

TOWN OF KENNETH CITY, FLORIDA
BASIC FINANCIAL STATEMENTS, SUPPLEMENTARY
INFORMATION AND REGULATORY REPORTS

Year Ended September 30, 2013

Crawford & Jones, CPA's

CERTIFIED PUBLIC ACCOUNTANTS

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TOWN OF KENNETH CITY, FLORIDA

Year Ended September 30, 2013

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Crawford & Jones

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CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS:
AMERICAN INSTITUTE OF CPAs
FLORIDA INSTITUTE OF CPAs

INDEPENDENT AUDITOR'S REPORT

March 18, 2014

Honorable Mayor and Town Council
Town of Kenneth City, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Kenneth City, Florida, (Town) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Town'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 Town'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 Town'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.

Opinion

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

Other Matters

Required Supplementary information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 2 through 6 and 24 through 31 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 assurance.

A handwritten signature in cursive script that reads "Crawford & Jones, CPA's".

Crawford and Jones, CPA's

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Town of Kenneth City, Florida's discussion and analysis is designed to (a) assist the reader in focusing on the financial issues, (b) provide an overview of the Town's financial activity, (c) identify changes in the Town's financial position, (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns for the fiscal year ended September 30, 2013.

FINANCIAL HIGHLIGHTS

*At the close of fiscal year 2013, the Town's assets exceeded its liabilities, resulting in net position of \$7,069,725. Of this amount, the unrestricted net assets totals to \$3,540,818 that can be used to meet the Town's ongoing obligations.

*At September 30, 2013 the Town's governmental activities fund balance reported an ending fund balance of \$4,526,297, an increase of \$344,748 in comparison with the prior year.

*There are no business-type activities for the Town.

*At September 30, 2013, unassigned fund balance for the General Fund was \$3,563,126 or 186.01 percent of total general fund expenditures.

*Governmental fund revenue increased by \$312,614 or 11.02 percent above the prior fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components:

- 1) government-wide financial statements
- 2) fund financial statements
- 3) notes to financial statements

This report also contains required supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements- The government-wide financial statements, which consist of the following two statements, are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the government's net assets changed during the fiscal year 2013. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the Government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the Town include general government, public safety, highway and streets, sanitation, cultural and recreation.

The Government-wide financial statements include only the Town. There were no component units identified.

The Government-wide financial statements can be found on pages 7-8 of this report.

Fund financial statements

The accounts of the Town 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, as appropriated. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are spent and the means by which spending activities are controlled.

The Town's funds are presented in separate fund financial statements. These funds are presented on a governmental fund financial statement.

Governmental funds

Governmental fund financial statements are prepared on the modified accrual basis using current financial resources measurement focus. Under modified accrual basis, revenues are recognized when they become measurable and available as net current assets. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's program.

The Town adopts an annual budget for all funds and a budgetary comparison statement has been provided for these funds to demonstrate budgetary compliance.

Notes to financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13-23 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This includes the general fund original budget and final budget in comparison to actual expenses.

Infrastructure assets

The Town has elected under GASB Statement 34 not to retroactively report infrastructure assets. The Town acquired no infrastructure assets during this current fiscal year. Historically, a government's largest group of assets (infrastructure-roads, bridges, sidewalk curbs, underground pipes unless associated with a utility, etc.) have not been reported or depreciated in the Town's financial statements. The statement requires that these assets be valued and recorded within the governmental columns of the Government-wide Statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$7,069,625 at the close of fiscal year ended September 30, 2013. The following table reflects the condensed Statement of Net Position:

	<u>2013</u>	<u>2012</u>
Current and Other Assets	\$4,578,919	\$4,363,734
Capital Assets (Net of Allowance)	<u>2,665,511</u>	<u>2,650,803</u>
Total Assets	<u>\$7,244,430</u>	<u>\$7,014,537</u>
Current and Other Liabilities	\$ 57,622	\$ 187,185
Long-Term Debt Outstanding	<u>117,083</u>	<u>115,083</u>
Total Liabilities	<u>\$ 174,705</u>	<u>\$ 302,268</u>
Total Net Position	<u>\$7,069,725</u>	<u>\$6,712,269</u>

For more detailed information, see Statement of Net Position on page 7.

The largest portion of the Town's net position (62.89 percent) reflects its investment in current and other assets net of related debt.

A portion of the Town's net position (37.11 percent) reflects its investment in capital assets (e.g., land, building and equipment). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town'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.

Statement of Activities

The following schedule summarizes the revenues and expenses for the current and prior fiscal year.

Town of Kenneth City, Florida
Statement of Activities
For the Year Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenues		
Program Revenues:		
Charges for Services	\$1,005,064	\$ 741,809
General Revenues:		
Taxes	2,077,017	2,042,278
Investment Earnings (Net)	18,915	27,395
Grants	32,446	6,345
Miscellaneous	<u>15,575</u>	<u>18,576</u>
Total Revenues	<u>3,149,017</u>	<u>2,836,403</u>
Expenses		
General Government	387,148	358,748
Public Safety	2,175,914	1,822,187
Highways and Streets	219,223	214,915
Parks and Recreation	5,182	5,293
Other	<u>4,094</u>	<u>4,670</u>
Total Expenses	<u>2,791,561</u>	<u>2,405,813</u>
Increase in Net Position	357,456	430,590
Net Position – Beginning	<u>6,712,269</u>	<u>6,281,679</u>
Net Position – Ending	<u>\$7,069,725</u>	<u>\$6,712,269</u>

Governmental Funds

The focus of the Town's governmental fund is to provide a detailed short-term view of the Town's general government operations. The information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's program. In particular, unreserved fund balance may serve as a useful measure of the Town's program. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of fiscal year 2013, the Town's governmental funds reported ending fund balances totaling \$4,526,297, an increase of \$344,748 in comparison with the prior year. There was a increase in revenue of 9.93 percent compared to the previous year. Expenditures also increased by .15 percent.

Unassigned fund balance is \$3,563,126 and is available for spending at the Town's discretion.

The remainder of the fund balance is not available for spending and has been committed to forfeiture fund for police department's use and Red Light Camera Fund and Capital Improvement Fund uses.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the original budget for the current fiscal year.

On June 12, 2013, the Town Council passed and adopted a resolution eliminating interfund debt between the General Fund and the Capital Projects Fund. This elimination is reported in these financial statements as a transfer between the two funds of \$2,214,203

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets as of September 30, 2013 totaled \$2,623,428, net of accumulated depreciation and related debt. This investment in capital assets includes land, building improvements other than building, capital leases, and equipment. The total expenditures for capital assets for the current fiscal year were \$129,794 for governmental activities.

Major increases in capital assets during the current fiscal year included the following:

- Purchase of equipment for \$40,110
- Purchase of building improvements and infrastructure for \$89,684

Town of Kenneth City, Florida
Schedule of Capital Assets (Net of Depreciation)
As of September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Land	\$ 250,000	\$ 250,000
Buildings & Infrastructure	2,274,366	2,261,211
Equipment	<u>141,445</u>	<u>139,592</u>
Totals	<u>\$2,665,511</u>	<u>\$2,650,803</u>

Additional information on the Town's capital assets can be found on page 21 of this report.

Long-term Debt

At the end of fiscal year 2013, the Town reported \$80,000 in Accrued Compensated Absences and Due to Other Governments of \$37,083 as its long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

During the current fiscal year, the property taxable values decreased compared to the prior year.

An estimated increase in salaries and wages based on the annual consumer price index for the southern region.

REQUEST FOR INFORMATION

This financial report is designed to present users with a general overview of the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town's Finance Officer at 6000 54th Avenue North, Kenneth City, Florida 33709.

TOWN OF KENNETH CITY, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

ASSETS:

Current Assets:

Cash and Cash Equivalents	\$ 2,887,573
Investments	1,536,792
Receivables	144,657
Inventory of Gasoline	9,897
Total Current Assets	<u>4,578,919</u>

Noncurrent Assets:

Capital Assets:	
Non-Depreciable	250,000
Depreciable, Net	<u>2,415,511</u>
Total Capital Assets	<u>2,665,511</u>

Total Noncurrent Assets	<u>2,665,511</u>
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Total Assets	<u><u>\$ 7,244,430</u></u>
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LIABILITIES:

Current Liabilities:

Accounts Payable	\$ 17,264
Accrued Payroll	22,794
Other Liabilities	12,564
Current Portion Due To Other Governments	5,000
Total Current Liabilities	<u>57,622</u>

Noncurrent Liabilities:

Accrued Compensated Absences	80,000
Due To Other Governments	<u>37,083</u>
Total Noncurrent Liabilities	<u>117,083</u>

Total Liabilities	<u>174,705</u>
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NET POSITION:

Investment in Capital Assets (Net of Depreciation and Related Debt)	2,623,428
Restricted	941,479
Unrestricted	<u>3,504,818</u>

Total Net Position	<u>7,069,725</u>
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Total Liabilities and Net Position	<u><u>\$ 7,244,430</u></u>
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The notes to the financial statements are an integral part of this statement.

Net (Expense)
Revenue and
Changes in Net Position

General Revenues:	
Taxes:	
Property Taxes	507,400
Intergovernmental	252,488
Infrastructure Tax	360,783
Sales Tax	273,078
Franchise tax	403,066
Utility Tax	280,202
Total Taxes	2,077,017
Interest Income	15,941
Unrealized Gain on Investments	2,974
Miscellaneous	15,575
Total General Revenues	2,111,507
Change in Net Assets	357,456
Net Assets-Beginning of Year	6,712,269
Net Assets-End of Year	\$ 7,069,725

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TOWN OF KENNETH CITY, FLORIDA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Red Light Camera Fund</u>	<u>Total Governmental Funds</u>
<u>Assets:</u>				
Cash & Cash Equivalents	\$ 1,997,674	\$ 249,429	\$ 640,470	\$ 2,887,573
Investments	1,536,792	-	-	1,536,792
Receivables	75,813	31,829	37,015	144,657
Inventory of Gasoline	9,897	-	-	9,897
Total Assets	<u>\$ 3,620,176</u>	<u>\$ 281,258</u>	<u>\$ 677,485</u>	<u>\$ 4,578,919</u>
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$ -	\$ -	\$ 17,264	\$ 17,264
Accrued Payroll	22,794	-	-	22,794
Other Liabilities	12,564	-	-	12,564
Total Liabilities	<u>35,358</u>	<u>-</u>	<u>17,264</u>	<u>52,622</u>
<u>Fund Balances:</u>				
Nonspendable:				
Inventory	9,897	-	-	9,897
Restricted	-	281,258	660,221	941,479
Committed:				-
Police Training	11,795	-	-	11,795
Unassigned	3,563,126	-	-	3,563,126
Total Fund Balances	<u>3,584,818</u>	<u>281,258</u>	<u>660,221</u>	<u>4,526,297</u>
Total Liabilities and Fund Balances	<u>\$ 3,620,176</u>	<u>\$ 281,258</u>	<u>\$ 677,485</u>	<u>\$ 4,578,919</u>

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

TOWN OF KENNETH CITY, FLORIDA
RECONCILIATION OF THE BALANCE SHEET- GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

Total Fund Balances - Total Governmental Funds	<u>\$ 4,526,297</u>
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Amounts reported for governmental activities in the statement of net assets were different because:

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. The capital assets were adjusted as follows:

Non-depreciable capital assets	250,000
Depreciable capital assets, net	<u>2,415,511</u>
Total capital assets	<u>2,665,511</u>

Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet. The long-term liabilities were adjusted as follows:

Due to other governments	(42,083)
Accrued compensated absences	<u>(80,000)</u>
Total long-term liabilities	<u>(122,083)</u>

Net Position of Governmental Activities	<u><u>\$ 7,069,725</u></u>
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The notes to the financial statements are an integral part of this statement.

TOWN OF KENNETH CITY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	General Fund	Capital Projects Fund	Red Light Camera Fund	Total Governmental Funds
<u>Revenues:</u>				
Taxes	\$ 787,602	\$ -	\$ -	\$ 787,602
Intergovernmental Revenue	525,566	360,783	-	886,349
Franchise Fees	403,066	-	-	403,066
Fines and Forfeitures	25,942	-	870,347	896,289
Licenses and Permits	108,775	-	-	108,775
Grant	7,446	25,000	-	32,446
Interest Income	15,941	-	-	15,941
Unrealized Gain on Investments	2,974	-	-	2,974
Miscellaneous Revenues	15,575	-	-	15,575
Total Revenues	<u>1,892,887</u>	<u>385,783</u>	<u>870,347</u>	<u>3,149,017</u>
<u>Expenditures:</u>				
<u>Current:</u>				
General Government	310,364	5,000	5,745	321,109
Public Safety	1,378,284	-	746,583	2,124,867
Highways and Streets	207,161	12,062	-	219,223
Parks and Recreation	5,182	-	-	5,182
Miscellaneous	4,094	-	-	4,094
<u>Capital Outlay:</u>				
General Government	1,900	108,911	-	110,811
Public Safety	8,602	10,381	-	18,983
Total Expenditures	<u>1,915,587</u>	<u>136,354</u>	<u>752,328</u>	<u>2,804,269</u>
Revenues Over/(Under) Expenditures	<u>(22,700)</u>	<u>249,429</u>	<u>118,019</u>	<u>344,748</u>
<u>Other Financing Sources:</u>				
Transfers In	2,214,203	-	542,202	2,756,405
Transfers Out	<u>(542,202)</u>	<u>(2,214,203)</u>	<u>-</u>	<u>(2,756,405)</u>
Total Other Financing Sources	<u>1,672,001</u>	<u>(2,214,203)</u>	<u>542,202</u>	<u>-</u>
Net Change	1,649,301	(1,964,774)	660,221	344,748
Fund Balance - Beginning of Year	<u>1,935,517</u>	<u>2,246,032</u>	<u>-</u>	<u>4,181,549</u>
Fund Balance - End of Year	<u>\$ 3,584,818</u>	<u>\$ 281,258</u>	<u>\$ 660,221</u>	<u>\$ 4,526,297</u>

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

TOWN OF KENNETH CITY, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Net Change in Fund Balance - Total Governmental Funds	\$ 344,748
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Amount reported for governmental activities in the Statement of Activities and Changes in Net Assets were different because:

Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded as expenditures in the current period.	134,794
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Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in governmental funds.	(115,086)
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Long-term compensated absences were reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, the change in long-term compensated absences were not reported as expenditures in governmental funds.	<u>(7,000)</u>
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Change in Net Position of Governmental Activities	<u>\$ 357,456</u>
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The notes to the financial statements are an integral part of this statement.

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

1. Summary of Significant Accounting Policies

The Town of Kenneth City, Florida, (Town) maintains its accounting records in accordance with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below:

(A) Financial Reporting Entity – The Town of Kenneth City was incorporated on May 9, 1957 under the laws of Florida Section 2, Chapter 57-1462. The Town operates under a Council-Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), highway and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, general administrative services.

Governmental accounting standards require that this financial statement present the Town of Kenneth City (the primary government) and its component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting both of the following criteria: the primary government is accountable for the potential component unit (i.e., the primary government appoints the voting majority of its board) and the primary government is able to impose its will upon the potential component unit, or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government. Based upon the application of these criteria, no component units were identified.

(B) Basis of Accounting and Measurement Focus – Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Town are property tax, sales tax, special assessments, intergovernmental revenues, other taxes and interest revenue. Fines, forfeitures, licenses and permits are not susceptible to accrual because they are usually not measurable until received in cash. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the "measurable" and available" criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the deferred revenue is removed from the combined balance sheet and revenue is recognized.

Reconciliation of the Fund Financial Statements to the Government-wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

The accounts of the Town 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. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements - The Town's government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental activities for the Town.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Town's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

1. Summary of Significant Accounting Policies Continued

Certain types of transactions are reported as program revenues for the Town:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Governmental Fund Financial Statements - Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance for all governmental funds. An accompanying schedule is presented to reconcile and explain the differences in fund balances as presented in these statements to the net assets presented in the government-wide financial statements. The Town has presented all funds.

All governmental funds are accounted for on a spending or current economic resources measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the fund balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The Town reports the following governmental funds:

General Fund – The General Fund is the Town's primary operating fund. It accounts for all economic resources of the general government, except those required to be accounted for in another fund.

Capital Projects Fund – The Capital Projects Fund is used to account for the economic resources to be used for the acquisition or construction of major capital facilities and improvement projects.

Red Light Camera Fund – The Red Light Camera Fund is used to report the revenue generated by the use of cameras as traffic detectors and any expenses associated therewith as defined by Town Council. Net revenues of the fund are to be used for Town revitalization.

(C) Accumulated Compensated Absences - It is the Town's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick leave, which will be paid to employees at some future date.

Employees separating or retiring from service with the Town are paid a portion of accumulated vacation and sick time, depending on years of service attained.

In the government-wide financial statements, compensated absences are recorded as incurred and the related expenses and liabilities are reported.

In the fund financial statements, compensated absences are recorded as expenditures in the years paid, as it is the Town's policy to liquidate any unpaid compensated absences at September 30 from future resources, rather than currently available financial resources.

(D) Inventory - Inventory is valued at FIFO cost, which approximates market value. The cost of inventory is recorded as expenditures/expenses when consumed rather than when purchased.

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

1. Summary of Significant Accounting Policies Continued

(E) Interfund Transactions – Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers and are netted as part of the reconciliation to the government-wide presentation.

(F) Finance-Related Legal and Contractual Provisions – The Town is not aware of any violation nor has been notified of any violation of finance-related legal and contractual provisions.

(G) Fund Equity – The Town implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definition, for the fiscal year ended September 30, 2011. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. Each classification of fund balance is based on the relative strength of the constraints that control how specific amounts can be spent. The order of spending would follow the same hierarchy; that is, if an amount for a specific purpose is categorized as restricted or committed, then spending for such purpose would come from that classification before any lower classification, and could not come from amounts categorized at a higher level.

Nonspendable fund balance represents amounts that cannot be spent, such as inventories, prepaid amounts, and amounts that are legally or contractually required to remain intact.

Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed fund balance includes amounts that can be used only for the specific purposes determined by formal vote of the Town Council.

Assigned fund balance includes amounts that are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed because they are supported by management's intent rather than a formal action of the Town Council.

Unassigned fund balance can only be found in the general fund; it represents the residual amount of fund balance not contained in the other classifications.

Net Position

In compliance with GASB Statement 63, the government-wide financial statements utilize a net position presentation. Net position is presented in three components: net investment in capital assets, restricted, and unrestricted.

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction, or improvement of those assets. This component does not include the portion of debt attributable to the unspent proceeds.

Restricted - This component consists of net position that have constraints place on them either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provision or enabling legislation.

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

1. Summary of Significant Accounting Policies Continued

Unrestricted – This component consists of net position that does not meet the definition of “net investment in capital assets” or “restricted”.

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

The Town of Kenneth City does not have a formally adopted stabilization arrangement or minimum fund balance policy.

(H) Use of Estimates – The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(I) Post - retirement Health and Life Insurance Benefits – The Town does not provide any post - retirement health and life insurance benefits.

(J) Capital Assets – Capital assets, which includes land, buildings, improvements, furniture, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their fair market value on the date of donation. Town policy has set the capitalization threshold for reporting capital assets at \$1,000.

Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Building and structures	40 years
Equipment	5 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the Town has elected not to retroactively report infrastructure in its basic financial statements. There were no infrastructure expenditures to be capitalized in the current year.

The Town defines infrastructure as the basic physical assets that allow the Town to function. It includes the street system, park and recreation lands and improvements system; storm water conveyance and drainage system, buildings combined with site amenities such as parking and landscaping areas used by the Town in the conduct of its business.

2. Pooled Cash, Cash Equivalents and Investments

The Town maintains pooled cash accounts that contain the cash of all funds. The Town's policy requires that all cash deposits and certificates of deposit are first covered by federal depository insurance and, for the amount in excess of such federal depository insurance, by the State of Florida's Security for Public Deposits Act as defined by Florida Statutes Section 280.02. Provisions of the Act require that public deposits may only be made at qualified public depositories. The Act requires each qualified public depository to deposit with the State Treasurer eligible collateral equal to or in excess of the required collateral as determined by the provisions of the Act. In the event of a failure by a qualified public depository, losses in excess of federal depository insurance and proceeds from the sale of the securities pledged by the defaulting depository are assessed against the other qualified public depositories of the same type as the depository in default.

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investment with original maturities of three months or less from the date of acquisitions. Investments are reported at fair value.

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

2. Pooled Cash, Cash Equivalents and Investments Continued

The Town considers The Local Government Trust Fund (SBA-LGIP) a cash equivalent. The Fund is an investment pool administered by the Florida State Board of Administration which is, a three member board made up of the State elected officials of Governor, Treasurer and Comptroller. This Board is empowered by Florida law to invest funds at the request of local governments. Investments held in the Fund consist of short-term federal agency obligations, treasury bills, repurchase agreements, floating/variable rate notes, commercial paper, and certificates of deposit. Investment income is recognized as earned and is allocated to participants of the Fund based on their equity participation.

Cash and Cash Equivalents - Consists of the following:

	<u>Fair Value</u>
Cash on Hand	\$ 300
Cash in Bank – Regular	596,352
Cash in Bank – Payroll	1,000
Cash in Money Market	<u>2,289,921</u>
	<u>\$2,887,573</u>

	<u>Fair Value</u>
<u>Investments</u>	
Certificates of Deposit	\$1,522,995
SBA-Fund B	<u>13,797</u>
	<u>\$1,536,792</u>

			<u>Fair Value</u>
<u>Certificates of Deposit:</u>	<u>Term</u>	<u>Rate</u>	<u>Maturity Date</u>
	1 Yr	.55	05/02/14
	1 Yr	.65	03/23/14
	1 Yr	.50	08/05/14
			<u>\$ 504,280</u>
			510,372
			<u>508,343</u>
			<u>\$1,522,995</u>

The Town has investments with the State Board of Administration Fund B Surplus Trust Fund (SBA-Fund B). The Town's investment in the Fund B Surplus Trust Fund does not meet the requirements of a SEC 2 a 7- like fund and therefore is accounted for as a fluctuating net asset value pool, with a fair value factor of 1.1326 at September 30, 2013. The Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the State Board of Administration, are effected by transferring eligible cash or securities to the Local Government Surplus Funds Trust Fund, consistent with the pro rata allocation of Pool shareholders of record at the creation of Fund B. One hundred percent of such distributions from Fund B are available as a liquid balance within the Local Government Surplus Funds Trust Fund.

As of September 30, 2013, the Town had \$12,182 invested in fund B with a fair value of \$13,797. The weighted average life (based on expected future cash flows) of Fund B was 4.04 years. Because Fund B consists of restricted or defaulted securities, there is considerable uncertainty regarding the weighted average life.

Investments may be subject to the following types of risk:

- (1) Credit Risk – Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the Town's investing activities are managed by the Town's Financial Officer. Investing is performed in accordance with investment policies adopted by the Town council complying with State Statutes and the Town Charter. (Investment policies are stated below.)

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

2. Deposits and Investments Continued

- (2) Interest Rate Risk - Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.
- (3) Concentration of Credit Risk - Concentration of Credit Risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer.
- (4) Custodial Credit Risk - For investments, Custodial Credit Risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities in the possession of an outside party.

The Town believes that the investment policies have been applied in such a way as to minimize the risks described above.

Investment Policy - The Town's investment policy is to maintain funds in investments which yield the highest possible efficiency and return within the limitations established by Florida Statutes, Chapter 218.415. Provisions of those statutes authorize the Town to invest in:

- (1) Florida State Board of Administration Local Government Pooled Investment Fund.
- (2) Bonds, notes or other obligations of the United States or for which the credit of the United States is pledged for the payment thereof.
- (3) Interest-bearing time deposits, savings accounts or collective investment funds in banks or savings and loan associations organized under the laws of the United States.
- (4) Obligations of the federal farm credit banks and Federal Home Loan Mortgage Corporation.
- (5) Obligations of the Federal National Mortgage Association and the Government National Mortgage Association.

3. Receivables

Accounts receivable at September 30, 2013 consist of receivables in all Funds. Accounts receivable are stated at net realizable value. The Town considers the receivables fully collectible and has not provided an allowance for doubtful accounts.

4. Advance Revenue Collections

Monies collected in advance for licenses are recorded as revenue in the year for which the related licenses are valid. At September 30, 2013, there were no advanced revenue collections relating to licenses.

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

5. Retirement Plans

Defined Contribution Plan - Non Union

The Town provides pension benefits for all of its full-time non-union employees through a defined contribution non-contributory single employer plan administered by Transamerica Insurance Company. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate if they have attained age 20.5 and six months of service as of the beginning of the plan year, April 25.

The Town contributes an amount equal to 12% of the employee's base salary each month. The Town's contributions for each employee (and interest allocated to the employee's account) begin vesting with 20% at three years and 20% for each year thereafter and are fully vested after seven years of continuous service. Town contributions for, and interest forfeited by, employees who leave employment before three years of service are used to reduce the Town's current-period contribution requirement.

For the year ended September 30, 2013, contributions required and paid were \$18,011.

The Town participates in a cost-sharing multiple-employer plan (Florida Retirement System).

Defined Benefit Plan-Union

The Town contributes to the Florida Retirement System (FRS), a cost-sharing multiple-employer defined benefit pension plan administered by the FSBA, Division of Retirement. FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Chapter 121 of Florida Statutes assigns the authority to establish and amend benefit provisions to the State of Florida Department of Administration. The Florida Division of Retirement issues a publicly available financial report that includes financial statements and required supplementary information for FRS. That report may be obtained by writing to the, Division of Retirement, P.O. Box 9000, Tallahassee, FL 32315-9000 or by contacting the Research, Education and Policy Section by email REP@dms.myflorida.com or by calling (888) 377-7687.

Funding Policy. The FRS requires a 3% contribution from covered members effective July 1, 2012. The Town is required by State Statute to contribute, on a monthly basis, an actuarially determined rate.

Retirement benefits and the Town's contribution rates for the special risk category, which includes all the Town's participants which are covered by this plan (police officers), are summarized as follows:

<u>Retirement Benefit</u>	<u>Vesting</u>	<u>Town Contribution Rate</u> <u>Actuarially Determined</u>
1.6% times years of service times average compensation (5 highest years), retirement at age 55 or 25 years (60 or 30 for hires after July, 2012) of service at any age	After 6 years of credible	17.90% of covered payroll 10/01/12 - 07/01/13 22.06% of covered payroll 07/01/13 - 09/30/13

The Town's contributions include 1.26% for a post - retirement's health insurance subsidy. FRS also provides disability and survivor's benefits. Benefits are established by Florida State Statute.

The contribution requirements of employers are established and may be amended by the Division of Retirement. The Town's contributions and its required contributions for the year ended September 30, 2013.

<u>Year Ended</u>	<u>Required Contribution</u>	<u>Contributed</u>	<u>Percentage</u>
9/30/13	\$114,909	\$114,909	100.0%

Employees paid \$18,114 toward the pension.

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

6. Property Taxes

Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector.

The tax levy of the Town is established by the Town Council prior to October 1 of each year and the Pinellas County Property Appraiser incorporates the Town's millages into the total tax levy, which includes the Pinellas County School Board tax requirements. The millage rate assessed by the Town was 4.7592 for the fiscal year beginning October 1, 2012 and ending September 30, 2013.

All property is reassessed according to its fair market value January 1 of each year. Each assessment roll is submitted to the Executive Director of the State Department of Revenue for review to determine if the rolls meet all of the appropriate requirements of State Statutes.

All taxes are due and payable on November 1 of each year or as soon thereafter as the assessment roll is certified and delivered to the Tax Collector. All unpaid taxes become delinquent on April 1 following the year in which they are assessed. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January and 1% in the month of February. The taxes paid in March are without discount.

Delinquent taxes on real property bear interest at 18% per year. On or prior to June 1 following the tax year, certificates are sold for all delinquent taxes on real property. After sale, tax certificates bear interest at 18% per year or at any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years.

Delinquent taxes on personal property bear interest at 18% per year until the tax is satisfied either by seizure and sale of the property or by the five-year statute of limitations.

Because of the Pinellas County Tax Collector's office efficient system for selling tax certificates and remitting the proceeds to the Town, any delinquent or uncollected property taxes at year end are immaterial. The Town's tax calendar is as follows:

Valuation Date:	January 1
Levy Date:	November 1
Due Date:	March 31, succeeding year
Lien Date:	April 1, succeeding year

7. Post-employment Benefits

Other than the post-employment benefits described in Note 5, the Town does not provide any post-retirement health care benefits. Post-employment health care benefits are made available to the Town's terminated employees in accordance with the consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). Under COBRA the Town is required to offer an election to deceased or terminated participants, their spouses or dependents to continue coverage in the health plan provided by the Town. The Town charges the participant the applicable premium.

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

8. Capital Assets

Capital assets for the year ended September 30, 2013, consisted of the following:

	Balance 09/30/12	Additions/ Transfers in	Deletions/ Transfers out	Balance 9/30/13
<u>Non Depreciable Assets:</u>				
Land	\$ 250,000	\$ -	\$ -	\$ 250,000
Total Non Depreciable Assets	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>250,000</u>
<u>Depreciable Assets:</u>				
Buildings & Infrastructure				
Infrastructure	1,878,726	79,303	-	1,958,029
58th Street Building & Improvement	424,537	10,381	-	434,918
Community Center	110,807	-	-	110,807
Garage	50,000	-	-	50,000
Fire Station	132,583	-	-	132,583
54th Avenue Town Hall	<u>400,232</u>	<u>-</u>	<u>-</u>	<u>400,232</u>
Total Buildings & Infrastructure	<u>2,996,885</u>	<u>89,684</u>	<u>-</u>	<u>3,086,569</u>
<u>Equipment</u>				
General	133,719	1,900	-	135,619
Police Dept.	739,197	8,602	-	747,799
Public Works	206,473	-	-	206,473
Other	<u>181,852</u>	<u>29,608</u>	<u>-</u>	<u>211,460</u>
Total Equipment	<u>1,261,241</u>	<u>40,110</u>	<u>-</u>	<u>1,301,351</u>
Total Depreciable Assets	4,258,126	129,794	-	4,387,920
Accumulated Depreciation	<u>(1,857,323)</u>	<u>(115,086)</u>	<u>-</u>	<u>1,972,409</u>
Total Depreciable Assets Net	<u>2,400,803</u>	<u>14,708</u>	<u>-</u>	<u>2,415,511</u>
Total Capital Assets Net	<u>\$ 2,650,803</u>	<u>\$ 14,708</u>	<u>\$ -</u>	<u>\$2,665,511</u>

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

8. Capital Assets Continued

Details of accumulated depreciation activity for year ending September 30, 2013 are as follows:

	<u>Balance</u> <u>2012</u>	<u>Additions/</u> <u>Transfers In</u>	<u>Deletions/</u> <u>Transfers Out</u>	<u>Balance</u> <u>2013</u>
Buildings and Improvements	\$ 515,289	\$ 28,171	\$ -	\$ 543,460
Infrastructure	220,385	48,358	-	268,743
Equipment	<u>1,121,649</u>	<u>38,557</u>	<u>-</u>	<u>1,160,206</u>
	<u>\$1,857,323</u>	<u>\$115,086</u>	<u>\$ -</u>	<u>\$1,972,409</u>

Depreciation was charged to governmental activities as follows:

General Government	\$ 70,269
Public Safety	<u>44,817</u>
	<u>\$115,086</u>

9. Risk Management

The Town is exposed to various risks of loss related to torts, theft of, damage to, and distribution of assets, errors and omissions, injuries to employees, and natural disasters. In an effort to reduce the rising costs of commercial insurance, the Town purchases its insurance coverage from Public Risk Management of Florida (PRMF).

The PRMF is a public entity risk pool currently operating as a common risk management and insurance program for local municipalities. The Town pays an annual premium to the Fund for property, liability, workers' compensation and all other risks of loss including building and contents, employee and police bonds, mobile property, flood and employee accident insurance. The Fund, through its various Trusts, establishes premium rates based on members' experience and provides the insurance coverage for 32 Florida municipalities. Each Trust carries its own reinsurance coverage which operates through an internal process of recovery for large claims on behalf of each individual Trust. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Town continues to carry commercial insurance for employee health and accident insurance. Effective November 1, 1999, the Town established a Cafeteria Plan within the meaning of Section 125 of the Internal Revenue Code of 1954 to provide employees of the Town with a choice of receiving certain tax-free welfare benefits.

In the opinion of the Town's management and legal counsel, legal claims and litigation are not anticipated to have a material impact on the financial position of the Town.

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

10. Commitments

Fire Protection Services

In February 2010, the Town entered into a contract with the City of Pinellas Park, Florida to receive fire protection services commencing February 26, 2010 and continuing for a period of 10 years. Pinellas Park will be compensated \$212,289 the first year with the rate rising each year to \$239,562 in the fifth year. At the end of 5 years the amount will be renegotiated. The amount paid for the year ended September 30, 2013 was \$229,557.

Pursuant to the agreement during the year ended September 30, 2011, Pinellas Park refurbished the Town's existing fire station at a cost of \$60,000. The Town agreed to repay Pinellas Park at the rate of \$5,000 per year. The Statement of Net Position includes a \$60,000 capital asset and a liability, "Due to Other Governments" of \$42,083, for the unpaid portion of the obligation.

Building Department Services

The Town has contracted with the City of Pinellas Park to provide building department services. The expenditure for these services for the year ended September 30, 2013 was \$73,086.

Maintenance of Traffic Control Signals and Devices

The Town has contracted with the City of St. Petersburg to provide maintenance of traffic control signals and devices. The expenditure for this service for the year ended September 30, 2013 was \$19,701.

Law Enforcement Services

The Town has contracted with the Pinellas County Sheriff's Department to provide crime scene services, latent print services, property and evidence processing and storage and computer aided dispatch. The expenditure for these services for the year ended September 30, 2013 was \$33,923.

11. Compensated Absences

Accrued compensated absences are as follows:

Balance at September 30, 2012	\$ 73,000
Net Change	(7,000)
Balance at September 30, 2013	<u>\$ 80,000</u>

Changes in compensated absences are reported as expenses in the Government-wide Statement of Activities.

12. Red Light Camera Fund

On September 12, 2012, the Town Council established a fund entitled "Red Light Camera Fund". The fund consists of all funds generated from the utilization of cameras as traffic infraction detectors and any expenses associated therewith as defined by Town Council. From October 1, 2010 forward, the funds so generated shall be committed to the fund for the purposes and projects of the revitalization of commercial corridors and to enhancing and beautifying residential areas. The fund began operating as such on October 1, 2012. The beginning fund balance as defined above was \$542,202. This fund balance was transferred to the newly created fund during the fiscal year ended September 30, 2013.

13. Forgiveness of Debt

On June 12, 2013, the Town Council passed and adopted a resolution eliminating interfund debt between the General Fund and the Capital Projects Fund. This elimination is reported in these financial statements as a transfer between the two funds of \$2,214,203.

TOWN OF KENNETH CITY, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2013

1. **BUDGETARY INFORMATION**

Through the budget, the Town Council sets the direction of the Town, allocates its resources and establishes its priorities. The Annual Budget assures the efficient and effective use of the Town's economic resources, as well as establishing that the highest priority objectives are accomplished.

The Annual Budget serves from October 1st to September 30th, and is a vehicle that accurately and openly communicates these priorities to the community, businesses, vendors, employees and other public agencies. Additionally, it establishes the foundation of effective financial planning by providing resource planning, performance measures and controls that permit the evaluation and adjustment of the Town's performance.

The Town follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- 1) In accordance with the Town Charter, prior to September 1st, the Mayor submits to the Town Council a proposed operating budget for the fiscal year commencing the following October 1st. The operating budget includes proposed expenditures and the means of financing them for the upcoming year for the general and special revenue funds. The budget is compared to budgetary basis expenditures, whereby encumbrances are treated as expenditures. The Town Charter requires that the budget be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the department head/function level.
- 2) Public hearings are conducted to obtain taxpayer comment.
- 3) Prior to September 30th, the budget is legally enacted through passage of resolution.
- 4) Formal budgetary integration is employed as a management control device during the year. The Town Council reviews the monthly financial reports and compares budgetary data with actual to control any variance from the approved budget.
- 5) The Town Council approves, by resolution, total budget appropriations only. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis (General Government, Public Safety, etc).
- 6) Unused appropriations for all of the above annually budgeted funds lapse at the end of the year.
- 7) There were no budget revisions during the year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General and Special Revenue Funds. Unexpended and unencumbered appropriations of these governmental funds automatically lapse at the end of the fiscal year. Encumbrances outstanding at year-end are reported as a reservation of fund balances.

1. BUDGETARY INFORMATION, Continued

The following are the budget comparison schedules for General Fund and all major special revenue funds.

Budget Comparison Schedule, General Fund For the Year Ended September 30, 2013

	Original/Final Budget	Actual	Budget Variance - Favorable (Unfavorable)
Fund Balance - Beginning of Year	\$ 1,935,517	\$ 1,935,517	\$ -
Resources (Inflows):			
Taxes	757,153	787,602	30,449
Intergovernmental	515,702	525,566	9,864
Franchise Fees	428,500	403,066	(25,434)
Fines and Forfeitures	20,000	25,942	5,942
Licenses and Permits	15,300	108,775	93,475
Interest Income	25,000	15,941	(9,059)
Unrealized Gain on Investment	-	2,974	2,974
Miscellaneous Revenue	4,100	15,575	11,475
Grants	3,500	7,446	3,946
Amount Available for Appropriations	1,769,255	1,892,887	123,632
Charges to Appropriations (Outflows):			
Current:			
General Government	314,675	310,364	4,311
Public Safety	1,423,880	1,378,284	45,596
Highways and Streets	227,313	207,161	20,152
Parks and Recreation	12,620	5,182	7,438
Miscellaneous	30,200	4,094	26,106
Capital Outlay	-	10,502	(10,502)
Total Charges to Appropriations	2,008,688	1,915,587	93,101
Resources Over (Under) Charges To Appropriations	(239,433)	(22,700)	216,733
Other Financing Sources:			
Transfers In	239,433	1,672,001	1,432,568
Change in Fund Balance	-	1,649,301	1,649,301
Fund Balance - End of Year	\$ 1,696,084	\$ 1,912,817	\$ 216,733

1. BUDGETARY INFORMATION Continued

Budget Comparison Schedule, Capital Projects Fund
For the Year Ended September 30, 2012

	Original/Final Budget	Actual	Budget Variance - Favorable (Unfavorable)
Fund Balance - Beginning of Year	<u>\$ 1,970,544</u>	<u>\$ 1,970,544</u>	<u>\$ -</u>
Resources (Inflows):			
Intergovernmental	<u>448,353</u>	<u>400,121</u>	<u>(48,232)</u>
Amount Available for Appropriations	<u>448,353</u>	<u>400,121</u>	<u>(48,232)</u>
Charges to Appropriations (Outflows):			
Capital Outlay	1,075,000	119,734	955,266
Other	<u>-</u>	<u>4,899</u>	<u>(4,899)</u>
Total Charges to Appropriations	<u>1,075,000</u>	<u>124,633</u>	<u>950,367</u>
Resources Over (Under) Charges To Appropriations	<u>(626,647)</u>	<u>275,488</u>	<u>902,135</u>
Fund Balance - End of Year	<u>\$ 1,343,897</u>	<u>\$ 2,246,032</u>	<u>\$ 902,135</u>

1. BUDGETARY INFORMATION, Continued

Budget Comparison Schedule, Red Light Camera Fund
For the Year Ended September 30, 2013

	Original/Final Budget	Actual	Budget Variance - Favorable (Unfavorable)
Fund Balance - Beginning of Year	\$ -	\$ -	\$ -
Resources (Inflows):			
Fines & Forefeiture	314,920	870,347	555,427
Amount Available for Appropriations	314,920	870,347	555,427
Charges to Appropriations (Outflows):			
Public Safety	-	746,583	(746,583)
Other	314,920	5,745	309,175
Total Charges to Appropriations	314,920	752,328	(437,408)
Resources Over (Under) Charges To Appropriations	314,920	118,019	118,019
Other Financing Sources:			
Transfers In:	-	542,202	542,202
Change in Fund Balance	-	660,221	660,221
Fund Balance - End of Year	\$ 314,920	\$ 660,221	\$ 660,221

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

March 18, 2014

Honorable Mayor and Town Council
Town of Kenneth City, 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 the Town of Kenneth City, Florida as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Kenneth City, Florida's basic financial statements and have issued our report thereon dated March 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements we considered the Town of Kenneth 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 Town of Kenneth City, Florida's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Kenneth 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 the 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. 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.

Compliance and Other Matters

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

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.

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MANAGEMENT LETTER

March 18, 2014

Honorable Mayor and Town Council
Town of Kenneth City, Florida

We have audited the financial statements of the Town of Kenneth City, Florida as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated March 18, 2014.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; 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 Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local government 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:

1. 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 significant findings and recommendations made in the preceding annual financial audit report. There were no findings and recommendations made in the preceding annual financial audit report.
2. Section 10.554 (1) (i) 2., Rules of the Auditor General, requires our audit to include a review of the provisions of Florida Statutes Section 218.415, regarding investment of public funds. In connection with our audit, we determined that the City's investment policy complied with Florida Statutes Section 218.145.
3. Section 10.554 (1) (i) 3., Rules of the Auditor General, requires that we address in the management letter recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.
4. Section 10.554 (1) (i) 4., Rules of the Auditor General requires that we address noncompliance with provisions of contract 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 which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

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5. 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 met. In connection with our audit, we determined that the Kenneth City, Florida did not meet any of the conditions described by Section 218.503(1), Florida Statutes.
6. Section 10.554 (1) (i) 6 b., Rules of the Auditor General, requires that we determine whether the annual financial report for the Kenneth City, Florida for the fiscal year ended September 30, 2012, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2012. In connection with our audit, we determined that these two reports were in agreement.
7. Pursuant to Section 10.554 (1) (i) 6. c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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

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