changes to the number of City employees, in order to accurately determine the annual expenses associated with providing the OPEB benefits and the current unfunded status of the plan.

Auditee Response: The City will be taking the necessary steps to update the actuarial valuation for the upcoming year end.

CURRENT YEAR MATTERS

There were no additional current year matters noted.