

CITY OF CRESTVIEW, FLORIDA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

CITY OF CRESTVIEW, FLORIDA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the
City Council
City of Crestview, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the budgetary comparison for the General and Debt Service Funds of the City of Crestview, Florida (the City), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Honorable Mayor and Members of the
City Council
City of Crestview, Florida

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crestview, Florida, as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof and the budgetary comparisons for the General and Debt Service Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 5-15 and other required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Honorable Mayor and Members of the
City Council
City of Crestview, Florida

The combining and individual non-major fund financial statements are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of that 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* in considering the City's internal control over financial reporting and compliance.



Fort Walton Beach, Florida
June 29, 2017

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**CITY OF CRESTVIEW, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

As management of the City of Crestview, we offer readers of the City of Crestview's financial statements this narrative overview and analysis of the financial activities of the City of Crestview for the fiscal year ended September 30, 2016. We encourage readers to consider the information presented here. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- The assets of the City of Crestview exceeded its liabilities by approximately \$49.6 million (net position), and represents an increase of approximately \$2.4 million in net position from the prior year. Of this amount, approximately \$31 million represents the net investment in capital assets (e.g. land, infrastructure, building, machinery and equipment), \$2.8 million is restricted for future obligations, and \$16 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The governmental net position increased by approximately \$1.5 million from the prior year, which includes a prior period adjustment of \$395,751.
- The net position of the business-type activities of the City increased by approximately \$1.2 million from the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5.9 million, or 44% of the total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Crestview's basic financial statements. The City of Crestview's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The statement of net position presents information on all of the City of Crestview's assets and liabilities, with the difference between the two reported as net position. The statement combines and consolidates the governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. Over time, increases or decreases in net position may serve as a useful indicator of the financial position of the City of Crestview.

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

Both of the government-wide financial statements distinguish functions of the City of Crestview that are principally supported by taxes and inter-governmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Crestview include general government (city clerk, city council, mayor, finance, service maintenance and non-departmental expenses), public safety (police, fire and animal control), public works (administration and engineering), transportation (streets and right-of-way), culture and recreation (parks and library) and debt service interest. The business-type activities of the City of Crestview include utilities (water and sewer) and sanitation. The government-wide financial statements are found on pages 17-18 of this report.

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

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 financial requirements. Found on pages 19-24 of this report are the basic governmental fund financial statements.

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 statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Crestview maintains five individual governmental funds (General Fund, Community Redevelopment Fund, Law Enforcement Trust Fund, Debt Service Fund and the Permanent Fund). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Debt Service Fund, which are considered major funds. Data from the other four governmental funds (Community Redevelopment Fund, Law Enforcement Trust Fund, and Permanent Fund) are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Crestview adopts an annual appropriated budget for its Governmental Funds. Budgetary comparison statements are provided for the General and Debt Service Funds to demonstrate compliance with the budget.

Proprietary funds - All proprietary funds of the City of Crestview are maintained as enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Crestview uses enterprise funds to account for its utilities operations (water operations and distribution and sewer collections and treatment), and sanitation operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Utilities Fund and Sanitation Fund are both considered major proprietary funds. The proprietary fund financial statements are found on pages 25-28 of this report.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Crestview's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The fiduciary fund financial statements are found on pages 29-30 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information, which is essential to the full understanding of the data provided in the government-wide and fund financial statements. On page 32 of this report is the beginning of the notes to the financial statements.

OTHER INFORMATION

The combining statements referred to earlier in connection with the non-major governmental funds are presented immediately following the notes to the financial statements. The combining and individual fund statements and schedules are found on pages 76-77 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Crestview, assets exceeded liabilities by \$49.6 million (net position) for the fiscal year ended 2016 as reported in Table 1.

**TABLE 1
CITY OF CRESTVIEW, FLORIDA
NET POSITION
AS OF SEPTEMBER 30, 2016 AND 2015**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Total assets, excluding capital assets	\$ 10,199	\$ 8,055	\$ 11,264	\$ 10,235	\$ 21,463	\$ 18,290
Capital assets, net of depreciation	18,108	17,488	39,828	39,721	57,936	57,209
Total assets	<u>28,307</u>	<u>25,543</u>	<u>51,092</u>	<u>49,956</u>	<u>79,399</u>	<u>75,499</u>
Deferred outflows of resources	<u>2,427</u>	<u>2,250</u>	<u>1,529</u>	<u>399</u>	<u>3,956</u>	<u>2,649</u>
Total assets and deferred outflows	<u>\$ 30,734</u>	<u>\$ 27,793</u>	<u>\$ 52,621</u>	<u>\$ 50,355</u>	<u>\$ 83,355</u>	<u>\$ 78,148</u>
Total liabilities, excluding long-term liabilities	\$ 828	\$ 934	\$ 1,240	\$ 1,476	\$ 2,068	\$ 2,410
Long-term liabilities	6,396	4,464	23,921	22,618	30,317	27,082
Total liabilities	<u>7,224</u>	<u>5,398</u>	<u>25,161</u>	<u>24,094</u>	<u>32,385</u>	<u>29,492</u>
Deferred inflows of resources	<u>1,149</u>	<u>1,198</u>	<u>216</u>	<u>213</u>	<u>1,365</u>	<u>1,411</u>
Net position:						
Net investment in capital assets	13,536	13,919	17,235	17,069	30,771	30,988
Restricted	316	410	2,522	2,932	2,838	3,342
Unrestricted	8,509	6,868	7,487	6,047	15,996	12,915
Total net position	<u>22,361</u>	<u>21,197</u>	<u>27,244</u>	<u>26,048</u>	<u>49,605</u>	<u>47,245</u>
Total liabilities, deferred inflows and net position	<u>\$ 30,734</u>	<u>\$ 27,793</u>	<u>\$ 52,621</u>	<u>\$ 50,355</u>	<u>\$ 83,355</u>	<u>\$ 78,148</u>

By far the largest portion of the City of Crestview's net position, approximately \$31 million (or 62%), represent the investment in capital assets (e.g. land, infrastructure, building, machinery and equipment).

An additional portion of the City of Crestview's net position, approximately \$3 million (or 6%) represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$16 million, may be used to meet the government's ongoing obligations to citizens and creditors.

The overall increase in the City's net position was \$2,358,701 during FY 2016.

Governmental Activities - Governmental activities increased the City of Crestview's net position by \$1,164,104 and business-type activities increased the City's net position by \$1,194,597. Reported in Table 2 are the key elements of these changes.

TABLE 2
CITY OF CRESTVIEW, FLORIDA
CHANGE IN NET POSITION
AS OF SEPTEMBER 30, 2016 AND 2015

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program revenues:						
Charges for services	\$ 2,762	\$ 2,608	\$ 9,670	\$ 9,697	\$ 12,432	\$ 12,305
Operating grants and contributions	124	1,225	703	151	827	1,376
Capital grants and contributions	-	16	-	-	-	16
General revenues:						
Property taxes	6,595	5,488	-	-	6,595	5,488
Other taxes	5,696	5,576	174	186	5,870	5,762
Other revenues	1,053	999	202	160	1,255	1,159
Total revenues	16,230	15,912	10,749	10,194	26,979	26,106
Expenses:						
General government	4,166	5,496	-	-	4,166	5,496
Public safety	7,810	7,711	-	-	7,810	7,711
Transportation	1,575	1,584	-	-	1,575	1,584
Culture and recreation	1,213	1,286	-	-	1,213	1,286
Interest on long-term debt	302	146	-	-	302	146
Utilities fund	-	-	6,715	6,857	6,715	6,857
Sanitation fund	-	-	2,839	2,857	2,839	2,857
Total expenses	15,066	16,223	9,554	9,714	24,620	25,937
Increase (decrease) in net assets before transfers	1,164	(311)	1,195	480	2,359	169
Transfers	-	(4)	-	4	-	-
Increase (decrease) in net assets	\$ 1,164	\$ (315)	\$ 1,195	\$ 484	\$ 2,359	\$ 169

Financial Impacts

There are eight basic impacts on revenues and expenses as reflected below:

Revenues

- **Economic Condition** - This can reflect a declining, stable, or growing economic environment and has a substantial impact on property, sales, gas or other tax revenue.
- **Council Approved Rate Adjustments** - While certain tax rates are set by statute, the City Council has significant authority to impose and periodically adjust rates (water, wastewater, sanitation, impact fees, recreation user fees, etc.).
- **Changing Patterns in Intergovernmental Grant Revenue** (both recurring and non-recurring) – Certain recurring revenues (state revenue sharing and community development grants) may experience significant changes periodically while non-recurring (or one-time) grants are less predictable and often distorting in their impact on year-to-year comparisons.

- Market Impacts on Investment Income - The current market conditions have little influence on the City's investment income since the majority of the City's non-pension investments consist of certificates of deposit and deposits with the State Board of Administration.

Expenses

- Introduction of New Programs - Within functional expense categories, (police, fire, public works, community development, parks and recreation, etc.) individual programs may be added or deleted to meet changing community needs.
- Authorized Position Adjustments - Changes in service demand may cause the City Council to change authorized staffing. Staffing costs (salary and related benefits) represent approximately 50% of the City's operating costs.
- Salary Adjustments - The ability to attract and retain human and intellectual resources requires the City to strive to approach a competitive salary range position in the marketplace.
- Inflation - While overall inflation appears to be reasonably modest, the City is a major consumer of certain commodities such as paper, chemicals, supplies, fuel, oil, and parts. Some fluctuations may experience commodity specific increases.

Current Year Impacts - Governmental Activities

- Net position decreased by approximately \$316,000 in the prior year and increased approximately \$1.1 in the current year. Total revenues in the governmental activities increased by approximately \$323,000 whereas expenditures decreased approximately \$1.2M. It is important to note that the prior year revenue and expenditures included a \$1 million state grant and adjustments to implement GASB 68 for pension plans.
- Property taxes increased by \$1.1M (or 20%).
- Charges for services for governmental activities increased approximately \$213,000 (or 8%).
- Sales and fuel taxes increased \$150,627 (or 6%) due to the current economic conditions.
- Other taxes for governmental activities decreased \$30,840 (or 1%).

Chart 1
Expenses and Program Revenue - Governmental Activities

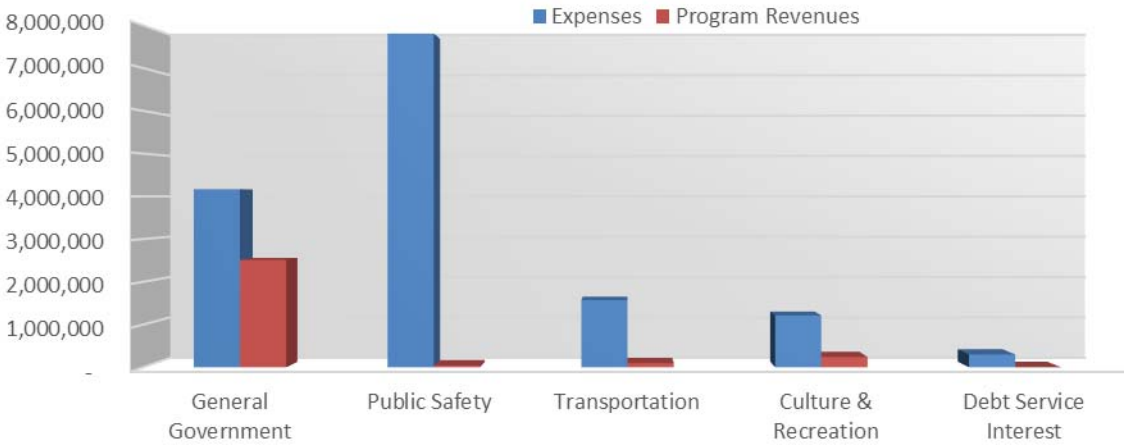
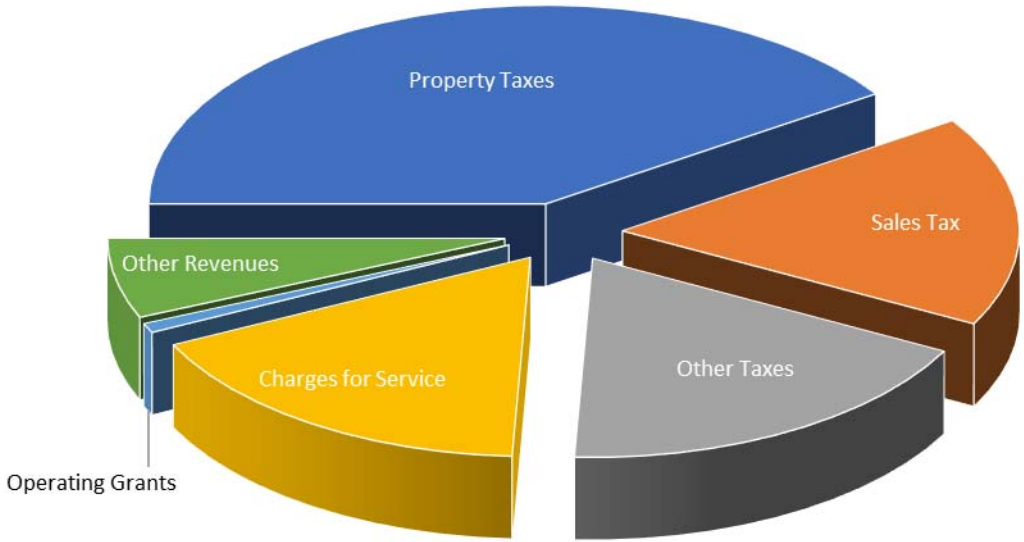


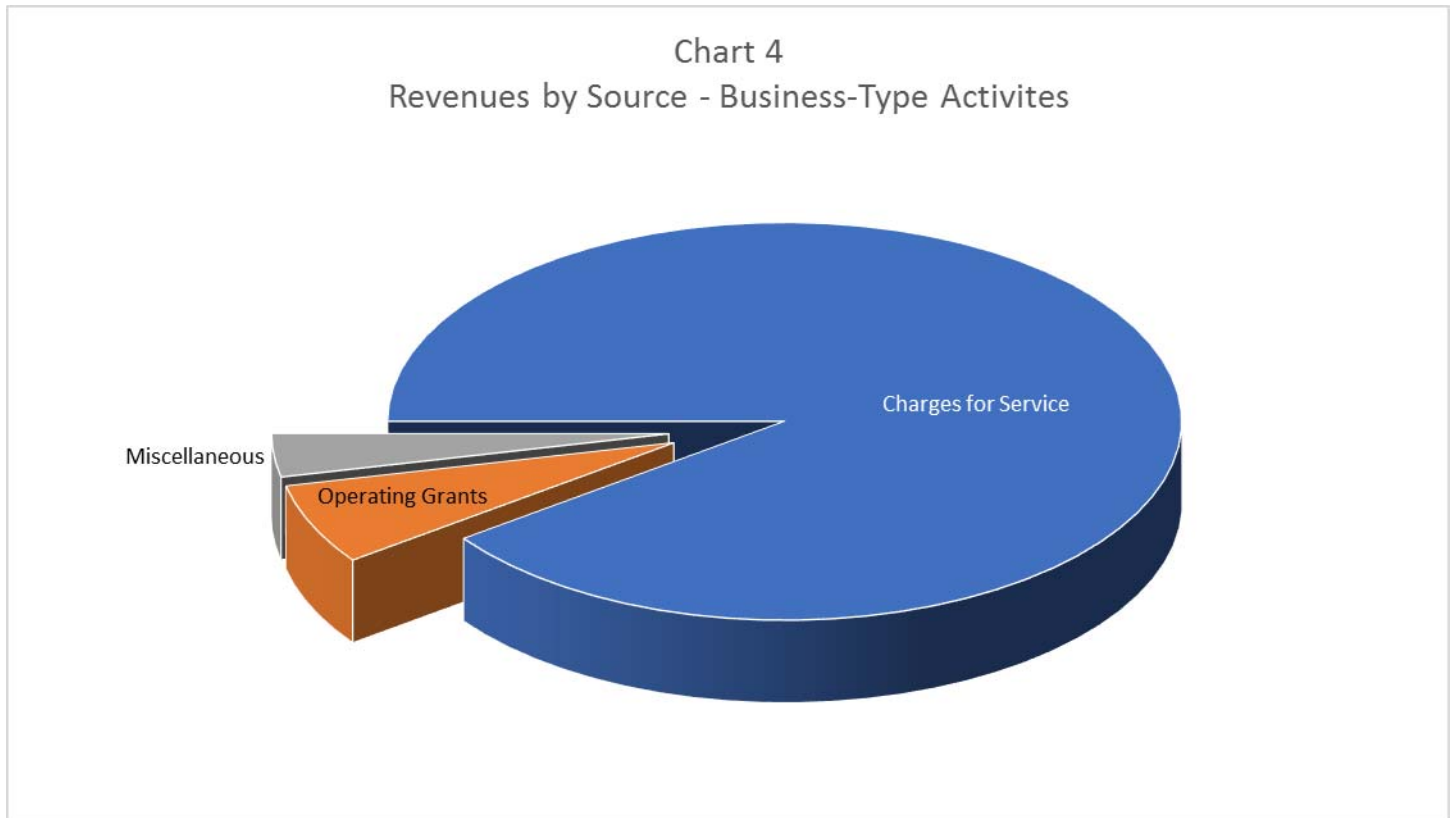
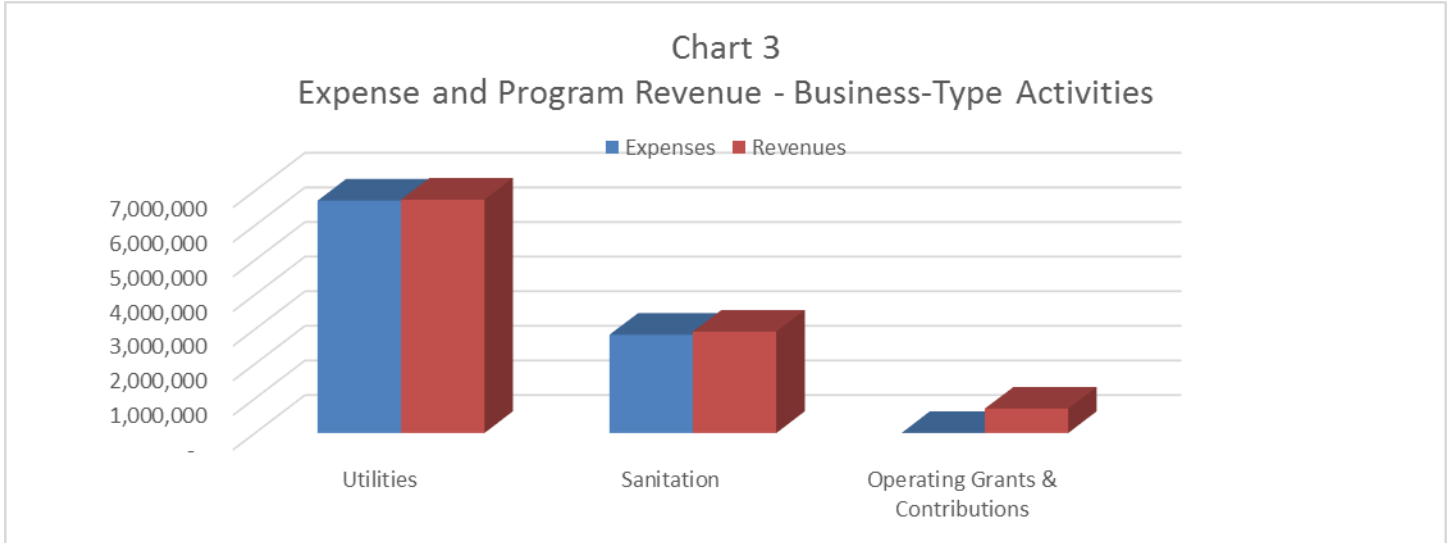
Chart 2
Revenues by Source - Governmental Activities



Business-Type Activities

The net position from business-type activities increased \$1.2M (or 5%).

- Charges for services for business-type activities decreased by approximately \$28,000.
- Total operating expenses decreased by approximately \$160,000.



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds - The focus of the City of Crestview's governmental funds is to provide information on near-term inflows, and balances of spendable resources. Such information is useful in assessing the City of Crestview'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.

As of the end of the current fiscal year, the City of Crestview's governmental funds reported combined ending fund balance of \$8.9 million, an increase of \$2,310,507 in comparison with the prior year. Approximately 67% of this total amount (\$5.9 million) constitutes unassigned fund balance in the General Fund, which is available for spending at the City Council's discretion. Amounts that will benefit future periods (prepaid expenses) total \$173,475. Additionally, other amounts are reserved via restrictions from outside donors. The remainder of fund balance is not available for general spending because it has already been assigned by the City (\$2,526,103).

The General Fund is the chief operating fund of the City of Crestview. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$5.9 million, while total fund balance reached \$7.2 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures. Unassigned fund balance represents 44% of the total General Fund expenditures, while total fund balance represents 53% of that same amount.

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

Unrestricted net position of the proprietary funds totaled \$7.5 million at the end of the year; of that the Utilities Fund amounted to \$5.7 million, and the Sanitation Fund totaled \$1.8 million. The net position for this fiscal year in the proprietary funds increased by \$1,194,597. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Crestview's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, the City's budget was amended to reflect approximately \$13,000 in donated income and \$1,700 from capital projects for the purchase of jaws of life for the fire department. The budget was also amended to reflect approximately \$19,000 of donated items for the police department (canine, canine training and exercise equipment).

Revenues for the year were more than budgeted by approximately \$814,000. Expenditures were more than budgeted amounts by approximately \$319,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Crestview's investments in capital assets for its governmental and business-type activities as of September 30, 2016, amounts to \$92.0 million (\$58.0 million net of accumulated depreciation). This investment in capital assets includes land, buildings, water, wastewater and drainage systems improvements, machinery and equipment, park facilities, roads, and highways, etc. The total increase in the City of Crestview's gross capital asset additions for the current fiscal year were \$3.2 million or 3% overall, and is summarized as follows:

- Improvements to buildings and highways and streets (\$342,621) and water and sewer system (\$1,278,682).
- Purchases of equipment and vehicles for the police, fire, streets, permitting and utility departments (\$1,485,640).
- Purchase of land for fire station #4 (\$83,979).

**TABLE 3
CITY OF CRESTVIEW CAPITAL ASSETS**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,844	\$ 1,761	\$ 2,169	\$ 2,169	\$ 4,013	\$ 3,930
Construction in progress	31	31	530	539	561	570
Buildings	8,146	8,146	8,954	8,954	17,100	17,100
Improvements	5,158	4,815	3,143	1,936	8,301	6,751
Infrastructure	14,061	14,061	35,586	35,505	49,647	49,566
Machinery and equipment	6,746	6,404	4,779	4,693	11,525	11,097
Capital lease equipment	978	-	-	-	978	-
Total prior to depreciation	36,964	35,218	55,161	53,796	92,125	89,014
Less accumulation depreciation	18,856	17,730	15,333	14,075	34,189	31,805
Total	\$ 18,108	\$ 17,488	\$ 39,828	\$ 39,721	\$ 57,936	\$ 57,209

Long-term Debt

At the end of the current fiscal year, the City of Crestview had total long-term debt outstanding of \$28.7 million. The City of Crestview's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds), state revolving loans, and capital leases. The State of Florida does not place a legal limit of debt on municipalities. For general obligation debts, greater than one year, the City is required to conduct a voter referendum process for approval of this type of debt. The City has no general obligation debts greater than one year as of September 30, 2016.

TABLE 4
CITY OF CRESTVIEW OUTSTANDING DEBT
REVENUE BONDS, NOTES PAYABLE AND CAPITAL LEASES

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Notes payable	\$ -	\$ -	\$ 12,055	\$ 12,710	\$ 12,055	\$ 12,710
Capital leases	1,525	-	-	-	1,525	-
Revenue bonds	3,551	3,569	11,611	9,942	15,162	13,511
Total	\$ 5,076	\$ 3,569	\$ 23,666	\$ 22,652	\$ 28,742	\$ 26,221

Net of deferred outflows related to losses on bond refunding, total long-term debt increased by approximately \$1.5 million during the 2016 fiscal year. Additional information on the City of Crestview’s long-term debt can be found in Notes 7 and 8 of this report.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The State of Florida, by constitution, does not have a state personal income tax and therefore the State operates primarily using sales, gasoline, and corporate income taxes. Local governments (cities, counties, and school boards) primarily rely upon property and limited array of permitted other taxes (sales, gasoline, utility service taxes, etc.) and fees (franchise and business license) for their governmental activities. There are a limited number of state shared revenues and recurring and non-recurring grants from both the state and federal government, which provide funding for specific programs, projects, or activities. For the business-type activities and certain governmental activities (permitting and recreational programs) the user pays a related fee or charge associated with the service.

The level of taxes, fees, and charges for services (including development related impact fees) has an impact on the City’s specific competitive ability to encourage development and redevelopment (office, retail, residential, and industrial) for those businesses that choose to locate in our jurisdiction. As the City and surrounding area continues to experience growth, the City places great emphasis on forecasting the needs of the future to ensure the continued financial and economic health of our community.

The military has a significant presence in our community with Duke Field, Eglin Air Force Base and Hurlburt Special Operations, employing military and civilian personnel. These installations are essential to the continued long-term economic vitality of this area. Eglin Air Force Base is the world’s largest Department of Defense installation, spanning 724 square miles. Defense contractor companies are established throughout the Northwest Florida region.

The City is undertaking several processes to assist in future planning by creating a multi-year capital improvement program. Another factor that is being looked at is a replacement program for capital equipment such as vehicles, computers, etc.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City of Crestview’s finances for all those with an interest in the City’s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Finance Director, 198 N. Wilson Street, Crestview, Florida 32536. The City’s website address is www.cityofcrestview.org. Inquiries may also be sent via email to the Finance Department at ginatoussiant@cityofcrestview.org.

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BASIC FINANCIAL STATEMENTS

**CITY OF CRESTVIEW, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016**

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and cash equivalents	\$ 6,784,245	\$ 6,314,629	\$ 13,098,874
Investments	665,805	92,947	758,752
Accounts receivable, net	375,841	1,088,681	1,464,522
Due from the State of Florida	387,542	145,219	532,761
Restricted assets:			
Cash and cash equivalents	1,308,915	2,845,905	4,154,820
Investments	-	711,067	711,067
Prepaid expenses	173,475	65,910	239,385
Capital assets:			
Assets not being depreciated	1,875,279	2,698,477	4,573,756
Assets being depreciated, net	16,232,442	37,129,152	53,361,594
Intangible assets, net	503,617	-	503,617
Total Assets	28,307,161	51,091,987	79,399,148
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on bond refunding	-	1,072,927	1,072,927
Pensions	2,426,671	456,345	2,883,016
Total deferred outflows of resources	2,426,671	1,529,272	3,955,943
Total Assets and Deferred Outflows	\$ 30,733,832	\$ 52,621,259	\$ 83,355,091
LIABILITIES			
Accounts payable	\$ 93,574	\$ 373,926	\$ 467,500
Accrued liabilities	85,019	13,466	98,485
Unearned revenue	57,873	-	57,873
Due to other governments	485,655	-	485,655
Payable from restricted assets			
Accrued interest	27,787	92,692	120,479
Customer deposits	1,305	760,265	761,570
Notes payable	-	162,996	162,996
Revenue bonds payable	77,500	19,167	96,667
Non-current liabilities			
Due within one year			
Compensated absences	354,161	59,621	413,782
Notes payable	-	508,771	508,771
Capital leases	191,151	-	191,151
Revenue bonds payable	152,500	210,833	363,333
Due in more than one year			
Notes payable	-	11,383,228	11,383,228
Capital leases	1,333,878	-	1,333,878
Revenue bonds payable	3,320,500	11,380,647	14,701,147
Net pension liability	347,219	65,296	412,515
Net OPEB obligation	696,289	130,940	827,229
Total Liabilities	7,224,411	25,161,848	32,386,259
DEFERRED INFLOWS OF RESOURCES			
Pensions	1,148,432	215,967	1,364,399
NET POSITION			
Net investment in capital assets	13,535,809	17,234,914	30,770,723
Restricted for:			
Nonexpendable	50,000	-	50,000
Impact fees	-	1,972,207	1,972,207
Debt service and other debt requirements	265,806	549,645	815,451
Unrestricted	8,509,374	7,486,678	15,996,052
Total Net Position	22,360,989	27,243,444	49,604,433
Total Liabilities, Deferred Inflows and Net Position	\$ 30,733,832	\$ 52,621,259	\$ 83,355,091

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

**CITY OF CRESTVIEW, FLORIDA
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2016**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Operating Grants and Contributions	Capital Grants and Contributions	Charges for Services	Governmental Activities	Business-Type Activities	Total
Functions:							
Governmental:							
General government	\$ 4,166,480	\$ 117,230	\$ -	\$ 2,392,922	\$ (1,656,328)		\$ (1,656,328)
Public safety	7,810,036	6,655	-	35,880	(7,767,501)		(7,767,501)
Transportation	1,575,157	-	-	94,098	(1,481,059)		(1,481,059)
Culture and recreation	1,212,503	-	-	239,836	(972,667)		(972,667)
Interest	301,905	-	-	-	(301,905)		(301,905)
	<u>15,066,081</u>	<u>123,885</u>	<u>-</u>	<u>2,762,736</u>	<u>(12,179,460)</u>		<u>(12,179,460)</u>
Business-type:							
Utilities service	6,715,057	703,484	-	6,741,342		\$ 729,769	729,769
Sanitation service	2,839,081	-	-	2,928,285		89,204	89,204
	<u>9,554,138</u>	<u>703,484</u>	<u>-</u>	<u>9,669,627</u>		<u>818,973</u>	<u>818,973</u>
Total	<u>\$ 24,620,219</u>	<u>\$ 827,369</u>	<u>\$ -</u>	<u>\$ 12,432,363</u>	<u>(12,179,460)</u>	<u>818,973</u>	<u>(11,360,487)</u>
General Revenues:							
Taxes:							
Property taxes					6,595,378	-	6,595,378
Local sales taxes					2,774,881	-	2,774,881
Utility service/franchise fees					2,920,731	173,723	3,094,454
Intergovernmental, unrestricted					889,905	-	889,905
Unrestricted investment earnings					21,737	22,773	44,510
Miscellaneous revenue					140,932	179,128	320,060
Total general revenues					<u>13,343,564</u>	<u>375,624</u>	<u>13,719,188</u>
Change in net position					1,164,104	1,194,597	2,358,701
Net position - beginning of year, as previously stated					20,801,134	26,048,847	46,849,981
Adjustment to beginning net position					395,751	-	395,751
Net position - beginning of year, as restated					<u>21,196,885</u>	<u>26,048,847</u>	<u>47,245,732</u>
Net position - end of year					<u>\$ 22,360,989</u>	<u>\$ 27,243,444</u>	<u>\$ 49,604,433</u>

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

CITY OF CRESTVIEW, FLORIDA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 5,229,932	\$ 194,698	\$ 1,359,615	\$ 6,784,245
Cash and cash equivalents - restricted	1,213,857	95,058	-	1,308,915
Investments	614,881	-	50,924	665,805
Accounts receivable - other	375,841	-	-	375,841
Due from other governments	387,542	-	-	387,542
Prepaid expenses	173,475	-	-	173,475
Total Assets	\$ 7,995,528	\$ 289,756	\$ 1,410,539	\$ 9,695,823

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES

LIABILITIES				
Accounts payable	\$ 93,306	-	\$ 268	\$ 93,574
Accrued liabilities	85,019	27,787	-	112,806
Customer deposits	1,305	-	-	1,305
Due to other governments	485,655	-	-	485,655
Unearned revenue	57,873	-	-	57,873
Total liabilities	<u>723,158</u>	<u>27,787</u>	<u>268</u>	<u>751,213</u>
FUND BALANCES				
Nonspendable:				
Prepaid expenditures	173,475	-	-	173,475
Permanent fund	-	-	50,000	50,000
Restricted	-	261,969	3,837	265,806
Assigned	1,169,669	-	1,356,434	2,526,103
Unassigned	5,929,226	-	-	5,929,226
Total fund balances	<u>7,272,370</u>	<u>261,969</u>	<u>1,410,271</u>	<u>8,944,610</u>
Total Liabilities and Fund Balances	\$ 7,995,528	\$ 289,756	\$ 1,410,539	\$ 9,695,823

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

**CITY OF CRESTVIEW, FLORIDA
RECONCILIATION OF THE BALANCE SHEET TO THE
STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016**

Total Fund Balances - Governmental Funds \$ 8,944,610

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental non-depreciable assets	1,875,279	
Governmental depreciable assets	35,088,216	
Governmental intangible assets, net	503,617	
Less accumulated depreciation	<u>(18,855,774)</u>	18,611,338

Net pension liabilities are other long-term liabilities that are not payable in the current period and therefore are not reported in the governmental funds (347,219)

Deferred outflows related to pensions are not financial resources and therefore are not reported in the governmental funds 2,426,671

Deferred inflows related to pensions are not financial resources and therefore are not reported in the governmental funds (1,148,432)

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.

Revenue bonds payable	(3,550,500)	
Capital leases	(1,525,029)	
Compensated absences	(354,161)	
Net OPEB obligation	<u>(696,289)</u>	<u>(6,125,979)</u>

Total Net Position - Governmental Activities \$ 22,360,989

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

CITY OF CRESTVIEW, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2016

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 11,940,438	287,180	\$ 63,372	\$ 12,290,990
License and permits	2,146,989	162,434	-	2,309,423
Intergovernmental	1,171,240	-	-	1,171,240
Charges for services	395,977	-	-	395,977
Fines and forfeitures	50,301	-	1,944	52,245
Investment earnings	16,840	-	4,897	21,737
Contributions	33,388	-	-	33,388
Miscellaneous	150,101	-	1,790	151,891
Total revenues	<u>15,905,274</u>	<u>449,614</u>	<u>72,003</u>	<u>16,426,891</u>
Expenditures:				
Current:				
General government	3,205,368	-	191,830	3,397,198
Public safety	7,350,727	-	-	7,350,727
Transportation	1,131,426	-	-	1,131,426
Culture and recreation	1,037,141	-	176	1,037,317
Capital outlay	2,404,237	-	-	2,404,237
Debt service:				
Principal	146,918.00	230,419	-	377,337
Interest	22,574.00	174,887	-	197,461
Total expenditures	<u>15,298,391</u>	<u>405,306</u>	<u>192,006</u>	<u>15,895,703</u>
Excess (deficiency) revenues over (under) expenditures	<u>606,883</u>	<u>44,308</u>	<u>(120,003)</u>	<u>531,188</u>
Other Financing Sources (Uses):				
Bonds issued for refunding debt	-	3,165,000	-	3,165,000
Premium on bonds issued	-	57,720	-	57,720
Fees for issuance of bonds	-	(106,664)	-	(106,664)
Payment to escrow for refunding debt	-	(3,008,684)	-	(3,008,684)
Proceeds from capital leases	1,671,947	-	-	1,671,947
Transfers in	402,247	-	128,281	530,528
Transfers out	(280,400)	(250,128)	-	(530,528)
Total other financing sources (uses)	<u>1,793,794</u>	<u>(142,756)</u>	<u>128,281</u>	<u>1,779,319</u>
Net change in fund balances	2,400,677	(98,448)	8,278	2,310,507
Fund Balances:				
Beginning of year, as previously stated	4,475,942	360,417	1,401,993	6,238,352
Adjustment to beginning fund balance	395,751	-	-	395,751
Beginning of year, as restated	<u>4,871,693</u>	<u>360,417</u>	<u>1,401,993</u>	<u>6,634,103</u>
End of year	<u>\$ 7,272,370</u>	<u>\$ 261,969</u>	<u>\$ 1,410,271</u>	<u>\$ 8,944,610</u>

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

**CITY OF CRESTVIEW, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2016**

Net Change In Fund Balances - Governmental Funds \$ 2,310,507

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

The repayment of principal on long-term debt consumes the current financial resources of governmental funds but has no effect on the government-wide net position. Also, governmental funds report the effects of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred in the Statement of Activities.

Principal payments, net of premium and discount amortization	3,388,241
Proceeds from long-term debt	(3,222,720)
Proceeds from capital leases	(1,671,947)

Annual other post employment benefits (OPEB) cost, as required by Governmental Accounting Standards No. 45, does not require the use of current financial resources, therefore, it is not reported as an expenditure in governmental funds.	(113,877)
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Capital outlays are reported in the general fund as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which capital outlays (\$2,404,237) exceeded depreciation (\$1,180,336) and amortization (\$100,723) in the current period.	1,123,178
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Governmental funds do not recognize expenditures for the change in the net pension liability from year-to-year.	(411,027)
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Changes in liabilities for compensated absences do not require the use of current financial resources, therefore, they are not reported as expenditures in governmental funds.	(41,545)
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Certain revenues are recognized differently on the Statement of Activities than in the governmental funds based on when they are considered available current resources.	(196,706)
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Change in Net Position - Governmental Activities \$ 1,164,104

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

CITY OF CRESTVIEW, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues:				
Taxes	\$ 11,642,553	\$ 11,642,553	\$ 11,940,438	\$ 297,885
License and permits	1,858,808	1,858,808	2,146,989	288,181
Intergovernmental	935,491	935,491	1,171,240	235,749
Charges for services	474,040	474,040	395,977	(78,063)
Fines and forfeitures	74,635	74,635	50,301	(24,334)
Contributions	-	31,947	33,388	1,441
Interest	10,300	10,300	16,840	6,540
Miscellaneous	87,962	87,962	150,101	62,139
Total revenues	<u>15,083,789</u>	<u>15,115,736</u>	<u>15,905,274</u>	<u>789,538</u>
Expenditures:				
Current:				
General government	3,625,081	3,623,373	3,205,368	418,005
Public safety	7,787,151	7,778,151	7,350,727	427,424
Transportation	1,244,062	1,244,062	1,131,426	112,636
Culture and recreation	1,139,205	1,139,205	1,037,141	102,064
Capital outlay	1,004,350	1,047,005	822,059	224,946
Debt service:				
Principal	147,160	147,160	146,918	242
Interest	-	-	22,574	(22,574)
Total expenditures	<u>14,947,009</u>	<u>14,978,956</u>	<u>13,716,213</u>	<u>1,262,743</u>
Excess of revenues over expenditures	<u>136,780</u>	<u>136,780</u>	<u>2,189,061</u>	<u>2,052,281</u>
Other Financing Sources (Uses):				
Transfers in	30,000	30,000	402,247	372,247
Transfers out	<u>(166,780)</u>	<u>(166,780)</u>	<u>(280,400)</u>	<u>(113,620)</u>
Total other financing sources and (uses)	<u>(136,780)</u>	<u>(136,780)</u>	<u>121,847</u>	<u>258,627</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,310,908</u>	<u>\$ 2,310,908</u>

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

CITY OF CRESTVIEW, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES BUDGET AND ACTUAL - DEBT SERVICE FUND
YEAR ENDED SEPTEMBER 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget - Positive (Negative)
Revenues:				
Taxes	\$ 300,413	\$ 300,413	\$ 287,180	\$ (13,233)
License and permits	187,434	187,434	162,434	(25,000)
Total revenues	<u>487,847</u>	<u>487,847</u>	<u>449,614</u>	<u>(38,233)</u>
Expenditures:				
Debt service:				
Principal	322,285	322,285	230,419	91,866
Interest	165,562	165,562	174,887	(9,325)
Total expenditures	<u>487,847</u>	<u>487,847</u>	<u>405,306</u>	<u>82,541</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>44,308</u>	<u>44,308</u>
Other Financing Sources (Uses):				
Bonds issued for refunding debt	-	-	3,165,000	3,165,000
Premium on bonds issued	-	-	57,720	57,720
Fees for issuance of bonds	-	-	(106,664)	(106,664)
Payment to escrow for refunding debt	-	-	(3,008,684)	(3,008,684)
Transfers out	-	-	(250,128)	(250,128)
Total other financing sources	<u>-</u>	<u>-</u>	<u>(142,756)</u>	<u>(142,756)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (98,448)</u>	<u>\$ (98,448)</u>

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

**CITY OF CRESTVIEW, FLORIDA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2016**

	Business-Type Activities		
	Enterprise Funds		
	Utilities Fund	Sanitation Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 4,652,662	\$ 1,661,967	\$ 6,314,629
Investments	92,947	-	92,947
Accounts receivable, net	728,189	360,492	1,088,681
Due from other governments	145,219	-	145,219
Prepaid expenses	65,910	-	65,910
Total current assets	5,684,927	2,022,459	7,707,386
Non-Current Assets:			
Restricted cash and cash equivalents	2,845,905	-	2,845,905
Restricted investments	711,067	-	711,067
Capital assets:			
Assets not being depreciated	2,698,477	-	2,698,477
Assets being depreciated, net	37,129,152	-	37,129,152
Total non-current assets	43,384,601	-	43,384,601
Total assets	49,069,528	2,022,459	51,091,987
Deferred Outflows of Resources:			
Deferred loss on bond refunding	1,072,927		1,072,927
Pensions	456,345	-	456,345
Total deferred outflows of resources	1,529,272	-	1,529,272
Total Assets and Deferred Outflows	\$ 50,598,800	\$ 2,022,459	\$ 52,621,259

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

**CITY OF CRESTVIEW, FLORIDA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2016
(Continued)**

	Business-Type Activities		
	Enterprise Funds		
	Utilities Fund	Sanitation Fund	Total
LIABILITIES AND NET POSITION			
Current Liabilities:			
Accounts payable	\$ 153,563	\$ 220,363	\$ 373,926
Accrued expenses	13,466	-	13,466
Payable from restricted assets			
Accrued interest	92,692	-	92,692
Customer deposits	760,265	-	760,265
Notes payable	162,996	-	162,996
Revenue bonds payable	19,167	-	19,167
Compensated absences	59,621	-	59,621
Notes payable	508,771	-	508,771
Revenue bonds payable	210,833	-	210,833
Total current liabilities	<u>1,981,374</u>	<u>220,363</u>	<u>2,201,737</u>
Non-Current Liabilities:			
Net other post-employment benefits obligation	130,940	-	130,940
Notes payable	11,383,228	-	11,383,228
Revenue bonds payable	11,380,647	-	11,380,647
Net pension liability	65,296	-	65,296
Total non-current liabilities	<u>22,960,111</u>	<u>-</u>	<u>22,960,111</u>
Total liabilities	<u>24,941,485</u>	<u>220,363</u>	<u>25,161,848</u>
Deferred Inflows of Resources:			
Pensions	<u>215,967</u>	<u>-</u>	<u>215,967</u>
Net Position:			
Net investment in capital assets, net of related debt	17,234,914	-	17,234,914
Restricted			
Impact fees	1,972,207	-	1,972,207
Debt service and other debt requirements	549,645	-	549,645
Unrestricted	<u>5,684,582</u>	<u>1,802,096</u>	<u>7,486,678</u>
Total net position	<u>25,441,348</u>	<u>1,802,096</u>	<u>27,243,444</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 50,598,800</u>	<u>\$ 2,022,459</u>	<u>\$ 52,621,259</u>

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

CITY OF CRESTVIEW, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2016

	Business-Type Activities		
	Enterprise Funds		
	Utilities Fund	Sanitation Fund	Total
Operating Revenue:			
Charges for service	\$ 6,741,342	\$ 2,928,285	\$ 9,669,627
Operating grants and contributions	703,484	-	703,484
Other operating income	179,128	173,723	352,851
Total operating revenue	<u>7,623,954</u>	<u>3,102,008</u>	<u>10,725,962</u>
Operating Expenses:			
Personnel services	1,998,578	-	1,998,578
Contractual services	1,125,023	2,816,895	3,941,918
Materials and supplies	245,971	-	245,971
Professional services	67,824	-	67,824
Repairs and maintenance	253,732	-	253,732
Office and utilities	667,388	22,186	689,574
Insurance expense	243,760	-	243,760
Depreciation and amortization	1,284,660	-	1,284,660
Total operating expenses	<u>5,886,936</u>	<u>2,839,081</u>	<u>8,726,017</u>
Operating income	1,737,018	262,927	1,999,945
Non-Operating Revenue and Expense:			
Interest earnings	22,773	-	22,773
Interest expense	(828,121)	-	(828,121)
Total non-operating revenues and expenses	<u>(805,348)</u>	<u>-</u>	<u>(805,348)</u>
Changes in net position	931,670	262,927	1,194,597
Net position - beginning of year	<u>24,509,678</u>	<u>1,539,169</u>	<u>26,048,847</u>
Net position - end of year	<u>\$ 25,441,348</u>	<u>\$ 1,802,096</u>	<u>\$ 27,243,444</u>

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

**CITY OF CRESTVIEW, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2016**

	Utilities Fund	Sanitation Fund	Total
Cash Flows from Operating Activities:			
Cash received from customers	\$ 6,679,149	\$ 3,078,238	\$ 9,757,387
Cash received from grants	703,484	-	703,484
Cash paid to employees for services	(2,995,884)	-	(2,995,884)
Cash paid to suppliers for goods and services	(2,530,977)	(2,829,898)	(5,360,875)
Net cash provided by operating activities	<u>1,855,772</u>	<u>248,340</u>	<u>2,104,112</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(1,391,027)	-	(1,391,027)
Interest paid	(520,659)	-	(520,659)
Proceeds from issuance of bonds	11,684,994	-	11,684,994
Payments to defease long-term debt	(10,070,000)	-	(10,070,000)
Principal payment of notes payable	(654,910)	-	(654,910)
Principal payment on bonds payable	(223,683)	-	(223,683)
Net cash used in capital and related financing activities	<u>(1,175,285)</u>	<u>-</u>	<u>(1,175,285)</u>
Cash Flows from Investing Activities:			
Purchases of investments	(4,369)	-	(4,369)
Proceeds from sale of investments	509,367	-	509,367
Interest received	22,773	-	22,773
Net cash provided by investing activities	<u>527,771</u>	<u>-</u>	<u>527,771</u>
Net Change in Cash and Cash Equivalents	1,208,258	248,340	1,456,598
Cash and Cash Equivalents - Beginning of the Year	<u>6,290,309</u>	<u>1,413,627</u>	<u>7,703,936</u>
Cash and Cash Equivalents - End of the Year	<u>\$ 7,498,567</u>	<u>\$ 1,661,967</u>	<u>\$ 9,160,534</u>
Displayed As:			
Cash and cash equivalents	\$ 4,652,662	\$ 1,661,967	\$ 6,314,629
Restricted cash	2,845,905	-	2,845,905
	<u>\$ 7,498,567</u>	<u>\$ 1,661,967</u>	<u>\$ 9,160,534</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income	\$ 1,737,018	\$ 262,927	\$ 1,999,945
Adjustments to reconcile operating income to net cash provided by operating activities -			
Depreciation and amortization expense	1,284,660	-	1,284,660
Changes in operating assets and liabilities:			
Accounts receivable	(90,469)	(23,770)	(114,239)
Due to/from other governments	(16,101)	-	(16,101)
Prepaid expenses	943	-	943
Deferred outflows of resources	(1,130,040)	-	(1,130,040)
Net pension asset	51,559	-	51,559
Accounts payable	48,936	9,183	58,119
Accrued expenses	(15,599)	-	(15,599)
Current liabilities - restricted	(443)	-	(443)
Other post employment benefits	28,162	-	28,162
Customer deposits	23,286	-	23,286
Unearned revenue	(134,751)	-	(134,751)
Deferred inflows of resources - pensions	3,315	-	3,315
Net pension liability	65,296	-	65,296
Total adjustments	<u>118,754</u>	<u>(14,587)</u>	<u>104,167</u>
Net Cash Provided By Operating Activities	<u>\$ 1,855,772</u>	<u>\$ 248,340</u>	<u>\$ 2,104,112</u>

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

**CITY OF CRESTVIEW, FLORIDA
STATEMENT OF FIDUCIARY NET POSITION
PENSION TRUST FUNDS
YEAR ENDED SEPTEMBER 30, 2016**

	Fiduciary Funds		
	General Employees Retirement Plan	Police Officers/ Firefighters Plan	Total
ASSETS			
Cash and cash equivalents	\$ 188,991	\$ 613,164	\$ 802,155
Investments:			
Fixed income securities	5,056,755	5,134,576	10,191,331
Common stock and equity funds	9,757,872	9,960,885	19,718,757
Real estate	1,611,508	1,773,979	3,385,487
Total investments	<u>16,426,135</u>	<u>16,869,440</u>	<u>33,295,575</u>
Contributions receivable	<u>10,818</u>	<u>-</u>	<u>10,818</u>
Total assets	<u>\$ 16,625,944</u>	<u>\$ 17,482,604</u>	<u>\$ 34,108,548</u>
LIABILITIES AND NET POSITION			
Accounts payable	\$ 6,532	\$ 10,884	\$ 17,416
Prepaid contribution	83,027	191,901	274,928
Drop plan benefits payable	<u>379,745</u>	<u>166,103</u>	<u>545,848</u>
Total liabilities	<u>469,304</u>	<u>368,888</u>	<u>838,192</u>
Net Position:			
Net position restricted for pensions	<u>16,156,640</u>	<u>17,113,716</u>	<u>33,270,356</u>
Total Liabilities and Net Position	<u>\$ 16,625,944</u>	<u>\$ 17,482,604</u>	<u>\$ 34,108,548</u>

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

CITY OF CRESTVIEW, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION TRUST FUNDS
YEAR ENDED SEPTEMBER 30, 2016

	Fiduciary Funds		
	General Employees Retirement Plan	Police Officers/ Firefighters Plan	Total
Additions:			
Contributions:			
Contributions - city	\$ 298,505	\$ -	\$ 298,505
Contributions - state	-	299,998	299,998
Contributions - employee	263,011	263,417	526,428
Total contributions	<u>561,516</u>	<u>563,415</u>	<u>1,124,931</u>
Investment income:			
Net appreciation in fair value of investments	834,671	755,055	1,589,726
Interest and dividend income	353,545	419,700	773,245
Investment expenses	(64,029)	(76,173)	(140,202)
Net investment income	<u>1,124,187</u>	<u>1,098,582</u>	<u>2,222,769</u>
Total additions	<u>1,685,703</u>	<u>1,661,997</u>	<u>3,347,700</u>
Deductions:			
Benefits paid	610,302	583,005	1,193,307
Drop plan benefits paid	190,866	62,036	252,902
Refunds of contributions	58,911	60,591	119,502
Administrative expenses	67,150	65,810	132,960
Total deductions	<u>927,229</u>	<u>771,442</u>	<u>1,698,671</u>
Changes in net position	758,474	890,555	1,649,029
Net position - beginning of year,	<u>15,398,166</u>	<u>16,223,161</u>	<u>31,621,327</u>
Net position - end of year	<u>\$ 16,156,640</u>	<u>\$ 17,113,716</u>	<u>\$ 33,270,356</u>

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

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**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Crestview (the “City”) was originally incorporated as the Town of Crestview under Laws of the State of Florida in April 11, 1916. The town was re-incorporated by Ch. 9718, Acts 1923, and Chapter 25754, Special Acts 1949, as the City of Crestview. The City operates under the Council-Mayor form of government and provides the following services: public safety (law enforcement and fire control), roads and streets, water and sewer, sanitation, culture and recreation, public improvements, planning and zoning and general administrative services.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America applicable to governmental units and the Uniform Accounting System mandated by Chapter 218.33, Florida Statutes. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

The following is a summary of the more significant accounting policies of the City:

A. Reporting Entity

The City is governed by a five-member City Council and a Mayor, each elected at-large for four-year terms. The Council has no powers other than those expressly vested in by State Statute and the City Charter and their governmental powers cannot be delegated.

As required by generally accepted accounting principles (GAAP), these financial statements present the City of Crestview (the primary government) and its component units, entities for which the City is considered to be financially accountable. In evaluating the City as reporting entity, management has considered all potential component units for which the City may or may not be financially accountable and, as such, be included within the City’s financial statements. Management utilized criteria set forth in GASB 61 for determining financial accountability of potential component units in evaluating all potential component units. In accordance with GASB 61, the City (primary government) is financially accountable if it appoints a voting majority of the potential component unit’s governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific burden on the City. In addition, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

As of September 30, 2016, the City of Crestview has one component unit, the Crestview Community Redevelopment Agency (“Agency”), as defined by GASB 61, which is presented in the financial statements of the primary government as a blended component unit.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

The Crestview Community Redevelopment Agency (“Agency”) was established by the City as a separate legal entity in accordance with Florida Statute 166.021, Chapter 163, Part III. The Agency oversees the redevelopment of the downtown area. The Community Redevelopment Board of Commissioners consists of the City Council. The President and Vice President of the City Council function as the Chairman and Vice Chairman of the Community Redevelopment Agency. In addition, City employees manage the Agency’s assets. The Agency is reported in the financial statements of the primary government as a non-major governmental fund. Separate financial statements of the Agency are not prepared.

The City of Crestview Housing Authority (“Authority”) is considered a related organization to the City rather than a component unit. The Mayor of the City appoints each of the five board members of the Authority. The Mayor and members of the City Council have no oversight responsibility or any financial relationship with the Authority, other than providing certain services. Thus, the Authority is determined not to be a part of the reporting entity and is not included as a component unit in the financial statements.

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component unit. 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 segments 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 fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting

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. Pension plans recognize revenue when contributions are due, as there is a statutory requirement to make the contribution. Property taxes are recorded as revenue in the year for which they are levied. Grants and similar items are recognized as revenue 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 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 related to compensated absences and claims and judgements, are recorded only when payment is due.

Franchise fees, licenses, sales taxes, gas taxes, operating and capital grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other items are considered to be measurable only when cash is received by the City.

The City's ad valorem taxes are assessed by the Okaloosa County Property Appraiser and collected by the Okaloosa County Tax Collector in accordance with Florida Statutes. The City retains the right and duty to set millage rates. Property taxes are not recorded as receivables at September 30th because, though legally assessed as of January 1, they are not due and payable until after the close of the fiscal year ended the following September 30th.

The following is the current property tax calendar:

Assessment date	January 1, 2016
Levy date	November 1, 2016
Due date	March 31, 2017
Delinquency date	April 1, 2017

Discounts of 1% for each month taxes are paid prior to March are granted.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Revenue recognition criteria for property taxes under GASB requires that only property taxes expected to be collected within 60 days of the current period be accrued. Property taxes which are uncollected as of the end of the fiscal year are generally immaterial in amount and highly susceptible to uncollectibility; therefore, they are not recorded as a receivable at the balance sheet date.

D. Basis of Presentation

The financial transactions of the City are recorded in individual funds. Each fund is a separate accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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. Internally dedicated resources are reported as *general revenues* rather than program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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 for the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The following three classifications are used to categorize the fund types used by the City:

Governmental

Governmental funds focus on the determination of financial position and changes in financial position (sources, uses and balances of financial resources) and not net income.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation (Continued)

The City reports the following two major governmental funds:

General Fund - This is the City's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund - The debt service fund is used to account for the principal and interest payments on borrowed funds, such as bonds, notes and capital leases. Revenue of the Debt Service fund is received primarily through transfers from the General Fund.

Proprietary

Proprietary funds focus on the determination of net income, changes in net position, financial position and cash flows. All of the City's proprietary funds are enterprise funds, as fees are charged to external users for services. The following is a description of the major proprietary funds of the City.

Utilities Fund - This fund accounts for the City's distribution of potable water; sales and service and sanitary wastewater collection; and treatment of and disposal operations services.

Sanitation Fund - This fund accounts for the City's solid waste collection, disposal, and/or recycling services.

Fiduciary

Fiduciary funds are used to account for the assets held on behalf of outside parties, including other governments. The City has two major fiduciary funds.

Crestview Police Officers/Firefighters Retirement Plan - Used to report resources that are required to be held in trust for the members and beneficiaries of a defined benefit pension plan administered by the City for all City police officers and firefighters.

Crestview General Employees Retirement Plan - Used to report the resources that are required to be held in trust for the members and beneficiaries of a defined benefit pension plan administered by the City for the employees that are not part of the police officer/firefighter plan.

CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Net Position or Fund Balances

Cash and Cash Equivalents

The City has defined cash and cash equivalents to include cash on hand, demand deposits, certificates of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Deposits and Investments

Section 218.415, Florida Statutes, requires the investment of surplus public funds and prescribes the instruments in which those investments are authorized, specifically the State of Florida Local Government Surplus Funds Trust Fund, direct obligations of the United States Government or other obligations unconditionally guaranteed by the United States Government and other similar permitted investments. The City adheres strictly to the provisions of those cited Statutes, as well as with Chapter 280, Florida Statutes, which requires the City to maintain deposits only with “Qualified Public Depositories.” The City maintains a cash pool available for use by all funds. Earnings from the pool are allocated to the respective funds based on applicable cash participation by each fund.

In addition, restricted cash accounts, certificates of deposit, and other investments are separately maintained by a few City funds in accordance with bond ordinances, retirement fund plan documents and other contractual agreements. Investments are stated at fair value.

Cash amounts in the general and utilities funds are generally either placed in State Board of Administration Debt Service accounts for investment of debt service moneys, invested with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pools created by Section 218.405 and 218.417, Florida Statutes, or made locally.

At September 30, 2016, the City’s investments in the Local Government Surplus Funds Trust Fund A (“Florida PRIME”), which the State Board of Administration indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which approximates amortized cost.

Pension Trust Funds may invest in collateralized interest-bearing time deposits or savings accounts in state or federal banks or savings and loan associations; direct obligations of the United States Government or other obligations unconditionally guaranteed by the United States Government or an agency of the U.S. Government; stocks, mutual funds, corporate bonds, structured mortgage products issued by the U.S. Government, or other mortgage related or asset-backed securities provided the meet certain criteria; real estate; and foreign fixed income and equity securities.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Net Position or Fund Balances (Continued)

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “interfund receivables/payables” (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 governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Advances between funds, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Accounts receivable from customers are reported at the outstanding balance due from customers, net of any allowance for doubtful accounts. The City provides for doubtful accounts based on experience and analysis of individual accounts. When the collectibility of a receivable becomes questionable, an allowance for doubtful accounts is established. When specific accounts are determined to be uncollectible, they are written off by charging the allowance and crediting the receivable. At September 30, 2016, the allowance for doubtful accounts for proprietary funds totaled \$70,000.

Restricted Assets

Certain proceeds of the City’s Revenue Bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Additionally, customer deposits for water and sewer services are classified as restricted assets.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Net Position or Fund Balances (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. 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 normal 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, offset by any interest earned on the invested proceeds over the same period.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

Buildings and utility systems	20-50 years
Improvements other than buildings	20-40 years
Infrastructure	20-40 years
Machinery and equipment	3-40 years

Deferred Outflows/Inflows of Resources

The City has implemented the provisions of GASB Nos. 63 and 65. Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows and inflows of resources, originally introduced and defined in GASB Concepts Statement No. 4, *Elements of Financial Statements*, as an acquisition or consumption, respectively, of net assets applicable to a future reporting period. Further, Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. Statement No. 65, *Items Previously Reported As Assets and Liabilities*, reclassifies and recognizes certain items that were formerly reported as assets and liabilities as one of four financial statement elements, (1) deferred outflows of resources, (2) outflows of resources, (3) deferred inflows of resources, and (4) inflows of resources. Concepts Statement No. 4 requires that deferred outflows and deferred inflows be recognized only in those instances specifically identified in GASB pronouncements. Statement 65 provides that guidance.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Net Position or Fund Balances (Continued)

Deferred Outflows/Inflows of Resources (Continued)

The City reports increases and decreases in net position that relate to future periods as deferred inflows and outflows of resources in separate sections of the statement of net position. The only deferred inflow and outflow of resources reported in the government-wide financial statements is related to pensions. The deferred outflows and inflows of resources related to pensions are further discussed in Note 8.

In addition to assets, the statement of net position will sometimes include a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. As of September 30, 2016, the City's proprietary fund balance sheet reflects deferred outflows of \$1,072,927 related to deferred losses on bond refunding. Deferred outflows of resources related to pensions are discussed below.

In addition to liabilities, the statement of net position and/or balance sheet-governmental funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. At September 30, 2016, the City does not have any of this type of item, other than for pensions as discussed below.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City pension plans and additions to/deduction from the City pension plans' fiduciary net position have been determined on the same basis as they are reported by the City pension plans.

For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

For all pensions, at September 30, 2016, the aggregates of the City's net pension liabilities were \$412,515, deferred outflows of resources were \$2,883,016, and deferred inflows of resources were \$1,364,399 related to pensions, and pension expenses (or expenditures) for the year ended September 30, 2016 associated with net pension liabilities totaled \$474,084.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Net Position or Fund Balances (Continued)

Compensated Absences

It is the City’s policy to permit employees to accumulate earned but unused vacation and sick leave based on length of service to the City. All vacation leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for the amounts of vacation leave is reported in the governmental fund financial statements only if they have matured, for example, as a result of employee resignations and retirements.

Annual leave is accrued by full-time employees as follows:

<u>Years of Employment</u>	<u>Firefighters</u>	<u>All Others</u>
Up to two years	72 hours	40 hours
Two to four years	120 hours	80 hours
Four to six years	168 hours	120 hours
After six years	241 hours	160 hours

Upon termination or retirement, a maximum of 160 hours of accrued benefit will be paid to general employees, while a maximum of 240 hours of accrued benefit will be paid to firefighters. Upon separation in good standing, an employee will also be paid for any earned but unused leave to their credit as of the effective date of termination.

Sick leave is accrued at a rate of eight hours per month for all employees with the exception of firefighters, who accrue sick leave at the rate of 12 hours per month. Upon retirement of a vested employee, all accrued sick leave will be converted and serve as city service for the purpose of retirement pay computations. In addition, the City will pay (if requested by the employee) for 40 hours of unused leave each December, which is expensed as paid. However, the employee must have a minimum of 40 hours of sick leave remaining after the payment.

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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as current period expenses.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Net Position or Fund Balances (Continued)

Long-term Obligations (Continued)

In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources. Bond premiums and discounts are recognized as other financing sources or uses as appropriate. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Classification of Fund Balance

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, under GASB 54, are comprised of the following:

- Non-spendable - includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, deposits, prepaid items, and advances to other funds.
- Restricted - includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- Committed - includes fund balance amounts that can be used only for the specific purposes that are internally imposed by a formal action of the government’s highest level of decision making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal that imposed the constraint initially. Contractual obligations are included to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual obligations.
- Assigned - includes fund balance amounts that sets limits as a result of the intended use of funds that are neither restricted nor committed, per the City’s Purchasing Policy, which is set by the City’s management. In governmental funds, other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that the resources of other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Net Position or Fund Balances (Continued)

Classification of Fund Balance (Continued)

- Unassigned - includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

When committed, assigned, or unassigned resources are available for use in the governmental fund financial statements, it is the City's policy to use committed resources first, followed by assigned resources and then unassigned resources, as they are needed.

Net Position

The government-wide and business-type fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- Net Investment in Capital Assets - is intended to reflect the portion of net position which are associated with non-liquid, capital assets, net of related debt.
- Restricted Net Position - are liquid assets, generated from revenues and net bond proceeds, which are not accessible for general use because of third-party (statutory, bond covenant or grant agency) limitations.
- Unrestricted Net Position - represents unrestricted liquid assets.

F. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

G. Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles, except that capital lease proceeds and related capital outlay are excluded from the budget. Annual appropriated budgets are adopted by ordinance for all governmental and proprietary funds. However, budgets for proprietary funds are not legally required to be reported on and are not included in these financial statements. All appropriations lapse at fiscal year-end except for appropriations related to multiyear capital projects.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Budgets (Continued)

Budgetary data reflected in the financial statements are established by the following procedures:

Prior to September 1 of each year, the City Council prepares in detail and adopts a budget of anticipated revenues and expenditures for all City purposes of the ensuing year.

Proposed budgets are advertised in a newspaper of general circulation in the City and detailed in the minutes of the Council. Public hearings are conducted for the purposes of receiving taxpayer comments. When the budget is adopted, it has the force and effect of appropriations for the various items and purposes specified.

The limits shall not be exceeded by the Council nor any office or department during the year. Amendments and transfers may be made to the budget by a two-thirds vote of the Council and the consent of the Mayor. The level of budgetary control (that is the level at which expenditures cannot legally exceed appropriations) has been established at the fund level.

A budget amendment shall be deemed to mean the act of increasing the total budgeted amount of a given fund as opposed to a transfer of a budgeted amount from one account to another within the same fund. Budgeted amounts are as originally adopted, or as amended with the approval of the City Council.

H. Subsequent Events

The City has evaluated events and transactions that occurred between September 30, 2016 and June 29, 2017, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits:

Deposits may be exposed to custodial credit risk, which is the risk that in the event of a bank failure, the government's deposits may not be returned. The City manages its custodial credit risk by maintaining its deposits with "Qualified Public Depositories" (QPDs), as defined in Chapter 280, Florida Statutes, which bear no custodial credit risk or are in institutions which meet the exemption requirements of Chapter 280. The exemptions qualify under the exemptions 280.03(e) or 280.03(f) as a deposit made in accordance with Chapter 17.57(g). The provisions of Chapter 280 allow "Qualified Public Depositories" to participate in a multiple financial institution collateral pool to ensure the security for public deposits.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued):

All Qualified Public Depositories must place with the Treasurer of the State of Florida, securities which have a market value equal to 50% of all public funds on deposit at the end of each month in excess of any applicable deposit insurance. In the event of default by a qualified public institution, the State Treasurer will pay public depositors all losses. Losses in excess of insurance and collateral will be paid through assessments between all Qualified Public Depositories. Under this method, all deposits are fully insured or collateralized with securities held by the State Treasurer in the City's name.

Investments:

As of September 30, 2016, the City held the following investments in its governmental and proprietary funds as categorized below in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosure*:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
Local government investment pool	\$ 707,828	< one year	AAA

Certificates of deposit valued at \$761,991 are also included as investments on the Statement of Net Position.

As of September 30, 2016, the City held the following investments in its pension funds:

<u>Investment Type</u>	<u>Fair Value</u>
Fixed income securities	\$ 10,191,331
Equities	19,718,757
Real estate investment fund	3,385,487
	<u>\$ 33,295,575</u>

Interest Rate Risk:

Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The City minimizes interest rate risk by structuring investments to mature to meet future operating cash requirements and investing primarily in short-term securities.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk (Continued):

The maturity of the State Board of Administration Local Government Surplus Funds Trust Fund Florida PRIME is based on the weighted average days to maturity (WAM). A portfolio's WAM reflects the average maturity in days based on the final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes.

Neither the General Employees' Retirement Plan nor the Police Officers' and Firefighters' Retirement Plan have policies that limit their investment maturities as a means of managing their exposure to fair value losses arising from increasing interest rates.

Credit Risk:

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to meet its obligations. GASB Statement No. 40 requires disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed income securities.

The City does not have a formal policy that limits its investment choices. Unless otherwise authorized by law or ordinance, the City is authorized under Section 218.415, Florida Statutes, to invest and reinvest surplus public funds in its control or possession, in accordance with resolutions to be adopted from time-to-time in:

1. The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Chapter 163.01, Florida Statutes.
2. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
3. Interest-bearing time deposits or savings accounts in qualified public depositories as defined in Chapter 280.02, Florida Statutes.
4. Direct obligations of the U.S. Treasury.
5. Federal agencies and instrumentalities.
6. Rated or unrated bonds, notes, or instruments backed by the full faith and credit of the government of Israel.
7. Other investments authorized by law or by ordinance for a county or municipality.
8. Other investments authorized by law or by resolution for a school district or a special district.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Credit Risk (Continued):

9. Securities of, or other interests in, any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss. 80a-1 et seq., as amended from time-to-time, provided the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United State Government obligations and provided such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian.

As of September 30, 2016, the City's investment in the Florida PRIME is rated AAAM by Standard & Poor's.

According to the General Employees' Retirement Plan, as of September 30, 2016, the portfolio consisted of investments in securities held in total return bond funds which are not rated by Moody's.

According to the Police Officers' and Firefighters' Retirement Plan, as of September 30, 2016, the portfolio consisted of U.S. Treasury and mortgage backed securities (all rated Aaa by Moody's); asset backed securities/commercial mortgage backed securities (rated Aaa by Moody's, except for approximately \$304,299 which was not rated by Moody's). The portfolio also consisted of corporate and non-corporate bonds with ratings ranging from Aaa to Baa3.

Concentration Risk:

GASB Statement No. 40 requires disclosure of the concentration of credit risk when five or more percent of the total assets of the portfolio are invested with a single issuer.

The investment limits set aside by the City pension plans for an individual company security are summarized below:

<u>Security</u>	<u>General Employees' Retirement Plan</u>	<u>Police Officers' and Firefighters' Retirement Plan</u>
Equities (common stock)	3% of value of plan assets	5% of value of plan assets
Fixed income (bonds)	3% of value of plan assets	3% of value of plan assets
Foreign securities in total may not exceed	10% of value of plan assets	25% of value of plan assets

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Concentration Risk (Continued):

Fixed income investments generally must meet certain investment grading standards and equities must be traded on a national exchange. Investments in corporate common stocks and convertible bonds are limited to 70% of the market value of each plan's assets. Similar grading and/or trading criteria apply to mutual funds, money market funds, U.S. government back securities, etc. None of the above limitations were exceeded by either plan at September 30, 2016. Investment policies are subject to a review at least one annually by the Board of Trustees for each plan.

NOTE 3 - INTERFUND TRANSFERS

All transfers are routine and are consistent with the activities of the fund making the transfer. Included in these are transfers from the General Fund to other governmental funds in accordance with established budgets. The following presents the interfund transfers for the year ended September 30, 2016:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 402,247	\$ 280,400
Other Governmental Funds	128,281	250,128
Totals	<u>\$ 530,528</u>	<u>\$ 530,528</u>

NOTE 4 - RECEIVABLES

Receivables at September 30, 2016, were as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>		
	<u>General Fund</u>	<u>Utilities Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Franchise fees	\$ 171,580	\$ -	\$ -	\$ 171,580
Utility service	202,065	-	-	202,065
Accounts receivable	-	375,738	198,456	574,194
Unbilled receivables	-	397,451	187,036	584,487
Less: allowance for doubtful accounts	-	(45,000)	(25,000)	(70,000)
Other	2,196	-	-	2,196
Receivables, net	<u>\$ 375,841</u>	<u>\$ 728,189</u>	<u>\$ 360,492</u>	<u>\$ 1,464,522</u>

CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 5 - CAPITAL ASSETS

Changes in capital assets of the government-type activities are summarized as follows:

	Balance October 1, 2015	Additions	Deletions/ Transfers	Balance September 30, 2016
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,760,657	\$ 83,979	\$ -	\$ 1,844,636
Construction in progress	30,643	-	-	30,643
Total capital assets not being depreciated	<u>1,791,300</u>	<u>83,979</u>	<u>-</u>	<u>1,875,279</u>
<i>Capital assets being depreciated:</i>				
Buildings	8,145,784	-	-	8,145,784
Improvements other than buildings	4,815,184	342,621	-	5,157,805
Infrastructure	14,061,026	-	-	14,061,026
Machinery and equipment	6,404,322	395,459	(54,018)	6,745,763
Equipment under capital lease	-	977,838	-	977,838
Total capital assets being depreciated	<u>33,426,316</u>	<u>1,715,918</u>	<u>(54,018)</u>	<u>35,088,216</u>
Less accumulated depreciation for:				
Buildings	(2,242,941)	(162,664)	-	(2,405,605)
Improvements other than buildings	(2,354,069)	(231,597)	-	(2,585,666)
Infrastructure	(8,231,580)	(395,914)	-	(8,627,494)
Machinery and equipment	(4,900,866)	(355,556)	54,018	(5,202,404)
Equipment under capital lease	-	(34,605)	-	(34,605)
Total accumulated depreciation	<u>(17,729,456)</u>	<u>(1,180,336)</u>	<u>54,018</u>	<u>(18,855,774)</u>
Total capital assets being depreciated, net	<u>15,696,860</u>	<u>535,582</u>	<u>-</u>	<u>16,232,442</u>
Governmental activities capital assets, net	<u>\$ 17,488,160</u>	<u>\$ 619,561</u>	<u>\$ -</u>	<u>\$ 18,107,721</u>

CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 5 - CAPITAL ASSETS (Continued)

Changes in capital assets of the business-type activities are summarized as follows:

	Balance October 1, 2015	Additions	Deletions/ Transfers	Balance September 30, 2016
<i>Business-type activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 2,168,710	\$ -	\$ -	\$ 2,168,710
Construction in progress	538,903	133,483	(142,619)	529,767
Total capital assets not being depreciated	<u>2,707,613</u>	<u>133,483</u>	<u>(142,619)</u>	<u>2,698,477</u>
<i>Capital assets being depreciated:</i>				
Buildings	8,954,298	-	-	8,954,298
Improvements other than buildings	1,936,487	1,107,563	99,119	3,143,169
Infrastructure	35,504,747	37,636	43,500	35,585,883
Machinery and equipment	4,693,529	112,343	(26,602)	4,779,270
Total capital assets being depreciated	<u>51,089,061</u>	<u>1,257,542</u>	<u>116,017</u>	<u>52,462,620</u>
Less accumulated depreciation for:				
Buildings	(3,739,706)	(185,009)	-	(3,924,715)
Improvements other than buildings	(573,191)	(108,869)	-	(682,060)
Infrastructure	(7,297,285)	(683,774)	-	(7,981,059)
Machinery and equipment	(2,465,228)	(307,008)	26,602	(2,745,634)
Total accumulated depreciation	<u>(14,075,410)</u>	<u>(1,284,660)</u>	<u>26,602</u>	<u>(15,333,468)</u>
Total capital assets being depreciated, net	<u>37,013,651</u>	<u>(27,118)</u>	<u>142,619</u>	<u>37,129,152</u>
Business-type activities, net	<u>\$ 39,721,264</u>	<u>\$ 106,365</u>	<u>\$ -</u>	<u>\$ 39,827,629</u>

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 5 - CAPITAL ASSETS (Continued)

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

Governmental activities -	
General government	\$ 231,919
Public safety	332,155
Transportation	441,928
Culture and recreation	<u>174,334</u>
Total depreciation expenses - governmental activities	<u><u>\$ 1,180,336</u></u>
Business-type activities -	
Utilities	<u><u>\$ 1,284,660</u></u>

NOTE 6 - INTANGIBLE ASSETS

A summary of capitalized software costs as of December 31, 2016 is as follows:

Cost	\$ 604,340
Less accumulated amortization	<u>(100,723)</u>
Capitalized software costs, net	<u><u>\$ 503,617</u></u>

Amortization expense for capitalized software costs was \$100,723 for the year ended September 30, 2016.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 7 - NON-CURRENT LIABILITIES

The following is a summary of changes in long-term debt and other liabilities of the City:

	Balance October 1, 2015	Increases	Decreases	Balance September 30, 2016	Due Within One Year
Governmental activities:					
Revenue bonds	\$ 3,569,102	\$ 3,165,000	\$ (3,239,102)	\$ 3,495,000	\$ 230,000
Plus deferred amounts for issuance premium	-	57,720	(2,220)	55,500	-
Capital leases	-	1,671,947	(146,918)	1,525,029	191,151
Compensated absences	312,616	471,535	(429,990)	354,161	354,161
Other postemployment benefits	582,412	113,877	-	696,289	-
	<u>\$ 4,464,130</u>	<u>\$ 5,480,079</u>	<u>\$ (3,818,230)</u>	<u>\$ 6,125,979</u>	<u>\$ 775,312</u>
Business-type activities:					
State revolving loans	\$ 12,709,905	\$ -	\$ (654,910)	\$ 12,054,995	\$ 671,767
Revenue bonds	10,143,683	12,100,000	(10,293,683)	11,950,000	230,000
Less deferred amounts for issuance discount	(201,759)	(358,109)	220,515	(339,353)	-
Compensated absences	59,621	68,968	(68,968)	59,621	59,621
Other postemployment benefits	102,778	28,162	-	130,940	-
	<u>\$ 22,814,228</u>	<u>\$ 11,839,021</u>	<u>\$ (10,797,046)</u>	<u>\$ 23,856,203</u>	<u>\$ 961,388</u>

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 7 - NON-CURRENT LIABILITIES (Continued)

Description of Long-Term Debt and Other Liabilities Outstanding

Governmental Activities

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Revenue Bonds			
<u>Public Safety Facilities Fee Revenue Bonds, Series 2007</u>			
Issued \$900,000 at 4.44% interest. Principal and interest payments due annually on March 1, matures in March 2018. Secured and payable from public safety franchise fees. Funds used for the purpose of financing the construction of a public safety building.	\$ 90,000	\$ 90,000	\$ 180,000
<u>Public Safety Revenue Bonds, Series 2009</u>			
Issued \$450,000, interest ranges from 3.0% to 6.25%. Principal and interest payments due annually on March 1, matures in March 2019. Secured and payable from non-ad valorem revenues. Funds used for the purpose of financing the acquisition of two fire trucks.	50,000	100,000	150,000
<u>Public Improvement Refunding Bonds, Series 2015</u>			
Issued \$3,165,000, interest ranges from 1.2% to 4%. Principal and interest payments due annually on March 1, matures in September 2041. Secured and payable from the public service taxes, franchise fees, communication services taxes and the local government half-cent sales tax. Funds used for the purpose of retiring the City's Public Improvement Revenue Bonds, Series 2001 and Series 2008.	90,000	3,075,000	3,165,000
Unamortized premium on bond refunding	-	55,500	55,500
Total revenue bonds - governmental activities	<u>230,000</u>	<u>3,320,500</u>	<u>3,550,500</u>

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 7 - NON-CURRENT LIABILITIES (Continued)

Description of Long-Term Debt and Other Liabilities Outstanding (Continued)

Governmental Activities - continued

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Capital leases			
Capital lease with Pierce Manufacturing for two fire trucks; due in annual installments of \$126,472; payments through June 2023; bearing an interest rate of 2.89%; secured by the equipment; net book value at September 30, 2016 of \$877,973.	83,260	814,667	897,927
Capital lease with Government Capital Corporation for public safety software; due in annual installments of \$143,114; payments through December 2020; bearing an interest rate of 6.421%; secured by software; net book value at September 30, 2016 of \$503,617.	<u>107,891</u>	<u>519,211</u>	<u>627,102</u>
Total capital leases - governmental activities	<u>191,151</u>	<u>1,333,878</u>	<u>1,525,029</u>
Total Governmental Activities	<u>\$ 421,151</u>	<u>\$ 4,654,378</u>	<u>\$ 5,075,529</u>

Business-Type Activities

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
State Revolving Loans			
State revolving loan payable (2008) of \$7,068,015, due in semi-annual payments of \$230,172, through June 15, 2028, bearing an interest rate of 2.53%, secured by anticipated net water and sewer system revenues.	\$ 342,609	\$ 4,396,160	\$ 4,738,769
State revolving loan payable (2010) of \$890,026, due in semi-annual payments of \$29,486, through July 15, 2032, bearing an interest rate of 2.86%, secured by anticipated net water and sewer system revenues.	37,706	715,199	752,905

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 7 - NON-CURRENT LIABILITIES (Continued)

Description of Long-Term Debt and Other Liabilities Outstanding (Continued)

Business-Type Activities - continued

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
State revolving loan payable (2013) of \$7,283,055, due in semi-annual payments of \$228,485, through August 15, 2034, bearing an interest rate of 2.55%, secured by anticipated net water and sewer system revenues.	291,452	6,271,869	6,563,321
Total revolving loans - business-type activities	<u>671,767</u>	<u>11,383,228</u>	<u>12,054,995</u>

Revenue Bonds

Water and Sewer Refunding and Improvement Revenue Bonds, Series 2015

Issued \$6,650,000, interest ranges 2.1% to 4%.

Interest is payable semiannually and annual principal payments are due on March 1, matures in September 2033, secured by anticipated net water and sewer system revenues. Funds used for the purpose of retiring the Water & Sewer Revenue Bonds, Series 2008.

25,000	6,625,000	6,650,000
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Water and Sewer Refunding and Improvement Revenue Bonds, Series 2016

Issued \$5,450,000, interest ranges 2.4% to 4%.

Interest is payable semiannually and annual principal payments are due on March 1, matures in September 2038, secured by anticipated net water and sewer system revenues. Funds used for the purpose of retiring the Water & Sewer Revenue Bonds, Series 2008.

<u>205,000</u>	<u>5,095,000</u>	<u>5,300,000</u>
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Unamortized discount on bond refunding	<u>-</u>	<u>(1,412,280)</u>	<u>(1,412,280)</u>
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Total revenue bonds - business-type activities	<u>230,000</u>	<u>10,307,720</u>	<u>10,537,720</u>
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Total Business-Type Activities	<u>\$ 901,767</u>	<u>21,690,948</u>	<u>\$ 22,592,715</u>
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Grand Total Long-Term Debt			<u><u>\$ 27,668,244</u></u>
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**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 7 - NON-CURRENT LIABILITIES (Continued)

Annual Requirements to Amortize Debt Outstanding

The annual requirements to amortize all debt outstanding except compensated absences and other post-employment benefits as of September 30, 2016, are as follows:

Year Ending September 30	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2017	\$ 421,151	\$ 190,038	\$ 901,765	\$ 707,273	\$ 2,220,227
2018	528,315	169,641	959,053	681,262	2,338,271
2019	448,606	149,980	996,786	653,866	2,249,238
2020	419,484	129,645	1,019,977	625,311	2,194,417
2021	435,988	112,292	1,048,635	596,086	2,193,001
2022-2026	1,121,485	342,730	5,735,327	2,505,271	9,704,813
2027-2031	460,000	265,752	6,553,964	1,643,851	8,923,567
2032-2036	535,000	179,400	5,424,488	667,960	6,806,848
2037-2041	650,000	78,155	1,365,000	73,176	2,166,331
Total	<u>\$ 5,020,029</u>	<u>\$ 1,617,633</u>	<u>\$ 24,004,995</u>	<u>\$ 8,154,056</u>	<u>\$ 38,796,713</u>

NOTE 8 - REFUNDINGS OF DEBT

Advance Refundings of Debt

The City has issued refunding revenue bonds to defease certain outstanding bonds for the purpose of consolidation at lower interest rates. The City has placed the proceeds from those refunding bonds in irrevocable escrow accounts with a trust agent to insure payment of debt service on the refunded bonds.

Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the City's financial statements. Although defeased, the refunded debt from these earlier issues will not be actually retired until the call dates have come due or until maturity if they are not callable issues.

During the year ended September 30, 2016, the City issued \$6,650,000 Water and Sewer System Refunding Revenue Bonds, Series 2015 and \$5,450,000 of Water and Sewer Refunding and Improvement Bonds, Series 2016, to advance refund \$10,070,000 of Water System Revenue Bonds, Series 2008. The advance refunding resulted in a difference between the acquisition price and the net carrying value of the old debt of \$1,129,824. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations through the year 2039 using the straight-line amortization method.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 8 - REFUNDINGS OF DEBT (Continued)

Advance Refundings of Debt (Continued)

The advance refunding increased total debt service payments by approximately \$42,000 but gave rise to an economic gain of approximately \$838,000 (difference between the present values of the old and new debt service payments).

At September 30, 2016, the City has \$10,070,000 of bonds outstanding that are considered to be defeased.

Current Refundings of Debt

During the year ended September 30, 2016, the City issued \$3,165,000 Public Improvement Refunding Bonds, Series 2015 to currently refund \$2,080,000 of Public Improvement Bonds, Series 2001 and \$991,850 of Public Improvement Bonds, Series 2008. The current refunding decreased total debt service payments by approximately \$190,000 and gave rise to an economic gain of approximately \$314,000 (difference between the present values of the old and new debt service payments).

NOTE 9 - DEFINED BENEFIT PENSION PLANS

The City administers two defined benefit pension plans: the Crestview General Employees' Retirement Plan Trust Fund and the Crestview Police Officers' and Firefighters' Plan Trust Fund. These plans provide benefits for all qualifying employees of the City. Each plan is administered by a five person retirement committee consisting of two members appointed by the City Council, two elected members of the Plan and a fifth member elected by the other four and appointed by the City Council. The Plans issue publicly available financial reports that include certain required additional disclosures. These reports may be obtained by writing to the Secretary, Retirement Plans, PO Box 1209, Crestview, FL 32536. Following are required employer disclosures for the plans.

General Employees' Retirement Plan (GERP)

The Crestview General Employees' Retirement Plan Trust Fund is the administrator of a single employer public employee retirement system established by the City. It is mandatory that all full-time general employees of the City participate in the Plan. GERP provides retirement benefits and reduced early retirement benefits, as well as death and disability benefits. All benefits vest after 10 years of credited service.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

General Employees' Retirement Plan (GERP) (Continued)

Employees who retire at or after age 55 with 10 years of credited service are entitled to an annual retirement benefit, payable monthly, of 2.64% of Average Final Compensation for year of credited service plus \$215 per month. This benefit is paid in the form of a Life Annuity (options available). Employees who have attained age 50 and completed 10 years of credited service are eligible for early retirement and may elect to receive an immediate actuarially reduced benefit. Disability benefits are also provided at a reduced benefit amount for qualifying employees determined by the Board to be totally and permanently disabled. Benefit provisions are established by the Trust Instrument. Any amendments to the Plan are accomplished through revision and amendment of City Ordinances.

The Plan includes a provision for a deferred retirement option plan (DROP). A member becomes eligible when normal retirement requirements are satisfied. The member may not participate in the DROP for more than 60 months. The average daily balance in a member's DROP account shall be credited or debited at a rate equal to the actual net rate of investment return, net of brokerage commissions, transaction costs and management fees. Upon entering the DROP, the members shall not accrue any additional credited service or additional benefits and shall not be permitted to again contribute to the System. All benefits payable to a member from the DROP shall be paid from the assets of the member's DROP account and neither the City nor the Board shall have a duty or liability to furnish the DROP with any funds, securities or other assets except to the extent required by any applicable law. The DROP balances as of September 30, 2016 were \$390,556.

Police Officers' and Firefighters' Retirement Plan (POFRP)

The Crestview Police Officers' and Firefighters' Retirement Plan Trust Fund is the administrator of a single employer public employee retirement system established by the City. It is mandatory that all full-time City police officers and firefighters participate in the plan.

The POFRP provides retirement benefits and reduced early retirement benefits as well as death and disability benefits. All benefits vest after 10 years of credited service. Employees who retire at or after age 55 with 10 years of credited service or age 52 with 25 years of credited service are eligible for normal retirement and are entitled to an annual retirement benefit, payable monthly, of three and one-fifth percent (3.2%) of Average Final Compensation times credited service. This benefit is paid in the form of a Ten Year Certain and Life Annuity (options available). Employees who have attained age 45 and completed 10 years of credited service are eligible for early retirement and may elect to receive a benefit reduced 3% for each year that early retirement precedes age 50 and actuarially reduced accordingly. Disability benefits are also provided at a reduced benefit amount for qualifying employees determined by the Board to be totally and permanently disabled. Benefit provisions are established by the Trust Instrument. The State also contributes to the Plan. Any amendments to the Plan are accomplished through revision and amendment of City Ordinances.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

Police Officers' and Firefighters' Retirement Plan (POFRP) (Continued)

The Plan includes a provision for a deferred retirement option plan (DROP). A member becomes eligible when normal retirement requirements are satisfied. The member may not participate in the DROP for more than 60 months. An eligible member which elects to enter the DROP can select either 1) actual net rate of investment return, net of brokerage commissions, transaction costs and management fees or 2) interest at an effective rate of 6.5% per annum compounded monthly on the prior month's ending balance. Upon entering the DROP, the member shall not accrue any additional credited service or additional benefits and shall not be permitted to again contribute to the System. All benefits payable to a member from the DROP shall be paid only from the assets of the member's DROP account and neither the City nor the Board shall have a duty or liability to furnish the DROP with any funds, securities or other assets except to the extent required by any applicable law. The DROP balances as of September 30, 2016 were \$166,103.

Membership of each plan consisted of the following on September 30, 2016, the date of the latest actuarial report.

	GERP	POFRP
Active plan members	107	87
Inactive plan members:		
Receiving benefits	41	22
Entitled to but not receiving benefits	17	9
Total	165	118

Contributions

The contribution requirements of plan members and the City are established annually and amended by City ordinance. Plan members are required to contribute a set percentage of their annual covered salaries. The City is required to contribute at an actuarially determined rate.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

Investments

The following was the Board's adopted asset allocation policy as of September 30, 2016:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	45%
International Equity	15%
Domestic Fixed Income	25%
Global Fixed Income	5%
Real Estate	10%
	<u>100%</u>

The Plans did not hold investments in any one organization that represent 5 percent or more of the Pension Plans' fiduciary net position.

For the year ended September 30, 2016, the annual money-weighted rate of return on the GERP and POFRP investments, net of pension plan investment expenses, was 7.54% percent and 6.6% percent, respectively.

More information about the Plan's investments is discussed in Note 2.

Net Pension Asset of the Sponsor

The components of the net pension asset (liability) of the sponsor on September 30, 2016 were as follows:

	<u>GERP</u>	<u>POFRP</u>
Total Pension Liability	\$ 17,140,287	\$ 17,387,252
Plan Fiduciary Net Position	(16,625,944)	(17,489,080)
Sponsor's Net Pension Asset (Liability)	<u>\$ 514,343</u>	<u>\$ (101,828)</u>
Plan Fiduciary Net Position as a percentage of Total Pension Liability	97.00%	100.59%

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the City recognized pension expense of \$519,436 for the GERP and \$506,902 for the POFRP. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	GERP		POFRP	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance as of October 1, 2015	\$ 1,574,565	\$ 295,443	\$ 1,784,441	\$ 1,115,611
Change due to:				
Amortization	(363,632)	(172,978)	(496,399)	(246,165)
Changes in assumptions	152,935	-	337,452	-
Contributions	(298,505)	-	(411,382)	-
Difference between projected and actual earnings on investments	70,146	372,488	239,853	-
Difference between expected and actual experience	-	-	293,542	-
Total change	<u>(439,056)</u>	<u>199,510</u>	<u>(36,934)</u>	<u>(246,165)</u>
Balance as of September 30, 2016	<u>\$ 1,135,509</u>	<u>\$ 494,953</u>	<u>\$ 1,747,507</u>	<u>\$ 869,446</u>

The outcome of the deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability each year. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended September 30:</u>	GERP	POFRP
2017	\$ 190,653	\$ 250,236
2018	\$ 190,652	\$ 250,238
2019	\$ 289,133	\$ 307,843
2020	\$ (29,882)	\$ (35,422)
2021	\$ -	\$ 105,166
Thereafter	\$ -	\$ -

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of October 1, 2014 updated to September 30, 2016 using the following actuarial assumptions applied to all measurements periods.

	<u>GERP</u>	<u>POFRP</u>
Inflation	2.50%	2.50%
Invested rate of return	7.75%	8.00%
Projected salary increases	Service based	6.50%

GERP: RP-2000 Mortality Table (Combined Healthy) projected to valuation date using scale AA. Disability mortality set forward five years.

POFRP: RP-2000 Mortality Table (Combined Healthy) with no projection. Disabled lives set forward five years. Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements.

The actuarial assumptions used in the October 1, 2016 valuation were based on the results of an actuarial experience study dated August 29, 2016.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	7.50%
International Equity	8.50%
Domestic Fixed Income	2.50%
Global Fixed Income	3.50%
Real Estate	4.50%

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the employee contributions will be made at the current contribution rate and that the City's contributions will be made at rates equal to the difference between the actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

	GERP	POFRP
1% decrease of discount rate to 6.75% (GERP) 7% (POFRP)	\$ 2,587,828	\$ 2,121,170
Current discount rate of 7.75% (GERP) 8% (POFRP)	\$ 514,343	\$ (101,828)
1% increase of discount rate to 8.75% (GERP) 9% (POFRP)	\$ (1,209,229)	\$ (1,930,375)

NOTE 10 - OTHER POST-EMPLOYMENT BENEFIT PLAN

Plan Description

The Postemployment Healthcare Benefits Plan (Plan) is a single employer defined benefit plan administered by the City. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the City, and eligible dependents, may continue to participate in the City's health and hospitalization plan for medical, and prescription drug coverage. The City subsidizes the premium rates paid by retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. The City does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The rates paid by the retirees eligible for Medicare are reduced by the Medicare premium. The Plan does not issue a stand-alone report, and it is not included in the report of a Public Employee Retirement System or another entity.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 10 - OTHER POST-EMPLOYMENT BENEFIT PLAN (Continued)

Summary information regarding plan provisions and employee contributions is presented below:

Credited Service	Total completed years of employment with the City
Eligibility for Insurance Coverage Police/Fire pension participants	Age 55 and 10 years of service or 25 years of service, regardless of age, is normal retirement. Employees may retire early at 45 and 10 years of service.
General pension participants	Age 60 and 10 years of service is normal retirement. Employees may retire early at age 50 and 10 years of service.
Health and dental contributions Retiree	100% of the active premium rate
City	Remaining amount necessary for payment of claims.
Life insurance contributions (retiree)	100% of premium rate
Life insurance benefits (retiree)	\$10,000 to age 70, then \$5,000

Employee Contribution Information

Retirees participating in the group insurance plans offered by the City are required to contribute 100% of the active premiums. In future years, contributions are assumed to increase at the same rate as premiums. Projected premiums for the dental and life insurance benefits are assumed to cover the entire cost of the program.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 10 - OTHER POST-EMPLOYMENT BENEFIT PLAN (Continued)

Funding Policy

Contribution rates for the plan are established on an annual basis by the City Council. Eligible retirees and their covered dependents receiving benefits contribute 100% of their premium costs for health insurance, dental insurance and term life insurance benefits. While the City does not directly contribute toward the cost of retiree premiums via an explicit subsidy, the ability of retirees to obtain health insurance coverage at a group rate which includes active employees, constitutes a significant economic benefit to retirees, or an “implicit” subsidy. This implicit subsidy is considered to be an other post-employment benefit (OPEB) obligation of the City. The City is not currently funding the OPEB obligation. For the year ended September 30, 2016, the contributions made to the program totaling \$57,611 were assumed to be the benefits paid for retirees and administrative expenses.

Annual OPEB Cost and Net OPEB Obligation

The City’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year to amortize an unfunded liability of the plan over a period not to exceed thirty years.

The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation to the City’s plan, including both the implicit rate subsidy for health insurance, dental insurance and the term life insurance benefits as of the last valuation date, October 1, 2014:

Annual required contribution	\$ 202,825
Interest on net OPEB obligation	27,408
Adjustment to annual required contribution	<u>(30,583)</u>
Annual OPEB cost	199,650
Contributions made	<u>(57,611)</u>
Increase in net OPEB obligation	142,039
Net OPEB obligation - beginning of year	685,190
Net OPEB obligation - end of year	<u><u>\$ 827,229</u></u>

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 10 - OTHER POST-EMPLOYMENT BENEFIT PLAN (Continued)

The City has allocated its OPEB liability between its General and Utilities Fund based on payroll costs. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of September 30, 2016 are as follows:

Fiscal Year Ended	Annual OPEB cost	Employer Amount Contributed	Percentage Contributed	Net OPEB Obligation
9/30/2016	\$ 199,650	\$ 57,611	29%	\$ 827,229
9/30/2015	\$ 198,034	\$ 61,708	31%	\$ 685,190
9/30/2014	\$ 131,248	\$ 33,343	25%	\$ 548,864

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2014 actuarial valuation the entry age normal (level 5 of pay) actuarial cost method is used. The annual required contribution (ARC) reflects a 30 year, level amortization of the unfunded actuarial accrued liability (AAL). The actuarial assumptions included 4% investment rate of return, 3% projected salary increases, and a 3% inflation rate. The annual health care inflation rate was assumed to be 8% in 2015, 7.25% in 2016, and are assumed to decrease 0.75% each year until the ultimate rate of 4.5% in 2020.

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees; employee medical benefits and natural disasters. The City purchases insurance through commercial carriers and participates in the Florida Municipal Insurance Trust, which is a public entity risk pool. Coverage through the Florida Municipal Insurance Trust includes comprehensive general and professional liability, automobile, property and workers' compensation coverages. The remaining insurance coverage, which includes but is not limited to health and life insurance coverages, is purchased from various commercial carriers.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 11 - RISK MANAGEMENT (Continued)

The City does not retain a risk of loss as a participant in the public entity risk pool. The City maintains minimal deductibles for insurance policies from its various commercial carriers. There has been no significant reduction in insurance coverage from the prior fiscal year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The City participates in various federal and state grants. The expenditures of these grants are subject to audit and adjustment by the funding agency or their representatives. If expenditures are subsequently disallowed due to noncompliance with the program, the City may be required to repay the funding agency. The City's management believes that disallowed expenditures, if any, will not be material to the accompanying financial statements.

NOTE 12 - FUND EQUITY

Restricted Net Assets:

The City has established certain restrictions within the net assets section of the enterprise funds. It is the City's policy to first apply restricted resources for expenditures incurred for which there are restricted and unrestricted resources available. Additionally, the City would first apply committed, followed by assigned amounts and lastly unassigned amounts of unrestricted fund balance when expenditures are incurred.

Restricted net assets at September 30, 2016 consist of the following:

	<u>Utilities</u>
Restricted for impact fees	\$ 1,972,207
Restricted for debt service	549,645
	<u>\$ 2,521,852</u>

Restricted and Committed Fund Balances:

The City has established certain restrictions commitments within the fund equity section of the governmental funds. Nonspendable, restricted and assigned fund balances at September 30, 2016, consist of the following:

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 12 - FUND EQUITY (Continued)

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:			
Prepaid expenditures	\$ 173,475	\$ -	\$ 173,475
Permanent fund	-	50,000	50,000
Total nonspendable	<u>\$ 173,475</u>	<u>\$ 50,000</u>	<u>\$ 223,475</u>
Restricted for:			
Debt service	\$ -	\$ 261,969	\$ 261,969
Other	-	3,837	3,837
Total restricted	<u>\$ -</u>	<u>\$ 265,806</u>	<u>\$ 265,806</u>
Assigned for:			
Special revenue	\$ -	\$ 1,356,434	\$ 1,356,434
Permits and other fees	553,462	-	553,462
Traffic impact	616,207	-	616,207
Total assigned	<u>\$ 1,169,669</u>	<u>\$ 1,356,434</u>	<u>\$ 2,526,103</u>

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Contracts

The City has contracted with CH2M Hill, Inc. (CH2M) to operate, maintain and manage the City's sewer treatment plant. Fees are payable monthly and are subject to adjustment on a regular basis. A new contract was signed for a five year term commencing October 1, 2014. The agreement will automatically renew for another five year term ending September 30, 2024. The latest contract established a base fee for fiscal year 2015 of \$867,000. It also provides for electrical cost or consumption increases over an established amount (\$192,000) to be shared equally by the City and CH2M. Total fees under the contract for the year ended September 30, 2016, were approximately \$905,000.

Legal Matters

The City is involved in pending and threatened legal actions. In the opinion of City management, after consulting with legal counsel, the range of potential loss from all such claims and actions should not materially affect the financial condition of the City.

**CITY OF CRESTVIEW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)

Sanitation Collection

In September 2013, the City contracted with Waste Pro of Florida, Inc. for the collection and disposal of residential and commercial solid waste, yard refuse and recycling. The non-exclusive franchise agreement began October 1, 2013 through September 30, 2018. The City is responsible for billings and collections related to the sanitation services and retains 6% of the collections as payment for managing the collections. The remainder of the collections are remitted to Waste Pro of Florida, Inc. Collections remitted to Waste Pro of Florida amounted to approximately \$2.8 million for the year ended September 30, 2016.

Grants

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

In September 2004, Hurricane Ivan impacted Northwest Florida, including the City with considerable damage. Many of the expenses incurred for debris removal and other repairs were reimbursed to the City through grant funding from the Federal Emergency Management Agency (FEMA). In 2005, FEMA reimbursed the City for most of the expenses incurred, but then later determined that certain expenses did not qualify for reimbursement according to the grant. FEMA has notified the City that the City will be responsible for those expenses determined not to be reimbursable. The City will not know the exact amount of funds that are to be repaid to FEMA until FEMA has performed a final close-out audit. The City has estimated the liability to FEMA for non-reimbursable expenses to be \$485,655. This amount is included in Due to other governments on the accompanying financial statements.

NOTE 14 - PRIOR PERIOD ADJUSTMENT

Beginning fund balance in the general fund was increased by \$395,751 to correct the overstatement of liabilities in the September 30, 2015 financial statements. Net revenues related to building permits and some other fees for which the funds are required to be held for use in specified projects had been tracked and deferred as liabilities rather than recognized and assigned as equity balances. An entry was posted as of September 30, 2016 to reclassify the applicable amounts to the assigned fund balance category.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF CRESTVIEW, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS (OPEB)
SEPTEMBER 30, 2016**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Payroll
10/1/2014	\$ -	\$ 1,663,043	\$ 1,663,043	0%	\$ 7,195,784	23.11%
10/1/2011	\$ -	\$ 881,926	\$ 881,926	0%	\$ 8,313,723	10.61%
10/1/2010	\$ -	\$ 574,545	\$ 574,545	0%	\$ 7,401,340	7.76%

NOTE 1 - OTHER POSTEMPLOYMENT BENEFIT PLAN

The information presented in the required supplementary schedule was determined as part of an actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date is as follows:

Valuation date	October 1, 2014
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll
Amortization period	30 years
Payroll inflation rate	3.0%
Investment return	4.0%
Healthcare cost trend rate:	
Medical	Decreasing from 8.0% to 4.5% over 6 years

CITY OF CRESTVIEW, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITIES AND RELATED RATIOS
LAST 10 FISCAL YEARS *

	General Employees' Retirement Plan				Police Officers' and Firefighters' Retirement Plan			
	2016	2015	2014	2013	2016	2015	2014	2013
Total pension liability								
Service cost	\$ 565,716	\$ 536,574	\$ 538,171	\$ 498,306	\$ 675,767	\$ 650,319	\$ 704,926	\$ 645,804
Interest	1,310,682	1,240,902	1,163,671	1,085,340	1,205,985	1,207,893	1,142,097	1,050,053
Differences between expected and actual experience	(372,488)	(196,887)	-	-	293,542	(1,131,354)	-	-
Changes of benefit terms							102,466	-
Changes in assumptions	152,935				337,452			
Share plan allocation					775,763			
Other	-	-	-	-	-	-	36,400	-
Change in excess State money	-	-	-	-	(798,033)	102,691	110,979	-
Benefit payments, including refund of employee contributions	(668,726)	(806,243)	(663,463)	(625,281)	(618,732)	(933,578)	(1,079,145)	(334,643)
Net change	988,119	774,346	1,038,379	958,365	1,871,744	(104,029)	1,017,723	1,361,214
Total pension liability, beginning	16,152,168	15,377,822	14,339,443	13,381,078	15,515,508	15,619,537	14,601,814	13,240,600
Total pension liability, ending (a)	<u>\$ 17,140,287</u>	<u>\$ 16,152,168</u>	<u>\$ 15,377,822</u>	<u>\$ 14,339,443</u>	<u>\$ 17,387,252</u>	<u>\$ 15,515,508</u>	<u>\$ 15,619,537</u>	<u>\$ 14,601,814</u>
Plan fiduciary net position								
Contributions - Employer	\$ 298,505	\$ 556,922	\$ 756,791	\$ 779,531	\$ 111,296	\$ 429,649	\$ 576,763	\$ 746,119
Contributions - State	-	-	-	-	300,086	296,275	296,686	291,738
Contributions - Employee	263,011	246,579	240,968	242,185	267,931	255,354	235,503	264,486
Net investment income	1,172,257	(319,164)	1,396,846	1,537,348	1,072,929	(374,169)	1,512,913	1,596,346
Benefit payments, including refund of employee contributions	(668,726)	(806,243)	(663,463)	(625,281)	(618,732)	(933,578)	(1,079,145)	(334,643)
Administrative expense	(45,495)	(43,915)	(35,530)	(31,453)	(47,835)	(46,407)	(37,041)	(30,354)
Other	-	-	44,105	-	-	-	(44,105)	-
Net change	1,019,552	(365,821)	1,739,717	1,902,330	1,085,675	(372,876)	1,461,574	2,533,692
Plan fiduciary net position, beginning	15,606,392	15,972,213	14,232,496	12,330,166	16,403,405	16,776,281	15,314,707	12,781,015
Plan fiduciary net position, ending (b)	<u>16,625,944</u>	<u>15,606,392</u>	<u>15,972,213</u>	<u>14,232,496</u>	<u>17,489,080</u>	<u>16,403,405</u>	<u>16,776,281</u>	<u>15,314,707</u>
Net pension liability, ending (a) - (b)	<u>\$ 514,343</u>	<u>\$ 545,776</u>	<u>\$ (594,391)</u>	<u>\$ 106,947</u>	<u>\$ (101,828)</u>	<u>\$ (887,897)</u>	<u>\$ (1,156,744)</u>	<u>\$ (712,893)</u>
Plan fiduciary net position as a percentage of the total pension liability	97.00%	96.62%	103.87%	99.25%	100.59%	105.72%	107.41%	104.88%
Covered employee payroll	\$ 4,109,545	\$ 3,852,802	\$ 3,765,128	\$ 3,784,133	\$ 4,186,426	\$ 3,989,908	\$ 3,701,314	\$ 4,132,599
Net pension liability as a percentage of covered employee payroll	12.52%	14.17%	-15.79%	2.83%	-2.43%	-22.25%	-31.25%	-17.25%

* Information provided above was obtained from an actuarial valuation. Information prior to fiscal year 2013 was not available.

**CITY OF CRESTVIEW, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS ***

	General Employees' Retirement Plan				Police Officers' and Firefighters' Retirement Plan			
	2016	2015	2014	2013	2016	2015	2014	2013
Actuarially determined contribution	\$ 304,106	\$ 473,895	\$ 756,791	\$ 779,531	\$ 322,355	\$ 542,628	\$ 762,470	\$ 929,835
From excess state money reserve					102,941			
Contributions in relation to the actuarially determined contributions	298,505	556,922	756,791	779,531	330,709	623,233	762,470	929,835
Contributions deficiency (excess)	<u>\$ 5,601</u>	<u>\$ (83,027)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (111,295)</u>	<u>\$ (80,605)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 4,109,545	\$ 3,852,802	\$ 3,765,128	\$ 3,784,133	\$ 4,186,726	\$ 3,989,908	\$ 3,701,314	\$ 4,132,599
Contributions as a percentage of covered employee payroll	7.26%	14.45%	20.10%	20.60%	7.90%	15.62%	20.60%	22.50%

Notes to schedule:

Valuation Date 10/1/2014
Actuarially determined contribution rates are calculated as of October 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Funding method	Frozen entry age actuarial cost method	
Amortization period	Level percentage pay, closed	
	General Employees' Retirement Plan	Police Officers' and Firefighters' Retirement Plan
Remaining amortization period	19 years	29 years
Actuarial asset method	Each year, the prior actuarial value of assets is brought forward utilizing the historical geometric 4-year average Market Value return. It is possible that over time this technique will produce an insignificant bias above or below Market Value.	
Inflation	3% per year	
	General Employees' Retirement Plan	Police Officers' and Firefighters' Retirement Plan
Salary increases	6% per year until the assumed retirement age	6.5% per year until the assumed retirement age
Payroll growth	3% per year	
Interest rate	8% per year compounded annually, net of investment related expenses.	

**CITY OF CRESTVIEW, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS (Continued)
LAST 10 FISCAL YEARS ***

Methods and assumptions used to determine contribution rates (Continued):

	General Employees' Retirement Plan	Police Officers' and Firefighters' Retirement Plan
Retirement age	Age 55 and 10 years of service	Earlier of age 55 and 10 years of service or age 52 and 25 years of service
Early retirement	Any member who has reached normal retirement age on the valuation date is assumed to continue employment for one additional year. Commencing with the earliest retirement age (50 for GERP and 45 for POFRP), members are assumed to retire with immediate subsidized benefit at the rate of 5% per year.	
Termination rates	See table below	
Disability rates	See table below. POFRP - It is assumed that 75% of disablements and active member deaths are service related.	
	General Employees' Retirement Plan	Police Officers' and Firefighters' Retirement Plan
Mortality	RP-2000 Mortality table (combined healthy) projected to valuation using scale AA (previously static). Disability mortality set forward 5 years.	RP-2000 Mortality table (combined healthy) who no projection. Disabled lives set forward 5 years. Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements.
Inflation	2.5% per year	
Other information	Termination and Disability Rate Tables	
	General Employees' Retirement Plan	Police Officers' and Firefighters' Retirement Plan
	% becoming disabled during the year	% becoming disabled during the year
<u>Age</u>	<u>% Terminating</u>	<u>% Terminating</u>
20	46.3%	15.0%
30	23.3%	12.5%
40	8.8%	6.5%
50	3.2%	2.0%

* Information provided above was obtained from an actuarial valuation. Information prior to fiscal year 2013 was not available.

**CITY OF CRESTVIEW, FLORIDA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF INVESTMENT RETURNS
 LAST 10 FISCAL YEARS ***

	<u>General Employees'</u>				<u>Police Officers' and Firefighters'</u>			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
For the year ended September 30,								
Annual money-weighted rate of return, net of investment expense	7.54%	-1.99%	9.70%	12.28%	6.60%	-2.25%	9.92%	12.04%

* Information provided above was obtained from an actuarial valuation. Information prior to fiscal year 2013 was not available.

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COMBINING FINANCIAL STATEMENTS

**CITY OF CRESTVIEW, FLORIDA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016**

	Special Revenue Funds			Total
	Law Enforcement Trust	Community Redevelopment Agency	Permanent Fund	
ASSETS				
Cash and cash equivalents	\$ 22,227	\$ 1,334,475	\$ 2,913	\$ 1,359,615
Investments	-	-	50,924	50,924
Total Assets	\$ 22,227	\$ 1,334,475	\$ 53,837	\$ 1,410,539
LIABILITIES				
Accounts payable	-	268	-	268
FUND BALANCES				
Nonspendable	-	-	50,000	50,000
Restricted	-	-	3,837	3,837
Assigned	22,227	1,334,207	-	1,356,434
Total Liabilities and Fund Balances	\$ 22,227	\$ 1,334,475	\$ 53,837	\$ 1,410,539

See independent auditor's report.

**CITY OF CRESTVIEW, FLORIDA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2016**

	Special Revenue Funds		Permanent Fund	Total
	Law Enforcement Trust	Community Redevelopment Agency		
Revenues:				
Taxes	\$ -	\$ 63,372	\$ -	\$ 63,372
Interest income	-	4,348	549	4,897
Fines and forfeitures	1,944	-	-	1,944
Miscellaneous	-	1,790	-	1,790
Total revenues	<u>1,944</u>	<u>69,510</u>	<u>549</u>	<u>72,003</u>
Expenditures:				
Current:				
General government	-	191,830	-	191,830
Culture and recreation	-	-	176	176
Total expenditures	<u>-</u>	<u>191,830</u>	<u>176</u>	<u>192,006</u>
Excess revenues over expenditures	<u>1,944</u>	<u>(122,320)</u>	<u>373</u>	<u>(120,003)</u>
Other Financing Sources:				
Transfers in	<u>-</u>	<u>128,281</u>	<u>-</u>	<u>128,281</u>
Net change in fund balances	1,944	5,961	373	8,278
Fund Balances:				
Beginning of year	<u>20,283</u>	<u>1,328,246</u>	<u>53,464</u>	<u>1,401,993</u>
End of year	<u>\$ 22,227</u>	<u>\$ 1,334,207</u>	<u>\$ 53,837</u>	<u>\$ 1,410,271</u>

See independent auditor's report.

OTHER REPORTS AND SCHEDULE

**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**

To the Honorable Mayor and Members of the
City Council
City of Crestview, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Crestview, Florida (the City), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 29, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given those limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Honorable Mayor and Members of the
City Council
City of Crestview, Florida

Compliance and Other Matters

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

Purpose of this Report

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



Fort Walton Beach, Florida
June 29, 2017

MANAGEMENT LETTER

Honorable Mayor and Members of the
City Council
City of Crestview, Florida

Report on the Financial Statements

We have audited the financial statements of the City of Crestview, Florida (the City), as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated June 29, 2017.

Auditor's Responsibility

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 and Chapter 10.550 Rules of the Florida Auditor General.

Other Reports and Schedule

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Account's Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated June 29, 2017, should be considered in conjunction with this management letter.

Prior Audit Findings

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. There were no prior year audit findings and, therefore, corrective actions are not required.

Honorable Mayor and Members of the
City Council
City of Crestview, Florida

Official Title and Legal Authority

Sections 10.554(1)(i)4., Rules of the Auditor General, require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The official title and legal authority for the City and the component unit of the City has been disclosed in Note 1 to the financial statements.

Financial Condition

Section 10.554(1)(i)5.a., Rules of the Auditor General, requires that we report the results of our determination as to whether or not the City has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Annual Financial Report

Sections 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the City for the fiscal year ended September 30, 2016, 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, 2016. In connection with our audit, we determined these two reports were in agreement.

Other Matters

Section 10.554(1)(i)2., 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)3., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Honorable Mayor and Members of the
City Council
City of Crestview, Florida

Purpose of this Letter

Our management letter is intended 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.



Fort Walton Beach, Florida
June 29, 2017

**INDEPENDENT ACCOUNTANT'S REPORT
ON COMPLIANCE WITH SECTION 218.415, FLORIDA STATUTES**

Honorable Mayor, City Council Members
City of Crestview, Florida

We have examined the City of Crestview, Florida's (the City) compliance with Section 218.415, Florida Statutes during the year ended September 30, 2016. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such procedures as we considered necessary in the circumstances. We believe that our examination provided a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2016.

This report is intended solely for the information and use of the City and the Auditor General, State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.



Fort Walton Beach, Florida
June 29, 2017