

City of Crestview, Florida

Financial Statements

Year Ended September 30, 2011

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crestview, Florida (hereinafter referred to as "City"), as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the General Employees Retirement Plan and the Police Officers/Firefighters Plan, which comprise 100% of the assets, net assets held in trust for pension benefits, and total additions of the pension trust funds. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the General Employees Retirement Plan and the Police Officers/Firefighters Plan, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

Accounting principles generally accepted in the United States of America require that an entity with an other post-employment benefit (OPEB) plan with total membership of 200 or more perform an actuarial valuation at least biennially. Management has not had such a valuation performed in the previous two years. The amount by which this departure would affect the calculation of the OPEB liability as reflected in the government-wide Statement of Net Assets and the Balance Sheet - Proprietary Funds is not reasonably determinable.

In our opinion, except for the effects, if any, of not performing a timely actuarial valuation with respect to the City's OPEB plan as described in the preceding paragraph, based on our audit and the report of other auditors, 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 14, the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual on page 56, the Schedule of Funding Progress for Other Postemployment Benefits on page 57, the Schedule of Funding Progress for Retirement Plans on page 58, and the Schedule of Contributions from the Employer and Other Contributing Entities on page 59, and 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.

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

Carr, Riggs & Ingram, L.L.C.

Miramar Beach, Florida
June 28, 2012

Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 for the fiscal year ended September 30, 2011.

FINANCIAL HIGHLIGHTS

- The assets of the City of Crestview exceeded its liabilities by \$45.5 million (net assets), and represents an decrease of \$527,766 in net assets from the prior year. Of this amount, \$26.86 million represent investments in capital assets (e.g. land, infrastructure, building, machinery and equipment), net of related debt, \$600,872 are restricted for future obligations, and \$18.07 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The governmental net assets decreased by \$1,669,040. The decrease in net assets over the prior year can primarily be attributed to the decrease in restricted assets.
- The net assets of the business-type activities of the City increased by \$1,141,274 from the prior year. The increase is primarily a result of the City managing expenses as the City's growth rate subsides.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2.66 million, or 17% of the total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The focus of the Governmental Accounting Standards Board (GASB) Statement 34 financial statements is on both the City as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government), and enhance the City's accountability.

This discussion and analysis intends 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

Designed to be corporate-like, the government-wide financial statements consolidate governmental and business-type activities into two columns, which sum to a total for Primary Government. This provides readers with a broad overview of the City of Crestview's finances in a manner similar to a private-sector business. Two statements, the statement of net assets and the statement of activities, are utilized to provide information on a government-wide basis.

The statement of net assets presents information on all of the City of Crestview's assets and liabilities, with the difference between the two reported as net assets. 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 assets 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash 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 (includes 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 15 - 16 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 17 - 20 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 six individual governmental funds (General Fund, Community Redevelopment Fund, Law Enforcement Trust Fund, Capital Projects 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, which is considered a major fund. Data from the other five governmental funds (Community Redevelopment Fund, Debt Service Fund, Capital Projects 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 General Fund. A budgetary comparison statement is provided for the General Fund to demonstrate compliance with this 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. Found on pages 21 - 24 of this report are the proprietary fund financial statements.

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. Found on pages 25 - 26 of this report are the fiduciary fund financial statements.

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 27 of this report is the beginning of the notes to the financial statements.

OTHER INFORMATION

The combining statements referred to earlier to connection with non-major governmental funds are presented immediately following the notes to the financial statements. Found on pages 60 - 61 of this report are the combining and individual fund statements and schedules.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets 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 \$45.5 million (net assets) for the fiscal year ended 2011 as reported in Table 1.

By far the largest portion of the City of Crestview's net assets, \$26.86 million (or 59%), represent investments in capital assets (e.g. land, infrastructure, building, machinery and equipment), net of related debt.

Table 1

STATEMENT OF NET ASSETS AS OF SEPTEMBER 30

<i>September 30,</i>	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Assets						
Current and other assets	\$ 6,591	\$ 8,371	\$ 15,250	\$ 15,411	\$ 21,841	\$ 23,782
Capital assets, net	20,403	20,995	30,852	30,494	51,255	51,489
Total assets	\$ 26,994	\$ 29,366	\$ 46,102	\$ 45,905	\$ 73,096	\$ 75,271
Liabilities						
Current liabilities	\$ 1,494	\$ 1,661	\$ 1,197	\$ 1,032	\$ 2,691	\$ 2,693
Other liabilities	5,932	6,467	18,948	20,057	24,880	26,524
Total liabilities	7,426	8,128	20,145	21,089	27,571	29,217
Net assets						
debt	14,941	14,972	11,918	11,171	26,859	26,143
Restricted for						
Nonspendable	50	50	-	-	50	50
Expendable	145	237	405	441	550	678
Unrestricted	4,432	5,979	13,634	13,204	18,066	19,183
Total net assets	19,568	21,238	25,957	24,816	45,525	46,054
Total liabilities and net assets	\$ 26,994	\$ 29,366	\$ 46,102	\$ 45,905	\$ 73,096	\$ 75,271

An additional portion of the City of Crestview's net assets, \$600,872 (or <1.5%) represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$18.07 million, may be used to meet the government's ongoing obligations to citizens and creditors.

The overall decrease in the City's net assets was \$527,766 during FY 2011, which resulted from governmental activities.

Governmental Activities

Governmental activities decreased the City of Crestview's net asset \$1,669,040 million, and business-type activities increased the City's net assets by \$1,141,274 million. Reported in Table 2 are the key elements of this decrease/increase.

Table 2

CHANGE IN NET ASSETS

<i>Year ended September 30,</i>	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues						
Charges for services	\$ 3,436	\$ 3,188	\$ 9,424	\$ 8,363	\$ 12,860	\$ 11,551
Grants and contributions	-	203	541	2,123	541	2,326
General revenues						
Property taxes	5,346	5,670	-	-	5,346	5,670
Other taxes	4,854	4,756	-	-	4,854	4,756
Other revenues	1,015	1,455	277	183	1,292	1,638
Total revenues	14,651	15,272	10,242	10,669	24,893	25,941
Expenses:						
General government	2,955	2,627	-	-	2,955	2,627
Public safety	8,883	8,814	-	-	8,883	8,814
Physical environment	-	54	-	-	-	54
Transportation	2,656	2,679	-	-	2,656	2,679
Culture and recreation	1,565	1,534	-	-	1,565	1,534
Interest	261	280	-	-	261	280
Utilities	-	-	6,230	6,007	6,230	6,007
Sanitation	-	-	2,871	2,956	2,871	2,956
Transfer	-	-	-	915	-	915
Total expenses	16,320	15,988	9,101	9,878	25,421	25,866
Increase (decrease) in net assets	(1,669)	(716)	1,141	791	(528)	75
Net assets, beginning	21,237	21,953	24,816	24,025	46,053	45,978
Net assets, ending	\$ 19,568	\$ 21,237	\$ 25,957	\$ 24,816	\$ 45,525	\$ 46,053

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.).
- Market Impacts on Investment Income – The current market conditions have little influence on the City's investment income since the City's investments consists of certificates of deposit.

- 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.

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 43% 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 assets decreased \$716,000 in the prior year and decreased \$1,669,040 in the current year. While governmental activities revenues increased slightly, expenses increased at a greater rate as the City increased staff to support the growing population of the past few years.
- Property taxes decreased by \$324,435 (or 6%) due to decreases in property valuations.
- Charges for services for governmental activities increased \$247,490 (or 8%) due in part to reclassification of certain revenues mandated by the State for reporting purposes.
- Sales and fuel taxes increased \$96,322 (or 5%) due to the current economic conditions.
- Other taxes for governmental activities increased \$2,320 (or <2%).
- Expenses for governmental activities increased \$331,354 (or 2%) primarily to an increase in the cost to do business.
- The City had to supplement its regular contributions to the Police Officers' and Firefighters' Retirement Plan and the General Employees' Retirement Plan by \$47,976 and \$5,897, respectively in the fiscal year ended September 30, 2011, due primarily to payroll increases and variances in actual versus expected investment returns.

Chart 1

Expenses and Program Revenue – Governmental Activities

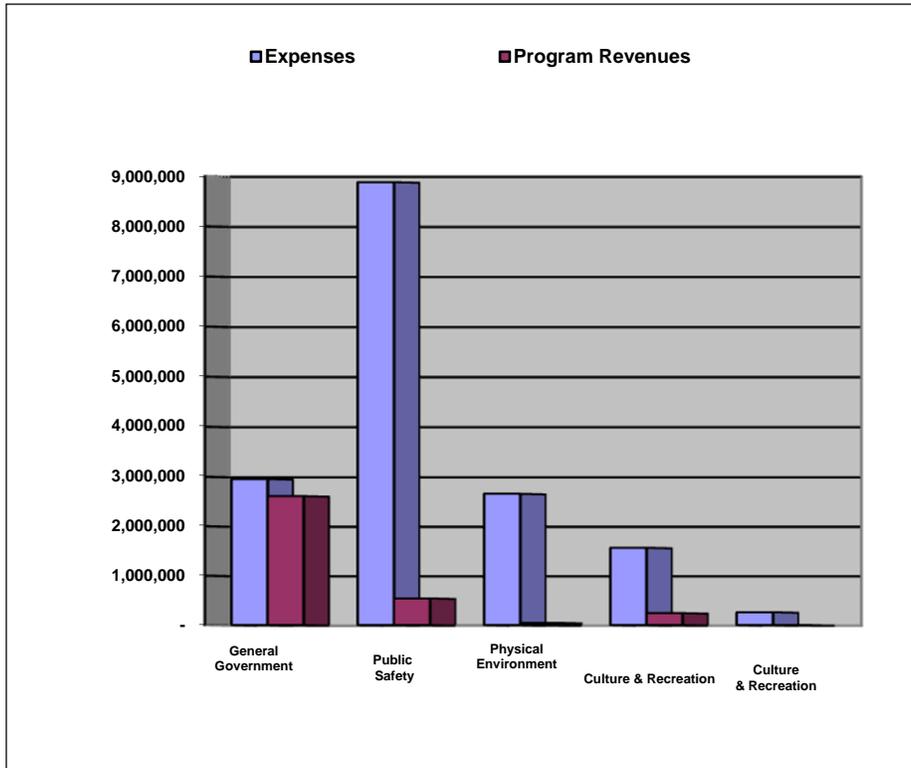
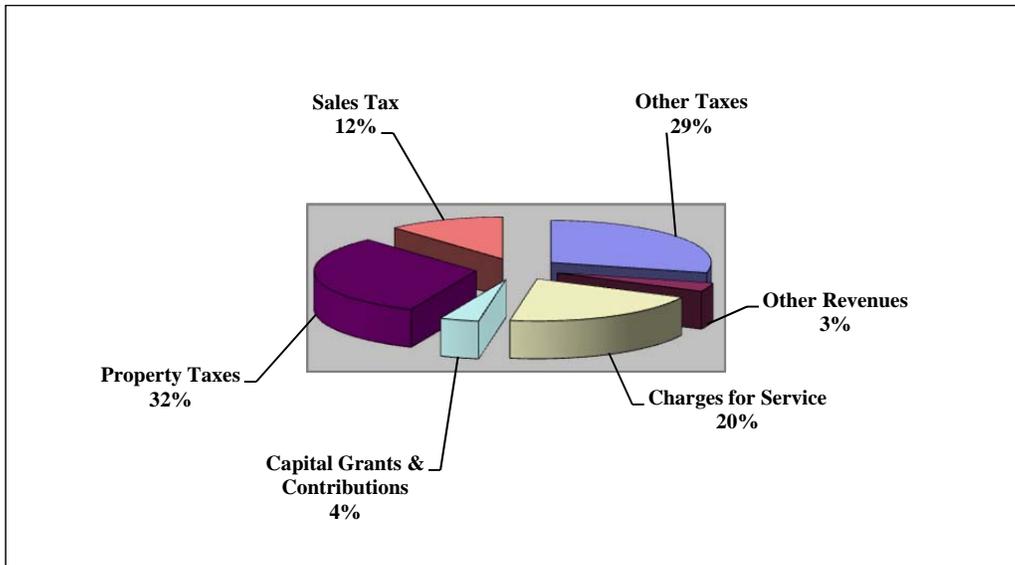


Chart 2

Revenues by Source – Governmental Activities



Business-Type Activities

The net assets from business-type activities increased by \$1,141,274 (or 4%).

- Net assets increased \$791,000 in the prior year. The 2011 increase is primarily a result of an increase in operating revenue and expense fluctuations.
- Charges for services for business-type activities increased by \$1,060,877 (or 12%).
- Total operating expenses increased \$136,835.

Chart 3

Expense and Program Revenue – Business-Type Activities

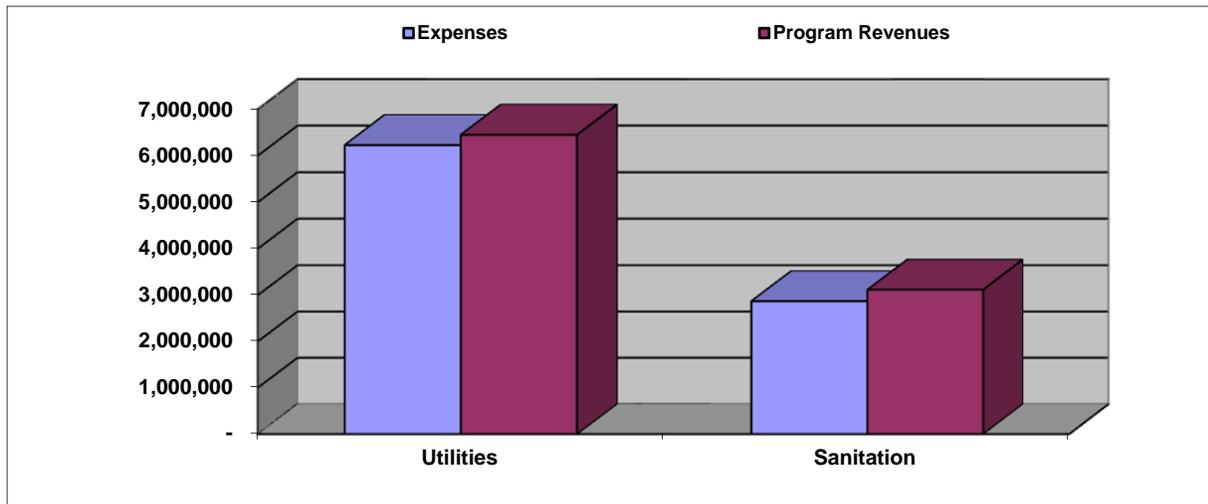
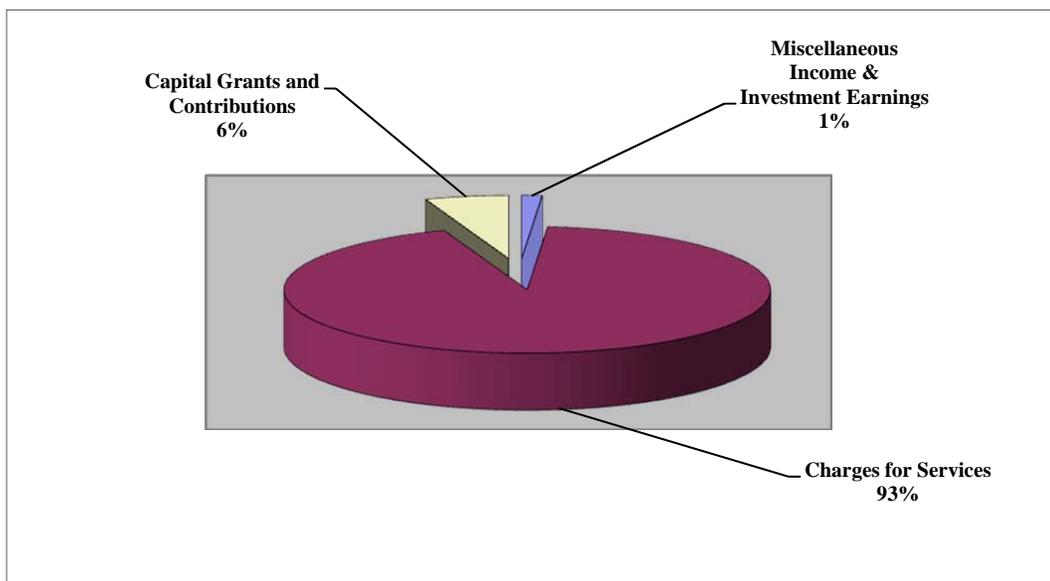


Chart 4

Revenues by Source – Business-Type Activities



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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Crestview's governmental funds reported combined ending fund balance of approximately \$5.07 million, a decrease of \$1,654,733 in comparison with the prior year. Approximately 52% of this total amount (\$2.67 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, \$128,084). Additionally, other amounts are reserved via restrictions from outside donors, for the purchase of library books (\$50,000 nonspendable). The remainder of fund balance is designated to indicate that it is not available for new spending because it has already been assigned by the City (\$1,943,631).

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 approximately \$2.67 million, while total fund balance reached approximately \$3.32 million. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total expenditures. Unassigned fund balance represents approximately 18% of the total General Fund expenditures, while total fund balance represents 22% 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 assets of the proprietary funds totaled \$13.63 million at the end of the year; of that the Utilities Fund amounted to \$12.50 million, and the Sanitation Fund totaled \$1.13 million. The net assets for this fiscal year in the proprietary funds increased by \$1,141,274 million. 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 several times for the following purposes:

- Increase in intergovernmental revenues is a result of an increase in public safety grants expected.
- To recognize settlement revenues, grants and other transfers that were not anticipated in the adopted budget, and expenditures funded with such revenues.

- Transfer of discretionary appropriations to a contingency reserve to avoid overall budget overruns.

Revenues for the year were more than budgeted by approximately \$962,085. Expenditures were less than budgeted amounts by \$1,044,964.

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, 2011, amounts to \$74.15 million (\$51.26 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 decrease in the City of Crestview's investment in capital assets for the current fiscal year was \$233,120, is summarized as follows:

- Various vehicles and equipment purchases for departments (\$192,937).
- Improvements to parks, buildings, highways and streets (\$491,693) and water and sewer system (\$226,035).
- Purchases of new electronic meters for the utility department (\$361,025).
- Depreciation expenses for governmental activities and business-type activities totaled \$1,244,736 and \$932,224, respectively.

Table 3

City of Crestview Capital Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	2011	2010	2011	2010	2011	2010
Land	\$ 1,655	\$ 1,655	\$ 2,168	\$ 2,168	\$ 3,823	\$ 3,823
Buildings	8,146	8,146	8,954	8,954	17,100	17,100
Improvements other than buildings	4,167	3,948	1,007	834	5,174	4,782
Infrastructure	13,571	13,298	23,768	23,386	37,339	36,684
Machinery and equipment	5,026	5,150	3,755	3,108	8,781	8,258
Equipment under capital lease	720	720	-	-	720	720
Construction in progress	95	134	1,120	1,066	1,215	1,200
Total prior to depreciation	33,380	33,051	40,772	39,516	74,152	72,567
Less accumulated depreciation	(12,977)	(12,056)	(9,920)	(9,022)	(22,897)	(21,078)
Net capital assets	\$ 20,403	\$ 20,995	\$ 30,852	\$ 30,494	\$ 51,255	\$ 51,489

Long-term Debt

At the end of the current fiscal year, the City of Crestview had total long-term debt outstanding of \$24.75 million. The City of Crestview's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds), state revolving loan, 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, 2011.

Table 4

City of Crestview Outstanding Debt Revenue Bonds, State Revolving Loans and Capital Leases

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	2011	2010	2011	2010	2011	2010
Revenue Bonds	\$ 5,484	\$ 5,929	\$ 11,932	\$ 12,407	\$ 17,416	\$ 18,336
State revolving loan	-	-	7,218	7,389	7,218	7,389
Capital leases	114	222	-	-	114	222
Total	\$ 5,598	\$ 6,151	\$ 19,150	\$ 19,796	\$ 24,748	\$ 25,947

The City of Crestview's total debt decreased by approximately \$1.2 million during the 2011 fiscal year.

Additional information on the City of Crestview's long-term debt can be found in Notes 6 - 9 of this report.

ECONOMIC FACTORS AND NEXT YEARS'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 the surrounding area continues to experience growth, the City places great emphasis on forecasting the needs of the future in order 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. Increased emphasis on military spending at the federal government level and the 2005 BRAC has benefited the Crestview area. The defense-related aerospace industry continues to be a great source of competitive advantage and one of the most powerful economic influences in Okaloosa County, translating to higher wages than available in other sectors of the regional economy.

Regional economic indicators were also considered in preparing the 2011-2012 budget for the City of Crestview.

- The average unemployment rate for the Crestview Metropolitan Statistical Area (MSA) has been 7.3 over the past year, which impacts the City's ability to recruit and retain staff.
- Housing Affordability – reported by the University of West Florida- Haas Center for Business Research and Economic Development – increased by 6.8%. The standard definition of housing affordability is that the cost of buying a house uses less than 30% of the purchaser's annual household income. Recent declining house prices, coupled with the lower interest rates, have increased affordability in our area. This indicator affects the City's ability to recruit and retain employees and future population growth.
- Consumer Price Index (CPI) prepared by the US Bureau of Labor Statistics and the most widely-used gauge of inflation – is 3.6% higher than a year ago. This indicator translates into a higher cost of providing services to residents.
- The overall population in the Crestview Area is expected to increase in the next two years, based on the addition of the 7th Special Forces Personnel and families, development, an available skilled workforce, industrial park space, reasonable housing costs, and planned growth.

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 pattibeebe@cityofcrestview.org.

Basic Financial Statements

City of Crestview, Florida

Statement of Net Assets

<i>September 30,</i>	2011		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 5,424,450	\$ 9,978,529	\$ 15,402,979
Investments	50,950	1,199,108	1,250,058
Accounts receivable	651,340	797,860	1,449,200
Due from other governments	325,650	-	325,650
Other current assets	128,084	174,775	302,859
Restricted assets - cash	-	2,891,553	2,891,553
Deferred charges, net	9,515	208,102	217,617
Capital assets, net	20,403,315	30,851,897	51,255,212
Total assets	26,993,304	46,101,824	73,095,128
Liabilities			
Accounts payable	318,017	467,176	785,193
Accrued liabilities	331,598	49,507	381,105
Due to other governments	401,865	-	401,865
Other current liabilities	422,046	-	422,046
Accrued interest - restricted	19,980	70,983	90,963
Customer deposits - restricted	-	608,979	608,979
Noncurrent liabilities:			
Due within one year	569,829	792,513	1,362,342
Due in more than one year	5,361,846	18,155,670	23,517,516
Total liabilities	7,425,181	20,144,828	27,570,009
Net assets			
Invested in capital assets, net of related debt	14,940,757	11,917,740	26,858,497
Restricted:			
Nonexpendable	50,000	-	50,000
Expendable	145,473	405,399	550,872
Unrestricted	4,431,893	13,633,857	18,065,750
Total net assets	\$ 19,568,123	\$ 25,956,996	\$ 45,525,119

See accompanying notes to financial statements.

City of Crestview, Florida

Statement of Activities

Year ended September 30,

2011

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ (2,955,110)	\$ 2,608,777	\$ -	\$ -	\$ (346,333)	\$ -	\$ (346,333)
Public safety	(8,882,899)	539,673	-	-	(8,343,226)	-	(8,343,226)
Transportation	(2,655,885)	45,828	-	-	(2,610,057)	-	(2,610,057)
Culture and recreation	(1,564,807)	241,606	-	-	(1,323,201)	-	(1,323,201)
Interest	(260,878)	-	-	-	(260,878)	-	(260,878)
Total governmental activities	(16,319,579)	3,435,884	-	-	(12,883,695)	-	(12,883,695)
Business-type activities:							
Utilities	(6,229,554)	6,450,178	-	540,758	-	761,382	761,382
Sanitation	(2,870,555)	2,973,884	-	-	-	103,329	103,329
Total business-type activities	(9,100,109)	9,424,062	-	540,758	-	864,711	864,711
Total primary government	\$ (25,419,688)	\$ 12,859,946	\$ -	\$ 540,758	(12,883,695)	864,711	(12,018,984)
General revenues							
Taxes:							
Property taxes, levied for operational purposes					5,345,561	-	5,345,561
Sales taxes					1,955,008	-	1,955,008
Utility service/franchise fees					2,899,266	145,128	3,044,394
Grants and contributions not restricted to specific programs					649,862	-	649,862
Investment earnings					79,471	56,324	135,795
Miscellaneous					283,387	75,111	358,498
Special item					2,100	-	2,100
Total general revenues and transfers					11,214,655	276,563	11,491,218
Change in net assets					(1,669,040)	1,141,274	(527,766)
Net assets, October 1, 2010					21,237,163	24,815,722	46,052,885
Net assets, September 30, 2011					\$ 19,568,123	\$ 25,956,996	\$ 45,525,119

See accompanying notes to financial statements.

City of Crestview, Florida

Balance Sheet - Governmental Funds

<i>September 30,</i>	2011		
	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 3,649,360	\$ 1,775,090	\$ 5,424,450
Investments	-	50,950	50,950
Accounts receivable - other	651,340	-	651,340
Due from other governments	325,650	-	325,650
Other current assets	128,084	-	128,084
Total assets	\$ 4,754,434	\$ 1,826,040	\$ 6,580,474
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 318,017	\$ -	\$ 318,017
Accrued liabilities	104,898	-	104,898
Due to other governments	401,865	-	401,865
Other current liabilities	345,683	76,363	422,046
Deferred revenue	263,813	-	263,813
Total liabilities	1,434,276	76,363	1,510,639
Fund balances:			
Nonspendable			
Prepaid expenditures	128,084	-	128,084
Permanent fund	-	50,000	50,000
Restricted	-	291,917	291,917
Assigned	535,871	1,407,760	1,943,631
Unassigned	2,656,203	-	2,656,203
Total fund balances	3,320,158	1,749,677	5,069,835
Total liabilities and fund balances	\$ 4,754,434	\$ 1,826,040	\$ 6,580,474

See accompanying notes to financial statements.

Reconciliation of the Balance Sheet to the Statement of Net Assets

<i>September 30,</i>	2011
Total fund balance - governmental funds	\$ 5,069,835
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	20,403,315
Bond issue costs are not financial resources and therefore are not reported as assets in governmental funds. The Statement of Net Assets includes these costs, net of amortization.	9,515
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Revenue bonds payable	(5,598,537)
OPEB liability	(226,700)
Accrued interest	(19,980)
Compensated absences	(333,138)
Certain revenues recognized on the Statement of Activities do not represent current resources and are reported as deferred revenue in the governmental funds.	263,813
Total net assets - governmental activities	\$ 19,568,123

See accompanying notes to financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year Ended September 30,

	2011		
	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 8,610,094	\$ 191,056	\$ 8,801,150
Licenses and permits	2,075,155	221,425	2,296,580
Intergovernmental	2,194,513	285,161	2,479,674
Charges for services	222,660	-	222,660
Fines and forfeitures	73,140	18,668	91,808
Interest income	71,601	7,870	79,471
Contributions	2,100	-	2,100
Miscellaneous	314,926	101,628	416,554
Total revenues	13,564,189	825,808	14,389,997
Expenditures			
Current:			
General government	2,410,981	62,495	2,473,476
Public safety	8,608,006	20,354	8,628,360
Transportation	2,167,968	-	2,167,968
Culture and recreation	1,303,591	-	1,303,591
Capital outlay	425,330	228,082	653,412
Debt service:			
Principal	108,004	444,858	552,862
Interest	12,663	252,398	265,061
Total expenditures	15,036,543	1,008,187	16,044,730
Excess (deficiency) of revenues over expenditures	(1,472,354)	(182,379)	(1,654,733)
Other financing sources (uses)			
Transfers in	85,842	416,181	502,023
Transfers out	(416,181)	(85,842)	(502,023)
Total other financing sources (uses)	(330,339)	330,339	-
Net change in fund balances	(1,802,693)	147,960	(1,654,733)
Fund Balance, October 1, 2010	5,122,851	1,601,717	6,724,568
Fund Balance, September 30, 2011	\$ 3,320,158	\$ 1,749,677	\$ 5,069,835

See accompanying notes to financial statements.

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities

<i>Year ended September 30,</i>	2011
Net change in fund balances - total governmental funds	\$ (1,654,733)
Capital outlay, reported as expenditures in governmental funds, is shown as capital assets in Statement of Net Assets.	653,412
Depreciation expense on governmental capital assets and losses on capital asset disposals are included in the governmental activities in the Statement of Activities.	(1,244,736)
The repayment of principal on long-term debt consumes the current financial resources of governmental funds but has not effect on government-wide net assets. Also, governmental funds report the effects of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	
Principal payments	552,862
Amortization of bond issuance costs	(2,378)
Change in accrued interest	6,562
Change in OPEB liability	(226,700)
Change in compensated absence liability	(17,142)
Certain revenues recognized on the Statement of Activities do not represent current resources and are reported as deferred revenue in the governmental funds.	263,813
Change in net assets of governmental activities	\$ (1,669,040)

See accompanying notes to financial statements.

City of Crestview, Florida

Balance Sheet - Proprietary Funds

<i>September 30,</i>	2011		
	Utilities	Sanitation	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 8,864,477	\$ 1,114,052	\$ 9,978,529
Investments	1,199,108	-	1,199,108
Receivables	530,541	267,319	797,860
Prepaid expenses	174,775	-	174,775
Total current assets	10,768,901	1,381,371	12,150,272
Restricted assets:			
Cash	2,891,553	-	2,891,553
Total restricted assets	2,891,553	-	2,891,553
Bond issue costs, net	208,102	-	208,102
Capital assets, net	30,851,897	-	30,851,897
Total assets	\$ 44,720,453	\$ 1,381,371	\$ 46,101,824
Liabilities and Net Assets			
Liabilities			
Current Liabilities:			
Accounts payable	\$ 212,306	\$ 254,870	\$ 467,176
Accrued liabilities	49,507	-	49,507
Accrued interest	70,983	-	70,983
Customer deposits	608,979	-	608,979
Bonds payable, current portion	792,513	-	792,513
Total current liabilities	1,734,288	254,870	1,989,158
Non-current liabilities:			
Compensated absences	42,771	-	42,771
State revolving fund	6,916,248	-	6,916,248
Bonds payable	11,196,651	-	11,196,651
Total liabilities	19,889,958	254,870	20,144,828
Net assets			
Invested in capital assets, net of related deb	11,917,740	-	11,917,740
Restricted for debt service	405,399	-	405,399
Unrestricted	12,507,356	1,126,501	13,633,857
Total net assets	24,830,495	1,126,501	25,956,996
Total liabilities and net assets	\$ 44,720,453	\$ 1,381,371	\$ 46,101,824

See accompanying notes to financial statements.

City of Crestview, Florida

Statements of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

<i>Year ended September 30,</i>	2011		
	Utilities	Sanitation	Total
Revenues			
Charges for services	\$ 6,450,178	\$ 2,973,884	\$ 9,424,062
Other operating revenues	75,111	-	75,111
Total revenues	6,525,289	2,973,884	9,499,173
Operating expenses			
Personnel services	1,767,197	-	1,767,197
Operating expenses	2,632,861	2,870,555	5,503,416
Depreciation	932,224	-	932,224
Total operating expenses	5,332,282	2,870,555	8,202,837
Operating income	1,193,007	103,329	1,296,336
Non-operating revenues (expenses)			
Interest earnings	51,954	4,370	56,324
Interest expense	(754,412)	-	(754,412)
Franchise fees	-	145,128	145,128
Other debt service costs	(142,860)	-	(142,860)
Total non-operating revenues (expenses)	(845,318)	149,498	(695,820)
Net income before contributions	347,689	252,827	600,516
Contributed capital - impact fees	540,758	-	540,758
Net income	888,447	252,827	1,141,274
Net assets, October 1, 2010	23,942,048	873,674	24,815,722
Net assets, September 30, 2011	\$ 24,830,495	\$ 1,126,501	\$ 25,956,996

See accompanying notes to financial statements.

City of Crestview, Florida

Statement of Cash Flows - Proprietary Funds

<i>Year ended September 30,</i>	2011		
	Utilities	Sanitation	Total
Cash flows from operating activities			
Receipts from customers	\$ 6,270,109	\$ 2,978,116	\$ 9,248,225
Payments to employees	(1,785,247)	-	(1,785,247)
Payments to suppliers	(2,682,653)	(2,905,169)	(5,587,822)
Net cash provided by operating activities	1,802,209	72,947	1,875,156
Cash flows from non-capital financing activities			
Franchise fees	-	145,128	145,128
Due from other governments	890,026	-	890,026
Capital contributions	540,758	-	540,758
Net cash provided by non-capital financing activities	1,430,784	145,128	1,575,912
Cash flows from capital and related financing activities			
Acquisition of fixed assets	(1,290,428)	-	(1,290,428)
Principal paid on long-term debt	(657,650)	-	(657,650)
Interest paid on bonds	(760,561)	-	(760,561)
Other debt service costs	(114,800)	-	(114,800)
Proceeds from revolving fund	4,171	-	4,171
Net cash used by capital and related financing activities	(2,819,268)	-	(2,819,268)
Cash flows from investing activities			
Redemption of investments	(150,000)	-	(150,000)
Interest income	51,954	4,370	56,324
Net cash provided by investing activities	(98,046)	4,370	(93,676)
Net increase in cash and cash equivalents	315,679	222,445	538,124
Cash and cash equivalents, beginning of year	11,440,351	891,607	12,331,958
Cash and cash equivalents, end of year	\$ 11,756,030	\$ 1,114,052	\$ 12,870,082
Composition of cash and cash equivalents			
Unrestricted	\$ 8,864,477	\$ 1,114,052	\$ 9,978,529
Restricted	2,891,553	-	2,891,553
Total cash and cash equivalents	\$ 11,756,030	\$ 1,114,052	\$ 12,870,082

(continued)

See accompanying notes to financial statements.

Statement of Cash Flows - Proprietary Funds (Continued)

<i>Year ended September 30,</i>	2011		
	Utilities	Sanitation	Total
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$ 1,193,007	\$ 103,329	\$ 1,296,336
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	932,224	-	932,224
Bad debt recovery	(103,299)	(50,361)	(153,660)
Change in operating assets and liabilities:			
Accounts receivable	(70,181)	4,232	(65,949)
Accounts payable	140,193	15,747	155,940
Accrued wages	(23,927)	-	(23,927)
Compensated absences	5,877	-	5,877
Deferred revenue	(224,220)	-	(224,220)
Deposits	39,221	-	39,221
Prepaid expenses	(86,686)	-	(86,686)
Net cash provided by operating activities	\$ 1,802,209	\$ 72,947	\$ 1,875,156

See accompanying notes to financial statements.

City of Crestview, Florida

Statement of Net Assets - Pension Trust Fund

September 30,

2011

	General Employees Retirement Plan	Police Officers / Firefighters Plan	Total
Assets			
Contributions receivable	\$ 25,150	\$ 66,550	\$ 91,700
Prepaid insurance	411	323	734
Investments:			
Corporate bonds	1,261,183	4,143,856	5,405,039
Federal government bonds and other securities	2,346,582	-	2,346,582
Common stock and equity funds	5,806,883	5,325,960	11,132,843
Money market fund	869,985	518,570	1,388,555
Total investments	10,284,633	9,988,386	20,273,019
Total assets	10,310,194	10,055,259	20,365,453
Liabilities			
Accounts payable	14,330	13,874	28,204
Retirement benefits payable	17,945	14,989	32,934
Refunds payable	-	1,952	1,952
Drop plan payable	136,787	177,956	314,743
Total liabilities	169,062	208,771	377,833
Net assets			
Held in trust for pension benefits	\$ 10,141,132	\$ 9,846,488	\$ 19,987,620

See accompanying notes to financial statements.

Statement of Changes in Net Assets - Pension Trust Fund

<i>Year ended September 30,</i>	2011		
	General Employees Retirement Plan	Police Officers / Firefighters Plan	Total
Additions			
Contributions:			
Contributions-City	\$ 764,260	\$ 793,020	\$ 1,557,280
Contributions-State	-	270,867	270,867
Contributions-Employee	248,307	270,020	518,327
Total contributions	1,012,567	1,333,907	2,346,474
Investment income:			
Net appreciation (depreciation) in fair value of investments	(780,975)	(820,265)	(1,601,240)
Interest and dividend income	254,754	289,351	544,105
Gain (loss) on investment sales	559,835	520,873	1,080,708
Investment expenses	(82,114)	(75,342)	(157,456)
Net investment income (loss)	(48,500)	(85,383)	(133,883)
Total additions	964,067	1,248,524	2,212,591
Deductions			
Benefits	386,804	256,523	643,327
Drop plan benefits	160,631	-	160,631
Refunds of contributions	43,534	63,022	106,556
Administrative expenses	46,491	35,868	82,359
Total deductions	637,460	355,413	992,873
Drop account net change	94,590	(90,595)	3,995
Change in net assets	421,197	802,516	1,223,713
Net assets, October 1, 2010	9,719,935	9,043,972	18,763,907
Net assets, September 30, 2011	\$ 10,141,132	\$ 9,846,488	\$ 19,987,620

See accompanying notes to financial statements.

NOTE 1 – NATURE OF ORGANIZATION

The City of Crestview (hereinafter referred to as "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 Ch. 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 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 and its component units, entities for which the City is considered to be financially accountable. The component unit is included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The City is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific burden on the City. Blended component units are legally separate entities, but are in substance a part of the City's operations and therefore the data from these units are combined with the data from the primary government. The following is considered a blended component unit:

- 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 "blended component unit." 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting and Basis of Presentation

The basic financial statements include both government-wide financial statements (based on the City as a whole) and fund financial statements.

Government-wide Financial Statements – Government-wide financial statements, including the statement of net assets and statement of activities, present information about the City as a whole. These statements include the non-fiduciary financial activity of the primary government. 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.

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense is allocated to the department where the related asset is used.

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operations or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business segment is self-financing or draws from the general revenues of the City.

The effects of non-fiduciary interfund activity have been eliminated from the government-wide financial statements.

The government-wide financial statements are prepared using the accrual basis of accounting as are the fiduciary fund financial statements. Revenues are recognized when earned, and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

The preparation of government-wide and proprietary fund financial statements includes the application of both GASB pronouncements and those of the Financial Accounting Standards Board (FASB) issued before November 30, 1989 to the extent that those standards do not conflict with or contradict guidance of the GASB.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements – Fund financial statements report detailed information about the City in the governmental, proprietary and fiduciary funds even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental and major enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they are measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues available if they are collected within 6 months of the end of the current fiscal period, except for property taxes, for which the period is 60 days. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Because the focus of governmental funds financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

Property taxes, franchise taxes, licenses, interest and special assessments are susceptible to accrual. Sales taxes collected and held by the state at year end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds include the following major fund:

General Fund – This is the City’s primary operating fund. This fund accounts for all financial resources of the general government, 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.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. 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. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary funds include the following fund types:

Utility 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 funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the City under the terms of a formal trust agreement and include the following two public employee retirement funds:

Crestview Police Officers/Firefighters Retirement Plan – This fund accounts for the retirement plan assets for all City police officers and firefighters.

Crestview General Employees Retirement Plan – This fund accounts for the assets of the retirement plan for the employees that are not part of the police officer/firefighter plan.

Deposits and Investments

Each fund’s cash on hand, demand deposits and short-term investments are considered cash and cash equivalents. For purposes of these statements, all highly liquid investments (including restricted assets) with a maturity of three months or less, when purchased, are considered to be cash equivalents.

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.

Certain cash accounts in the general and utilities fund are invested in the Local Government Surplus Trust Fund, operated by Florida’s State Board of Administration (SBA). The SBA is governed by Chapter 19-1 of the Florida Administrative Code (FAC). The FAC provides guidance and establishes the general operating procedures for the administration of the Local

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government Surplus Trust Funds. Additionally, the Florida Auditor General performs an operational audit of activities and investments of the SBA. In accordance with GASB Statement Number 31, the Local Government Surplus Trust Fund is a “2a-7 like” pool and thus, SBA investments are valued at fair value using the pooled share price. City investments with the SBA may be made or liquidated by wire on a same day basis, with the exception of certain minor balances that are distributed as they become available from maturities, sales, and received income.

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 they meet certain criteria; real estate; and foreign fixed income and equity securities.

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, 2011, the allowance for doubtful accounts for proprietary funds totaled \$75,000.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes

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, 2011
Levy date	November 1, 2011
Due date	March 31, 2012
Delinquency date	April 1, 2012

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

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.

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.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (roads, bridges, curbs and sidewalks, drainage systems, lighting systems and similar items), are reported in the applicable governmental or business-type activities columns in the government wide financial statements but not in the governmental fund financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$1,000 or more and an initial useful life of one year or greater. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Notes to Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. The amount of interest costs capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until the completion of the project with interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	20 - 50
Improvements other than buildings	20 - 40
System infrastructure	20 - 40
Machinery and equipment	3 - 40

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:

Years of Employment	Firefighters	All Others
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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***Long-Term Obligations***

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report equity as fund balance. The City adopted GASB Statement No. 54 for the year ended September 30, 2011. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. The following is a description of the City's various fund balance accounts:

Nonspendable - Amounts that are not in a spendable form (prepaid insurance, for example) or are legally or contractually required to be maintained intact.

Restricted - Amounts that are constrained by external parties constitutionally, or through enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of the resource provider.

Committed - Amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority which is the City Council. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.

Assigned - Amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body (the City Council) or by an official or body (management) to whom the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned - The residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

In the government-wide and proprietary fund financial statements, equity is reported as net assets. Net assets are categorized as invested in capital assets, net of related debt, restricted or unrestricted. Invested in capital assets, net of related debt represents net assets related to the City's property, plant and equipment, net of any related debt. Restricted net assets represent the net assets restricted by external parties, constitutional provisions or enabling legislation.

Use of 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 the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Budgetary Information

Budgets are adopted on a basis consistent with generally accepted accounting principles. 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.

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 for the ensuing fiscal year.

Proposed budget 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 the 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.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits

The City maintains a cash and investment management pool in which each fund participates on a dollar equivalent and daily transaction basis. The City’s cash and investment management pool includes pooled cash maintained in interest-bearing demand deposit accounts, certificates of deposit and pooled investments of the Local Government Surplus Trust Fund. Interest income (which includes unrealized gains and losses) is distributed monthly based on average daily balances.

The City’s cash and investment management pool is considered to be cash equivalent for reporting purposes because it is an internally managed fund, which allows individual funds to, at any time, deposit additional cash or make withdrawals without prior notice or penalty.

The City manages its custodial credit risk by maintaining its deposits with “Qualified Public Depositories” (QPD) as defined in Chapter 280, Florida Statutes. The provisions of this statute allow QPD to participate in a multiple financial institution collateral pool to ensure the security for public deposits. All QPD must deposit eligible collateral with the Treasurer of the State of Florida equal to or in excess of their required collateral pledging level. In the event of default by a QPD, the Treasurer will pay public depositors all losses in excess of insurance and collateral through assessments among all QPD.

Investments

The City’s investments at September 30, 2011, consist of the following:

Investments - Governmental Funds	Average Maturities	Fair Value
Certificate of deposit	Oct 2012	\$ 50,950
Total investments - governmental funds		\$ 50,950

Investments - Proprietary Funds	Maturities	Fair Value
Certificates of deposit	Jan - Jul 2012	\$ 1,199,108
Total investments - governmental funds		\$ 1,199,108

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments - Pension Fund	Fair Value
Money market funds	\$ 1,388,555
U.S. Government securities	2,346,582
Corporate bonds	5,405,040
Corporate equities	11,132,843
Total investments - pension fund	\$ 20,273,020

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.
- Neither the General Employee's Retirement Plan nor the Police Officers' and Firefighters' Retirement Plans 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

- The City does not have a formal investment policy that limits its investment choices.
- The investment limits for an individual company security are summarized below:

Security	General Employees' Retirement Plan	Police Officers' and Firefighters' Retirement Plan
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

Fixed income investments must generally 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 at each Plan's

Notes to Financial Statements

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

assets. Similar grading and/or trading criteria apply to mutual funds, money market funds, U.S. government backed securities, etc. None of the above limitations was exceeded by either plan at September 30, 2011. Investment policies are subject to a review at least once annually by the Board of trustees of each plan.

- According to the General Employees' Retirement Plan and the Police Officers' and Firefighters' Retirement Plans, investments in corporate bonds are limited to investment grade bonds as rated by Standard and Poor's and Moody's investment ratings service. All corporate debt was limited to investment grade as of September 30, 2011.

Custodial Credit Risk

- For an investment, custodial credit risk is the risk that the City will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The City has no formal policy for custodial risk. At September 30, 2011, none of the investments listed above are exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

NOTE 4 – RECEIVABLES

Receivables at September 30, 2011, were as follows:

	Governmental Activities		Business-Type Activities		Total
	General Fund	Non-major Funds	Utilities	Sanitation	
Franchise fees	\$ 156,181	\$ -	\$ -	\$ -	\$ 156,181
Utility services	149,676	-	-	-	149,676
Intergovernmental	263,813	-	-	-	263,813
Accounts receivable	-	-	580,541	292,319	872,860
Less: allowance for doubtful accounts	-	-	(50,000)	(25,000)	(75,000)
Assessments	26,078	-	-	-	26,078
Other	55,592	-	-	-	55,592
Receivables, net	\$ 651,340	\$ -	\$ 530,541	\$ 267,319	\$ 1,449,200

Notes to Financial Statements

NOTE 5 – CHANGES IN CAPITAL ASSETS

Changes in capital assets for governmental activities for the year ended September 30, 2011 are shown below:

	Beginning Balance	Additions	Deletions/ Transfers	Total
Governmental activities:				
<i>Capital assets not being depreciated</i>				
Land	\$ 1,654,801	\$ -	\$ -	\$ 1,654,801
Construction in progress	134,561	35,101	(74,165)	95,497
Total capital assets not being depreciated	1,789,362	35,101	(74,165)	1,750,298
<i>Capital assets being depreciated</i>				
Buildings	8,145,784	-	-	8,145,784
Improvements other than buildings	3,947,605	219,575	-	4,167,180
Infrastructure	13,298,419	197,954	74,165	13,570,538
Machinery and equipment	5,149,750	200,782	(324,265)	5,026,267
Equipment under capital lease	719,832	-	-	719,832
Total capital assets being depreciated	31,261,390	618,311	(250,100)	31,629,601
<i>Less accumulated depreciation for:</i>				
Buildings	1,427,709	163,089	-	1,590,798
Improvements other than buildings	1,301,757	189,190	-	1,490,947
Infrastructure	6,241,480	394,438	-	6,635,918
Machinery and equipment	2,794,737	449,043	(324,265)	2,919,515
Equipment under capital lease	290,430	48,976	-	339,406
Total accumulated depreciation	12,056,113	1,244,736	(324,265)	12,976,584
Total capital assets being depreciated, net	19,205,277	(626,425)	74,165	18,653,017
Governmental activities, net	\$ 20,994,639	\$ (591,324)	\$ -	\$ 20,403,315

Notes to Financial Statements

NOTE 5 – CHANGES IN CAPITAL ASSETS (CONTINUED)

Changes in capital assets for business-type activities for the year ended September 30, 2011 are shown below:

	Beginning Balance	Additions	Deletions/ Transfers	Total
Business-type activities:				
<i>Capital assets not being depreciated</i>				
Land	\$ 2,168,710	\$ -	\$ -	\$ 2,168,710
Construction in progress	1,065,580	53,997	-	1,119,577
Total capital assets not being depreciated	3,234,290	53,997	-	3,288,287
<i>Capital assets being depreciated</i>				
Buildings	8,954,298	-	-	8,954,298
Improvements other than buildings	833,656	172,923	-	1,006,579
Infrastructure	23,385,842	381,740	-	23,767,582
Machinery and equipment	3,107,908	681,768	(35,009)	3,754,667
Total capital assets being depreciated	36,281,704	1,236,431	(35,009)	37,483,126
<i>Less accumulated depreciation for:</i>				
Buildings	2,814,665	185,008	-	2,999,673
Improvements other than buildings	184,604	40,445	-	225,049
Infrastructure	4,831,439	467,694	-	5,299,133
Machinery and equipment	1,191,593	239,077	(35,009)	1,395,661
Total accumulated depreciation	9,022,301	932,224	(35,009)	9,919,516
Total capital assets being depreciated, net	27,259,403	304,207	-	27,563,610
Business-type activities, net	\$ 30,493,693	\$ 358,204	\$ -	\$ 30,851,897

Construction Commitments and Funding

In previous years, the City planned a continuous expansion of its wastewater treatment plant increasing capacity from 3 million to 4 million gallons per day. A contract was signed in 2008 to complete the required engineering work. The city borrowed approximately \$7.1 million through the State of Florida Revolving Loan Fund loan program as initial funding for construction of a rapid infiltration basin system (RIBS) on land contiguous to the existing wastewater treatment plant.

In May 2010, the City obtained approval for additional construction funding of \$10,000,000 through the State of Florida Department of Environmental Protection Clean Water State Revolving Fund; this amount was increased to \$15,000,000 in April 2011. Final completion of the project was tentatively scheduled for March 2013.

Notes to Financial Statements

NOTE 5 – CHANGES IN CAPITAL ASSETS (CONTINUED)

However, during the current year the City determined that the wastewater treatment plant project could be scaled back to a smaller expansion than what was first thought. The total cost of this smaller project is currently estimated to be under \$10 million, which is half of what was originally planned. Bids for the contractor will be obtained in September 2012, and the City estimates that completion will occur approximately 18 months after construction commences.

Amortization of equipment under capital lease is included with depreciation expense in the financial statements. Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 258,757
Public safety	254,539
Transportation	470,224
Culture and recreation	261,216
<hr/>	
Total depreciation expense-governmental activities	\$ 1,244,736

Business-type activities

Utilities fund	\$ 932,224
Sanitation fund	-
<hr/>	
Total depreciation expense-business-type activities	\$ 932,224

NOTE 6 – BONDS PAYABLE

Governmental activities

Capital Improvement Revenue Bonds, Series 2001A

In 2001, the City issued \$1,500,000 of revenue bonds to finance the construction of water wells, water tanks, a public safety building and park improvements. A portion of these bonds are reported in the governmental activities, and a portion is reported in the business-type activities. The bonds are divided into two denominations: \$1,000,000 and \$500,000. The \$1,000,000 denomination carried a variable interest rate during the construction period and 5.15% thereafter. Interest is payable semi-annually and the principal payment is due annually on March 1. This denomination is included in the Utilities fund and the business-type activities. The \$500,000 denomination has a variable interest rate throughout its life. Principal and interest payments of \$4,662 are due each month after the construction period. The bond matures March 1, 2016 and is secured by public service taxes, communication service taxes and other taxes.

NOTE 6 – BONDS PAYABLE (CONTINUED)

Capital Improvement Revenue Bonds, Series 2001

In 2001, the City also issued \$2,452,000 of revenue bonds to finance the acquisition and construction of library improvements. Payments on the bonds are made annually from September 1, 2003 through 2041. Interest accrues at 4.75%. The bonds are secured and payable from franchise fees and public service taxes.

Gas Tax Refunding Revenue Bonds, Series 2004

In 2004, the City issued \$1,722,511 of gas tax refunding revenue bonds at an interest rate of 3.69%. The net proceeds of the bonds were used to refund the Gas Tax Refunding Revenue Bond, Series 2000. Payments are due annually beginning March 1, 2005 through March 1, 2015. Interest accrues at 3.69%. The bonds are secured by the six cent optional gas tax.

Public Safety Facilities Fee Revenue Bonds, Series 2007

In 2007, the City issued \$900,000 of revenue bonds to finance the construction of a public safety building. Payments on the bonds are made annually from March 1, 2009 through March 1, 2018. Interest accrues at 4.44%. The bonds are secured and payable from public safety facilities fees.

Public Improvement Revenue Bonds, Series 2008

In 2008, the City issued \$1,639,000 of revenue bonds to finance the acquisition of a municipal office building located in the City. Payments on the bonds are made annually from March 1, 2009 through March 1, 2023. Interest accrues at 3.99%. The bonds are secured and payable from the local government half-cent sales tax.

Public Safety Revenue Bonds, Series 2009

In 2009, the City issued \$450,000 of revenue bonds to finance the acquisition of two fire trucks. Payments on the bonds are made annually from March 1, 2010 through 2019. Principal installments range from \$37,000 to \$50,000, and interest accrues at a range of 3.00% to 6.25%. The bonds are secured by non-ad valorem revenues.

NOTE 6 – BONDS PAYABLE (CONTINUED)***Business-type Activities*****Capital Improvement Revenue Bonds, Series 2001**

In 2001, the City issued \$1,500,000 of revenue bonds to finance the construction of water wells, water tanks, a public safety building and park improvements. A portion of these bonds are reported in the governmental activities, and a portion is reported in the business-type activities. The bonds are divided into two denominations: \$1,000,000 and \$500,000. The \$500,000 denomination has a variable interest rate throughout its life. Principal and interest payments of \$4,662 are due each month after the construction period. This denomination is included in the General fund and the governmental activities. The \$1,000,000 denomination carried a variable interest rate during the construction period and 5.15% thereafter. Interest is payable semi-annually and the principal payment is due annually on March 1. The bond matures March 1, 2016 and is secured by the net revenues of the water and sewer system.

Water and Sewer Refunding Revenue Bonds, Series 2004

In 2004, the City issued \$1,705,000 of revenue bonds for the purpose of partially retiring the Series 1996 bonds. Interest accrues at a range of 2.75% to 3.50% over the term of the bonds and is payable in semi-annual payments on March 1 and September 1 beginning March 1, 2005. Principal payments begin September 1, 2008 and continue annually through 2014. The bonds are secured by the net revenues of the water and sewer system.

Water and Sewer Refunding and Improvement Revenue Bonds, Series 2008

In 2008, the City issued \$11,080,000 of revenue bonds for the purpose of retiring the Water & Sewer Revenue Bonds, Series 1997; to retire the Water & Sewer Revenue Bonds, Series 1992; and to finance the cost of additions and improvements to the water and sewer system of the City. Interest accrues at a range of 3.00% to 5.25% over the term of the bonds and is payable in semi-annual payments on March 1 and September 1 beginning March 1, 2009. Principal payments began March 1, 2009 and continue annually through March 1, 2038. The bonds are secured by the net revenues of the water and sewer system.

Bond Restrictions

The City is not aware of any noncompliance with significant requirements or limitations contained in the various bond resolutions.

Notes to Financial Statements

NOTE 6 – BONDS PAYABLE (CONTINUED)

The annual requirements to amortize revenue bonds outstanding as of September 30, 2011 are as follows:

Year ending September 30,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 455,670	\$ 239,760	\$ 695,430	\$ 490,377	\$ 576,844	\$ 1,067,221
2013	471,794	220,913	692,707	514,434	559,457	1,073,891
2014	484,624	201,511	686,135	521,285	540,241	1,061,526
2015	508,576	187,123	695,699	275,532	520,055	795,587
2016	309,264	165,563	474,827	225,674	508,105	733,779
2017-2021	1,168,611	626,666	1,795,277	920,000	2,425,981	3,345,981
2022-2026	577,838	419,065	996,903	1,155,000	2,199,906	3,354,906
2027 - 2031	384,000	323,523	707,523	2,735,000	1,854,544	4,589,544
2032 - 2036	492,000	222,585	714,585	3,760,000	897,413	4,657,413
2037 - 2041	632,000	93,052	725,052	1,335,000	106,050	1,441,050
Total bonds payable	\$ 5,484,377	\$ 2,699,761	\$ 8,184,138	\$ 11,932,302	\$ 10,188,596	\$ 22,120,898

NOTE 7 – NOTES PAYABLE

Business-type Activities

State of Florida Department of Environmental Protection Revolving Loan Fund, 2008

In 2008, the City obtained a revolving loan from the State of Florida Department of Environmental Protection in the amount of \$7,667,000. The City borrowed the funds to upgrade its existing wastewater treatment facilities. The loan requires 40 semi-annual payments of \$250,253, including interest at 2.53%, beginning December 15, 2008 and running through June 15, 2028.

State of Florida Department of Environmental Protection Revolving Loan Fund, 2010

In 2010, the City obtained an additional revolving loan from the State of Florida Department of Environmental Protection in an amount not to exceed \$1,327,566. As of September 30, 2011, the City has borrowed funds totaling \$890,026 for the construction of wastewater transmission, collection, reuse, and treatment facilities. The loan requires 40 semi-annual payments of \$44,651 beginning January 15, 2013 and running through July 15, 2032. Interest accrues at 2.86%.

The loan requires the City establish a loan debt service account and make monthly deposits to this account equal to at least one-sixth of the semi-annual loan payment. The assets are required to be held in trust for the purposes provided for in the agreement. The City is also required to maintain rates and charges for the services furnished by the Water and Sewer Systems, which will be sufficient to provide pledged revenues equal to or exceeding 115% the total debt service due in a year.

Notes to Financial Statements

NOTE 7 – NOTES PAYABLE (CONTINUED)

For business-type activities the annual requirements to amortize State of Florida Department of Environmental Protection Revolving Loan agreements are as follows at September 30, 2011:

Year ending September 30,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ -	\$ -	\$ -	\$ 302,136	\$ 79,104	\$ 381,240
2013	-	-	-	374,133	100,256	474,389
2014	-	-	-	383,873	94,460	478,333
2015	-	-	-	393,868	88,509	482,377
2016	-	-	-	404,123	82,402	486,525
2017-2021	-	-	-	2,184,066	314,563	2,498,629
2022-2026	-	-	-	2,283,890	140,456	2,424,346
2027-2031	-	-	-	892,295	14,198	906,493
Total notes payable	\$ -	\$ -	\$ -	\$ 7,218,384	\$ 913,948	\$ 8,132,332

NOTE 8 – CAPITAL LEASES

The City has entered into lease agreements as lessee for financing the acquisition of 13 police cars. The lease agreement qualifies as a capital lease for accounting purposes as a result of the transfer of title at the end of the lease term, and therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The assets acquired through capital leases are as follows:

Assets	Governmental Activities
Police vehicles	\$ 342,830
Less accumulated depreciation	(75,504)
	\$ 267,326

The future minimum lease obligations and net present value of these minimum lease payments as of September 30, 2011, are as follows:

Year ending September 30,	Governmental Activities
2012	\$ 120,667
Less amount representing interest	(6,507)
Present value of minimum lease payments	\$ 114,160

Notes to Financial Statements

NOTE 9 – CHANGES IN LONG-TERM DEBT

Long-term liability activity for the fiscal year ended September 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Governmental activities:					
Gas tax refunding revenue bonds, Series 2004	\$ 858,315	\$ -	\$ (159,384)	\$ 698,931	\$ 165,277
Public improvement bonds revenue bonds:					
Series 2001A	214,380	-	(36,892)	177,488	35,276
Series 2001	2,252,000	-	(31,000)	2,221,000	33,000
Series 2008	1,471,540	-	(88,582)	1,382,958	92,116
Public safety revenue bonds:					
Facilities fee, Series 2007	720,000	-	(90,000)	630,000	90,000
Series 2009	413,000	-	(39,000)	374,000	40,000
Capital leases	222,164	-	(108,004)	114,160	114,160
Compensated absences	315,996	17,142	-	333,138	-
	\$ 6,467,395	\$ 17,142	\$ (552,862)	\$ 5,931,675	\$ 569,829

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Business-type activities:					
FL DEP State Revolving Loan:					
2008	\$ 6,499,196	\$ 4,171	\$ (175,009)	\$ 6,328,358	\$ 302,136
2010	890,026	-	-	890,026	-
Water & Sewer revenue refunding bonds:					
Series 2004	1,020,000	-	(245,000)	775,000	250,000
Less unamortized loss	(10,534)	-	2,107	(8,427)	-
Series 2008	10,815,000	-	(140,000)	10,675,000	145,000
Less unamortized discount	(245,619)	-	8,772	(236,847)	-
Public improvement bonds					
Series 2001A	582,049	-	(99,747)	482,302	95,377
Compensated absences	36,894	5,877	-	42,771	-
	\$ 19,587,012	\$ 10,048	\$ (648,877)	\$ 18,948,183	\$ 792,513

Notes to Financial Statements

NOTE 10 – INTERFUND TRANSFERS

All transfers are routine and are consistent with the activities of the fund making the transfer. The following presents the interfund transfers for the year ended September 30, 2011:

	Transfer In	Transfer Out
General Fund	\$ 85,842	\$ 416,181
Other Governmental Funds:	416,181	85,842
	<u>\$ 502,023</u>	<u>\$ 502,023</u>

NOTE 11 – 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.

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.

NOTE 11 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

During the fiscal year ended September 30, 2000, the City adopted Ordinance No. 1020 and 1029, amending and restating the GERP adopted by Ordinance No. 781. This ordinance 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.

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.

During the fiscal year ended September 20, 2000, the City adopted Ordinance No. 1027, amending and restating the POFRP adopted by Ordinance No. 780. This ordinance 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.

Notes to Financial Statements

NOTE 11 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

Membership of each plan consisted of the following on October 1, 2010, the date of the latest actuarial valuation:

	GERP	POFRP
Retirees and beneficiaries currently receiving benefits and terminated employees entitles to benefits but not yet receiving them	45	18
Current employees:		
Vested	2	1
Nonvested	108	101
Total	155	120

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. The City's annual pension cost for the year ended September 30, 2011 was as follows:

	GERP	POFRP
Contribution rates (percentage of covered payroll)		
City	17.70%	18.30%
Plan members	6.40%	6.40%
Other sources	0.00%	4.70%
Annual pension cost:	\$ 765,125	\$ 794,088
Contributions made:		
Employer	\$ 764,260	\$ 793,020
Members	248,307	270,020
Other sources	-	270,867
Net pension obligation (asset)	(6,155)	(19,083)
Actuarial cost method	Frozen entry age	
Amortization method	Level percentag of pay, closed	
Asset valuation method	4-year smoothed market	
Remaining amortization period	18 years	20 years
Actuarial assumptions		
Invested rate of return	8.00%	8.00%
Projected salary increases (including inflation at 3%)	6.00%	6.50%

NOTE 11 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

		Three year trend information		
	Year ending	Actual Pension Cost (APC)	Percentage Contribution	Net Pension Obligation (Asset)
GERP	September 30, 2011	\$ 765,125	100%	\$ (6,155)
	September 30, 2010	729,493	100%	(6,989)
	September 30, 2009	475,859	100%	(7,798)
POFRP	September 30, 2011	794,088	100%	(19,083)
	September 30, 2010	561,477	100%	(20,161)
	September 30, 2009	283,379	100%	(21,334)

NOTE 12 – 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.

NOTE 12 – 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 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.

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, 2011, the contributions made to the program totaling \$16,937 were assumed to be the benefits paid for retirees and administrative expenses.

NOTE 12 – OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

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 01, 2010:

Annual required contribution	\$	104,846
Interest on Net OPEB Obligation		8,738
Adjustment to annual required contributions		(26,663)
		86,921
Estimated net contributions		16,937
Increase (decrease) in net OPEB obligation		69,984
Net OPEB obligation - beginning of year		190,591
Net OPEB obligation - end of year	\$	260,575

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, 2011 are as follows:

Fiscal year Ending	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2011	\$ 104,846	\$ 16,937	16.15%	\$ 260,575
9/30/2010	121,833	16,937	13.90%	190,591
9/30/2009	104,846	16,937	16.15%	87,909

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 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.

Notes to Financial Statements

NOTE 12 – OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

In the September 30, 2009 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 5% investment rate of return, 6 - 6.5% projected salary increases, and a 5% inflation rate. Annual medical costs are assumed to increase 8% per year, decreasing 1% each year to a 5% rate in 2012.

NOTE 13 – FUND BALANCE CLASSIFICATIONS

The constraints on fund balance as listed in aggregate in the Balance Sheet - Governmental Funds are detailed according to balance classification and fund as follows:

Description	Major Fund		Other Governmental Funds	Total Governmental Funds
	General Fund			
Fund Balance				
<i>Nonspendable:</i>				
Prepaid expenditures	\$ 128,084	\$ -	\$ -	\$ 128,084
Permanent fund	-	50,000	-	50,000
<i>Restricted for:</i>				
Debt service	-	285,697	-	285,697
Other	-	6,220	-	6,220
<i>Assigned for:</i>				
Special Revenue	-	946,652	-	946,652
Capital Projects	-	461,108	-	461,108
Traffic impact fees	535,871	-	-	535,871
<i>Unassigned:</i>	2,656,203	-	-	2,656,203
Total Fund Balance	\$ 3,320,158	\$ 1,749,677	\$ -	\$ 5,069,835

NOTE 14 – 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 coverages, is purchased from various commercial carriers.

Notes to Financial Statements

NOTE 14 – 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. Insurance has been sufficient to cover all claims made in the prior three fiscal years.

NOTE 15 – OPERATING LEASES

The City is committed under various operating leases for certain telephone and office equipment. Lease expenditures for these leases for the fiscal year ended September 30, 2011 totaled \$123,816. Future minimum lease payments for the next four years are as follows:

<i>Year ending September 30,</i>	Governmental Activities	
2012	\$	54,752
2013		8,862
2014		1,103
Total minimum lease payments		\$ 64,717

NOTE 16 – COMMITMENTS AND CONTINGENCIES

Contracts

The City has contracted with Operations Management International, Inc. (OMI) to operate, maintain and manage the City's sewer treatment plant. Fees are payable monthly and are subject to adjustment on a regular basis. An amendment to the contract was signed in November 2010. The amendment established a base fee for fiscal year 2011 of \$842,280. It also provides for electrical cost or consumption increases over an established amount (\$192,000) to be shared equally by the City and OMI. Total fees under the contract for the year ended September 30, 2011, were approximately \$856,000. The agreement automatically renewed for a five year term ending September 30, 2014. Changes in the base fee shall be negotiated annually.

Sanitation Collection

In December 2007, 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 January 1, 2008 and extends through September 30, 2013. The City is responsible for billings and collections related to the sanitation services and retains 5% 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 \$2,902,565 for the year ended September 30, 2011.

NOTE 16 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

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 \$401,865. This amount is included in Due to other governments on the accompanying financial statements.

In April 2008, the City was awarded a SAFER (Staffing for Adequate Fire and Emergency Response) by FEMA in the amount of \$1,171,278. The grant required the City to agree to a five-year commitment during which the Federal contribution will diminish. The City is obligated to fund certain amounts for the July to June periods as follows:

Period through June	Federal Share	City Share	Total
2012	\$ 151,980	\$ 363,008	\$ 514,988
2013	-	540,737	540,737
	\$ 151,980	\$ 903,745	\$ 1,055,725

Required Supplementary Information
(Other Than MD&A)

City of Crestview, Florida

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

Year ended September 30,

2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 8,324,544	\$ 8,324,544	\$ 8,610,094	\$ 285,550
Licenses and permits	1,522,956	1,522,956	2,075,155	552,199
Intergovernmental	2,095,279	2,095,279	2,194,513	99,234
Charges for services	201,753	201,753	222,660	20,907
Fines and forfeitures	87,117	87,117	73,140	(13,977)
Interest income	85,000	62,730	71,601	8,871
Contributions	-	-	2,100	2,100
Miscellaneous	212,000	307,725	314,926	7,201
Total revenues	12,528,649	12,602,104	13,564,189	962,085
Expenditures				
General government	3,243,559	3,147,570	2,410,981	736,589
Public Safety	8,547,101	8,691,198	8,608,006	83,192
Transportation	2,332,760	2,342,655	2,167,968	174,687
Culture and recreation	1,290,612	1,332,509	1,303,591	28,918
Capital outlay	423,459	446,907	425,330	21,577
Debt service:				
Principal	153,508	108,004	108,004	-
Interest	14,953	12,664	12,663	1
Total expenditures	16,005,952	16,081,507	15,036,543	1,044,964
Excess (deficiency) of revenues over expenditures	(3,477,303)	(3,479,403)	(1,472,354)	2,007,049
Other financing sources (uses)				
Transfers in	-	-	85,842	(85,842)
Transfers out	-	-	(416,181)	416,181
Net other financing sources (uses)	-	-	(330,339)	(330,339)
Net change in fund balance	(3,477,303)	(3,479,403)	(1,802,693)	1,676,710
Fund balance, October 1, 2010	3,477,303	3,479,403	5,122,851	(1,643,448)
Fund balance, September 30, 2011	\$ -	\$ -	\$ 3,320,158	\$ 3,320,158

Schedule of Funding Progress for Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
10/1/2010	\$ -	\$ 574,545	\$ 574,545	0.00%	\$ 7,401,340	7.76%
10/1/2009	-	574,545	574,545	0.00%	7,401,340	7.76%
10/1/2008	-	574,545	574,545	0.00%	7,401,340	7.76%

Schedule of Funding Progress for Retirement Plans

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
General Employees' Retirement Plan						
10/1/2011	\$ 10,838,090	\$ 11,518,722	\$ 680,632	94.09%	\$ 3,749,083	18.15%
10/1/2010	10,702,659	11,511,092	808,433	92.98%	3,683,859	21.95%
10/1/2009	10,146,403	10,885,468	739,065	93.21%	4,099,778	18.03%
10/1/2008	9,878,765	10,460,657	581,892	94.44%	3,638,311	15.99%
10/1/2007	9,534,209	9,888,055	353,846	96.42%	3,284,376	10.77%
10/1/2006	8,523,229	8,798,387	275,158	96.87%	2,864,238	9.61%
Police Offices' and Firefighters' Retirement Plan						
10/1/2011	\$ 10,383,082	\$ 11,323,702	\$ 940,620	91.69%	\$ 4,226,006	22.26%
10/1/2010	9,568,251	10,572,416	1,004,165	90.50%	3,929,132	25.56%
10/1/2009	8,758,538	9,598,073	839,535	91.25%	3,920,487	21.41%
10/1/2008	8,175,156	8,849,039	673,883	92.38%	3,520,108	19.14%
10/1/2007	7,409,015	7,768,605	359,590	95.37%	2,879,395	12.49%
10/1/2006	6,641,793	6,944,698	302,905	95.64%	2,319,699	13.06%

City of Crestview, Florida

Schedule of Contributions from the Employer and
Other Contributing Entities

Actuarial Valuation Date	Annual Required Contribution	Employer Contribution	Other Contributing Entity Contribution	Percentage Contributed
General Employees' Retirement Plan				
10/1/2011	\$ 764,321	\$ 764,321	\$ -	100.00%
10/1/2010	729,493	729,493	-	100.00%
10/1/2009	470,761	478,559	-	101.66%
10/1/2008	452,902	452,905	-	100.00%
10/1/2007	358,312	358,312	-	100.00%
10/1/2006	369,782	369,782	-	100.00%
Police Offices' and Firefighters' Retirement Plan				
10/1/2011	\$ 970,384	\$ 793,020	\$ 177,364	100.00%
10/1/2010	738,841	561,477	177,364	100.00%
10/1/2009	467,559	292,644	184,180	101.98%
10/1/2008	407,568	223,388	184,180	100.00%
10/1/2007	339,674	157,141	184,180	100.48%
10/1/2006	286,719	113,966	184,180	103.99%

Combining Fund Statements

Nonmajor Governmental Funds

SPECIAL REVENUE FUNDS

The special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts or for major capital projects) that are legally restricted to expenditure for a specific purpose.

Law Enforcement Trust

To account for funds received from court fines to be used for additional police training.

Community Redevelopment Agency

To account for funds received from intergovernmental sources, as well as funds transferred into this fund by the City. Expenditures in this fund are to be used for the purpose of improving the City's downtown area.

DEBT SERVICE FUND

The Debt Service Fund is used to account for the accumulation of resources for and the payment of general long-term principal and interest in accordance with bond ordinances.

PERMANENT FUND

The Permanent Fund is used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used to support the City's programs (library books).

CAPITAL PROJECTS FUND

The Capital Project Fund is used to account for financial resources to be used for the acquisition or construction of major projects.

Combining Balance Sheet - Nonmajor Governmental Funds

September 30,

2011

	Special Revenue Funds							
	Law Enforcement Trust	Community Redevelopment Agency	Debt Service Fund	Permanent Fund	Capital Projects Fund			Total
Assets								
Cash and cash equivalents	\$ 17,983	\$ 928,669	\$ 285,697	\$ 5,270	\$ 537,471	\$	\$	1,775,090
Investments	-	-	-	50,950	-			50,950
Total assets	\$ 17,983	\$ 928,669	\$ 285,697	\$ 56,220	\$ 537,471	\$	\$	1,826,040
Liabilities and fund balances								
Liabilities:								
Other payables	\$ -	\$ -	\$ -	\$ -	\$ 76,363	\$	\$	76,363
Total liabilities	-	-	-	-	76,363	-	-	76,363
Fund balances:								
Unspendable	-	-	-	50,000	-			50,000
Restricted	-	-	285,697	6,220	-			291,917
Assigned	17,983	928,669	-	-	461,108			1,407,760
Total fund balances	17,983	928,669	285,697	56,220	461,108			1,749,677
Total liabilities and fund balances	\$ 17,983	\$ 928,669	\$ 285,697	\$ 56,220	\$ 537,471	\$	\$	1,826,040

See accompanying notes to financial statements.

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds

Year Ended September 30,

2011

	Special Revenue Funds					Total
	Law Enforcement Trust	Community Redevelopment Agency	Debt Service Fund	Permanent Fund	Capital Projects Fund	
Revenues						
Taxes	\$ -	\$ -	\$ 191,056	\$ -	\$ -	\$ 191,056
Licenses and permits	-	-	221,425	-	-	221,425
Intergovernmental	-	72,268	202,830	-	10,063	285,161
Fines and forfeitures	18,668	-	-	-	-	18,668
Interest income	-	4,445	694	950	1,781	7,870
Miscellaneous	350	-	-	-	101,278	101,628
Total revenues	19,018	76,713	616,005	950	113,122	825,808
Expenditures						
General government	24,495	38,000	-	-	-	62,495
Public safety	20,354	-	-	-	-	20,354
Capital outlay	-	74,097	-	7,845	146,140	228,082
Debt service						
Principal	-	-	444,858	-	-	444,858
Interest	-	-	252,398	-	-	252,398
Total expenditures	44,849	112,097	697,256	7,845	146,140	1,008,187
Excess (deficiency) of revenues over expenditures	(25,831)	(35,384)	(81,251)	(6,895)	(33,018)	(182,379)
Other financing sources (uses)						
Transfers in	-	128,431	-	-	287,750	416,181
Transfers out	-	-	-	-	(85,842)	(85,842)
Total other financing sources (uses)	-	128,431	-	-	201,908	330,339
Net change in fund balances	(25,831)	93,047	(81,251)	(6,895)	168,890	147,960
Fund Balance, October 1, 2010	43,814	835,622	366,948	63,115	292,218	1,601,717
Fund Balance, September 30, 2011	\$ 17,983	\$ 928,669	\$ 285,697	\$ 56,220	\$ 461,108	\$ 1,749,677

See accompanying notes to financial statements.

Compliance Section

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crestview, Florida (hereinafter referred to as the "City"), as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

IC2011-1: Utility Billings

During the fiscal year ended September 30, 2011, the City, as part of a rate study, identified possible irregularities in its utility billing system. The City could not always provide explanations supported by examinable data regarding concerns conveyed by the third-party performing the rate study. This led to speculation about the integrity of the utility billing system. As a result, a local CPA firm was retained to perform an in-depth review of the entire utility billing system.

The report issued as a result of the engagement, dated June 27, 2011, identified several areas of concern. These included lost revenues as a result of 1) unbilled services, 2) zero consumption water and sewer accounts, and 3) other items. These lost revenues were estimated to total \$336,874. In addition, the report made observations and recommendations as part of their evaluation. We do not consider it necessary to include all of the details from that review in this report; however the following items were some of the more prominent elements of that review:

- 41 customers that were required to pay for garbage services were not being billed.
- 33 customers were not being billed for available water and sewer service.
- Many customers were identified as having high-frequency zero consumption water/sewer bills – meaning that these accounts were charged the minimum amount for water/sewer service because no consumption was reflected in the City’s records.
- The CPA firm found no evidence suggesting the lost revenues were a result of misappropriation of funds (i.e. fraud).

In response to these facts and circumstances, we made certain changes to our audit program to determine the status of these billing system issues as of September 30, 2011. We obtained the billing system data and performed several procedures. The first of these was to sort the data and review unusual billing amounts such as negative amounts, zero billings, and unusually large billings. The results of these procedures included identifying the following:

- One account for three months (Oct – Dec 2010) that reflects water consumption but the account was billed \$0 for those months.

As identified above, the lost revenues identified in the report totaled \$336,874, and approximately 70% of that lost revenue related to water and sewer accounts that had a high frequency of zero consumption. As part of our audit procedures we identified all commercial water and sewer accounts that had zero consumption in any month during fiscal year 2011 to evaluate the progress made in response to the CPA firm’s review. Our evaluation identified the following items:

- During the year ended September 30, 2011, the City had approximately 200 accounts that at some point had zero gallons of charged consumption. Many of these were for only a few months but some were for the entire year.
- Of the zero consumption items identified by the CPA firm in its June 2011 report, all but two appear to have been corrected. These two were identified as locations 7826 and 6980.
- Based on further investigation, it appears that approximately 40 of these accounts warrant some additional attention from City staff. These items appear to have zero consumption for the entire year or for a significant portion of the year. Some of these have been tentatively identified as vacant buildings, unused meters, or have other valid

reasons why the account would have zero consumption for a significant period of time. We recommend that City staff examine this list of 40 accounts to ensure that no additional water and/or sewer billings are being lost due to zero consumption issues.

In addition to looking at the zero consumption accounts, we also inquired of the City as to their progress on the four recommendations identified in the CPA firm's report. The recommendations and responses are as follows:

1. Recommendation: The City should consult with SunGard Public Sector as to the best way to establish the services available at each property location.

Status: Completed.

2. Recommendation: The City needs to explore alternatives as it relates to the report parameters to ensure it has the information needed to monitor exceptions in a concise and easy to use format.

Status: Completed. Reports have been written, and each month these reports are reviewed and errors corrected. An additional quarterly review will be conducted by management. The errors have decreased significantly.

3. Recommendation: City management needs to develop a plan and implement cycle billing.

Status: Completed.

4. Recommendation: The City move to a full integration of SunGard Public Sector. Currently each City department generates manual work orders that must be key punched into SunGard. In addition, some departments such as Public Works, keep financial information in a separate accounting system.

Status: In process. The City is exploring the purchase of cash receipt machines for certain locations and is getting a quote of the module for planning and zoning. Certain other aspects of the recommendation are still awaiting implementation.

Compliance

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

Other Matters

We noted certain matters that we reported to management of the City in a separate letter dated June 28, 2012.

Management's Response

The City has addressed most of the findings and recommendations identified in the CPA firm's June 2011 consulting report. The allowance for doubtful accounts has been reduced, and the City is continuing to correct the errors in billing. We will work with the audit firm to review the items they have identified as warranting further examination.

City of Crestview, Florida's response to the findings identified in our audit is described above. We did not audit City of Crestview, Florida's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management, the Florida Auditor General, federal and state awarding agencies and pass-through entities, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, L.L.C.

Miramar Beach, Florida
June 28, 2012

MANAGEMENT LETTER

Honorable Mayor and City Council Members
City of Crestview, Florida

(850) 837-3141
(850) 654-4619 (fax)
CRlcpa.com

We have audited the financial statements of City of Crestview, Florida ("City") as of and for the fiscal year ended September 30, 2011, and have issued our report thereon dated June 28, 2012.

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. We have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters based on an Audit of Financial Statements performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which are dated June 28, 2012, should be considered in conjunction with this management letter.

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

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. As identified below, corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.

Prior Year Recommendations

ML2010-1: Purchasing Policies

Prior Year Comment Summarized

The City's purchasing manual requires a minimum of three quotes for purchases greater than \$500 but less than \$7,500 and sealed bids for purchases of commodities or public service contracts greater than \$7,500. Several exceptions were noted with one vendor where purchase orders under \$500 were utilized to complete a "project" in excess of \$500 total cost.

Status

No similar items were noted in the current year.

ML2010-2: Allowance For Doubtful Accounts

Prior Year Comment Summarized

Audit adjustments were proposed to increase the allowance for bad debts as a continued deterioration in the overdue accounts was noted. In addition, an in-depth review of the billing

system was recommended to identify recommendations for documentation of enforcement of the City's cut-off policies, identification of significant delinquencies, collection efforts, etc.

Status

A local CPA firm was retained to perform an in-depth review of the entire utility billing system. Their report, dated June 27, 2011, identified several areas of concern. These included lost revenues as a result of unbilled services, zero consumption water and sewer accounts, and other items as well as observations and recommendations as part of their evaluation. See page 63 for further information.

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

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we have the following recommendation:

ML2011-1: Assessments Receivable

As part of our audit procedures, we identified certain assessment receivable balances totaling approximately \$26,000 that have been outstanding for a number of years. Based on discussions with City personnel, it appears the balance is made up of 18 accounts that have had no collection activity since at least 2008. We recommend that the City consider writing these amounts off to bad debt expense since the balance is relatively small and no recent collection activity appears to have occurred.

- *Management's response: The City agrees that the probability of collecting these receivables is remote and will write these items off as bad debt.*

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of 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 more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we identified the following finding:

ML2011-2: Other Post-Employment Benefits (OPEB) Liability

As part of our audit procedures, we proposed adjustments to correct the City's OPEB liability as of September 30, 2011. These adjustments included updating the proprietary funds fund-level and government-wide balances as well as removing a prior year balance from the governmental funds fund-level balance sheet. According to generally accepted accounting principles for governmental entities, the OPEB liability should not be reflected on the fund level statements for

governmental funds. In addition, as mentioned in our audit opinion, the City is required to have an actuarial study performed every two years because of the relative size of its employee population. The City has not had such an evaluation in three years.

We recommend that the City have an updated actuarial study performed and that City staff work, with the assistance of its audit firm, to arrive at a proper OPEB liability balance on the various City financial statements.

- *Management's response: The City plans to have an evaluation conducted during fiscal year 2012.*

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The information required is disclosed in the notes to the financial statements.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2011, 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, 2011. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the 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.

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

Carr, Riggs & Ingram, L.L.C.

Miramar Beach, Florida
June 28, 2012