

TOWN OF MEDLEY, FLORIDA
FINANCIAL SECTION, REQUIRED SUPPLEMENTARY
INFORMATION, COMBINING FUND STATEMENTS,
AND SUPPLEMENTARY FINANCIAL REPORTS
COMPLIANCE SECTION
Year Ended September 30, 2012

TOWN OF MEDLEY, FLORIDA

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TOWN OF MEDLEY, FLORIDA

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Independent Auditors' Report

Honorable Mayor and Town Council
Town of Medley, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Medley, Florida (the "Town"), as of and for the year ended September 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. We have also audited each fiduciary fund type of the Town as of and for the year ended September 30, 2012, as displayed in the Town's basic financial statements. These financial statements are the responsibility of the Town's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, as well as each fiduciary fund type of the Town, as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2013, on our consideration of the Town of Medley, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information and the defined benefit pension information on pages 3 through 13 and 49 through 51 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.

Honorable Mayor and Town Council
Town of Medley, Florida

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

Aurett Warmus Durkee

Orlando, Florida
June 17, 2013

TOWN OF MEDLEY, FLORIDA

Management's Discussion and Analysis Year Ended September 30, 2012

As management of the Town of Medley, Florida (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended September 30, 2012.

This discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Town's financial activity, (c) identify changes in the Town's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns. The information contained within this section should be considered only a part of a greater whole.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$177,222,292 (*net assets*). Of this amount, \$20,207,480 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to residents and creditors.
- During the fiscal year, the Town's total net assets increased by \$3,629,843 or by approximately 2.1%. This is comprised of an increase of \$2,376,491 in governmental activities and an increase of \$1,253,352 in business-type activities.
- The increase in governmental activities was due to: the net effect of the following factors. Negative variances include: (1) the decrease in ad valorem revenues of \$691,086, a direct result of a decrease in assessed property values, and the current economic conditions; (2) reduced investment rates causing a decrease in investment earnings of \$23,272; (3) the OPEB reporting requirements and the related health insurance adjustment, based on the actuarial valuation, which increased the liability and decreased net assets by \$171,481; (4) an increase of \$154,261 in human services expenditures related to an increase in the cost of hot meals and homecare services for senior citizens; and (5) decrease in franchise fees and other general taxes of \$6,929. Positive variances affecting the governmental net assets include (1) a decrease in public safety expenditures of \$750,294, (2) a decrease in pension costs of \$745,950, (3) a decrease in general government expenditures of \$240,930. (4) An increase in building permits of \$205,734 and (5) an increase in public safety revenue of \$3,807,876. The increase in public safety revenue was as a result of a large forfeiture settlement and revenue from red light camera fees.
- The increase in business-type activities was mostly attributable to an increase in user charges of \$520,161 in the water and wastewater fund as well as receiving \$140,961 in capital grants.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund equity of \$16,373,662, an increase of \$3,811,850 in comparison with the prior year. Of this amount, \$10,353,608 is *available for spending* at the government's discretion (*assigned or unassigned fund balance*) of which \$5.8 million has been assigned for future projects and expenditures consisting of \$2.5 million for pension and other post retirement benefits, \$2.4 million for working capital, and \$0.5 million for debt service.
- The Town's total long-term obligations decreased by \$364,771. There was also a decrease in amounts due for compensated absences and other repayments of debt.
- The total fair value of the Town's unrestricted cash and investments at September 30, 2012, was \$22,177,708, an increase of \$1,779,714 from the prior year.

Overview of the Financial Statements

This annual report consist of five parts –management's discussion and analysis (this section), the basic financial statements, required supplementary information, combining statements for non-major governmental funds and supplementary financial reports, compliance section. The basic financial statements include two kinds of statements that present different views of the Town:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Town's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Town government, reporting the Town's operations in more detail than the government-wide statements
- The governmental funds statements show how general government services such as public safety were financed in the short term as well as what remains for future spending.

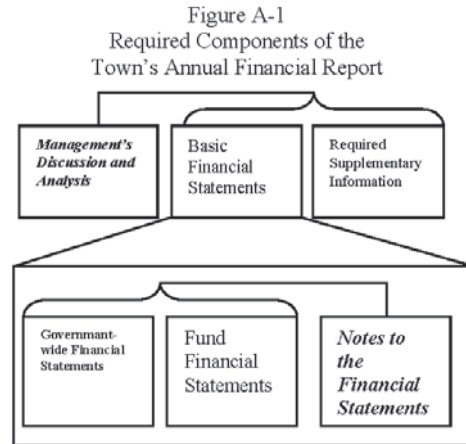
TOWN OF MEDLEY, FLORIDA

Management’s Discussion and Analysis – Continued
Year Ended September 30, 2012

Overview of the Financial Statements – Continued:

- Proprietary fund statements offer short-term and long-term financial information about the activities the government operates like businesses, such as the water and waste water and stormwater utilities.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information which further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and are related to one another. In addition to these required elements, we have included a section with combining statements that provide details about our nonmajor proprietary funds, each of which is added together and presented in single columns in the basic financial statements.



Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Medley, Florida’s finances, in a manner similar to a private-sector business.

The *statement of net assets* 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 most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues 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, physical environment, human services, and culture and recreation. The business-type activities of the Town include a water and wastewater utility, a stormwater utility, an age and income restricted mobile home retirement park, and a police gun range.

The government-wide financial statements can be found on pages 14 and 15 of this report.

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

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

TOWN OF MEDLEY, FLORIDA

Management's Discussion and Analysis – Continued Year Ended September 30, 2012

Overview of the Financial Statements – Continued:

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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town maintains two individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund and the Town of Medley Foundation, Inc. which is considered to be a special revenue fund.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 16 and 17 of this report.

Proprietary funds. The Town maintains four different types of proprietary or enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water and wastewater fund, its stormwater utility fund, its Medley Lakeside Retirement Park fund, and its police gun range fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and wastewater fund and for the stormwater utility fund, both of which are considered to be major funds of the Town. Data from the two other proprietary funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements presented elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 18 through 21 of this report.

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

The basic fiduciary fund financial statements can be found on pages 22 and 23 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 through 47 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budget to actual comparisons for the Town's general fund and the Town of Medley, Florida's progress in funding its obligations to provide pension benefits to its employees. Required supplementary information can be found on pages 49 through 51 of this report.

The combining statements referred to earlier in connection with nonmajor proprietary funds are presented immediately following the required supplementary information on pensions. Combining fund statements can be found on pages 53 through 55 of this report.

TOWN OF MEDLEY, FLORIDA

**Management's Discussion and Analysis – Continued
Year Ended September 30, 2012**

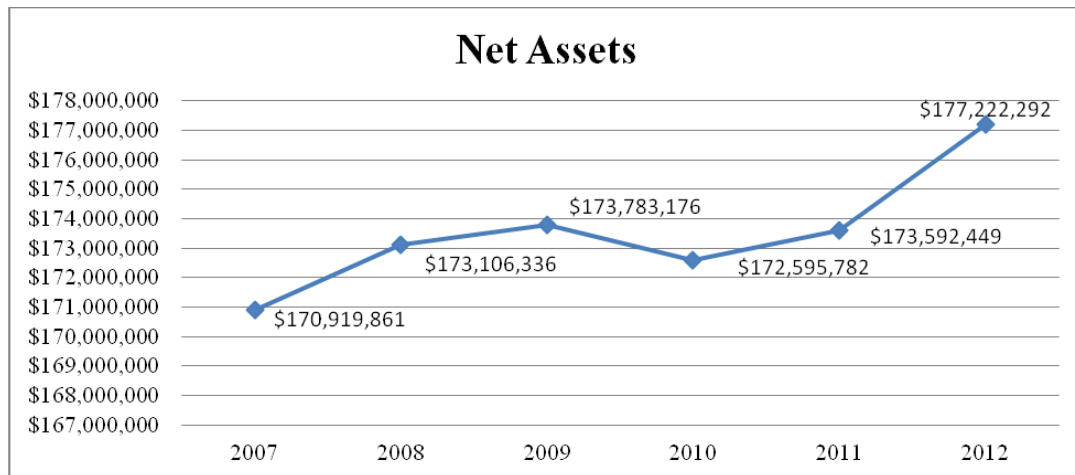
Government-Wide Financial Analysis

The table below summarizes the statements of net assets:

Town of Medley, Florida's Net Assets

	Governmental Activities		Business-Type Activities		Total		Amount Change	% Change
	September 30,		September 30,		September 30,			
	2012	2011	2012	2011	2012	2011		
Current assets	\$ 13,166,925	\$ 12,826,362	\$ 12,566,867	\$ 10,932,925	\$ 25,733,792	\$ 23,759,287	\$ 1,974,505	8.3 %
Noncurrent assets	3,966,078	319,189	876,560	753,469	4,842,638	1,072,658	3,769,980	351.5
Capital assets, net	<u>137,581,072</u>	<u>139,248,032</u>	<u>23,497,512</u>	<u>23,519,757</u>	<u>161,078,584</u>	<u>162,767,789</u>	<u>(1,689,205)</u>	(1.0)
Total assets	<u>154,714,075</u>	<u>152,393,583</u>	<u>36,940,939</u>	<u>35,206,151</u>	<u>191,655,014</u>	<u>187,599,734</u>	<u>4,055,280</u>	2.2
Long-term liabilities outstanding	7,409,661	7,645,726	3,533,864	3,723,467	10,943,525	11,369,193	(425,668)	(3.7)
Other liabilities	<u>1,061,568</u>	<u>881,502</u>	<u>2,427,629</u>	<u>1,756,590</u>	<u>3,489,197</u>	<u>2,638,092</u>	<u>851,105</u>	32.3
Total liabilities	<u>8,471,229</u>	<u>8,527,228</u>	<u>5,961,493</u>	<u>5,480,057</u>	<u>14,432,722</u>	<u>14,007,285</u>	<u>425,437</u>	3.0
Net assets:								
Investment in capital assets, net of related debt	131,220,713	132,591,737	19,774,045	19,663,120	150,994,758	152,254,857	(1,260,099)	(0.8)
Restricted	6,020,054	2,459,915	-	-	6,020,054	2,459,915	3,560,139	144.7
Unrestricted	<u>9,002,079</u>	<u>8,814,703</u>	<u>11,205,401</u>	<u>10,062,974</u>	<u>20,207,480</u>	<u>18,877,677</u>	<u>1,329,803</u>	7.0
Total net assets	<u>\$ 146,242,846</u>	<u>\$ 143,866,355</u>	<u>\$ 30,979,446</u>	<u>\$ 29,726,094</u>	<u>\$ 177,222,292</u>	<u>\$ 173,592,449</u>	<u>\$ 3,629,843</u>	2.1 %

The following chart reports the Town's total net asset balances from fiscal year 2007 through 2012:



As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Medley, Florida, assets exceeded liabilities by \$177,222,292 at September 30, 2012, an increase of \$3,629,843 from the prior fiscal year. This is a 2.1% increase from last year's net assets of \$173,592,449.

The largest portion of the Town of Medley, Florida's net assets, \$150,994,758, or 85.2%, reflects its investment in capital assets (e.g., land, infrastructure, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to residents; 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.

TOWN OF MEDLEY, FLORIDA

**Management's Discussion and Analysis – Continued
Year Ended September 30, 2012**

Government-Wide Financial Analysis – Continued

An additional portion of the Town's net assets, \$6,020,054, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$20,207,480, may be used to meet the government's ongoing obligations to residents and creditors.

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

Governmental and business-type activities. Governmental activities increased the Town of Medley, Florida's net assets by \$2,376,491, whereas business-type activities increased the Town of Medley, Florida's net assets by \$1,253,352. This resulted in an increase in total net assets of \$3,629,843 or a 2.1% increase from the prior year.

The table below summarizes the statements of activities:

Town of Medley, Florida

Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total		Amount Change	% Change
	Year Ended September 30, 2012	2011	Year Ended September 30, 2012	2011	Year Ended September 30, 2012	2011		
Revenues:								
Program revenues:								
Fees, fines, and charges for services	\$ 5,700,906	\$ 1,700,769	\$ 7,620,455	\$ 7,070,587	\$ 13,321,361	\$ 8,771,356	\$ 4,550,005	51.9 %
Capital grants and contributions	7,964	748,700	140,961	563,139	148,925	1,311,839	(1,162,914)	(88.6)
General revenues:								
Ad valorem taxes	9,270,269	9,961,355	-	-	9,270,269	9,961,355	(691,086)	(6.9)
Utility taxes	1,070,510	1,051,609	-	-	1,070,510	1,051,609	18,901	1.8
Franchise fees	873,070	900,737	-	-	873,070	900,737	(27,667)	(3.1)
Other general taxes	697,034	676,296	-	-	697,034	676,296	20,738	3.1
Intergovernmental	192,414	211,341	-	-	192,414	211,341	(18,927)	(9.0)
Investment earnings	92,152	115,424	59,585	76,547	151,737	191,971	(40,234)	(21.0)
Other	36,222	131,594	37,302	-	73,524	131,594	(58,070)	(44.1)
Internal activity:								
Transfers	(179,000)	(174,000)	179,000	174,000	-	-	-	
Total revenues and transfers	<u>17,761,541</u>	<u>15,323,825</u>	<u>8,037,303</u>	<u>7,884,273</u>	<u>25,798,844</u>	<u>23,208,098</u>	<u>2,590,746</u>	11.2
Expenses:								
General government	6,926,877	7,167,807	-	-	6,926,877	7,167,807	(240,930)	(3.4)
Public safety	5,414,379	6,164,673	-	-	5,414,379	6,164,673	(750,294)	(12.2)
Physical environment	722,757	761,669	-	-	722,757	761,669	(38,912)	(5.1)
Human services	1,264,355	1,110,094	-	-	1,264,355	1,110,094	154,261	13.9
Culture and recreation	888,723	805,011	-	-	888,723	805,011	83,712	10.4
Interest	167,959	208,356	115,256	105,136	283,215	313,492	(30,277)	(9.7)
Water and wastewater	-	-	4,487,427	3,936,712	4,487,427	3,936,712	550,715	14.0
Stormwater utility	-	-	1,624,143	1,410,875	1,624,143	1,410,875	213,268	15.1
Medley retirement park	-	-	362,020	342,224	362,020	342,224	19,796	5.8
Police gun range	-	-	195,105	198,874	195,105	198,874	(3,769)	(1.9)
Total expenses	<u>15,385,050</u>	<u>16,217,610</u>	<u>6,783,951</u>	<u>5,993,821</u>	<u>22,169,001</u>	<u>22,211,431</u>	<u>(42,430)</u>	(0.2)
Increase (Decrease) in Net Assets	2,376,491	(893,785)	1,253,352	1,890,452	3,629,843	996,667	2,633,176	264.2
Net Assets, beginning of year	<u>143,866,355</u>	<u>144,760,140</u>	<u>29,726,094</u>	<u>27,835,642</u>	<u>173,592,449</u>	<u>172,595,782</u>	<u>996,667</u>	0.6
Net Assets, end of year	<u>\$ 146,242,846</u>	<u>\$ 143,866,355</u>	<u>\$ 30,979,446</u>	<u>\$ 29,726,094</u>	<u>\$ 177,222,292</u>	<u>\$ 173,592,449</u>	<u>\$ 3,629,843</u>	2.1 %

TOWN OF MEDLEY, FLORIDA

Management’s Discussion and Analysis – Continued
Year Ended September 30, 2012

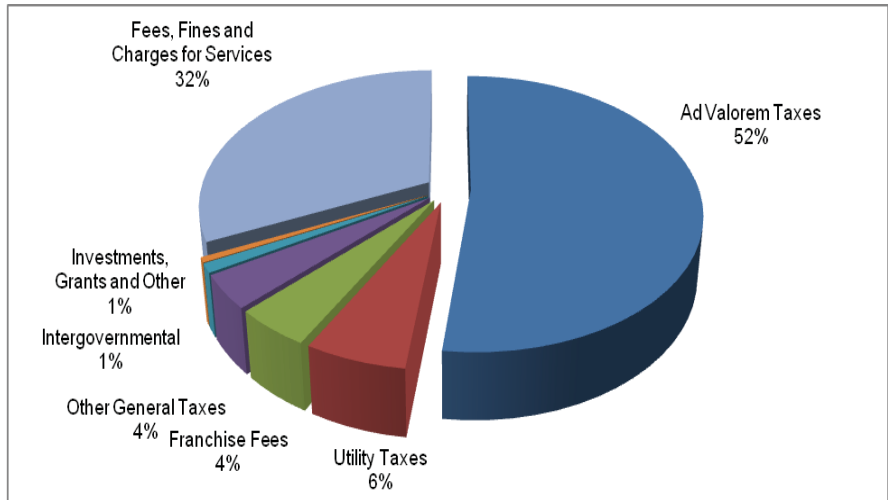
Government-Wide Financial Analysis – Continued

Governmental activities. Governmental activities increased the Town’s net assets by \$2,376,491.

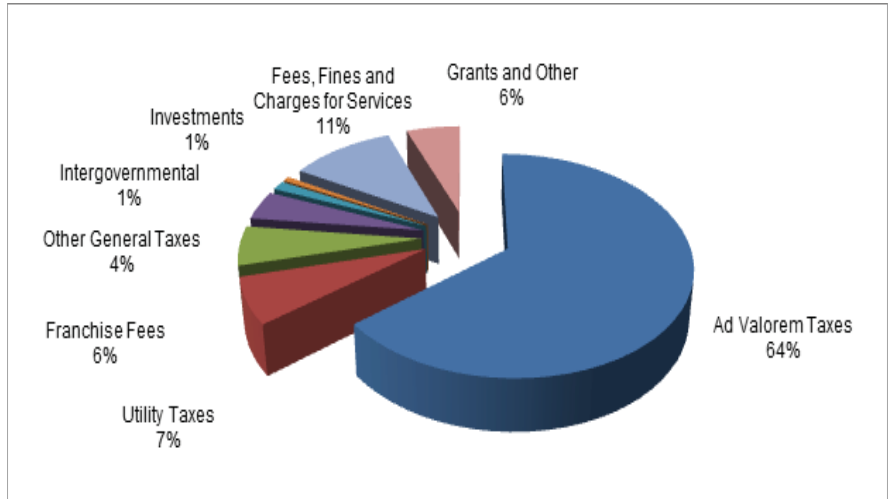
Revenues. The following chart shows the amounts of program and general revenues for fiscal years 2012 and 2011:

Revenues by Source – Governmental Activities
For the Years Ended September 30, 2012 and 2011, respectively

2012



2011



The Town is heavily reliant on property taxes to support governmental functions. Property taxes provided 52% of the Town’s total revenues as compared to 64% in fiscal year 2011. Other taxes, which include communications taxes, provided 4% of the Town’s total revenues which is the same as last fiscal year. Franchise fees and utility taxes provided 10% of the revenues compared to 13% in fiscal year 2011. Capital grants and other services provided less than 1% of total revenues as compared to 6% in fiscal year 2011. The 21% increase in program and general revenues was due to an increase in fees, fines and charges for services. The increases were from building permit revenue and the Town’s share of a federal forfeiture seizure.

TOWN OF MEDLEY, FLORIDA

**Management's Discussion and Analysis – Continued
Year Ended September 30, 2012**

Government-Wide Financial Analysis – Continued

Governmental activities – continued

Expenses. The table below illustrates the costs placed on the Town's taxpayers by each of these governmental activity services.

	Total Cost of Services	Percentage of Total
General government	\$ 6,926,877	45.0%
Public safety	5,414,379	35.2
Physical environment	722,757	4.7
Human services	1,264,355	8.2
Culture and recreation	888,723	5.8
Interest	167,959	1.1
	\$ 15,385,050	100.0%

Expenses for governmental activities decreased by \$832,560 from the prior year. General government expenses decreased \$240,930 from fiscal year 2011. The decrease is attributable to lower payroll, a decrease in pension costs, a decrease in insurance costs, a decrease in County mitigation payments, and a decrease in code compliance costs. Public safety expenses decreased by \$750,294 from fiscal year 2011. The decrease is attributable to decreased pension costs and vehicle maintenance costs. Human services increased by \$154,261 due to an increase in senior services. Other departments reflected little change from last year.

Business-type activities. Business-type activities increased the Town of Medley's net assets by \$1,253,352.

Overall analysis of major funds. The Town reports two major enterprise funds and two non-major funds (Lakeside Retirement Park fund and police gun range fund). The net income for each major enterprise fund was as follows for fiscal year 2012 and 2011:

	Fiscal Year	
	2012	2011
Water and wastewater	\$ 819,410	\$ 818,246
Stormwater utility	374,817	1,017,684
	\$ 1,194,227	\$ 1,835,930

The following includes an analysis of the fiscal year 2012 financial activities for each fund:

- The water and wastewater fund had an increase in net assets of \$819,410. Operating revenues increased by \$609,215 from the prior year due to higher commercial water and sewer sales. Operating expenses increased by \$550,715 from the prior year. This is mostly attributable to higher payroll, water purchases, sewer treatment, and professional fees.
- The stormwater utility fund had an increase in net assets of \$374,817. Operating revenues decreased by \$36,996. Operating expenses increased by \$213,268 from the prior year. This was due mostly to infiltration of storm water into the Town's sewer system, increased professional fees, heavy equipment maintenance, payroll and bad debt. In fiscal year 2012, there were 4-5 stormwater projects in progress of which 2-3 should be completed in fiscal year 2013.

Non-major fund – Lakeside Retirement Park. There was a transfer from the general fund to the Medley Lakeside Retirement Park of \$179,000 which is recorded as revenue in that fund. This fund continues to experience operating losses due to the fact that land rents collected from residents do not cover operating expenses. The Medley Town Council has directed that the general fund continue to support the retirement park's operations as needed.

TOWN OF MEDLEY, FLORIDA

**Management's Discussion and Analysis – Continued
Year Ended September 30, 2012**

Financial Analysis of the Government's Funds

As noted earlier, the Town of Medley, Florida uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The table below summarizes the changes in the fund balances of the Town's governmental funds:

	Governmental Funds		
	General Fund	Town of Medley Foundation, Inc.	Total
Revenues	\$ 17,918,823	\$ 21,718	\$ 17,940,541
Expenditures	(13,893,997)	(55,694)	(13,949,691)
Other financing sources (uses), net	(179,000)	-	(179,000)
	\$ 3,845,826	\$ (33,976)	\$ 3,811,850

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

The Town's governmental funds reported combined ending fund balances of \$16,373,662, an increase of \$3,811,850 in comparison with the prior year. Key elements of the increase are as follows:

- An increase in total revenues of \$2,442,716. Revenue sources increasing include building permits fees and public safety forfeitures.
- Total expenditures decreased by \$1,463,607. This is attributable to lower payroll, pension costs, insurance, and capital outlay, and the termination of the County mitigation expense.

The general fund is the chief operating fund of the Town of Medley, Florida. General tax revenues and other receipts that are not allocated to another fund by law or contractual commitment are accounted for in this fund. General operating expenditures and capital improvement costs not paid through another fund are paid from this fund. At the end of the current fiscal year, assigned and unassigned fund balance of the general fund was \$10,353,608. As a measure of the general fund's liquidity, it may be useful to compare this amount to total fund expenditures. Assigned and unassigned fund balance represents approximately 74.2% of total general fund expenditures.

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

The total growth in net assets for all enterprise fund statements was \$1,253,352. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town of Medley, Florida's business-type activities.

TOWN OF MEDLEY, FLORIDA

**Management's Discussion and Analysis – Continued
Year Ended September 30, 2012**

General Fund Budgetary Highlights

The following information is presented to assist the reader in comparing actual results with final budgetary amounts.

- Actual ad valorem collections were lower than budgeted by \$74,437 because of value adjustments.
- State and local-shared revenues were lower than budgeted due to the current economic conditions that are currently affecting the nation. Sales tax revenue, communication service tax revenue, and other revenue have been greatly affected since they are based on consumer spending.
- Fines and forfeitures were higher than budgeted. Budgeted amounts for this revenue source are based on prior experience and amounts can vary significantly from year to year. Included in revenues is forfeiture of properties seized by the police department which is not budgeted.
- Permits fees, and licenses revenues were higher than budgeted as a result of increased construction activity in the Town.
- Included in miscellaneous revenues is interest on investments which is lower than budgeted.
- Police revenues from services and reimbursements were higher than budgeted.
- The Town's department expenditures were over budgeted amounts by a total of \$320,384. This includes costs of items purchased with forfeiture funds, which cannot be budgeted. Also higher than budgeted were professional fees, human services, and building department costs.
- Capital outlay was lower than budgeted due to the delay in the construction of certain major projects such as park and roadway improvements.

Additional information on budgetary comparisons between the final budget and actual results can be found on page 49 of this report.

Capital Asset and Debt Administration

Capital assets. The Town of Medley, Florida's investment in capital assets for its governmental and business-type activities as of September 30, 2012, amounts to \$161,078,584 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, water, wastewater and stormwater utility systems, machinery and equipment, and park facilities.

The table below summarized the investment in capital assets:

Town of Medley, Florida								
Capital Assets								
	Governmental Activities		Business-Type Activities		Total		Amount Change	Total % Change
	September 30, 2012	2011	2012	2011	2012	2011		
Land and improvements	\$ 3,527,975	\$ 3,527,975	\$ 765,839	\$ 765,839	\$ 4,293,814	\$ 4,293,814	-	0.0 %
Construction in progress	391,441	374,430	1,066,172	934,295	1,457,613	1,308,725	148,888	11.4
Buildings and improvements	14,446,184	14,525,800	1,108,177	1,109,887	15,554,361	15,635,687	(81,326)	(0.5)
Infrastructure	143,108,911	142,903,429		-	143,108,911	142,903,429	205,482	0.1
Machinery, equipment, and vehicles	4,876,979	4,679,705	2,858,276	2,706,381	7,735,255	7,386,086	349,169	4.7
Water and wastewater systems	-	-	23,457,448	23,407,838	23,457,448	23,407,838	49,610	.2
Stormwater systems	-	-	7,760,154	7,165,351	7,760,154	7,165,351	594,803	8.3
Total	166,351,490	166,011,339	37,016,066	36,089,591	203,367,556	202,100,930	1,266,626	0.6
Accumulated depreciation	(28,770,418)	(26,763,307)	(13,518,554)	(12,569,834)	(42,288,972)	(39,333,141)	(2,955,831)	(7.5)
	<u>\$ 137,581,072</u>	<u>\$ 139,248,032</u>	<u>\$ 23,497,512</u>	<u>\$ 23,519,757</u>	<u>\$ 161,078,584</u>	<u>\$ 162,767,789</u>	<u>\$ (1,689,205)</u>	(1.0) %

Additional information on the Town of Medley, Florida's capital assets can be found in Note 4 on pages 33 through 35 of this report.

TOWN OF MEDLEY, FLORIDA

**Management's Discussion and Analysis – Continued
Year Ended September 30, 2012**

Capital Asset and Debt Administration – Continued

Long-term obligations. At year-end, the Town had \$10,083,826 in notes outstanding versus \$10,512,932 last year. Repayments of debt amounted to \$429,106. Included in long-term obligations of the governmental fund type is \$687,473 in accrued compensated absence liabilities and \$664,056 in accrued other post employment benefits liabilities.

The following table reports long-term obligation balances at September 30, 2012 and 2011:

	Governmental Activities			
	Balance October 1, 2011	Additions	Reductions	Balance September 30, 2012
Notes payable	\$ 6,656,295	\$ -	\$ 295,936	\$ 6,360,359
Compensated absences	794,619	-	107,146	687,473
Other post employment benefits	492,575	171,481	-	664,056
	<u>\$ 7,943,489</u>	<u>\$ 171,481</u>	<u>\$ 403,082</u>	<u>\$ 7,711,888</u>
	Business-Type Activities			
	Balance October 1, 2011	Additions	Reductions	Balance September 30, 2012
Notes payable	\$ 3,847,286	\$ -	\$ 123,819	\$ 3,723,467
Capital leases	9,351	-	9,351	-
	<u>\$ 3,856,637</u>	<u>\$ -</u>	<u>\$ 133,170</u>	<u>\$ 3,723,467</u>

Additional information on the Town of Medley, Florida's long-term debt can be found in Note 9 on pages 43 to 45 of this report.

Economic Factors and Next Year's Budgets and Rates

Over the past three years, the Town has experienced significant losses in ad valorem tax revenue. Between the economic recession that has resulted in lower property values and voter-approved constitutional amendments, the Town's taxable value has decreased by approximately 13% since 2009.

The operating millage for the fiscal year ending September 30, 2013, is stated at 5.585 mills. This represents a 8% increase over the rolled back rate but lower than the 2012 millage rate of 5.65 mills. Since 2003, the Town has been able to reduce millage by 40% from 7.8 mills to 5.585 mills.

The General Funds' total 2013 departmental expenditures are budgeted \$231,422 more than fiscal 2012. Departmental expenditures which are expected to increase include public safety, human services, parks and recreation and capital outlay.

TOWN OF MEDLEY, FLORIDA

**Management's Discussion and Analysis – Continued
Year Ended September 30, 2012**

Economic Factors and Next Year's Budgets and Rates – Continued

The Town is currently pursuing the annexation of additional lands from Miami-Dade County. Other municipalities have expressed interest in annexing the same lands as the Town. Miami-Dade County has put on hold all annexation applications and it is unknown which or if any of the lands will be awarded to the Town of Medley.

Requests for Information

This financial report is designed to provide a general overview of the Town of Medley, Florida's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Roy Danziger, Finance Director, Town of Medley, Florida.

TOWN OF MEDLEY, FLORIDA

Government-Wide Statement of Net Assets

September 30, 2012

Assets	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 7,261,898	\$ 8,613,848	\$ 15,875,746
Investments	3,268,506	3,033,456	6,301,962
Receivables, net	543,367	1,032,407	1,575,774
Internal Balances	129,682	(129,682)	-
Prepaid Expenses	1,963,472	16,838	1,980,310
	<u>13,166,925</u>	<u>12,566,867</u>	<u>25,733,792</u>
 Restricted Assets:			
Cash and cash equivalents	3,966,078	805,412	4,771,490
Total restricted assets	<u>3,966,078</u>	<u>805,412</u>	<u>4,771,490</u>
 Capital Assets:			
Capital assets not being depreciated	103,813,629	1,510,410	105,324,039
Capital assets being depreciated, net	33,767,443	21,987,102	55,754,545
Total capital assets	<u>137,581,072</u>	<u>23,497,512</u>	<u>161,078,584</u>
Other Assets, net	<u>-</u>	<u>71,148</u>	<u>71,148</u>
Total assets	<u>154,714,075</u>	<u>36,940,939</u>	<u>191,655,014</u>
 Liabilities			
Liabilities:			
Accounts payable and accrued liabilities	487,934	1,455,427	1,943,361
Deferred revenue	271,407	133,979	405,386
Liabilities payable from restricted assets	-	648,620	648,620
Notes payable:			
Due within one year	302,227	189,603	491,830
Due after one year	7,409,661	3,533,864	10,943,525
Total liabilities	<u>8,471,229</u>	<u>5,961,493</u>	<u>14,432,722</u>
 Net Assets			
Investment in capital assets, net of related debt	131,220,713	19,774,045	150,994,758
Restricted	6,020,054	-	6,020,054
Unrestricted	9,002,079	11,205,401	20,207,480
Total net assets	<u>\$ 146,242,846</u>	<u>\$ 30,979,446</u>	<u>\$ 177,222,292</u>

See accompanying notes.

TOWN OF MEDLEY, FLORIDA

**Government-Wide Statement of Activities
Year Ended September 30, 2012**

Functions/Programs	Total Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Assets		
		Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
General government	\$ 6,926,877	\$ 1,709,278	\$ -	\$ (5,217,599)	\$ -	\$ (5,217,599)
Public safety	5,414,379	3,991,628	7,964	(1,414,787)	-	(1,414,787)
Physical environment	722,757	-	-	(722,757)	-	(722,757)
Human services	1,264,355	-	-	(1,264,355)	-	(1,264,355)
Culture and recreation	888,723	-	-	(888,723)	-	(888,723)
Interest on long-term obligations	167,959	-	-	(167,959)	-	(167,959)
Total governmental activities	15,385,050	5,700,906	7,964	(9,676,180)	-	(9,676,180)
Business-Type Activities:						
Water and wastewater utility	4,602,583	5,249,540	140,961	-	787,918	787,918
Stormwater utility	1,624,243	1,972,607	-	-	348,364	348,364
Medley lakeside retirement park	362,020	174,710	-	-	(187,310)	(187,310)
Police gun range	195,105	223,598	-	-	28,493	28,493
Total business-type activities	6,783,951	7,620,455	140,961	-	977,465	977,465
	\$ 22,169,001	\$ 13,321,361	\$ 148,925	\$ (9,676,180)	\$ 977,465	\$ (8,698,715)
General Revenues:						
Ad valorem taxes				9,270,269	-	9,270,269
Utility taxes				1,070,510	-	1,070,510
Other general taxes				697,034	-	697,034
Intergovernmental				192,414	-	192,414
Franchise fees				873,070	-	873,070
Investment earnings				92,152	59,585	151,737
Miscellaneous				36,222	37,302	73,524
Transfers				(179,000)	179,000	-
Total general revenues				12,052,671	275,887	12,328,558
Change in net assets				2,376,491	1,253,352	3,629,843
Net Assets, beginning of year				143,866,355	29,726,094	173,592,449
Net Assets, end of year				\$ 146,242,846	\$ 30,979,446	\$ 177,222,292

See accompanying notes.

TOWN OF MEDLEY, FLORIDA

**Balance Sheet
Governmental Funds
September 30, 2012**

Assets	<u>General Fund</u>	<u>Town of Medley Foundation, Inc.</u>	<u>Total Governmental Funds</u>
Cash and Cash Equivalents	\$ 7,121,156	\$ 140,742	\$ 7,261,898
Investments	3,268,506	-	3,268,506
Receivables, net	543,367	-	543,367
Due From Other Funds	172,423	-	172,423
Prepaid Items	1,963,472	-	1,963,472
Restricted Assets – Cash and Cash Equivalents	<u>3,966,078</u>	<u>-</u>	<u>3,966,078</u>
Total assets	<u>\$ 17,035,002</u>	<u>\$ 140,742</u>	<u>\$ 17,175,744</u>
Liabilities and Fund Equity			
Liabilities:			
Accounts payable and accrued liabilities	\$ 486,937	\$ 997	\$ 487,934
Deferred revenue	264,907	6,500	271,407
Due to other funds	-	42,741	42,741
Total liabilities	<u>751,844</u>	<u>50,238</u>	<u>802,082</u>
Fund Equity:			
Fund balance:			
Nonspendable	1,963,472	-	1,963,472
Restricted	3,966,078	-	3,966,078
Committed	-	90,504	90,504
Assigned	5,800,000	-	5,800,000
Unassigned	<u>4,553,608</u>	<u>-</u>	<u>4,553,608</u>
Total fund equity	<u>16,283,158</u>	<u>90,504</u>	<u>16,373,662</u>
Total liabilities and fund equity	<u>\$ 17,035,002</u>	<u>\$ 140,742</u>	<u>\$ 17,175,744</u>
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets:			
Total fund balance – total governmental funds			\$ 16,373,662
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets of \$166,351,490, net of accumulated depreciation of \$28,770,418, are not financial resources and, therefore, are not reported in the funds			137,581,072
Long-term obligations of \$7,711,888 are not due and payable in the current period and are not reported in the funds			<u>(7,711,888)</u>
Net assets of governmental activities			<u>\$ 146,242,846</u>

See accompanying notes.

TOWN OF MEDLEY, FLORIDA

**Statements of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds**

Year Ended September 30, 2012

	General Fund	Town of Medley Foundation, Inc.	Total Governmental Funds
Revenues:			
Ad valorem taxes	\$ 9,270,269	\$ -	\$ 9,270,269
Utility taxes	1,070,510	-	1,070,510
Other general taxes	903,323	-	903,323
Intergovernmental	200,378	-	200,378
Permits, fees, and licenses	2,376,059	-	2,376,059
Fines and forfeitures	3,900,245	-	3,900,245
User charges	86,935	-	86,935
Miscellaneous	111,104	21,718	132,822
Total revenues	17,918,823	21,718	17,940,541
Expenditures:			
Current operating:			
General government	5,190,656	-	5,190,656
Public safety	5,167,106	-	5,167,106
Physical environment	698,116	-	698,116
Human services	1,224,510	-	1,224,510
Culture and recreation	767,232	55,694	822,926
Capital outlay	382,482	-	382,482
Debt service	463,895	-	463,895
Total expenditures	13,893,997	55,694	13,949,691
Excess (Deficiency) of Revenues Over Expenditures	4,024,826	(33,976)	3,990,850
Other Financing Uses:			
Transfers out	(179,000)	-	(179,000)
Total other financing uses	(179,000)	-	(179,000)
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Uses	3,845,826	(33,976)	3,811,850
Fund Balances, beginning of year	12,437,332	124,480	12,561,812
Fund Balances, end of year	\$ 16,283,158	\$ 90,504	\$ 16,373,662
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities:			
Net change in fund balances – total governmental funds			\$ 3,811,850
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 are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of \$2,049,442 exceeded capital outlays of \$382,482 in the current period.			(1,666,960)
Change in long-term compensated absences recognized in statement of activities, not recognized as expenditures.			107,146
Change in other post employment benefits liability recognized in statement of activities, not recognized as expenditures.			(171,481)
Repayment of notes payable is reported as an expenditure in governmental funds and, thus, has an effect on fund balance because current financial resources have been used for the Town as a whole; however, the principal payments reduce liabilities in the statement of net assets and do not result in expense in the statement of activities.			295,936
Change in net assets of governmental activities			\$ 2,376,491

See accompanying notes.

TOWN OF MEDLEY, FLORIDA

**Statement of Net Assets
Proprietary Funds
September 30, 2012**

Assets	Major Funds			Total
	Water and Wastewater Fund	Stormwater Utility Fund	Other Proprietary Funds	
Current Assets:				
Cash and cash equivalents	\$ 4,927,844	\$ 3,453,088	\$ 232,916	\$ 8,613,848
Investments	614,719	2,362,296	56,441	3,033,456
Receivables, net	755,979	265,117	11,311	1,032,407
Due from other funds	60,105	2,128	-	62,233
Prepaid expenses	-	-	16,838	16,838
Total current assets	6,358,647	6,082,629	317,506	12,758,782
Noncurrent Assets:				
Restricted assets – cash and cash equivalents	805,412	-	-	805,412
Capital assets, net	15,806,282	7,467,258	223,972	23,497,512
Other assets – loan costs, net	71,148	-	-	71,148
Total noncurrent assets	16,682,842	7,467,258	223,972	24,374,072
Total assets	23,041,489	13,549,887	541,478	37,132,854
Liabilities				
Current Liabilities:				
Accounts payable and accrued liabilities	1,151,741	252,624	51,062	1,455,427
Refundable advances	-	133,979	-	133,979
Due to other funds	60,582	93,774	37,559	191,915
Liabilities payable from restricted assets:				
Utility deposits	416,665	-	-	416,665
Deferred developer fees	231,955	-	-	231,955
Current portion of long-term debt:				
Notes payable	189,603	-	-	189,603
Total current liabilities	2,050,546	480,377	88,621	2,619,544
Long-Term Debt, less current portion:				
Notes payable	3,533,864	-	-	3,533,864
Total long-term debt	3,533,864	-	-	3,533,864
Total liabilities	5,584,410	480,377	88,621	6,153,408
Net Assets				
Investment in Capital Assets, net of related debt	12,082,815	7,467,258	223,972	19,774,045
Unrestricted	5,374,264	5,602,252	228,885	11,205,401
Total net assets	\$ 17,457,079	\$ 13,069,510	\$ 452,857	\$ 30,979,446

See accompanying notes.

TOWN OF MEDLEY, FLORIDA

**Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
Year Ended September 30, 2012**

	Major Funds		Other Proprietary Funds	Total
	Water and Wastewater Fund	Stormwater Utility Fund		
Operating Revenues:				
User charges	\$ 5,068,603	\$ 1,972,036	\$ 392,359	\$ 7,432,998
Service and hook-up charges	180,934	-	-	180,934
Miscellaneous other	3	571	5,949	6,523
Total operating revenues	<u>5,249,540</u>	<u>1,972,607</u>	<u>398,308</u>	<u>7,620,455</u>
Operating Expenses:				
Salaries, wages, and employee benefits	1,135,959	413,314	126,761	1,676,034
Contractual services, materials, and supplies	2,682,909	933,999	390,100	4,007,008
Depreciation and amortization	668,559	276,830	40,264	985,653
Total operating expenses	<u>4,487,427</u>	<u>1,624,143</u>	<u>557,125</u>	<u>6,668,695</u>
Operating Income (Loss)	<u>762,113</u>	<u>348,464</u>	<u>(158,817)</u>	<u>951,760</u>
Non-Operating Revenues (Expenses):				
Grants	140,961	-	-	140,961
Insurance proceeds	-	-	37,302	37,302
Interest income	31,492	26,453	1,640	59,585
Interest expense	(115,156)	(100)	-	(115,256)
Total non-operating revenues (expenses)	<u>57,297</u>	<u>26,353</u>	<u>38,942</u>	<u>122,592</u>
Income (Loss) Before Transfers	<u>819,410</u>	<u>374,817</u>	<u>(119,875)</u>	<u>1,074,352</u>
Transfers:				
Transfers in	-	-	179,000	179,000
Total transfers	<u>-</u>	<u>-</u>	<u>179,000</u>	<u>179,000</u>
Net Income	819,410	374,817	59,125	1,253,352
Net Assets, beginning of year	<u>16,637,669</u>	<u>12,694,693</u>	<u>393,732</u>	<u>29,726,094</u>
Net Assets, end of year	<u>\$ 17,457,079</u>	<u>\$ 13,069,510</u>	<u>\$ 452,857</u>	<u>\$ 30,979,446</u>

See accompanying notes.

TOWN OF MEDLEY, FLORIDA

**Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2012**

	Major Funds		Other Proprietary Funds	Total
	Water and Wastewater Fund	Stormwater Utility Fund		
Cash Flows From Operating Activities:				
Receipts from customers and users	\$ 5,183,919	\$ 1,827,270	\$ 400,654	\$ 7,411,843
Payments to suppliers	(2,341,216)	(744,505)	(404,192)	(3,489,913)
Payments to employees	(1,133,804)	(401,834)	(126,760)	(1,662,398)
Loss on disposal of capital assets	940	938	-	1,878
Other receipts	3	571	1,500	2,074
Net cash provided by (used in) operating activities	1,709,842	682,440	(128,798)	2,263,484
Cash Flows From Noncapital Financing Activities:				
Increase in current liabilities payable from restricted assets	126,701	-	-	126,701
Transfers from other funds	-	-	179,000	179,000
Proceeds from operating grants	140,961	-	-	140,961
Proceeds from insurance settlements	-	-	37,302	37,302
Change in due from/to other funds	(45,917)	(13,850)	34,534	(25,233)
Net cash provided by (used in) noncapital financing activities	221,745	(13,850)	250,836	458,731
Cash Flows From Capital and Related Financing Activities:				
Acquisition of capital assets	(126,259)	(775,290)	(6,500)	(908,049)
Repayment of advances from other funds	(436,311)	-	-	(436,311)
Proceeds from capital grants	-	21,554	-	21,554
Principal reduction on notes payable	(123,819)	(9,351)	-	(133,170)
Interest paid on notes payable	(105,899)	(100)	-	(105,999)
Net cash used in capital and related financing activities	(792,288)	(763,187)	(6,500)	(1,561,975)
Cash Flows From Investing Activities:				
Redemption of investments	-	686,122	-	686,122
Purchases of investments	(8,483)	(823,255)	(387)	(832,125)
Interest income received	30,492	34,449	1,637	66,578
Net cash provided by (used in) investing activities	22,009	(102,684)	1,250	(79,425)
Net Increase (Decrease) in Cash and Cash Equivalents	1,161,308	(197,281)	116,788	1,080,815
Cash and Cash Equivalents, beginning of year	4,571,948	3,650,369	116,128	8,338,445
Cash and Cash Equivalents, end of year	\$ 5,733,256	\$ 3,453,088	\$ 232,916	\$ 9,419,260

(Continued)

See accompanying notes.

TOWN OF MEDLEY, FLORIDA

**Statement of Cash Flows
Proprietary Funds – Continued
Year Ended September 30, 2012**

	Major Funds		Other Proprietary Funds	Total
	Water and Wastewater Fund	Stormwater Utility Fund		
Reported as Follows in the Statement of Net Assets:				
Cash and cash equivalents	\$ 4,927,844	\$ 3,453,088	\$ 232,916	\$ 8,613,848
Restricted cash and cash equivalents	805,412	-	-	805,412
	\$ 5,733,256	\$ 3,453,088	\$ 232,916	\$ 9,419,260
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Operating income (loss)	\$ 762,113	\$ 348,464	\$ (158,817)	\$ 951,760
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	668,559	276,830	40,264	985,653
Bad debt expense	34,304	78,503	1,035	113,842
Loss on disposal of assets	940	938	-	1,878
Changes in:				
Receivables	(171,100)	(144,766)	3,846	(312,020)
Due from other governments	105,483	-	-	105,483
Prepaid expenses	-	-	(8,916)	(8,916)
Accounts payable and accrued liabilities	307,389	110,991	(6,210)	412,170
Compensated absences	2,154	11,480	-	13,634
Net Cash Provided by (Used in) Operating Activities	\$ 1,709,842	\$ 682,440	\$ (128,798)	\$ 2,263,484

See accompanying notes.

TOWN OF MEDLEY, FLORIDA

**Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2012**

Assets	<u>Pension Trust Funds</u>		<u>Total</u>
	<u>General Employees Pension Fund</u>	<u>Police Officers' Retirement Fund</u>	
Accounts receivable	\$ -	\$ 5,191	\$ 5,191
Investments at fair value	<u>11,826,650</u>	<u>13,861,801</u>	<u>25,688,451</u>
Total assets	<u>11,826,650</u>	<u>13,866,992</u>	<u>25,693,642</u>
Liabilities and Net Assets			
Liabilities:			
Accounts payable	1,204	-	1,204
Advance contributions from Town	<u>1,189,921</u>	<u>647,158</u>	<u>1,837,079</u>
Total liabilities	<u>1,191,125</u>	<u>647,158</u>	<u>1,838,283</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 10,635,525</u>	<u>\$ 13,219,834</u>	<u>\$ 23,855,359</u>

See accompanying notes.

TOWN OF MEDLEY, FLORIDA

**Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended September 30, 2012**

	Pension Trust Funds		Total
	General Employees Pension Fund	Police Officers' Retirement Fund	
Additions:			
Contributions:			
Employer	\$ 1,133,056	\$ 1,260,367	\$ 2,393,423
Employee	-	142,576	142,576
Total contributions	1,133,056	1,402,943	2,535,999
Investment earnings, including net unrealized gain on investments	1,856,874	2,022,677	3,879,551
Total additions	2,989,930	3,425,620	6,415,550
Deductions:			
Benefit payments	406,556	488,982	895,538
Administrative expenses	4,882	22,945	27,827
Total deductions	411,438	511,927	923,365
Change in net assets	2,578,492	2,913,693	5,492,185
Net Assets Held in Trust for Pension Benefits:			
Beginning of year	8,057,033	10,306,141	18,363,174
End of year	\$ 10,635,525	\$ 13,219,834	\$ 23,855,359

See accompanying notes.

TOWN OF MEDLEY, FLORIDA

Notes to the Financial Statements September 30, 2012

1. Summary of Significant Accounting Policies:

A. Nature of Operations

The Town of Medley, Florida (the "Town") was incorporated under Chapter 165 of the Florida Statutes. The Town operates under a Council-Mayor form of government and provides the following services as authorized by its charter: public safety, highways and streets, sanitation, health and social services, culture and recreation, public works, improvements, planning and zoning, and general administrative services.

The Town complies with accounting principles generally accepted in the United States of America. The Town's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements. The accounting and reporting framework and the more significant accounting principles are discussed in subsequent sections of this note. The remainder of the notes is organized to provide explanations, including required disclosures, of the Town's financial activities for the fiscal year ended September 30, 2012.

B. Financial Reporting Entity

The Town is a Florida municipal corporation with a five-member Town Council comprised of the Mayor and four Council persons. As required by accounting principles generally accepted in the United States of America, these financial statements present the Town (the primary government) and its component unit (an entity for which the Town is considered to be financially accountable). Blended component units, although legally separate entities, are in substance part of the Town's operations, and the Town Council is its governing body. Therefore, data from these units are combined with data of the primary government. The Town has no component units that require discrete presentation. Using the criteria of GASB Statement No. 14, management determined the following component unit should be blended:

Town of Medley Foundation, Inc.

The Foundation was established by the Town Council who still sits as the Foundation's Board of Directors. The Foundation received a 501(c)(3) classification from the Internal Revenue Service. The Foundation receives donations from residents or businesses and uses these funds as determined by the Board of Directors. The Town provides management and accounting services to the Foundation at no charge. The Foundation does not prepare an annual budget. The Foundation is accounted for as a special revenue fund in these financial statements.

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. 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 items not properly included among program revenues are reported instead as general revenues.

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

TOWN OF MEDLEY, FLORIDA

Notes to the Financial Statements – Continued September 30, 2012

1. Summary of Significant Accounting Policies – Continued:

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

The government-wide financial statements are reported using the economic resources measurement focus and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures for claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The government reports the following major proprietary funds:

The *water and wastewater fund* accounts for the activities of the Town's water and wastewater utility systems.

The *stormwater utility fund* accounts for the activities of the stormwater utility system.

Additionally, the government reports the following fund types:

Special revenue fund is used to account for the proceeds of a specific revenue source that is legally restricted to expenditures for specific purposes. The Town uses this fund to account for the activities of the Town of Medley Foundation, Inc.

Enterprise funds are used to account for operations that are financed and operated similar to private business enterprises. The Town has two nonmajor enterprise funds: Medley Lakeside Retirement Park fund and police gun range fund.

The *pension trust funds* account for the activities of the Town's general employees' and police officers' defined benefit plans, which accumulate resources for pension benefit payments to qualified Town employees.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

TOWN OF MEDLEY, FLORIDA

Notes to the Financial Statements – Continued
September 30, 2012

1. Summary of Significant Accounting Policies – Continued:

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation – Continued

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and wastewater fund and the stormwater utility fund are charges to customers for sales and services. The Town also recognizes as operating revenue the option of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

E. Assets, Liabilities, and Net Assets or Equity

(1) Deposits and Investments

(a) Cash and Cash Equivalents

Florida Statutes provide for risk sharing collateral pools by banks and savings and loan associations. These pools collateralize local government deposits and certificates of deposit with the participating depositories. The Town's demand deposits and certificates of deposits are placed in such authorized depositories.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Town's deposits may not be returned or the Town will not be able to recover collateral securities in the possession of an outside party. At September 30, 2012, the carrying amount of the Town's deposits was \$20,647,236 and the bank balances of the Town's deposits were \$20,883,409. A portion of the bank balances were covered by federal deposit insurance and the remainder was covered by pledged collateral as required by Florida Statutes. All collateral is pledged in the Town's name and is held by a third party financial institution.

Highly liquid financial instruments with an original maturity of three months or less at the time they are purchased by the Town are considered to be cash equivalents.

(b) Restricted Assets – Cash and Cash Equivalents

Proceeds from forfeiture funds are classified as restricted in the General Fund since these resources are specifically earmarked for law enforcement purposes only. Additionally, proceeds from the People's Transportation Tax are classified as restricted since these resources may only be used for road and transportation related expenditures.

(2) Town of Medley's Investment Policies

(a) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

Investing is performed in accordance with investing policies prescribed by State Statutes, Town Charter, and Town Policies for nonpension investments. Funds may be invested in (1) direct obligations of the United States Government, its agencies, or instrumentalities to the payment of which the full faith and credit of the government of the United States is pledged, (2) Florida State Board of Administration local government surplus funds trust fund, and (3) collateralized or insured certificates of deposit and other evidence of deposits in financial institutions.

All of the Town's nonpension investments are certificates of deposits in regional or national financial institutions.

TOWN OF MEDLEY, FLORIDA

**Notes to the Financial Statements – Continued
September 30, 2012**

1. Summary of Significant Accounting Policies – Continued:

E. Assets, Liabilities, and Net Assets or Equity – Continued

(2) Town of Medley’s Investment Policies – Continued

(b) 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. The Town’s policy provides that to the extent practical, investments are to be matched to cash flow requirements. The Town manages interest rate risks by purchasing certificates of deposit.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Town’s investments in a single issuer.

(c) Foreign Currency Risk

Foreign currency risk is the risk that the change in exchange rates will adversely affect the fair value of an investment. The Town’s general employees pension fund and the police officers’ retirement fund hold \$1,195,010 and \$1,398,288, respectively, in various foreign equities as of September 30, 2012. The foreign holdings account for approximately 10% for each fund’s respective investments. The Town has no investment policy that limits its investment choices as it relates to foreign equities.

(d) Defined Benefit Pension Trust Policy

The Town has established defined pension trust funds for the benefit of qualified Town employees. Investment policies provide for the investment managers, who have full discretion of assets allocated to them, be subject to overall investment guidelines set out in the policies. Manager performance is reviewed by a consultant who provides reports to the governing boards. Overall investment guidelines provide for diversification and allow investment in domestic and international common stocks, fixed income securities, cash equivalents, index funds, collective trust funds, and mutual funds. The plans address custodial credit risk by providing for the engagement of custodians who accept possession of securities for safekeeping; collect and disburse income; collect principal of sold, matured or called items; and provide a periodic accounting to the Town. The general employees’ pension plan presently has allocated 29% of its investments in fixed income securities, 61% in domestic equity, and 10% in international stock. The police officers retirement fund presently has allocated 29% of its investment in fixed income securities, 61% in domestic equity, and 10% in international equities.

The plans address credit risk and concentration of credit risk with a policy that prohibits investments of more than 5% of its assets in the securities of any one issuer with the exception of the U.S. government. The policy further prohibits investment of more than 20% in any one market sector. Fixed income securities must be rated at least A. Commercial paper must be rated A1, P1.

TOWN OF MEDLEY, FLORIDA

**Notes to the Financial Statements – Continued
September 30, 2012**

1. Summary of Significant Accounting Policies – Continued:

E. Assets, Liabilities, and Net Assets or Equity – Continued

(e) Concentrations of Credit Risk

All of the investments in the pension funds are held by the Standard Insurance Company. Within those accounts, investments which comprise 5% or more of the plans’ assets at September 30, 2012, are as follows:

	<u>General Employees Pension Fund</u>	<u>Police Officers’ Retirement Fund</u>
Harbor Bond	\$ 929,632	\$ 2,046,193
Harbor International Instl	592,460	-
Mainstay Map I	848,075	-
Stable Asset Fund II	2,264,053	1,990,365
T. Rowe Price Equity – Income	1,945,859	-
T. Rowe Price Growth Stock	1,906,465	-
Thornburg Interntl Value R5	-	1,398,288
Vanguard 500 Index Admiral DB	-	1,861,726
Vanguard 500 Index Signal DB	850,450	-
Vanguard Morgan Growth Adml DB	-	1,804,285
Vanguard Value Index Signal DB	-	1,858,796
William Blair Intl Growth I	602,550	-
	<u>\$ 9,939,544</u>	<u>\$ 10,959,653</u>

(3) Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” See Note 12 for details of interfund transactions, including receivables and payables at year-end.

All trade and property tax receivables are shown net of an allowance for uncollectibles.

(4) Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of ordinary maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

TOWN OF MEDLEY, FLORIDA

**Notes to the Financial Statements – Continued
September 30, 2012**

1. Summary of Significant Accounting Policies – Continued:

E. Assets, Liabilities, and Net Assets or Equity – Continued

(4) Capital Assets – Continued

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Governmental Activities	Business-Type Activities
Land and land improvements	N/A	30 – 40 years
Buildings and improvements	7 – 40 years	10 – 40 years
Infrastructure	50 years	N/A
Water, wastewater, and stormwater utility systems	N/A	12 – 50 years
Transportation equipment	5 years	5 – 10 years
Machinery and equipment	5 – 10 years	5 – 10 years

(5) Loan Costs

Costs incurred in connection with obtaining financing have been capitalized and are being amortized using the straight-line method over the life of the respective financing. Amortization expense was \$4,393 for the year ended September 30, 2012. Loan costs consist of the following at September 30, 2012:

	Water and Wastewater Fund
Loan costs	\$ 87,866
Accumulated amortization	<u>16,718</u>
	<u>\$ 71,148</u>

(6) Deferred Revenue

Deferred revenue recorded in the governmental funds relates to fees received prior to September 30, 2012, that are for fiscal year 2013 occupational and other licenses and other fees.

(7) Refundable Advances

Refundable advances recorded in the proprietary funds are related to advances of grant proceeds.

(8) Deferred Developer Fees

Deferred developer fees consist of amounts collected from Town property owners for the reimbursement to developers for the construction of water and wastewater systems. These amounts will be remitted to the developers.

(9) Compensated Absences

The policy of the Town is to allow vesting of employee leave benefits with the right to receive compensation under certain conditions. The liability for accrued compensated absences in the enterprise funds is accrued in those funds. The liability for employees of governmental funds is reported only as a general long-term obligation in the government-wide statement of net assets and represents a reconciling item between the fund and government-wide presentations.

TOWN OF MEDLEY, FLORIDA

**Notes to the Financial Statements – Continued
September 30, 2012**

1. Summary of Significant Accounting Policies – Continued:

E. Assets, Liabilities, and Net Assets or Equity – Continued

(10) Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Debt issuance costs are amortized over the term of the related debt.

In the Fund financial statements, governmental fund types recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

(11) Fund Balances – Governmental Funds

As of September 30, 2012, fund balances of the governmental funds are classified as follows:

- Nonspendable fund balance – amounts that cannot be spent because of their nature (such as prepaid items) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the Town itself, using its highest level of decision-making authority (i.e., Town Council). To be reported as committed, amounts cannot be used for any other purpose unless the Town takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the Town intends to use for a specific purpose. Intent can be expressed by the Town Council or by an official or body to which the Town Council delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The Town Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Town Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes.)

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

In the general fund, the Town strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately 10% – 20% of the actual expenditures in accordance with U.S. generally accepted accounting principles (“GAAP”) and other financing sources and uses.

TOWN OF MEDLEY, FLORIDA

**Notes to the Financial Statements – Continued
September 30, 2012**

1. Summary of Significant Accounting Policies – Continued:

F. Employee Benefit Plans – Continued

(1) Employee Benefit Plans and Net Pension Assets

The Town provides separate defined benefit pension plans for general employees and for uniformed police personnel, as well as a defined contribution plan created in accordance with Internal Revenue Code Section 401(a) for certain employees. The Town also offers an optional deferred compensation plan created in accordance with Internal Revenue Code Section 457. The 457 Plan is not included in the Town's financial statements.

At September 30, 2012, the Town recorded net pension assets related to the General Employees Pension Plan and the Police Officers' Retirement Plan in its government-wide statement of net assets. The pension assets are a function of annual required contributions, interest, adjustments to the annual required contribution, annual pension costs, and actual employer's contributions made to the plan and are included in prepaid items. Please refer to Note 7 for further information.

(2) Post Employment Benefits Other Than Pensions ("OPEB")

The Town provides postemployment benefit options for health care and dental insurance to eligible retirees, terminated employees, and their dependents. The benefits are provided in accordance with Town ordinances, collective bargaining agreements, and the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"). The criteria to determine eligibility include: years of service, employee age, disability due to line of duty, and whether the employee has vested in the respective retirement plan. The Town pays the entire premium for eligible employees and coverage expires upon attainment of age 65.

The Town is financing the post employment benefits on a pay-as-you-go basis. As determined by an actuarial valuation, the Town records a net OPEB obligation in its government-wide financial statements related to the benefits. Please refer to Note 7 for further information.

G. Stewardship, Compliance, and Accountability

Budgetary Information

The following procedures are used by the Town in legally adopting the budget for the general fund:

Legally Adopted Appropriated Budgets:

- Prior to August 1, the Mayor submits to the Town Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are held to obtain taxpayer comments.
- Prior to October 1, the budget is legally enacted through the passage of an ordinance.
- The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Town Council.
- The budget for the general fund is adopted on a basis consistent with GAAP.

There are no encumbrances outstanding at year-end. All outstanding purchase orders are canceled and appropriations lapse at that time. Therefore, the Town did not report any fund balances reserved for encumbrances at year-end.

The Town does not budget for the special revenue fund which accounts for the Town of Medley Foundation, Inc.

TOWN OF MEDLEY, FLORIDA

**Notes to the Financial Statements – Continued
September 30, 2012**

2. Summary of Significant Accounting Policies – Continued:

G. Stewardship, Compliance, and Accountability – Continued

The appropriated budget is prepared by fund, function, and department. The government’s department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Town Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

Legally Authorized Nonappropriated Budgets:

A legally authorized nonappropriated budget is prepared for the enterprise funds. The Mayor is authorized to transfer budget amounts between line items of the authorized budget.

H. Estimates

The preparation of basic financial statements in accordance with the bases of accounting described in the previous paragraphs, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets or liabilities at the date of the basic financial statements and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

I. Subsequent Events

The Town has evaluated subsequent events through June 17, 2013, the date which the financial statements were available to be issued.

2. Cash, Cash Equivalents, and Investments:

Cash and cash equivalents at September 30, 2012, consists of the following:

	Governmental Fund Types		Proprietary Fund Type		
	General Fund	Special Revenue Fund	Enterprise Funds	Total All Funds	Financial Institution Balance
Unrestricted:					
Demand deposits	\$ 207,152	\$ -	\$ 1,266,881	\$ 1,474,033	\$ 1,709,235
Money market funds	<u>6,914,004</u>	<u>140,742</u>	<u>7,346,967</u>	<u>14,401,713</u>	<u>14,402,684</u>
	<u>7,121,156</u>	<u>140,742</u>	<u>8,613,848</u>	<u>15,875,746</u>	<u>16,111,919</u>
Restricted:					
Demand deposits	66,348 ³	-	648,620 ^{1&4}	714,968	714,968
Money market funds	<u>3,899,730 ^{3&5}</u>	<u>-</u>	<u>156,792 ²</u>	<u>4,056,522</u>	<u>4,056,522</u>
	<u>3,966,078</u>	<u>-</u>	<u>805,412</u>	<u>4,771,490</u>	<u>4,771,490</u>
Total Cash and Cash Equivalents	<u>\$ 11,087,234</u>	<u>\$ 140,742</u>	<u>\$ 9,419,260</u>	<u>\$ 20,647,236</u>	<u>\$ 20,883,409</u>

¹ Restricted for customer utility deposits
² Restricted for debt service
³ Restricted for law enforcement
⁴ Restricted for deferred developer fees
⁵ Restricted for transportation

TOWN OF MEDLEY, FLORIDA

**Notes to the Financial Statements – Continued
September 30, 2012**

2. Cash, Cash Equivalents, and Investments – Continued:

Investments at September 30, 2012, consist of the following:

	Governmental Funds	Proprietary Fund Type		
	General Fund	Enterprise Funds	Total All Funds	Financial Institution Balance
	Cost and Fair Value	Cost and Fair Value	Cost and Fair Value	
Certificates of deposit – unrestricted	\$ 3,268,506	\$ 3,033,456	\$ 6,301,962	\$ 6,393,949

3. Receivables and Due From Other Governments:

Receivables and due from other governments consist of the following at September 30, 2012:

	Governmental Fund		Enterprise Funds			Total
	General Fund	Water and Wastewater	Stormwater Utility	Police Gun Range	Total Enterprise	
Receivables:						
User charges	\$ 19,607	\$ 781,310	\$ 464,379	\$ 20,889	\$ 1,266,578	\$ 1,286,185
Interest	78,032	14,669	738	422	15,829	93,861
Utility taxes	94,854	-	-	-	-	94,854
Franchise fees	205,379	-	-	-	-	205,379
Other	60,425	-	-	-	-	60,425
Total receivables	<u>458,297</u>	<u>795,979</u>	<u>465,117</u>	<u>21,311</u>	<u>1,282,407</u>	<u>1,740,704</u>
Due From Other Governments:						
State of Florida – Communication services	60,686	-	-	-	-	60,686
Other	35,084	-	-	-	-	35,084
Total due from other governments	<u>95,770</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>95,770</u>
Less Allowance for Doubtful Accounts	<u>(10,700)</u>	<u>(40,000)</u>	<u>(200,000)</u>	<u>(10,000)</u>	<u>(250,000)</u>	<u>(260,700)</u>
	<u>\$ 543,367</u>	<u>\$ 755,979</u>	<u>\$ 265,117</u>	<u>\$ 11,311</u>	<u>\$ 1,032,407</u>	<u>\$ 1,575,774</u>
Bad debt expense for the year ended September 30, 2012	<u>\$ 5,200</u>	<u>\$ 34,304</u>	<u>\$ 78,503</u>	<u>\$ 1,035</u>	<u>\$ 113,842</u>	<u>\$ 119,042</u>

TOWN OF MEDLEY, FLORIDA

**Notes to the Financial Statements – Continued
September 30, 2012**

4. Capital Assets:

A. Changes in Capital Assets

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

	Balance, October 1, 2011	Additions	Dispositions	Transfers	Balance, September 30, 2012
Governmental Activities:					
Capital assets not being depreciated:					
Land	\$ 3,527,975	\$ -	\$ -	\$ -	\$ 3,527,975
Infrastructure	99,894,213	-	-	-	99,894,213
Construction in progress	374,430	36,179	-	(19,168)	391,441
Total capital assets not being depreciated	<u>103,796,618</u>	<u>36,179</u>	<u>-</u>	<u>(19,168)</u>	<u>103,813,629</u>
Capital assets being depreciated:					
Buildings and improvements	14,525,800	107,268	(4,067)	(182,817)	14,446,184
Infrastructure	43,009,216	3,497	-	201,985	43,214,698
Transportation equipment	2,140,831	150,555	(10,456)	-	2,280,930
Machinery and equipment	2,538,874	84,983	(27,808)	-	2,596,049
Total capital assets being depreciated	62,214,721	346,303	(42,331)	19,168	62,537,861
Accumulated depreciation	<u>(26,763,307)</u>	<u>(2,049,442)</u>	<u>42,331</u>	<u>-</u>	<u>(28,770,418)</u>
Capital assets being depreciated, net	<u>35,451,414</u>	<u>(1,703,139)</u>	<u>-</u>	<u>19,168</u>	<u>33,767,443</u>
Governmental activities – capital assets, net	<u>\$ 139,248,032</u>	<u>\$ (1,666,960)</u>	<u>\$ -</u>	<u>\$ 19,168</u>	<u>\$ 137,581,072</u>

TOWN OF MEDLEY, FLORIDA

**Notes to the Financial Statements – Continued
September 30, 2012**

4. Capital Assets – Continued:

A. Changes in Capital Assets – Continued

	<u>Balance, October 1, 2011</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Transfers</u>	<u>Balance, September 30, 2012</u>
Business-Type Activities:					
Capital assets not being depreciated:					
Land:					
Water and wastewater fund	\$ 444,238	\$ -	\$ -	\$ -	\$ 444,238
	<u>444,238</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>444,238</u>
Construction in progress:					
Water and wastewater fund	65,930	12,696	-	-	78,626
Stormwater utility fund	868,365	713,787	-	(594,606)	987,546
	<u>934,295</u>	<u>726,483</u>	<u>-</u>	<u>(594,606)</u>	<u>1,066,172</u>
Total capital assets not being depreciated	<u>1,378,533</u>	<u>726,483</u>	<u>-</u>	<u>(594,606)</u>	<u>1,510,410</u>
Capital assets being depreciated:					
Land and improvements:					
Medley Lakeside Retirement Park fund	321,601	-	-	-	321,601
	<u>321,601</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>321,601</u>
Water, wastewater, and stormwater utility systems:					
Water and wastewater fund	23,407,838	49,610	-	-	23,457,448
Stormwater utility fund	7,165,351	1,351	(1,154)	594,606	7,760,154
	<u>30,573,189</u>	<u>50,961</u>	<u>(1,154)</u>	<u>594,606</u>	<u>31,217,602</u>
Buildings and improvements:					
Water and wastewater fund	567,701	-	(1,710)	-	565,991
Medley Lakeside Retirement Park fund	299,623	-	-	-	299,623
Police gun range fund	242,563	-	-	-	242,563
	<u>1,109,887</u>	<u>-</u>	<u>(1,710)</u>	<u>-</u>	<u>1,108,177</u>
Transportation equipment:					
Water and wastewater fund	560,910	-	-	-	560,910
Stormwater utility fund	397,779	-	-	-	397,779
Medley Lakeside Retirement Park fund	3,634	-	-	-	3,634
	<u>962,323</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>962,323</u>
Machinery and equipment:					
Water and wastewater fund	1,016,505	63,953	-	-	1,080,458
Stormwater utility fund	592,838	82,541	-	-	675,379
Medley Lakeside Retirement Park fund	32,874	-	-	-	32,874
Police gun range fund	101,841	36,955	(31,554)	-	107,242
	<u>1,744,058</u>	<u>183,449</u>	<u>(31,554)</u>	<u>-</u>	<u>1,895,953</u>
Total capital assets being depreciated:					
Water and wastewater fund	25,552,954	113,563	(1,710)	-	25,664,807
Stormwater utility fund	8,155,968	83,892	(1,154)	594,606	8,833,312
Medley Lakeside Retirement Park fund	657,732	-	-	-	657,732
Police gun range fund	344,404	36,955	(31,554)	-	349,805
	<u>34,711,058</u>	<u>234,410</u>	<u>(34,418)</u>	<u>594,606</u>	<u>35,505,656</u>
Accumulated depreciation:					
Water and wastewater fund	(9,717,993)	(664,166)	770	-	(10,381,389)
Stormwater utility fund	(2,076,986)	(276,830)	216	-	(2,353,600)
Medley Lakeside Retirement Park fund	(524,448)	(17,841)	-	-	(542,289)
Police gun range fund	(250,407)	(22,423)	31,554	-	(241,276)
Total accumulated depreciation	<u>(12,569,834)</u>	<u>(981,260)</u>	<u>32,540</u>	<u>-</u>	<u>(13,518,554)</u>
Capital assets being depreciated, net	<u>22,141,224</u>	<u>(746,850)</u>	<u>(1,878)</u>	<u>594,606</u>	<u>21,987,102</u>
Business-type activities – capital assets, net	<u>\$ 23,519,757</u>	<u>\$ (20,367)</u>	<u>\$ (1,878)</u>	<u>\$ -</u>	<u>\$ 23,497,512</u>

TOWN OF MEDLEY, FLORIDA

**Notes to the Financial Statements – Continued
September 30, 2012**

4. Capital Assets – Continued:

B. Depreciation Expense

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

Governmental Activities:	
General government	\$ 1,601,498
Public safety	308,019
Physical environment	33,117
Human services	41,011
Culture and recreation	<u>65,797</u>
	<u>\$ 2,049,442</u>
Business-type Activities:	
Water and wastewater utility	<u>\$ 664,166</u>
Stormwater utility	<u>\$ 276,830</u>
Medley Lakeside Retirement Park	<u>\$ 17,841</u>
Police gun range	<u>\$ 22,423</u>

5. Accounts Payable and Accrued Liabilities:

Accounts payable and accrued liabilities consist of the following at September 30, 2012:

	Governmental Funds			Enterprise Funds					
	General Funds	Town of Medley Foundation, Inc.	Total Governmental	Water and Wastewater	Stormwater Utility	Lakeside Retirement Park	Police Gun Range	Total Enterprise	Total
Vendors	\$ 222,561	\$ 997	\$ 223,558	\$ 456,284	\$ 162,565	\$ 8,812	\$ 35,839	\$ 663,500	\$ 887,058
Salaries and benefits	143,039	-	143,039	170,455	57,225	532	5,879	234,091	498,467
Compensated absences	121,337	-	121,337	72,388	32,834	-	-	105,222	105,222
Interest	-	-	-	41,773	-	-	-	41,773	41,773
DERM taxes	-	-	-	410,841	-	-	-	410,841	410,841
	<u>\$ 486,937</u>	<u>\$ 997</u>	<u>\$ 487,934</u>	<u>\$ 1,151,741</u>	<u>\$ 252,624</u>	<u>\$ 9,344</u>	<u>\$ 41,718</u>	<u>\$ 1,455,427</u>	<u>\$ 1,943,361</u>

6. Ad Valorem Tax Revenues:

Property values are assessed as of January 1 of each year, at which time taxes become an enforceable lien on property. Tax bills are mailed for the Town by Miami-Dade County on or about October 1 of each year and are payable with discounts of up to 4% offered for early payment. Taxes become delinquent on April 1 of the year following the year of assessment and State law provides for enforcement of collection of property taxes by seizure of the personal property or by the sale of interest-bearing tax certificates to satisfy unpaid property taxes.

TOWN OF MEDLEY, FLORIDA

**Notes to the Financial Statements – Continued
September 30, 2012**

6. Ad Valorem Tax Revenues – Continued:

Assessed values are established by the Miami-Dade County Property Appraiser. In November 1992, a Florida constitutional amendment was approved by the voters, which provides for limiting the increases in homestead property valuations for ad valorem tax purposes to a maximum of 3% annually and also provides for reassessment of market values upon changes in ownership. The County bills and collects all property taxes and remits them to the Town.

State statutes permit municipalities to levy property taxes at a rate of up to 10 mills (\$10 per \$1,000 of assessed taxable valuation). The tax levy of the Town is established by the Town Council and the Miami-Dade County Property Appraiser incorporates the Town’s millage into the total tax levy, which includes the County and the County School Board tax requirements. The millage rate assessed by the Town for the year ended September 30, 2012 was 5.6500 mills (5.65 per \$1,000 of taxable assessed valuation). The Town levied a millage rate of 5.585 mills for fiscal year 2013

7. Employee Benefit Plans:

A. Single Employer Defined Benefit Plans

(1) The Town’s reporting entity participates in two single employer, defined benefit, public employee retirement systems. Assets are held separately and may be used only for the payment of the members of the respective plans as follows:

- **General Employees Pension Plan:** The Town of Medley’s General Employees Pension Plan provides retirement benefits for substantially all full-time nonsworn police officers and elected officials of the Town. General Employees Pension Plan information in this note is provided as of the latest actuarial valuation, October 1, 2012.
- **Police Officers’ Retirement Plan:** The Town of Medley’s Police Officers’ Retirement Plan provides retirement benefits to sworn police officers. Police Officers’ Retirement Plan information in this note is provided as of the latest actuarial valuation, October 1, 2012.

Actuarial valuations are performed annually for the General Employees Pension Plan and biannually for the Police Officers Retirement Plan. For additional information relating to investment policy, basis of accounting, and reported investment values (see Note 1).

(2) Memberships of the plans are as follows as of the most recent actuarial valuation:

	General Employees Pension Plan	Police Officers’ Retirement Plan	Total
Active members	53	34	87
Retirees and beneficiaries currently receiving benefits	21	8	29
Terminated plan members entitled to but not yet receiving benefits	12	4	16
	86	46	132

TOWN OF MEDLEY, FLORIDA

**Notes to the Financial Statements – Continued
September 30, 2012**

7. Employee Benefit Plans – Continued:

A. Single Employer Defined Benefit Plans – Continued

(3) The following is a summary of the funding policies, contribution methods, and benefit provisions:

	General Employees Pension Plan	Police Officers' Retirement Plan
Year established and governing authority	2003: Town Resolution	2005: Town Ordinance
Determination of contribution requirements	Actuarially	Actuarially
Employer	Actuarially determined	Actuarially determined
Plan members	Non-contributory	5% of covered payroll
Funding of administrative costs	Investment earnings	Investment earnings
Period required to vest	5 years for general employees; immediate for elected officials	10 years
Post-retirement benefit increases	Increases must be approved by Town Council	Increases must be approved by Town Council
Eligibility for distributions	30 years of credited service or age 62 for general employees; 8 years of credited service or age 55 for elected officials	25 years of credited service and age 52 or 10 years of credited service and age 55
Death benefits	Survivor benefit based on normal retirement date and vested account balance	Survivor benefit based on normal retirement date and vested account balance

(4) Annual Required Contributions

Actuarial assumptions and other information used to determine the annual required contributions (“ARC”) for both plans are as follows:

	General Employees Pension Plan	Police Officers' Retirement Plan
Provision for:		
Disability benefits	Yes	Yes
Death benefits	Yes	Yes
Valuation date	October 1, 2012	October 1, 2012
Actuarial cost method	Aggregate	Frozen Initial Liability
Amortization method	N/A	N/A
Amortization period	N/A	N/A
Actuarial asset valuation method	Fair market value	Four year smooth
Actuarial assumptions:		
Investment rate of return	7%, pre-retirement; 6%, post-retirement	7.5%
Projected salary increases	Variable	Variable
Post retirement benefit increases	N/A	N/A
Inflation	2.5%	2.5%
Cost-of-living adjustments	Change in price index	N/A

TOWN OF MEDLEY, FLORIDA

**Notes to the Financial Statements – Continued
September 30, 2012**

7. Employee Benefit Plans – Continued:

A. Single Employer Defined Benefit Plans – Continued

(5) Annual Pension Costs, Net Pension Obligation, Trend Information, and Reserves

	General Employees Pension Plan			Police Officers' Retirement Plan		
	Annual Pension Costs	Percentage Contributed	Net Pension Obligation (Asset)	Annual Pension Costs	Percentage Contributed	Net Pension Obligation (Asset)
Year Ended September 30,						
2012	\$1,133,056	100%	\$ (1,189,921)	\$1,260,367	100%	\$ (647,158)
2011	1,315,711	100	(1,222,977)	1,989,783	100	(234,806)
2010	1,371,965	100	(1,138,688)	1,905,525	100	(468,405)
2009	1,397,378	100	(1,110,653)	1,653,198	100	(433,441)
2008	1,078,125	100	(958,031)	1,289,507	100	(332,994)

(6) Reserves

There are no assets legally reserved for purposes other than the payment of plan members' benefits for either plan. See Note 1 for individual investments whose market value exceeds five percent or more of net assets available for benefits. There are no long-term contracts for contributions.

B. Money Purchase Plan

All of the Town's full-time employees hired before January 1, 2011, except for sworn police officers, are required to participate in a money purchase plan and trust established under Section 401(a) of the Internal Revenue Code. The Town Council has designated The Standard Insurance Company ("Standard") as administrator of the plans, to hold the trust assets and to perform all non-discretionary functions necessary for the administration of the plans with respect to assets in the plans deposited with the trust.

The Town had originally established a separate defined contribution plan for General Employees under Standard. This plan was terminated effective January 1, 2011, and these employees now participate in the Town of Medley Money Purchase Plan.

Employees and executives hired prior to January 1, 2011, are eligible to participate from the date of their employment; Council persons are eligible when they begin to serve their elected term.

As of September 30, 2012, there were 66 active participants in the Money Purchase Plan.

Funding Provisions – Participating plan members can voluntarily contribute a percentage of their annual compensation to the plans, and the Town is required to match 5%, regardless of employee contributions.

Vesting Provision of Town's Contributions – Under the provisions of the defined contribution money purchase plan, benefits attributable to the Town's contributions vest immediately as of the entry date into the new plan. No new entrants are permitted into the plan.

TOWN OF MEDLEY, FLORIDA

**Notes to the Financial Statements – Continued
September 30, 2012**

7. Employee Benefit Plans – Continued:

B. Money Purchase Plan – Continued

Employees, executives, and Council persons are always 100% vested as to benefits attributable to their contributions to their accounts.

Under the provisions of each plan, employees, executives and Council persons are eligible for normal retirement at the age of 55.

During the year, the Town contributed \$118,316 to the Money Purchase plans.

C. Deferred Compensation Plan

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseen non-reimbursed emergency. The assets of the plan are held in trust by Standard and, as such, are not recorded in the financial statements.

D. Post Employment Benefits Other Than Pension:

(1) Plan Description

The Town provides post-employment benefit options for health care and dental insurance to eligible retirees, terminated employees, and their dependents. The benefits are provided in accordance with Town ordinances, collective bargaining agreements, and the Consolidated Omnibus Budget Reconciliation Act of 1985 (“COBRA”). The criteria to determine eligibility include: years of service, employee age, disability due to line of duty, and whether the employee has vested in the respective retirement plan. Eligible employees must retire from the Town and have 30 years of employment regardless of age, 20 years of employment and be at least 55 years old or 10 years of employment and be at least 62 years old. The Town pays the entire premium for these eligible employees and coverage expires upon attainment of age 65.

(2) Funding Policy

The Town is financing the post employment benefits on a pay-as-you-go basis. For fiscal year 2012, twenty-two retirees and dependents received health care benefits. Annual required contributions amounted to \$360,000 for the current fiscal year, towards which the Town made a contribution of approximately \$154,000. At September 30, 2012, the Town recorded net OPEB obligations of \$664,056 for governmental activities and \$190,944 for business-type activities in its government-wide statement of net assets. The water and wastewater, stormwater utility, and police gun range reported net OPEB obligations at September 30, 2012, of \$141,639, \$43,660, and \$5,645, respectively. The OPEB obligation is a function of annual required contributions, interest, adjustments to the annual required contribution, annual pension costs, and actual employers’ contributions made to the plan.

TOWN OF MEDLEY, FLORIDA

**Notes to the Financial Statements – Continued
September 30, 2012**

7. Employee Benefit Plans – Continued:

D. Post Employment Benefits Other Than Pension – Continued:

(3) Annual OPEB Cost and Net OPEB Obligation – Continued:

The Town’s annual 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 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town’s net OPEB obligation to the retiree health plan (rounded):

Annual Required Contribution	\$ 360,000
Interest on Net OPEB Obligation	30,000
Adjustment to Annual Required Contribution	<u>(30,000)</u>
Annual OPEB Cost (Expense)	360,000
Employer Contributions	(154,000)
Interest on Employer Contributions	<u>-</u>
Increase in Net OPEB Obligation	206,000
Net OPEB Obligation, beginning of year	<u>649,000</u>
Net OPEB Obligation, end of year	<u>\$ 855,000</u>

No trust or agency fund has been established for the plan.

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended September 30, 2012, and the preceding three years were as follows (rounded):

Year Ended September 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributions	Net OPEB Obligations
2012	\$ 360,000	42.8%	\$ 855,000
2011	328,000	49.4%	649,000
2010	328,000	36.3%	483,000
2009	328,000	16.5%	274,000

(4) Funded Status and Funding Progress

As of September 30, 2012, the date of the most recent actuarial valuation, the unfunded actuarial accrued liability for benefits was \$3,471,483, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$5,814,326, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 60%. The projection of future benefit payments for an ongoing plan involves 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 multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

TOWN OF MEDLEY, FLORIDA

**Notes to the Financial Statements – Continued
September 30, 2012**

7. Employee Benefit Plans – Continued:

D. Post Employment Benefits Other Than Pension – Continued:

(4) Funded Status and Funding Progress – Continued:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the September 30, 2012, actuarial valuation, the projected unit credit cost method was used. The ARC reflects a 30-year, level amortization of the unfunded actuarial accrued liability (“AAL”). The actuarial assumptions included a 4.5% investment rate of return and 3% projected salary increases. Annual medical costs are assumed to increase 8% in the first year of valuation, with future annual increases assumed to grade uniformly to 5% over a ten-year period and remain at 5% thereafter.

8. Operating Leases:

As Lessor – The Town operates a police gun range which is available for rent to other law enforcement agencies in the area on a day-to-day basis. In the fiscal year ended September 30, 2012, the Town received \$219,149 in rental income from the gun range.

In addition, the Town subleases mobile home sites to qualified individuals in the Town’s mobile home park on an annual basis. Tenants of the mobile home park are required to be qualified low-income individuals. In the fiscal year ended September 30, 2012, the Town received \$173,210 in rental income from these sites.

As Lessee – The Town leases approximately 5 acres of land from Lowell Dunn Company for the site of the police gun range on a year-to-year basis for \$10 a year.

The Town leases approximately 300 square feet of office space and two parking spaces at the Medley fire station. The lease is for a period of ninety-nine years, for a total rental of \$99 paid in advance.

The Town entered into a ground lease with Our Security Corporation on April 1, 1989. The land was subsequently improved for a mobile home park. The lease has an initial term of twenty years with options to renew for three successive periods of twenty years each, at fair rental value on the date of renewal and the initial term was extended to March 2029. The lease agreement provides for rental increases annually based on the Consumer Price Index U.S. City Average for All Urban Consumers (CPI-U 1982-84 = 100).

The following is a schedule of future payments under this lease (using an estimated 3% CPI-U rate increase each year):

Year Ending September 30,	<u>Minimum Lease Payments</u>	<u>Estimated Contingent Rentals</u>	<u>Estimated Total Amount</u>
2013	\$ 60,000	\$ 46,789	\$ 106,789
2014	60,000	49,993	109,993
2015	60,000	53,293	113,293
2016	60,000	56,692	116,692
2017	60,000	60,193	120,193
2018 – 2022	300,000	357,264	657,264
2023 – 2027	300,000	461,946	761,946
2028 – 2029	<u>90,000</u>	<u>162,058</u>	<u>252,058</u>
	<u>\$ 990,000</u>	<u>\$ 1,248,228</u>	<u>\$ 2,238,228</u>

TOWN OF MEDLEY, FLORIDA

**Notes to the Financial Statements – Continued
September 30, 2012**

8. Operating Leases – Continued:

Total fiscal 2012 rental expenditures under the ground lease were \$105,438 including \$45,438 of contingent rentals.

Total rents under all operating leases, including short-term, month-to-month rentals, were \$140,008 for the year ended September 30, 2012.

9. Long-Term Obligations:

A. Governmental Fund Type Long-Term Obligations

Changes in governmental fund type long-term obligations for the year ended September 30, 2012, are as follows:

	Balance, October 1, 2011	Additions	Reductions	Balance, September 30, 2012
Notes payable	\$ 6,656,295	\$ -	\$ 295,936	\$ 6,360,359
Compensated absences	794,619	-	107,146	687,473
Other post employment benefits	492,575	171,481	-	664,056
	<u>\$ 7,943,489</u>	<u>\$ 171,481</u>	<u>\$ 403,082</u>	<u>\$ 7,711,888</u>

A summary of debt service (annual principal and interest) requirements to maturity for all governmental fund type outstanding obligations are as follows:

<u>Fiscal Year</u>	<u>Governmental Fund Type</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2013	\$ 302,227	\$ 158,053	\$ 460,280
2014	306,826	150,530	457,356
2015	311,563	142,867	454,430
2016	316,444	135,061	451,505
2017	321,473	127,108	448,581
2018 – 2022	1,688,269	510,758	2,199,027
2023 – 2027	1,838,822	287,080	2,125,902
2028 – 2031	1,274,735	55,394	1,330,129
	<u>\$ 6,360,359</u>	<u>\$ 1,566,851</u>	<u>\$ 7,927,210</u>

Compensated absences and other post employment benefits are not included in the above table as the maturities are indeterminable.

TOWN OF MEDLEY, FLORIDA

**Notes to the Financial Statements – Continued
September 30, 2012**

9. Long-Term Obligations – Continued:

A. Governmental Fund Type Long-Term Obligations – Continued

Description of Governmental Fund Type Long-Term Obligations:

Note Payable – TD Bank Capital Improvement Refunding Revenue Note Series 2010A, monthly principal payments of \$12,500 plus variable interest of 69% of one-month LIBOR (1.92% at September 30, 2012, subject to adjustment monthly through December 2030, collateralized by the full faith and credit of the Town.	\$ 2,724,500
Note Payable – TD Bank Capital Improvement Refunding Revenue Note Series 2010B, monthly payments of \$21,541 including fixed interest at 2.98% subject to adjustment every five years through December 2030, collateralized by the full faith and credit of the Town.	<u>3,635,859</u>
	<u>\$ 6,360,359</u>

B. Proprietary Fund Type Long-Term Obligations

Promissory notes and other long-term obligations directly related to and intended to be paid from the proprietary funds are included in the accounts of such funds.

Changes in proprietary fund type long-term obligation for the year ended September 30, 2012, are as follows:

	Balance, October 1, 2011	Additions	Reductions	Balance, September 30, 2012
Notes payable	\$ 3,847,286	\$ -	\$ 123,819	\$ 3,723,467
Capital leases	<u>9,351</u>	<u>-</u>	<u>9,351</u>	<u>-</u>
	<u>\$ 3,856,637</u>	<u>\$ -</u>	<u>\$ 133,170</u>	<u>\$ 3,723,467</u>

Description of Proprietary Fund Type Long-Term Obligations:

Revolving Fund Loan – Florida Department of Environmental Protection, interest of 2.7% per annum (Phase 1) and 2.8% per annum (Phase 2), payable in semiannual principal and interest payments of \$43,025 on November 15 and May 15 through May 15, 2024, uncollateralized.	\$ 874,146
Revolving Fund Loan – Florida Department of Environmental Protection, interest of 2.05% per annum (Phase 1) and 2.54% per annum (Phase 2), payable in semiannual principal and interest payments of \$98,699 on April 15 and October 15 through April 15, 2030, uncollateralized; payments subsidized by a grant agreement with the State of Florida Department of Environmental Protection in the amount of \$70,481 semiannually through maturity.	<u>2,849,321</u>
	<u>\$ 3,723,467</u>

TOWN OF MEDLEY, FLORIDA

**Notes to the Financial Statements – Continued
September 30, 2012**

9. Long-Term Obligations – Continued:

B. Proprietary Fund Type Long-Term Obligations – Continued

A summary of debt service (annual principal and interest) requirements to maturity for all proprietary fund type outstanding obligations are as follows:

<u>Fiscal Year</u>	<u>Proprietary Fund Type</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2013	\$ 189,603	\$ 93,845	\$ 283,448
2014	194,521	88,927	283,448
2015	199,566	83,882	283,448
2016	204,742	78,706	283,448
2017	210,054	73,394	283,448
2018 – 2022	1,134,914	282,326	1,417,240
2023 – 2027	1,022,869	137,965	1,160,834
2028 – 2030	567,198	24,993	592,191
	<u>\$ 3,723,467</u>	<u>\$ 864,038</u>	<u>\$ 4,587,505</u>

Interest costs incurred in enterprise funds during construction are capitalized, net of interest income from the proceeds of related tax-exempt debt, if any, as part of the cost of the related assets of the water and wastewater fund. Total interest cost incurred in the water and wastewater fund was \$115,156 for the year ended September 30, 2012. No interest was capitalized in the current year.

10. Risk Management:

The Town 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. The Town has obtained insurance from commercial underwriters for all the aforementioned risks, including workers' compensation, for the year ended September 30, 2012.

In the event that the federal government declares a disaster for an event which causes damages in the Town, the federal government, in conjunction with the State of Florida, will reimburse the Town for eligible and approved expenses in excess of any applicable insurance reimbursements. See Note 11(D).

The Town has not paid any settlements in excess of insurance coverage for each of the past three years. Furthermore, the Town has no significant reduction in insurance coverage from the prior year.

11. Commitments and Contingencies:

A. Litigation and Other Matters

During the ordinary course of its operations, the Town is party to various claims, legal actions, and complaints. Some of these matters are covered by the Town's insurance program. Those which are not covered are handled by various law firms and professionals retained by the Town. Management does not believe that any such matters would have a material impact on the Town's financial statements.

B. Capital Asset Acquisition Commitments and Comprehensive Infrastructure Plan

The Town has retained a consultant to amend its comprehensive plan including capital improvement elements. The installation of necessary stormwater, drainage, and other infrastructure projects is an ongoing process. Town management has identified 26 projects estimated to cost \$64 million in 2012 dollars over the next five years.

TOWN OF MEDLEY, FLORIDA

**Notes to the Financial Statements – Continued
September 30, 2012**

11. Commitments and Contingencies – Continued:

C. Mitigation with Miami-Dade County and Annexation

Prior to fiscal year 2011, the Town was required to make an annual payment for mitigation to Miami-Dade County for certain land annexed to the Town in previous years. In May 2011, an agreement was signed with the County whereby the mitigation payments terminated with the last payments made in fiscal year 2010. The Town pays an allocated portion of the debt service of the County’s stormwater utility bond payment as related to annexed lands. For the year ended September 30, 2012, this payment totaled \$34,294.

The Town is currently pursuing the annexation of additional lands which it believes will assist in the long-term growth by an increased tax base and significant job creation, but will cost the Town additional monies for utility line construction and public safety. At this time, the County has put all municipal annexation applications on hold. There is no date set when these applications will again be considered.

D. Grant Expenditures

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

12. Other Required Individual Fund Disclosures:

Accounting principles generally accepted in the United States of America require disclosure, as part of the financial statements, of certain information concerning individual funds including:

A. Interfund Transactions and Balances

Individual fund interfund receivable and payable balances at September 30, 2012, were:

	Interfund Receivables	Interfund Payables
Fund:		
Governmental funds:		
General fund	\$ 172,423	\$ -
Special revenue fund	-	42,741
Proprietary funds:		
Water and wastewater fund	60,105	60,582
Stormwater utility fund	2,128	93,774
Medley Lakeside Retirement Park fund	-	16,514
Police gun range fund	-	21,045
	\$ 234,656	\$ 234,656

Interfund balances are used as short-term financing of cash flow shortfalls and to account for allocations of expenses between funds.

TOWN OF MEDLEY, FLORIDA

**Notes to the Financial Statements – Continued
September 30, 2012**

12. Other Required Individual Fund Disclosures– Continued:

A. Interfund Transactions and Balances – Continued

Interfund transfers for the year ended September 30, 2012, were:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Medley Lakeside Retirement Park fund	\$ -	\$ 179,000
Medley Lakeside Retirement Park fund:		
General fund	<u>179,000</u>	<u>-</u>
	<u>\$ 179,000</u>	<u>\$ 179,000</u>

Transfers are utilized to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary and other authorizations.

13. Fund Balance:

The Town’s fund balances are as follows at September 30, 2012:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
Nonspendable:			
Prepays	\$ 1,963,472	\$ -	\$ 1,963,472
Total nonspendable	<u>1,963,472</u>	<u>-</u>	<u>1,963,472</u>
Restricted:			
Law enforcement	3,910,943	-	3,910,943
Transportation	55,135	-	55,135
Total restricted	<u>3,966,078</u>	<u>-</u>	<u>3,966,078</u>
Committed:			
Foundation activities	-	90,504	90,504
Total committed	<u>-</u>	<u>90,504</u>	<u>90,504</u>
Assigned:			
Pension	2,500,000	-	2,500,000
Working capital	2,400,000	-	2,400,000
Retiree health insurance	400,000	-	400,000
Debt service	500,000	-	500,000
Total assigned	<u>5,800,000</u>	<u>-</u>	<u>5,800,000</u>
Unassigned	<u>4,553,608</u>	<u>-</u>	<u>4,553,608</u>
Total fund balances	<u>\$ 16,283,158</u>	<u>\$ 90,504</u>	<u>\$ 16,373,662</u>

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF MEDLEY, FLORIDA

**Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual –
General Fund**

Year Ended September 30, 2012

	Original and Final Budget	Actual	Variance
Revenues:			
Ad valorem taxes	\$ 9,344,706	\$ 9,270,269	\$ (74,437)
Utility taxes	1,028,000	1,070,510	42,510
Other general taxes	874,000	903,323	29,323
Intergovernmental	193,315	200,378	7,063
Permits, fees, and licenses	2,059,100	2,376,059	316,959
Fines and forfeitures	80,000	3,900,245	3,820,245
User charges	100,000	86,935	(13,065)
Miscellaneous	183,000	111,104	(71,896)
Total revenues	13,862,121	17,918,823	4,056,702
Expenditures:			
Current operating:			
General government	5,083,930	5,190,656	106,726
Public safety	5,044,075	5,167,106	123,031
Physical environment	776,841	698,116	(78,725)
Human services	1,057,664	1,224,510	166,846
Culture and recreation	764,726	767,232	2,506
Capital outlay	431,000	382,482	(48,518)
Debt service	464,936	463,895	(1,041)
Total expenditures	13,623,172	13,893,997	270,825
Excess (Deficiency) of Revenues			
Over Expenditures	238,949	4,024,826	3,785,877
Other Financing Sources (Uses):			
Transfers out	(180,000)	(179,000)	1,000
Total other financing sources (uses)	(180,000)	(179,000)	1,000
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Sources (Uses)			
Financing Sources (Uses)	58,949	3,845,826	3,786,877
Fund Balances, beginning of year			
	12,437,332	12,437,332	-
Fund Balances, end of year			
	\$ 12,496,281	\$ 16,283,158	\$ 3,786,877

TOWN OF MEDLEY, FLORIDA

**Defined Benefit Pension Trust Funds
Required Supplementary Information
Year Ended September 30, 2012**

A. Schedules of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c
<u>General Employees Pension Fund:</u>						
October 1, 2012	\$ 11,826,650	\$ 17,012,666	\$ 5,186,016	69.5%	\$ 1,976,411	262.4%
October 1, 2011	9,281,214	15,513,448	6,232,234	59.8%	2,224,763	280.1%
October 1, 2010	8,491,233	15,863,345	7,372,112	53.5%	2,640,787	279.2%
October 1, 2009	6,653,129	12,451,899	5,798,770	53.4%	2,680,416	216.3%
October 1, 2008	4,849,226	11,322,630	6,473,404	42.8%	2,400,099	269.7%
<u>Police Officers' Retirement Fund:</u>						
October 1, 2012	\$ 11,981,793	\$ 18,575,827	\$ 6,594,034	64.5%	\$ 2,688,574	245.3%
October 1, 2011	10,205,507	16,242,013	6,036,506	62.8%	2,381,807	253.4%
October 1, 2010	8,690,799	15,864,972	7,174,173	54.8%	2,416,247	296.9%
October 1, 2008	5,188,928	12,479,015	7,290,087	41.6%	2,411,734	302.3%
October 1, 2006	2,275,247	6,415,106	4,139,859	35.5%	2,183,767	189.6%
<u>Other Post Employment Benefits:</u>						
September 30, 2012	\$ -	\$ 3,471,483	\$ 3,471,483	-%	\$ 5,814,326	60.0%
September 30, 2009	-	3,460,071	3,460,071	-%	5,667,673	61.0%

B. Schedules of Employer Contributions:

	Required Contribution	Percentage Contributed	Net Pension/OPEB Obligation (Asset)
<u>General Employees Pension Fund:</u>			
From October 1, 2011, through September 30, 2012	\$ 1,133,056	100%	\$ (1,189,921)
From October 1, 2010, through September 30, 2011	1,315,711	100%	(1,222,977)
From October 1, 2009, through September 30, 2010	1,371,965	100%	(1,138,688)
From October 1, 2008, through September 30, 2009	1,397,378	100%	(1,110,653)
From October 1, 2007, through September 30, 2008	1,078,125	100%	(958,031)
<u>Police Officers' Retirement Fund:</u>			
From October 1, 2011, through September 30, 2012	\$ 1,260,367	100%	\$ (647,158)
From October 1, 2010, through September 30, 2011	1,989,783	100%	(234,806)
From October 1, 2009, through September 30, 2010	1,905,525	100%	(468,405)
From October 1, 2008, through September 30, 2009	1,653,198	100%	(433,441)
From October 1, 2007, through September 30, 2008	1,289,507	100%	(332,994)
<u>Other Post Employment Benefits:</u>			
From October 1, 2011, through September 30, 2012	\$ 360,000	42.8%	\$ 854,535
From October 1, 2010 through September 30, 2011	328,000	49.4%	648,964
From October 1, 2009 through September 30, 2010	328,000	36.3%	483,333
From October 1, 2008 through September 30, 2009	328,000	16.5%	274,081

TOWN OF MEDLEY, FLORIDA
Defined Benefit Pension Trust Funds
Required Supplementary Information – Continued
Year Ended September 30, 2012

C. Notes to Required Supplementary Information:

	General Employees Pension Fund	Police Officers' Retirement Fund
Valuation date	October 1, 2012	October 1, 2012
Actuarial cost method	Aggregate	Frozen Initial Liability
Amortization method	N/A	N/A
Amortization period	N/A	N/A
Actuarial asset valuation method	Fair market value	Four year smooth
Actuarial assumptions:		
Investment rate of return	7%, pre-retirement; 6%, post-retirement	7.5%
Projected salary increases	Variable	Variable
Inflation	2.5%	2.5%
Cost-of-living adjustments	Change in price index	N/A

OTHER PROPRIETARY FUNDS

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises or where the Town has decided that periodic determination of net income is appropriate for capital maintenance, management control, accountability, public policy, or other purposes.

Medley Lakeside Retirement Park fund

Used to account for the Town's operation of a low-income mobile home park.

Police gun range fund

Used to account for the operations of the Town's police gun range.

TOWN OF MEDLEY, FLORIDA

**Other Proprietary Funds
Combining Statement of Net Assets
September 30, 2012**

Assets	Medley Lakeside Retirement Park Fund	Police Gun Range Fund	Total Other Proprietary Funds
	<u> </u>	<u> </u>	<u> </u>
Current Assets:			
Cash and cash equivalents	\$ 16,670	\$ 216,246	\$ 232,916
Investments	-	56,441	56,441
Receivables, net	-	11,311	11,311
Prepaid expenses	16,838	-	16,838
Total current assets	<u>33,508</u>	<u>283,998</u>	<u>317,506</u>
Capital Assets, net	<u>115,443</u>	<u>108,529</u>	<u>223,972</u>
Total assets	<u>148,951</u>	<u>392,527</u>	<u>541,478</u>
Liabilities			
Current Liabilities:			
Accounts payable and accrued liabilities	9,344	41,718	51,062
Due to other funds	16,514	21,045	37,559
Total current liabilities	<u>25,858</u>	<u>62,763</u>	<u>88,621</u>
Net Assets			
Invested in Capital Assets	115,443	108,529	223,972
Unrestricted	<u>7,650</u>	<u>221,235</u>	<u>228,885</u>
Total net assets	<u>\$ 123,093</u>	<u>\$ 329,764</u>	<u>\$ 452,857</u>

TOWN OF MEDLEY, FLORIDA

**Other Proprietary Funds
Combining Statement of Revenues, Expenses,
and Changes in Net Assets
Year Ended September 30, 2012**

	<u>Medley Lakeside Retirement Park Fund</u>	<u>Police Gun Range Fund</u>	<u>Total Other Proprietary Funds</u>
Operating Revenues:			
User charges	\$ 173,210	\$ 219,149	\$ 392,359
Miscellaneous other	1,500	4,449	5,949
Total operating revenues	<u>174,710</u>	<u>223,598</u>	<u>398,308</u>
Operating Expenses:			
Salaries, wages, and employee benefits	25,644	101,117	126,761
Contractual services, materials, and supplies	318,535	71,565	390,100
Depreciation and amortization	17,841	22,423	40,264
Total operating expenses	<u>362,020</u>	<u>195,105</u>	<u>557,125</u>
Operating Income (Loss)	<u>(187,310)</u>	<u>28,493</u>	<u>(158,817)</u>
Non-Operating Revenues:			
Insurance proceeds	-	37,302	37,302
Interest income	23	1,617	1,640
Total non-operating revenues	<u>23</u>	<u>38,919</u>	<u>38,942</u>
Income (Loss) Before Transfers	<u>(187,287)</u>	<u>67,412</u>	<u>(119,875)</u>
Transfers:			
Transfers in	<u>179,000</u>	<u>-</u>	<u>179,000</u>
Total transfers	<u>179,000</u>	<u>-</u>	<u>179,000</u>
Net Income	(8,287)	67,412	59,125
Net Assets, beginning of year	<u>131,380</u>	<u>262,352</u>	<u>393,732</u>
Net Assets, end of year	<u>\$ 123,093</u>	<u>\$ 329,764</u>	<u>\$ 452,857</u>

TOWN OF MEDLEY, FLORIDA

**Other Proprietary Funds
Combining Statement of Cash Flows
Year Ended September 30, 2012**

	<u>Medley Lakeside Retirement Park Fund</u>	<u>Police Gun Range Fund</u>	<u>Total Other Proprietary Funds</u>
Cash Flows From Operating Activities:			
Receipts from customers and users	\$ 173,210	\$ 227,444	\$ 400,654
Payments to suppliers	(329,113)	(75,079)	(404,192)
Payments to employees	(25,644)	(101,116)	(126,760)
Other receipts	1,500	-	1,500
Net cash provided by (used in) operating activities	<u>(180,047)</u>	<u>51,249</u>	<u>(128,798)</u>
Cash Flows From Noncapital Financing Activities:			
Transfers from other funds	179,000	-	179,000
Proceeds from insurance settlements	-	37,302	37,302
Change in due from/to other funds	13,016	21,518	34,534
Net cash provided by noncapital financing activities	<u>192,016</u>	<u>58,820</u>	<u>250,836</u>
Cash Flows From Capital and Related Financing Activities:			
Acquisition of capital assets	-	(6,500)	(6,500)
Net cash used in capital and related financing activities	<u>-</u>	<u>(6,500)</u>	<u>(6,500)</u>
Cash Flows From Investing Activities:			
Purchase of investments	-	(387)	(387)
Interest income received	23	1,614	1,637
Net cash provided by investing activities	<u>23</u>	<u>1,227</u>	<u>1,250</u>
Net Increase in Cash and Cash Equivalents	11,992	104,796	116,788
Cash and Cash Equivalents, beginning of year	<u>4,678</u>	<u>111,450</u>	<u>116,128</u>
Cash and Cash Equivalents, end of year	<u>\$ 16,670</u>	<u>\$ 216,246</u>	<u>\$ 232,916</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Operating income (loss)	\$ (187,310)	\$ 28,493	\$ (158,817)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	17,841	22,423	40,264
Bad debt expense	-	1,035	1,035
Changes in:			
Receivables	-	3,846	3,846
Prepaid expenses	(8,916)	-	(8,916)
Accounts payable and accrued liabilities	<u>(1,662)</u>	<u>(4,548)</u>	<u>(6,210)</u>
Net cash provided by (used in) operating activities	<u>\$ (180,047)</u>	<u>\$ 51,249</u>	<u>\$ (128,798)</u>

SUPPLEMENTARY FINANCIAL REPORTS COMPLIANCE SECTION

**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***

Honorable Mayor and Town Council
Town of Medley, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Medley, Florida (the "Town"), as of and for the year ended September 30, 2012, which collectively comprise the Town's basic financial statements and have issued our report thereon dated June 17, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (items 2012-01 and 2012-02).

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies (items 2012-03 and 2012-04).

Honorable Mayor and Town Council
Town of Medley, Florida

Compliance and Other Matters

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

The Town's response to the audit findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Town's response and, accordingly, we express no opinion on it.

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

Aurett Warmus Durkee

Orlando, Florida
June 17, 2013

TOWN OF MEDLEY, FLORIDA

**Schedule of Findings and Responses
Year Ended September 30, 2013**

MATERIAL WEAKNESSES:

2012-01 Supervisory Review:

Findings:

Effective internal control of financial reporting requires an element of supervisory review to reduce the ability for unauthorized transactions to occur and go undetected. Due to the small size of the Town, there is a lack of segregation of duties in some accounting and financial reporting functions. Although quarterly financial statements are provided to the Mayor and Town Council, they are not approved. Additionally, journal entries can be prepared, entered, and posted by one individual without review or approval. Without proper review and approval, the risk that unauthorized transactions could occur and not be detected in a timely manner is increased.

Recommendation:

The involvement of the Mayor and of the Town Council in the operations of the Town helps mitigate this condition. Two signatures are required for disbursement and the Town Council approves the annual budget. We recommend that the Mayor and Town Council establish a periodic review and approval of the Town's financial statements and a system of review, and approval for non-standard journal entries be implemented.

Management's Response:

Monthly budgetary comparisons are prepared and distributed to the Mayor and Town Council. The quarterly reports of December 31, March 31, June 30, and September 30, will be discussed and accepted by the Council at a regularly scheduled council meeting.

The mayor will receive on a monthly basis a detailed general ledger so that all journal entries can be reviewed by someone other than the person preparing them.

2012-02 Capital Assets:

Effective internal control of capital assets requires that an inventory count be performed on a periodic basis to ensure that assets reported on the financial statements are accounted for. The Town has not performed a recent physical inventory, and as such, has not determined if the assets reported on the financial statements are accounted for.

Furthermore, the Town has numerous pump station sites in its boundaries that have not been dedicated nor have easement language contained in their plats to conclusively establish proper dedication in accordance with Florida Statute 177.081. Accordingly, assets with estimated values totaling approximately \$3.5 million are not included in the Town's capital assets.

Recommendation:

We recommend the Town perform periodic or annual inventories of its capital assets. Additionally, the Town should continue to vigorously pursue the conveyance of completed Town infrastructure constructed by third parties.

Management's Response:

It is not believed that there is a material difference between the capital assets on hand and what is recorded in the financial statements. However, a physical inventory will be performed by Town personnel in fiscal year 2013 with the appropriate adjustments made.

Conveyance of pump stations and other infrastructure is actively being pursued so that the Town has proper title to these capital assets.

TOWN OF MEDLEY, FLORIDA

**Schedule of Findings and Responses – Continued
Year Ended September 30, 2013**

SIGNIFICANT DEFICIENCIES:

2012-03 Licenses and Permits:

Town Resolution C-644 established rates for fees that can be charged to citizens for various permits obtained through the Building Department. During our testing of licenses and permits, we noted several discrepancies and internal control weaknesses as follows:

1. Subsidiary ledgers for licensing and permitting functions do not interface with the general ledger. Reports cannot be generated that show amounts recorded in the general ledger in direct correlation to amounts recorded by the Building Department. Without the ability to reconcile the reports to the general ledger, there is an increased risk of errors or irregularities occurring that may not be detected in a timely manner.
2. The Town periodically receives cash payments for licenses and permits and there are little to no controls over such receipts and the safeguarding of these payments. Additionally, amounts received by the Building Department are not consistently posted and deposited daily. Without proper controls over cash collections, errors or irregularities could occur without timely detection.
3. In accordance with Florida Statutes 468.631 and 553.721, the Town is required to collect and remit surcharge fees quarterly to the state Department of Community Affairs (“DCA”) and the state Department of Professional Regulations (“DPR”). Our review of the reports completed by the Town revealed that no reports were submitted to DCA during the fiscal year, and the reports submitted to DPR were not calculated correctly. This condition occurred because there is no requirement in the Building Department that the reports be reviewed prior to submission to the state. Without proper supervision and review, the risk of filing inaccurate reports is increased.

Recommendation:

We recommend the Town implement an automated system which allows interface between the permitting and licensing function and the financial reporting function. We also recommend the Town implement a centralized cash register system which interfaces with the financial reporting functions, as well as ensures daily entry and deposit of amounts received. Additionally, we recommend the Town adopt proper supervision and review procedures over surcharge fee reports submitted to the state.

Management’s Response:

The Town owns building department software which is supposed to interface with the general ledger. The software is supposed to automatically calculate fees and generate reports which can integrate with the accounting software.

We have been unable to operate the building department software as intended. As a result, we run permits and licenses reports which we have to manually reconcile to the general ledger.

The Town does not believe the benefits of implementing a centralized cash register system outweigh the cost of hiring an additional employee.

The responsibility of preparing the quarterly surcharge report and submitting the fees will be taken over by the finance department. All reports and remittances will be performed in a more accurate and timely manner.

2012-04 Payroll and Compensated Absences:

Chapter 44 of the Medley, Florida Code of Ordinances established the requirements for accumulating compensatory leave and overtime. All appointed department heads are required, from time to time, to appear before the Town Council, as requested, without additional compensation. However, our testing of the Town’s procedures over compensated absences indicated that “admin time” is being accumulated for such instances that allow department heads to take time off in lieu of converting the time to payroll payments even though there are no provisions in the Code of Ordinances for this type of compensatory leave.

TOWN OF MEDLEY, FLORIDA

**Schedule of Findings and Responses – Continued
Year Ended September 30, 2013**

2012-04 Payroll and Compensated Absences – Continued:

Our testing of the Town’s procedures over compensated absences also disclosed that manual override of employee electronic timecards is occurring without proper supervisory approval. Adjustments to timecards are made based on verbal authorization from supervisors rather than through signed documentation. Without proper documented approval, the possibility exists that employees are being paid in excess of the time they actually worked.

Recommendation:

We recommend that the Town review its policies over compensated absences to address the “admin time” being accumulated by its department heads. We further recommend that all adjustments to employee electronic timecards be documented by supervisory approval.

Management’s Response:

Department heads working hours in excess of their regularly scheduled work day are accumulating “admin time” in lieu of over time. All employees, including department heads, are required to punch in and out to record their time. Department heads will not be paid their full salary/wages if they work less than their required weekly schedule. Therefore “admin time” is accrued for hours worked in excess which the department head can later use to make up any shortages. This is the policy put in place by the Town’s administration and approved by the Council. It has not been memorialized by resolution or ordinance.

Manual overrides of time cards occur because employees forget to punch in and out.

This occurs mostly with police officers. However, police officers also have their time recorded at roll call. If they do not answer at roll call their sergeant records and forwards this to the police administration where accrued time is completed and forwarded to payroll.

Supervisors are now signing and approving all time cards so that all manual changes will have proper documentation.

TOWN OF MEDLEY, FLORIDA

Status of Prior Year Recommendations

Prior Year Recommendations:

<u>Prior Year Findings</u>	<u>Prior Year Reference Number</u>	<u>Current Year Status</u>	<u>Present in Second Preceding Year Report</u>	<u>Year Initially Reported</u>
Licenses and permit items	A.	Partially corrected	Yes – Item A.6. Yes – Item A.7.	2007 2010
Payroll and compensated absence items	B.	Partially corrected	Yes – Item B.5.	2005
Travel and entertainment items	C.1.	Corrected	N/A	–
Grant administration	C.2.	Corrected	N/A	–
Supervisory review	C.3.	Not corrected	Yes – Item C.4.	2007
Centralized purchasing	C.4.	Rejected	No	–
Capital asset items	D.	Not corrected	Yes – Item D.	2006
Water and wastewater utility items	E.	Corrected	N/A	–
Benefit plan items	F.	Corrected	N/A	–

**Management Letter Required by Section 10.550 of the
Rules of the Auditor General of the State of Florida**

Honorable Mayor and Town Council
Town of Medley, Florida

We have audited the financial statements of the Town of Medley, Florida (the "Town"), as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated June 17, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our 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* and Schedule of Findings and Responses. Disclosures in those reports and schedule, which are dated June 17, 2013, should be considered in conjunction with this management letter.

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

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and 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 as noted in the Status of Prior Year Recommendations found on page 62.
- 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 Town complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) Deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Honorable Mayor and Town Council
Town of Medley, Florida

- Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The Town was formed in 1949 and incorporated under Chapter 165 of the Florida Statutes and has one component unit, the Town of Medley Foundation, Inc. (the "Foundation"). The Town was created pursuant to a special election held April 9, 1949. The Foundation was created by action of the Town Council who approved the Articles of Incorporation and By-Laws and has applied for and received a 501(c)(3) determination letter from the Internal Revenue Service. The members of the Town Council serve as the Foundation's Board of Directors.
- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Town did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the Town 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.
- Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Town'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.

Aurett Warmus Durkee

Orlando, Florida
June 17, 2013