

# City of Crestview, Florida

## Financial Statements

Year Ended September 30, 2012

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**Carr, Riggs & Ingram, LLC**  
Certified Public Accountants  
500 Grand Boulevard  
Suite 210  
Miramar Beach, Florida 32550

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

## **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, 2012, 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.

In our opinion, based on our audit and the reports 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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2013 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, the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund, the Schedule of Funding Progress for Other Postemployment Benefits, the Schedule of Funding Progress for Retirement Plans, and the Schedule of Contributions from the Employer and Other Contributing Entities, as listed in the table of contents, be presented to supplement the basic financial statements. Such as 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.

*Caru, Riggs & Ingram, L.L.C.*

Miramar Beach, Florida  
June 25, 2013

## 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 of Crestview for the fiscal year ended September 30, 2012. We encourage readers to consider the information presented here. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### **FINANCIAL HIGHLIGHTS**

- The assets of the City of Crestview exceeded its liabilities by \$43.3 million (net assets), and represents a decrease of \$2.2 million in net assets from the prior year. Of this amount, \$27.9 million represent investments in capital assets (e.g. land, infrastructure, building, machinery and equipment), net of related debt, \$611,737 are restricted for future obligations, and \$14.73 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The governmental net assets decreased by \$1,781,697. 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 decreased by \$429,997 from the prior year. The decrease can also be attributed to the decrease in restricted assets.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1.30 million, or 9% of the total General Fund expenditures.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

#### **Government-wide Financial Statements**

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

The statement of net 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 61-62 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 \$43.3 million (net assets) for the fiscal year ended 2012 as reported in Table 1.

By far the largest portion of the City of Crestview's net assets, \$27.9 million (or 65%), 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>	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Current and other assets	\$ 4,884	\$ 6,591	\$ 14,207	\$ 15,250	\$ 19,091	\$ 21,841
Capital assets	19,988	20,403	31,123	30,852	51,111	51,255
<b>Total Assets</b>	<b>\$ 24,872</b>	<b>\$ 26,994</b>	<b>\$ 45,330</b>	<b>\$ 46,102</b>	<b>\$ 70,202</b>	<b>\$ 73,096</b>
<b>Liabilities</b>						
Current liabilities	1,555	1,494	1,633	1,197	3,188	2,691
Other Liabilities	5,531	5,932	18,170	18,948	23,701	24,880
<b>Total Liabilities</b>	<b>7,086</b>	<b>7,426</b>	<b>19,803</b>	<b>20,145</b>	<b>26,889</b>	<b>27,571</b>
<b>Net Assets</b>						
Invested in Capital Assets						
Net of Related Debt	14,992	14,941	12,973	11,918	27,965	26,859
Restricted	179	195	433	405	612	600
Unrestricted	2,615	4,432	12,121	13,634	14,736	18,066
<b>Total Net Assets</b>	<b>17,786</b>	<b>19,568</b>	<b>25,527</b>	<b>25,957</b>	<b>43,313</b>	<b>45,525</b>
<b>Total liabilities and net assets</b>	<b>\$ 24,872</b>	<b>\$ 26,994</b>	<b>\$ 45,330</b>	<b>\$ 46,102</b>	<b>\$ 70,202</b>	<b>\$ 73,096</b>

An additional portion of the City of Crestview's net assets, \$611,737 (or 1%) represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$14.73 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 \$2,211,694 during FY 2012, which resulted mostly from governmental activities.

**Governmental Activities**

Governmental activities decreased the City of Crestview's net asset \$1,781,697 million, and business-type activities decreased the City's net assets by \$429,997. Reported in Table 2 are the key elements of this decrease.

Table 2

**CHANGE IN NET ASSETS**

Year ended September 30,	Governmental Activities		Business-Type Activities		Primary Government Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues:</b>						
<b>Program revenues</b>						
Charges for services	\$ 2,915	\$ 3,436	\$ 8,794	\$ 9,424	\$ 11,709	\$ 12,860
Capital grants and contributions	-	-	208	541	208	541
<b>General revenues</b>						
Property taxes	4,976	5,346	-	-	4,976	5,346
Other taxes	4,964	4,854	-	-	4,964	4,854
Other revenue	908	1,015	212	277	1,120	1,292
<b>Total revenues</b>	<b>13,763</b>	<b>14,651</b>	<b>9,214</b>	<b>10,242</b>	<b>22,977</b>	<b>24,893</b>
<b>Expenses:</b>						
<b>Primary government</b>						
General government	2,744	2,955	-	-	2,744	2,955
Public safety	8,990	8,883	-	-	8,990	8,883
Transportation	2,478	2,656	-	-	2,478	2,656
Culture and recreation	1,590	1,565	-	-	1,590	1,565
Debt service interest	243	261	-	-	243	261
<b>Business-type activities</b>						
Water and sewer	-	-	6,212	6,230	6,212	6,230
Sanitation	-	-	2,932	2,871	2,932	2,871
<b>Total expenses</b>	<b>16,045</b>	<b>16,320</b>	<b>9,144</b>	<b>9,101</b>	<b>25,189</b>	<b>25,421</b>
Increase (decrease) in net assets before transfers	(2,282)	(1,669)	70	1,141	(2,212)	(528)
Transfers	500	-	(500)	-	-	-
Increase (decrease) in net assets	(1,782)	(1,669)	(430)	1,141	(2,212)	(528)
Net assets, beginning	19,568	21,238	25,957	24,816	45,525	46,054
<b>Net assets, ending</b>	<b>\$ 17,786</b>	<b>\$ 19,569</b>	<b>\$ 25,527</b>	<b>\$ 25,957</b>	<b>\$ 43,313</b>	<b>\$ 45,526</b>

**Financial Impacts**

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

**Revenues**

- Economic Condition – This can reflect a declining, stable, or growing economic environment and has a substantial impact on property, sales, gas or other tax revenue.
- Council Approved Rate Adjustments – While certain tax rates are set by statute, the City Council has significant authority to impose and periodically adjust rates (water, wastewater, sanitation, impact fees, recreation user fees, etc.).

- Changing Patterns in Intergovernmental Grant Revenue (both recurring and non-recurring) – Certain recurring revenues (state revenue sharing and community development grants) may experience significant changes periodically while non-recurring (or one-time) grants are less predictable and often distorting in their impact on year-to-year comparisons.
- Market Impacts on Investment Income – The current market conditions have little influence on the City's investment income since the City's investments consists of certificates of deposit.

### ***Expenses***

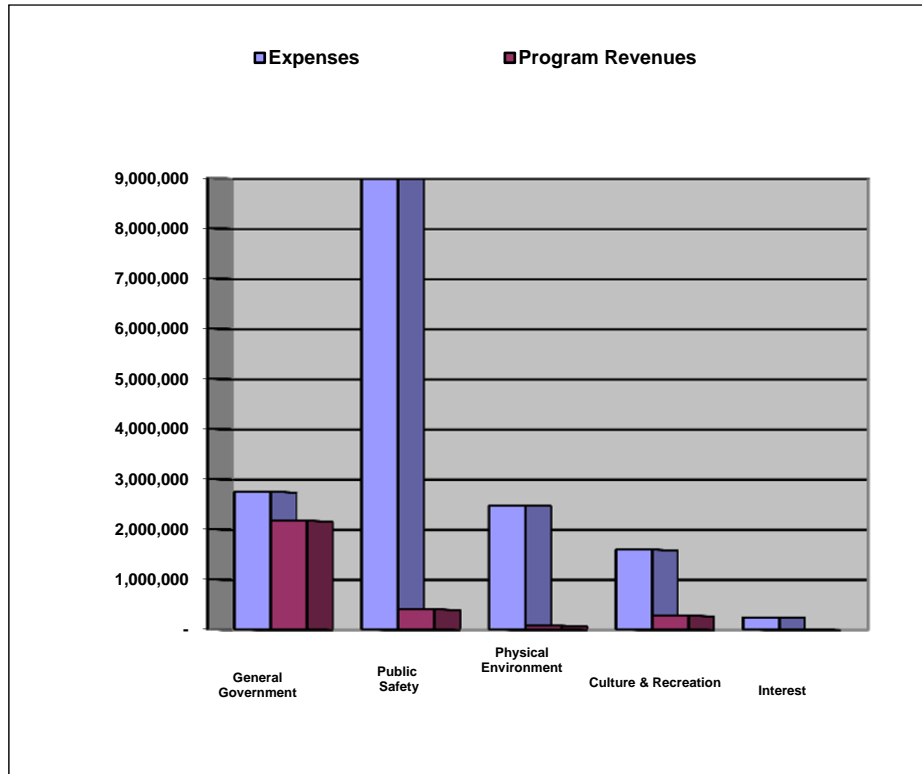
- Introduction of New Programs – Within functional expense categories, (police, fire, public works, community development, parks and recreation, etc.) individual programs may be added or deleted to meet changing community needs.
- Authorized Position Adjustments – Changes in service demand may cause 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 \$1,669,040 in the prior year and decreased \$1,781,697 in the current year. Revenues in the governmental activities decreased \$471,052 whereas expenditures which was higher than revenues showed a slight increase of \$62,823.
- Property taxes decreased by \$369,703 (or 7%) due to decreases in property valuations.
- Charges for services for governmental activities decreased \$520,735 (or 15%) due in part to reclassification of certain revenues mandated by the State for reporting purposes and building industry slowing down.
- Sales and fuel taxes increased \$234,825 (or 2%) due to the current economic conditions.
- Other taxes for governmental activities decreased \$107,245 (or 11%).
- Expenses for governmental activities decreased \$275,124 (or 2%).
- The City had to supplement its regular contributions to the Police Officers' and Firefighters' Retirement by \$20,948 in the fiscal year ended September 30, 2012 due primarily to variances in actual versus expected investment returns.

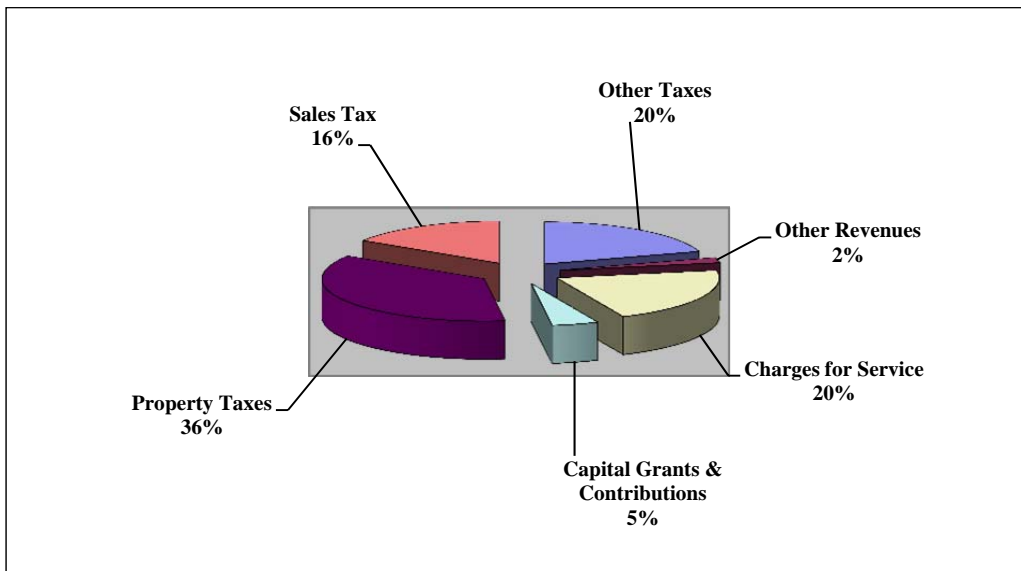
**Chart 1**

**Expenses and Program Revenue – Governmental Activities**



**Chart 2**

**Revenues by Source – Governmental Activities**



### Business-Type Activities

The net assets from business-type activities decreased \$429,997 (or 2%).

- Net assets increased \$1,141,274 in the prior year. The 2012 decrease is primarily a result of a decrease in operating revenue and expense fluctuations.
- Charges for services for business-type activities decreased by \$630,472 (or 7%)
- Total operating expenses increased \$43,421.

Chart 3

Expense and Program Revenue – Business-Type Activities

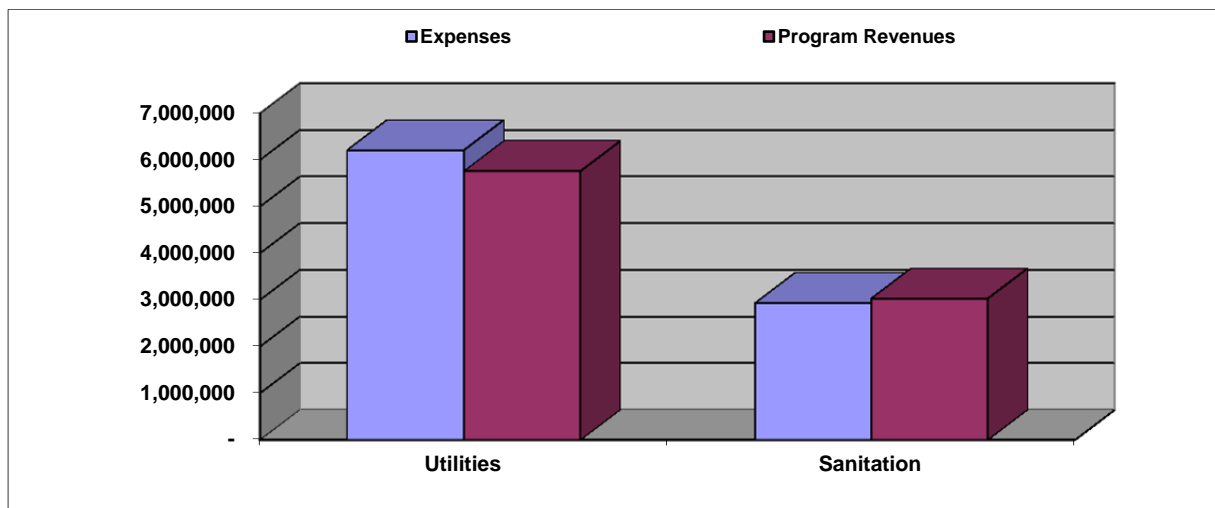
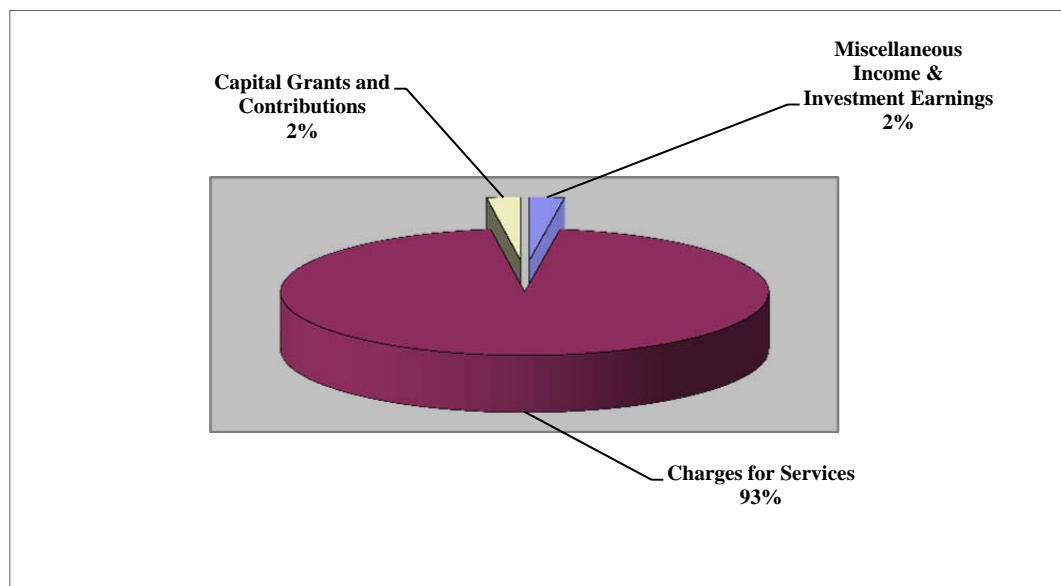


Chart 4

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 \$3.54 million, a decrease of \$1,533,225 in comparison with the prior year. Approximately 37% of this total amount (\$1.30 million) constitutes unreserved/undesignated 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, \$152,091). Additionally, other amounts are reserved via restrictions from outside donors, for the purchase of library books (\$50,000 non-expendable). 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 (\$1,759,625).

The General Fund is the chief operating fund of the City of Crestview. At the end of the current fiscal year, unreserved/undesignated fund balance of the General Fund was \$1.30 million, while total fund balance reached \$2.10 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved / undesignated fund balance and total fund balance to total expenditures. Unreserved / undesignated fund balance represents 9% of the total General Fund expenditures, while total fund balance represents 14% 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 \$12.12 million at the end of the year; of that the Utilities Fund amounted to \$10.75 million, and the Sanitation Fund totaled \$1.37 million. The net assets for this fiscal year in the proprietary funds decreased by \$429,997 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 \$171,066. Expenditures were less than budgeted amounts by \$1,377,377.

## 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, 2012, amounts to \$76.16 million (\$51.11 million net of accumulated depreciation). This investment in capital assets includes land, buildings, water, wastewater and drainage systems improvements, machinery and equipment, park facilities, roads, and highways, etc. The total increase in the City of Crestview's investment in capital assets for the current fiscal year was \$2,015,329, or 2% overall, and is summarized as follows:

- Various vehicles and equipment purchases for departments (\$707,794).
- Improvements to parks, buildings, highways and streets (\$337,087) and water and sewer system (\$762,062).
- Purchases of library books (\$41,468).
- Purchases of new electronic meters for the utility department (\$275,105).

**Table 3**

### City of Crestview Capital Assets

	Governmental Activities		Business-Type Activities		Primary Government Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 1,761	\$ 1,655	\$ 2,168	\$ 2,168	\$ 3,929	\$ 3,823
Buildings	8,146	8,146	8,954	8,954	17,100	17,100
Improvements other than buildings	4,328	4,167	1,232	1,007	5,560	5,174
Infrastructure	13,607	13,571	23,813	23,768	37,420	37,339
Machinery and equipment	5,359	5,026	4,181	3,755	9,540	8,781
Equipment under capital lease	875	720	-	-	875	720
Construction in progress	130	95	1,612	1,120	1,742	1,215
Total prior to depreciation	34,206	33,380	41,960	40,772	76,166	74,152
Less accumulated depreciation	(14,218)	(12,977)	(10,837)	(9,920)	(25,055)	(22,897)
Net capital assets	\$ 19,988	\$ 20,403	\$ 31,123	\$ 30,852	\$ 51,111	\$ 51,255



## Long-term Debt

At the end of the current fiscal year, the City of Crestview had total long-term debt outstanding of \$23.51 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, 2012.

**Table 4**

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

	Governmental Activities		Business-Type Activities		Primary Government Total	
	2012	2011	2012	2011	2012	2011
Revenue Bonds	\$ 5,027	\$ 5,484	\$ 11,451	\$ 11,932	\$ 16,478	\$ 17,416
State revolving loan	-	-	6,916	7,218	6,916	7,218
Capital leases	104	114	12	-	116	114
<b>Total</b>	<b>\$ 5,131</b>	<b>\$ 5,598</b>	<b>\$ 18,379</b>	<b>\$ 19,150</b>	<b>\$ 23,510</b>	<b>\$ 24,748</b>

The City of Crestview's total debt decreased by approximately \$1.2 million during the 2012 fiscal year.

Additional information on the City of Crestview's long-term debt can be found in Notes 7 - 10 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 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 2012-2013 budget for the City of Crestview.

- The average unemployment rate decreased for the Crestview Metropolitan Statistical Area (MSA) from 6.4% in May 2012 to 5.1% in May 2013. This 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 1.1% 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 continue increasing in future years, based on the addition of the 7<sup>th</sup> 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](http://www.cityofcrestview.org). Inquiries may also be sent via email to the Finance Department at [pattibeebe@cityofcrestview.org](mailto:pattibeebe@cityofcrestview.org).

# Basic Financial Statements

City of Crestview, Florida

Statement of Net Assets

<i>September 30,</i>	<b>2012</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 2,454,975	\$ 9,983,058	\$ 12,438,033
Investments	1,153,745	1,040,589	2,194,334
Accounts receivable	611,251	659,507	1,270,758
Due from other governments	505,189	-	505,189
Other current assets	152,091	147,616	299,707
Restricted assets - cash	-	1,937,782	1,937,782
Restricted assets - investments	-	250,000	250,000
Deferred charges, net	7,136	189,141	196,277
Capital assets, net	19,988,466	31,122,944	51,111,410
<b>Total assets</b>	<b>24,872,853</b>	<b>45,330,637</b>	<b>70,203,490</b>
<b>Liabilities</b>			
Accounts payable	304,366	593,866	898,232
Accrued liabilities	133,086	21,822	154,908
Due to other governments	485,655	-	485,655
Other current liabilities	309,908	-	309,908
Accrued interest - restricted	18,409	67,703	86,112
Customer deposits - restricted	-	636,464	636,464
Deferred revenue	-	264,000	264,000
Noncurrent liabilities:			
Due within one year	522,129	890,337	1,412,466
Due in more than one year	5,312,874	17,329,446	22,642,320
<b>Total liabilities</b>	<b>7,086,427</b>	<b>19,803,638</b>	<b>26,890,065</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	14,991,703	12,973,811	27,965,514
Restricted:			
Nonexpendable	50,000	-	50,000
Expendable	129,069	432,668	561,737
Unrestricted	2,615,654	12,120,520	14,736,174
<b>Total net assets</b>	<b>\$ 17,786,426</b>	<b>\$ 25,526,999</b>	<b>\$ 43,313,425</b>

See accompanying notes to financial statements.

City of Crestview, Florida

Statement of Activities

Year ended September 30,

2012

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	
<b>Governmental activities:</b>							
General government	\$ (2,743,672)	\$ 2,165,683	\$ -	\$ -	\$ (577,989)	\$ -	\$ (577,989)
Public safety	(8,989,771)	400,012	-	-	(8,589,759)	-	(8,589,759)
Transportation	(2,478,392)	75,481	-	-	(2,402,911)	-	(2,402,911)
Culture and recreation	(1,590,112)	273,973	-	-	(1,316,139)	-	(1,316,139)
Interest	(242,508)	-	-	-	(242,508)	-	(242,508)
<b>Total governmental activities</b>	<b>(16,044,455)</b>	<b>2,915,149</b>	<b>-</b>	<b>-</b>	<b>(13,129,306)</b>	<b>-</b>	<b>(13,129,306)</b>
<b>Business-type activities:</b>							
Utilities	(6,211,545)	5,760,761	-	208,183	-	(242,601)	(242,601)
Sanitation	(2,931,985)	3,032,829	-	-	-	100,844	100,844
<b>Total business-type activities</b>	<b>(9,143,530)</b>	<b>8,793,590</b>	<b>-</b>	<b>208,183</b>	<b>-</b>	<b>(141,757)</b>	<b>(141,757)</b>
<b>Total primary government</b>	<b>\$ (25,187,985)</b>	<b>\$ 11,708,739</b>	<b>\$ -</b>	<b>\$ 208,183</b>	<b>(13,129,306)</b>	<b>(141,757)</b>	<b>(13,271,063)</b>
<b>General revenues</b>							
<b>Taxes:</b>							
Property taxes, levied for operational purposes					4,975,858	-	4,975,858
Sales taxes					2,189,833	-	2,189,833
Utility service/franchise fees					2,774,343	144,748	2,919,091
Grants and contributions not restricted to specific programs					637,158	-	637,158
Investment earnings					32,976	28,293	61,269
Transfers					500,000	(500,000)	-
Miscellaneous					237,441	38,719	276,160
<b>Total general revenues and transfers</b>					<b>11,347,609</b>	<b>(288,240)</b>	<b>11,059,369</b>
Change in net assets					(1,781,697)	(429,997)	(2,211,694)
Net assets, beginning of year					19,568,123	25,956,996	45,525,119
Net assets, end of year					\$ 17,786,426	\$ 25,526,999	\$ 43,313,425

See accompanying notes to financial statements.

City of Crestview, Florida

Balance Sheet - Governmental Funds

<i>September 30,</i>	<b>2012</b>		
	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 962,686	\$ 1,492,289	\$ 2,454,975
Investments	1,102,545	51,200	1,153,745
Accounts receivable - other	611,251	-	611,251
Due from other governments	452,579	52,610	505,189
Other current assets	152,091	-	152,091
<b>Total assets</b>	<b>\$ 3,281,152</b>	<b>\$ 1,596,099</b>	<b>\$ 4,877,251</b>
<b>Liabilities and fund balances</b>			
Liabilities:			
Accounts payable	\$ 295,859	\$ 8,507	\$ 304,366
Accrued liabilities	133,086	-	133,086
Due to other governments	485,655	-	485,655
Other current liabilities	211,409	98,499	309,908
Deferred revenue	55,016	52,610	107,626
<b>Total liabilities</b>	<b>1,181,025</b>	<b>159,616</b>	<b>1,340,641</b>
Fund balances:			
Nonspendable			
Prepaid expenditures	152,091	-	152,091
Permanent fund	-	50,000	50,000
Restricted	-	273,942	273,942
Assigned	647,084	1,112,541	1,759,625
Unassigned	1,300,952	-	1,300,952
<b>Total fund balances</b>	<b>2,100,127</b>	<b>1,436,483</b>	<b>3,536,610</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,281,152</b>	<b>\$ 1,596,099</b>	<b>\$ 4,877,251</b>

See accompanying notes to financial statements.

Reconciliation of the Balance Sheet to the Statement of Net Assets

<i>September 30,</i>	<b>2012</b>
Total fund balance - governmental funds	\$ 3,536,610
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	19,988,466
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.	7,136
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Revenue bonds payable	(5,130,363)
OPEB liability	(303,732)
Accrued interest	(18,409)
Compensated absences	(400,908)
Certain revenues recognized on the Statement of Activities do not represent current resources and are reported as deferred revenue in the governmental funds.	107,626
<b>Total net assets - governmental activities</b>	<b>\$ 17,786,426</b>

See accompanying notes to financial statements.

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

Year Ended September 30,

	<b>2012</b>		
	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Taxes	\$ 8,124,827	\$ 191,056	\$ 8,315,883
Licenses and permits	1,695,099	200,986	1,896,085
Intergovernmental	2,620,491	347,550	2,968,041
Charges for services	227,551	-	227,551
Fines and forfeitures	82,492	7,432	89,924
Interest income	27,743	5,233	32,976
Contributions	4,201	-	4,201
Miscellaneous	258,070	126,214	384,284
<b>Total revenues</b>	<b>13,040,474</b>	<b>878,471</b>	<b>13,918,945</b>
<b>Expenditures</b>			
Current:			
General government	2,394,401	536	2,394,937
Public safety	8,497,094	5,460	8,502,554
Transportation	2,135,911	-	2,135,911
Culture and recreation	1,345,050	-	1,345,050
Capital outlay	155,460	710,603	866,063
Debt service:			
Principal	163,756	457,582	621,338
Interest	6,508	235,192	241,700
<b>Total expenditures</b>	<b>14,698,180</b>	<b>1,409,373</b>	<b>16,107,553</b>
Excess (deficiency) of revenues over expenditures	(1,657,706)	(530,902)	(2,188,608)
<b>Other financing sources (uses)</b>			
Transfers in	690,307	408,015	1,098,322
Transfers out	(408,015)	(190,307)	(598,322)
Capital lease addition	155,383	-	155,383
<b>Total other financing sources (uses)</b>	<b>437,675</b>	<b>217,708</b>	<b>655,383</b>
<b>Net change in fund balances</b>	<b>(1,220,031)</b>	<b>(313,194)</b>	<b>(1,533,225)</b>
<b>Fund Balance, beginning of year</b>	<b>3,320,158</b>	<b>1,749,677</b>	<b>5,069,835</b>
<b>Fund Balance, end of year</b>	<b>\$ 2,100,127</b>	<b>\$ 1,436,483</b>	<b>\$ 3,536,610</b>

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>	<b>2012</b>
Net change in fund balances - total governmental funds	\$ (1,533,225)
Capital outlay, reported as expenditures in governmental funds, is shown as capital assets in Statement of Net Assets.	866,063
Depreciation expense on governmental capital assets and losses on capital asset disposals are included in the governmental activities in the Statement of Activities.	(1,278,693)
The repayment of principal on long-term debt consumes the current financial resources of governmental funds but has no 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	621,338
Amortization of bond issuance costs	(2,379)
Change in accrued interest	1,571
Change in OPEB liability	(77,032)
Change in compensated absence liability	(67,770)
Capital lease additions are reported as other financing sources in the governmental funds but are recognized as long-term liabilities in the Statement of Net Assets.	(155,383)
Revenues previously reported in the Statement of Activities that did not provide current financial resources are reported in the current period in the governmental funds.	(263,813)
Certain revenues recognized on the Statement of Activities do not represent current resources and are reported as deferred revenue in the governmental funds.	107,626
<b>Change in net assets of governmental activities</b>	<b>\$ (1,781,697)</b>

See accompanying notes to financial statements.

City of Crestview, Florida

Balance Sheet - Proprietary Funds

September 30,

2012

	Utilities	Sanitation	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 8,610,011	\$ 1,373,047	\$ 9,983,058
Investments	1,040,589	-	1,040,589
Receivables	436,172	223,335	659,507
Prepaid expenses	147,616	-	147,616
<b>Total current assets</b>	<b>10,234,388</b>	<b>1,596,382</b>	<b>11,830,770</b>
Restricted assets:			
Cash	1,937,782	-	1,937,782
Certificate of deposit	250,000	-	250,000
<b>Total restricted assets</b>	<b>2,187,782</b>	<b>-</b>	<b>2,187,782</b>
Bond issue costs, net	189,141	-	189,141
Capital assets, net	31,122,944	-	31,122,944
<b>Total assets</b>	<b>\$ 43,734,255</b>	<b>\$ 1,596,382</b>	<b>\$ 45,330,637</b>
<b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
Current Liabilities:			
Accounts payable	\$ 369,577	\$ 224,289	\$ 593,866
Accrued liabilities	21,822	-	21,822
Accrued interest	67,703	-	67,703
Customer deposits	636,464	-	636,464
Deferred revenue	264,000	-	264,000
Long-term liabilities, current portion	890,337	-	890,337
<b>Total current liabilities</b>	<b>2,249,903</b>	<b>224,289</b>	<b>2,474,192</b>
Non-current liabilities:			
Compensated absences	48,235	-	48,235
Other post employment benefits	49,445	-	49,445
Capital lease	5,040	-	5,040
State revolving fund	6,544,013	-	6,544,013
Bonds payable	10,682,713	-	10,682,713
<b>Total liabilities</b>	<b>19,579,349</b>	<b>224,289</b>	<b>19,803,638</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	12,973,811	-	12,973,811
Restricted for debt service	432,668	-	432,668
Unrestricted	10,748,427	1,372,093	12,120,520
<b>Total net assets</b>	<b>24,154,906</b>	<b>1,372,093</b>	<b>25,526,999</b>
<b>Total liabilities and net assets</b>	<b>\$ 43,734,255</b>	<b>\$ 1,596,382</b>	<b>\$ 45,330,637</b>

See accompanying notes to financial statements.

City of Crestview, Florida

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

Year ended September 30,

2012

	Utilities	Sanitation	Total
<b>Revenues</b>			
Charges for services	\$ 5,760,761	\$ 3,032,829	\$ 8,793,590
Other operating revenues	38,719	-	38,719
<b>Total revenues</b>	<b>5,799,480</b>	<b>3,032,829</b>	<b>8,832,309</b>
<b>Operating expenses</b>			
Personnel services	1,834,571	-	1,834,571
Operating expenses	2,667,355	2,931,985	5,599,340
Depreciation	992,177	-	992,177
<b>Total operating expenses</b>	<b>5,494,103</b>	<b>2,931,985</b>	<b>8,426,088</b>
<b>Operating income</b>	<b>305,377</b>	<b>100,844</b>	<b>406,221</b>
<b>Non-operating revenues (expenses)</b>			
Interest earnings	28,293	-	28,293
Interest expense	(721,717)	-	(721,717)
Gain on sale	5,775	-	5,775
Franchise fees	-	144,748	144,748
Other debt service costs	(1,500)	-	(1,500)
<b>Total non-operating revenues (expenses)</b>	<b>(689,149)</b>	<b>144,748</b>	<b>(544,401)</b>
<b>Net income before contributions</b>	<b>(383,772)</b>	<b>245,592</b>	<b>(138,180)</b>
Contributed capital - impact fees	208,183	-	208,183
Operating transfers to other funds	(500,000)	-	(500,000)
<b>Net income (loss)</b>	<b>(675,589)</b>	<b>245,592</b>	<b>(429,997)</b>
<b>Net assets, beginning of year</b>	<b>24,830,495</b>	<b>1,126,501</b>	<b>25,956,996</b>
<b>Net assets, end of year</b>	<b>\$ 24,154,906</b>	<b>\$ 1,372,093</b>	<b>\$ 25,526,999</b>

See accompanying notes to financial statements.

City of Crestview, Florida

Statement of Cash Flows - Proprietary Funds

<i>Year ended September 30,</i>	<b>2012</b>		
	<b>Utilities</b>	<b>Sanitation</b>	<b>Total</b>
<b>Cash flows from operating activities</b>			
Receipts from customers	\$ 6,144,980	\$ 3,076,813	\$ 9,221,793
Payments to employees	(1,822,917)	-	(1,822,917)
Payments to suppliers	(2,442,571)	(2,962,566)	(5,405,137)
<b>Net cash provided by operating activities</b>	<b>1,879,492</b>	<b>114,247</b>	<b>1,993,739</b>
<b>Cash flows from non-capital financing activities</b>			
Franchise fees	-	144,748	144,748
Transfer to other funds	(500,000)	-	(500,000)
Capital contributions	208,183	-	208,183
<b>Net cash provided by non-capital financing activities</b>	<b>(286,042)</b>	<b>144,748</b>	<b>(141,294)</b>
<b>Cash flows from capital and related financing activities</b>			
Acquisition of fixed assets	(1,263,224)	-	(1,263,224)
Principal paid on long-term debt	(801,976)	-	(801,976)
Interest paid on bonds	(724,997)	-	(724,997)
Other debt service costs	(1,500)	-	(1,500)
Capital lease addition	18,667	-	18,667
<b>Net cash used by capital and related financing activities</b>	<b>(2,773,030)</b>	<b>-</b>	<b>(2,773,030)</b>
<b>Cash flows from investing activities</b>			
Interest income	28,293	-	28,293
<b>Net cash provided by investing activities</b>	<b>28,025</b>	<b>-</b>	<b>28,025</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,151,555)</b>	<b>258,995</b>	<b>(892,560)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>11,664,817</b>	<b>1,114,052</b>	<b>12,778,869</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 10,513,262</b>	<b>\$ 1,373,047</b>	<b>\$ 11,886,309</b>
<b>Composition of cash and cash equivalents</b>			
Unrestricted	\$ 8,610,011	\$ 1,373,047	\$ 9,983,058
Restricted	1,937,782	-	1,937,782
<b>Total cash and cash equivalents</b>	<b>\$ 10,547,793</b>	<b>\$ 1,373,047</b>	<b>\$ 11,920,840</b>

(continued)

See accompanying notes to financial statements.

## Statement of Cash Flows - Proprietary Funds (Continued)

<i>Year ended September 30,</i>	<b>2012</b>		
	<b>Utilities</b>	<b>Sanitation</b>	<b>Total</b>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>			
Operating income	\$ 305,377	\$ 100,844	\$ 406,221
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	992,177	-	992,177
Bad debt expense	40,354	-	40,354
Change in operating assets and liabilities:			
Accounts receivable	54,015	43,984	97,999
Accounts payable	157,271	(30,581)	126,690
Accrued wages	6,190	-	6,190
Compensated absences	5,464	-	5,464
Deferred revenue	264,000	-	264,000
Deposits	27,485	-	27,485
Prepaid expenses	27,159	-	27,159
<b>Net cash provided by operating activities</b>	<b>\$ 1,879,492</b>	<b>\$ 114,247</b>	<b>\$ 1,993,739</b>

See accompanying notes to financial statements.

City of Crestview, Florida

Statement of Net Assets - Pension Trust Fund

September 30,

2012

	<b>General Employees Retirement Plan</b>	<b>Police Officers / Firefighters Plan</b>	<b>Total</b>
<b>Assets</b>			
Contributions receivable	\$ -	\$ 41,719	\$ 41,719
Prepaid insurance	383	324	707
Investments:			
Corporate bonds	1,466,341	4,721,926	6,188,267
Federal government bonds and other securities	2,250,737	-	2,250,737
Common stock and equity funds	7,314,136	7,464,575	14,778,711
Money market fund	1,306,839	552,512	1,859,351
<b>Total investments</b>	<b>12,338,053</b>	<b>12,739,013</b>	<b>25,077,066</b>
<b>Total assets</b>	<b>12,338,436</b>	<b>12,781,056</b>	<b>25,119,492</b>
<b>Liabilities</b>			
Accounts payable	17,100	13,979	31,079
Retirement benefits payable	11,670	14,989	26,659
Refunds payable	-	1,952	1,952
Drop plan benefits payable	10,711	274,439	285,150
Prepaid City contribution	8,270	-	8,270
<b>Total liabilities</b>	<b>47,751</b>	<b>305,359</b>	<b>353,110</b>
<b>Net assets</b>			
Held in trust for pension benefits	\$ 12,290,685	\$ 12,475,697	\$ 24,766,382

See accompanying notes to financial statements.

## Statement of Changes in Net Assets - Pension Trust Fund

<i>Year ended September 30,</i>	<b>2012</b>		
	<b>General Employees Retirement Plan</b>	<b>Police Officers / Firefighters Plan</b>	<b>Total</b>
<b>Additions</b>			
Contributions:			
Contributions-City	\$ 700,609	\$ 819,423	\$ 1,520,032
Contributions-State	-	267,020	267,020
Contributions-Employee	250,481	272,625	523,106
Total contributions	951,090	1,359,068	2,310,158
Investment income:			
Net appreciation (depreciation) in fair value of investments	1,224,312	1,298,360	2,522,672
Interest and dividend income	288,382	371,679	660,061
Gain (loss) on investment sales	335,369	160,856	496,225
Investment expenses	(69,754)	(63,465)	(133,219)
Net investment income (loss)	1,778,309	1,767,430	3,545,739
Total additions	2,729,399	3,126,498	5,855,897
<b>Deductions</b>			
Benefits paid	425,320	268,167	693,487
Drop plan benefits paid	63,831	96,483	160,314
Refunds of contributions	33,173	84,875	118,048
Administrative expenses	57,522	47,764	105,286
Total deductions	579,846	497,289	1,077,135
Change in net assets	2,149,553	2,629,209	4,778,762
Net assets, beginning of year	10,141,132	9,846,488	19,987,620
Net assets, end of year	\$ 12,290,685	\$ 12,475,697	\$ 24,766,382

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.

**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.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

Proprietary funds include the following fund types:

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*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.

Cash amounts in the general and utilities funds are generally either placed in State Board of Administration Debt Service accounts for investment of debt service moneys, invested with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pools created by Section 218.405 and 218.417, Florida Statutes, or made locally. On December 4, 2007, the State Board of Administration restructured the Local Government Surplus Funds Trust Fund to also establish the Fund B Surplus Funds Trust Fund ("Fund B").

At September 30, 2012, the City's investments in the Local Government Surplus Funds Trust Fund A ("Florida PRIME"), which the State Board of Administration indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which approximates amortized cost.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The City's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.94896811 at September 30, 2012. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the State Board of Administration, are effected by transferring eligible cash or securities to the Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation of Fund B. One hundred percent of such distributions from Fund B are available as a liquid balance within Florida PRIME.

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, 2012, the allowance for doubtful accounts for proprietary funds totaled \$75,000.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***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.

***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, 2012
Levy date	November 1, 2012
Due date	March 31, 2013
Delinquency date	April 1, 2013

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.

***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:

<b>Assets</b>	<b>Years</b>
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:

<b>Years of Employment</b>	<b>Firefighters</b>	<b>All Others</b>
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)**

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

***Net 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. 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.

***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 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***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.

**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, 2012, consist of the following:

<b>Investments - Governmental Funds</b>	<b>Average Maturities</b>	<b>Fair Value</b>
Certificate of deposit	Oct 2012	\$ 51,200
State Board of Administration:		
Florida PRIME	39 days	1,074,886
Fund B	4.08 years	27,659
<b>Total investments - governmental funds</b>		<b>\$ 1,153,745</b>

Notes to Financial Statements

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

<b>Investments - Proprietary Funds</b>	<b>Average Maturities</b>	<b>Fair Value</b>
Certificates of deposit	July 2013	\$ 1,199,108
State Board of Administration:		
Florida PRIME	39 days	89,186
Fund B	4.08 years	2,295
<b>Total investments - proprietary funds*</b>		<b>\$ 1,290,589</b>

\*Included in this amount are \$250,000 of investments classified as restricted on the Statement of Net Assets and Balance Sheet – Proprietary Funds.

<b>Investments - Pension Funds</b>	<b>Fair Value</b>
Money market funds	\$ 1,859,351
U.S. Government securities	2,250,737
Corporate bonds	6,188,268
Corporate equities	14,778,711
<b>Total investments - pension funds</b>	<b>\$ 25,077,067</b>

***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.
- The maturity of the State Board of Administration Local Government Surplus Funds Trust Fund Florida PRIME is based on the weighted average days to maturity (WAM). A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. The maturity of the State Board of Administration Local Government Fund B Surplus Funds Trust Fund is based on the weighted average life (WAL). A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL is based on legal final maturity dates as of September 30, 2012.
- 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.

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

***Credit Risk***

- Section 218.415(17), Florida Statutes, limits investments to the State Board of Administration Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperative Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; investments in interest-bearing time deposits or savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The City does not have a formal investment policy that limits its investment choices.
- As of September 30, 2012, the City’s investment in the Florida PRIME is rated AAAM by Standard & Poor’s. The Fund B Surplus Funds Trust Fund is unrated.
- 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 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, 2012. 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, 2012.

***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, 2012, 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.

Notes to Financial Statements

**NOTE 4 – RECEIVABLES**

Receivables at September 30, 2012, were as follows:

	Governmental Activities		Business-Type Activities		Total
	General Fund	Non-major Funds	Utilities	Sanitation	
Franchise fees	\$ 281,631	\$ -	\$ -	\$ -	\$ 281,631
Utility services	316,052	-	-	-	316,052
Accounts receivable	-	-	486,172	248,335	734,507
Less: allowance for doubtful accounts	-	-	(50,000)	(25,000)	(75,000)
Other	13,568	-	-	-	13,568
<b>Receivables, net</b>	<b>\$ 611,251</b>	<b>\$ -</b>	<b>\$ 436,172</b>	<b>\$ 223,335</b>	<b>\$ 1,270,758</b>

**NOTE 5 - DUE FROM OTHER GOVERNMENTS**

The amount due from other governments at September 30, 2012, is composed of the following:

	General Fund
Federal:	
Safer grant	\$ 69,987
Cops grant	55,016
State of Florida:	
Local option gas tax	49,897
Revenue sharing	49,115
1/2 cent sales tax	147,138
Communications services tax	77,200
Block grant	52,610
Okaloosa County:	
Fuel tax refund	4,226
	<b>\$ 505,189</b>

## Notes to Financial Statements

**NOTE 6 – CHANGES IN CAPITAL ASSETS**

Changes in capital assets for governmental activities for the year ended September 30, 2012 are shown below:

	Beginning Balance	Additions	Deletions/ Transfers	Total
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated</i>				
Land	\$ 1,654,801	\$ 105,855	\$ -	\$ 1,760,656
Construction in progress	95,497	36,805	(2,148)	130,154
<b>Total capital assets not being depreciated</b>	<b>1,750,298</b>	<b>142,660</b>	<b>(2,148)</b>	<b>1,890,810</b>
<i>Capital assets being depreciated</i>				
Buildings	8,145,784	-	-	8,145,784
Improvements other than buildings	4,167,180	160,661	-	4,327,841
Infrastructure	13,570,538	37,420	-	13,607,958
Machinery and equipment	5,026,267	369,867	(36,886)	5,359,248
Equipment under capital lease	719,833	155,383	-	875,216
<b>Total capital assets being depreciated</b>	<b>31,629,602</b>	<b>723,331</b>	<b>(36,886)</b>	<b>32,316,047</b>
<i>Less accumulated depreciation for:</i>				
Buildings	1,590,798	163,089	-	1,753,887
Improvements other than buildings	1,490,947	199,477	-	1,690,424
Infrastructure	6,635,918	400,570	-	7,036,488
Machinery and equipment	2,919,515	449,935	(36,886)	3,332,564
Equipment under capital lease	339,406	65,622	-	405,028
<b>Total accumulated depreciation</b>	<b>12,976,584</b>	<b>1,278,693</b>	<b>(36,886)</b>	<b>14,218,391</b>
<b>Total capital assets being depreciated, net</b>	<b>18,653,018</b>	<b>(555,362)</b>	<b>-</b>	<b>18,097,656</b>
<b>Governmental activities, net</b>	<b>\$ 20,403,316</b>	<b>\$ (412,702)</b>	<b>\$ (2,148)</b>	<b>\$ 19,988,466</b>

## Notes to Financial Statements

**NOTE 6 – CHANGES IN CAPITAL ASSETS (CONTINUED)**

Changes in capital assets for business-type activities for the year ended September 30, 2012 are shown below:

	Beginning Balance	Additions	Deletions/ Transfers	Total
<b>Business-type activities</b>				
<i>Capital assets not being depreciated</i>				
Land	\$ 2,168,710	\$ -	\$ -	\$ 2,168,710
Construction in progress	1,119,577	492,035	-	1,611,612
<b>Total capital assets not being depreciated</b>	<b>3,288,287</b>	<b>492,035</b>	<b>-</b>	<b>3,780,322</b>
<i>Capital assets being depreciated</i>				
Buildings	8,954,298	-	-	8,954,298
Improvements other than buildings	1,006,579	224,911	-	1,231,490
Infrastructure	23,767,582	45,117	-	23,812,699
Machinery and equipment	3,754,667	501,161	(74,853)	4,180,975
<b>Total capital assets being depreciated</b>	<b>37,483,126</b>	<b>771,189</b>	<b>(74,853)</b>	<b>38,179,462</b>
<i>Less accumulated depreciation for:</i>				
Buildings	2,999,673	185,008	-	3,184,681
Improvements other than buildings	225,049	68,925	-	293,974
Infrastructure	5,299,133	460,887	-	5,760,020
Machinery and equipment	1,395,661	277,357	(74,853)	1,598,165
<b>Total accumulated depreciation</b>	<b>9,919,516</b>	<b>992,177</b>	<b>(74,853)</b>	<b>10,836,840</b>
<b>Total capital assets being depreciated, net</b>	<b>27,563,610</b>	<b>(220,988)</b>	<b>-</b>	<b>27,342,622</b>
<b>Business-type activities, net</b>	<b>\$ 30,851,897</b>	<b>\$ 271,047</b>	<b>\$ -</b>	<b>\$ 31,122,944</b>

**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.

**NOTE 6 – 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	\$	201,856
Public safety		344,218
Transportation		487,217
Culture and recreation		245,402
<b>Total depreciation expense-governmental activities</b>	<b>\$</b>	<b>1,278,693</b>

Business-type activities

Utilities fund	\$	992,176
Sanitation fund		-
<b>Total depreciation expense-business-type activities</b>	<b>\$</b>	<b>992,176</b>

**NOTE 7 – 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 7 – 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 7 – 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 7 – BONDS PAYABLE (CONTINUED)**

The annual requirements to amortize revenue bonds outstanding as of September 30, 2012 are as follows:

Year ending September 30,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 471,794	\$ 220,913	\$ 692,707	\$ 509,340	\$ 561,585	\$ 1,070,925
2014	484,624	201,511	686,135	519,506	542,582	1,062,088
2015	508,576	187,123	695,699	269,940	522,435	792,375
2016	309,264	165,563	474,827	222,662	510,718	733,380
2017	294,019	150,400	444,419	170,000	499,775	669,775
2018 - 2022	1,064,815	573,233	1,638,048	960,000	2,386,788	3,346,788
2023 - 2027	456,614	393,727	850,341	1,080,000	2,144,331	3,224,331
2028 - 2032	404,000	305,283	709,283	3,500,000	1,714,719	5,214,719
2033 - 2037	517,000	199,215	716,215	3,510,000	702,319	4,212,319
2038 - 2041	518,000	63,033	581,033	685,000	35,963	720,963
<b>Total bonds payable</b>	<b>\$ 5,028,706</b>	<b>\$ 2,460,001</b>	<b>\$ 7,488,707</b>	<b>\$ 11,426,448</b>	<b>\$ 9,621,215</b>	<b>\$ 21,047,663</b>

**NOTE 8 – 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 8 – 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, 2012:

Year ending September 30,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
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	-	-	-	414,646	76,132	490,778
2018 - 2022	-	-	-	2,240,948	280,627	2,521,575
2023 - 2027	-	-	-	2,252,900	108,164	2,361,064
2028 - 2032	-	-	-	451,755	4,295	456,050
<b>Total notes payable</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,916,246</b>	<b>\$ 834,845</b>	<b>\$ 7,751,091</b>

**NOTE 9 – CAPITAL LEASES**

The City has entered into lease agreements as lessee for financing the acquisition of police cars and utility trucks. The lease agreements qualify as capital leases for accounting purposes as a result of the transfer of title at the end of the lease terms, 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	Business-type Activities
Vehicles	\$ 498,213	\$ 33,840
Less accumulated depreciation	(141,128)	(2,397)
	<b>\$ 357,085</b>	<b>\$ 31,443</b>

The future minimum lease obligations and net present value of these minimum lease payments as of September 30, 2012, are as follows:

Year ending September 30,	Governmental Activities	Business-type Activities
2013	\$ 56,939	\$ 7,028
2014	56,939	7,028
Less amount representing interest	(10,311)	(2,152)
<b>Present value of minimum lease payments</b>	<b>\$ 103,567</b>	<b>\$ 11,904</b>

Notes to Financial Statements

**NOTE 10 – CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity for the fiscal year ended September 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
<b>Governmental activities:</b>					
Gas tax refunding revenue bonds, Series 2004	\$ 698,931	\$ -	\$ (165,227)	\$ 533,704	\$ 171,376
Public improvement revenue bonds:					
Series 2001A	177,488	-	(37,201)	140,287	38,626
Series 2001	2,221,000	-	(33,000)	2,188,000	34,000
Series 2008	1,382,958	-	(92,116)	1,290,842	95,791
Public safety revenue bonds:					
Facilities fee, Series 2007	630,000	-	(90,000)	540,000	90,000
Series 2009	374,000	-	(40,000)	334,000	42,000
Capital leases	114,160	155,383	(165,976)	103,567	50,336
Compensated absences	333,138	67,770	-	400,908	-
Other post employment benefits	226,700	77,032	-	303,732	-
	<b>\$ 6,158,375</b>	<b>\$ 300,185</b>	<b>\$ (623,520)</b>	<b>\$ 5,835,040</b>	<b>\$ 522,129</b>

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
<b>Business-type activities:</b>					
FL DEP State Revolving Loan:					
2008	\$ 6,328,358	\$ -	\$ (300,238)	\$ 6,028,120	\$ 309,829
2010	890,026	-	-	890,026	64,304
Water & Sewer revenue refunding bonds:					
Series 2004	775,000	-	(250,000)	525,000	260,000
Less unamortized loss	(8,427)	-	2,107	(6,320)	-
Series 2008	10,675,000	-	(145,000)	10,530,000	150,000
Less unamortized discount	(236,847)	-	8,772	(228,075)	-
Public improvement bonds					
Series 2001A	482,302	-	(110,854)	371,448	99,340
Capital leases	-	18,667	(6,763)	11,904	6,864
Compensated absences	42,771	5,464	-	48,235	-
Other post employment benefits	33,875	15,570	-	49,445	-
	<b>\$ 18,982,058</b>	<b>\$ 39,701</b>	<b>\$ (801,976)</b>	<b>\$ 18,219,783</b>	<b>\$ 890,337</b>

Notes to Financial Statements

**NOTE 11 – INTERFUND TRANSFERS**

All transfers are routine and are consistent with the activities of the fund making the transfer. Included in these is a transfer from the Utility Fund to the General Fund to help fund the City's expenditures as established in their 2011 – 2012 fiscal budget. The following presents the interfund transfers for the year ended September 30, 2012:

	Transfer In	Transfer Out
General Fund	\$ 690,307	\$ 408,015
Other Governmental Funds:		
Utility Fund	408,015	190,307
	-	500,000
	<u>\$ 1,098,322</u>	<u>\$ 1,098,322</u>

**NOTE 12 – 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 12 – 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, 2011, the date of the latest actuarial valuation:

	GERP	POFRP
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	49	19
Current employees:		
Vested	3	1
Nonvested	106	98
<b>Total</b>	<b>158</b>	<b>118</b>

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, 2012 was as follows:

	GERP	POFRP
Contribution rates (percentage of covered payroll)		
City	20.60%	22.50%
Plan members	6.40%	6.40%
Other sources	0.00%	4.30%
Annual pension cost:	\$ 701,344	\$ 997,810
Contributions made:		
Employer	\$ 700,610	\$ 819,423
Members	248,307	267,020
Other sources	-	272,626
Net pension obligation (asset)	(5,408)	(18,070)
Actuarial cost method	Frozen entry age	
Amortization method	Level percentag of pay, closed	
Asset valuation method	4-year smoothed market	
Remaining amortization period	19 years	21 years
Actuarial assumptions		
Invested rate of return	8.00%	8.00%
Projected salary increases (including inflation at 3%)	6.00%	6.50%

## Notes to Financial Statements

**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, 2012	\$ 701,344	100%	\$ (5,408)
	September 30, 2011	765,125	100%	(6,155)
	September 30, 2010	729,493	100%	(6,989)
POFRP	September 30, 2012	997,810	100%	(18,070)
	September 30, 2011	794,088	100%	(19,083)
	September 30, 2010	561,477	100%	(20,161)

**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, 2012, the contributions made to the program totaling \$39,485 were assumed to be the benefits paid for retirees and administrative expenses.

Notes to Financial Statements

**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 1, 2011:

Annual required contribution	\$	131,689
Interest on Net OPEB Obligation		13,029
Adjustment to annual required contributions		(12,631)
		132,087
Estimated net contributions		(39,485)
Increase (decrease) in net OPEB obligation		92,602
Net OPEB obligation - beginning of year		260,575
Net OPEB obligation - end of year	\$	353,177

The City has allocated its OPEB liability between its General and Utilities Fund based on payroll costs. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of September 30, 2012 are as follows:

Fiscal year Ending	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2012	\$ 132,087	\$ 39,485	29.89%	\$ 353,177
9/30/2011	104,846	16,937	16.15%	260,575
9/30/2010	121,833	16,937	13.90%	190,591

***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, 2012 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 3% inflation rate. The annual health care inflation rate was assumed to be 9.5% in 2012, 8.5% in 2013, and are assumed to decrease 1% each year until the ultimate rate of 4.5% in 2017.

**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			
<b>Fund Balance</b>				
<i>Nonspendable:</i>				
Prepaid expenditures	\$ 152,091	\$ -	\$ -	\$ 152,091
Permanent fund	-	50,000	-	50,000
<i>Restricted for:</i>				
Debt service	-	269,513	-	269,513
Other	-	4,429	-	4,429
<i>Assigned for:</i>				
Special Revenue	-	975,009	-	975,009
Capital Projects	-	137,532	-	137,532
Traffic impact fees	647,084	-	-	647,084
<i>Unassigned:</i>	1,321,900	-	-	1,321,900
<b>Total Fund Balance</b>	<b>\$ 2,121,075</b>	<b>\$ 1,436,483</b>	<b>\$ -</b>	<b>\$ 3,557,558</b>

**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.

**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 – 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, 2012, 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, 2012.

***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.

**NOTE 16 – COMMITMENTS AND CONTINGENCIES (CONTINUED)**

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

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:

	Federal Share	City Share	Total
Period through June, 2013	\$ -	\$ 540,737	\$ 540,737

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,

2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 8,063,642	\$ 8,063,642	\$ 8,124,827	\$ 61,185
Licenses and permits	2,031,652	1,931,652	1,695,099	(236,553)
Intergovernmental	2,282,568	2,282,568	2,620,491	337,923
Charges for services	221,594	221,594	227,551	5,957
Fines and forfeitures	74,766	74,766	82,492	7,726
Interest income	61,000	61,000	27,743	(33,257)
Contributions	-	-	4,201	4,201
Miscellaneous	210,185	234,186	258,070	23,884
<b>Total revenues</b>	<b>12,945,407</b>	<b>12,869,408</b>	<b>13,040,474</b>	<b>171,066</b>
<b>Expenditures</b>				
General government	3,070,970	3,094,726	2,394,401	700,325
Public Safety	8,773,513	8,875,033	8,497,094	377,939
Transportation	2,317,331	2,317,331	2,135,911	181,420
Culture and recreation	1,422,439	1,377,852	1,345,050	32,802
Capital outlay	219,000	219,000	155,460	63,540
Debt service:				
Principal	114,159	164,159	163,756	403
Interest	6,507	6,508	6,508	-
<b>Total expenditures</b>	<b>15,923,919</b>	<b>16,054,609</b>	<b>14,698,180</b>	<b>1,356,429</b>
Excess (deficiency) of revenues over expenditures	(2,978,512)	(3,185,201)	(1,657,706)	1,527,495
<b>Other financing sources (uses)</b>				
Transfers in	500,000	500,000	690,307	190,307
Transfers out	(187,175)	(408,025)	(408,015)	10
Capital lease	-	-	155,383	155,383
<b>Net other financing sources (uses)</b>	<b>312,825</b>	<b>91,975</b>	<b>437,675</b>	<b>345,700</b>
Net change in fund balance	(2,665,687)	(3,093,226)	(1,220,031)	1,873,195
Fund balance, beginning of year	2,665,687	3,093,226	3,320,158	(226,932)
Fund balance, end of year	\$ -	\$ -	\$ 2,100,127	(2,100,127)

Schedule of Funding Progress for Other Postemployment Benefits

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
10/1/2011	\$ -	\$ 881,926	\$ 881,926	0.00%	\$ 8,313,723	10.61%
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%



Schedule of Funding Progress for Retirement Plans

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
<b>General Employees' Retirement Plan</b>						
10/1/2012	\$ 11,864,053	\$ 12,815,816	\$ 951,763	92.57%	\$ 3,762,590	25.30%
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%
<b>Police Offices' and Firefighters' Retirement Plan</b>						
10/1/2012	\$ 12,251,951	\$ 13,128,854	\$ 876,903	93.32%	\$ 4,147,740	21.14%
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%

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
<b>General Employees' Retirement Plan</b>				
10/1/2012	\$ 700,597	\$ 700,597	\$ -	100.00%
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%
<b>Police Offices' and Firefighters' Retirement Plan</b>				
10/1/2012	\$ 996,787	\$ 819,423	\$ 177,364	100.00%
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%

# 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,

2012

	Special Revenue Funds		Debt Service Fund	Permanent Fund	Capital Projects Fund	Total
	Law Enforcement Trust	Community Redevelopment Agency				
<b>Assets</b>						
Cash and cash equivalents	\$ 20,331	\$ 954,678	\$ 269,513	\$ 3,229	\$ 244,538	\$ 1,492,289
Investments	-	-	-	51,200	-	51,200
Due from other governments	-	-	-	-	52,610	52,610
<b>Total assets</b>	<b>\$ 20,331</b>	<b>\$ 954,678</b>	<b>\$ 269,513</b>	<b>\$ 54,429</b>	<b>\$ 297,148</b>	<b>\$ 1,596,099</b>
<b>Liabilities and fund balances</b>						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 8,507	\$ 8,507
Other payables	-	-	-	-	98,499	98,499
Deferred revenues	-	-	-	-	52,610	52,610
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>159,616</b>	<b>159,616</b>
Fund balances:						
Nonspendable	-	-	-	50,000	-	50,000
Restricted	-	-	269,513	4,429	-	273,942
Assigned	20,331	954,678	-	-	137,532	1,112,541
<b>Total fund balances</b>	<b>20,331</b>	<b>954,678</b>	<b>269,513</b>	<b>54,429</b>	<b>137,532</b>	<b>1,436,483</b>
<b>Total liabilities and fund balances</b>	<b>\$ 20,331</b>	<b>\$ 954,678</b>	<b>\$ 269,513</b>	<b>\$ 54,429</b>	<b>\$ 297,148</b>	<b>\$ 1,596,099</b>

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

Year Ended September 30,

2012

	Special Revenue Funds					Total
	Law Enforcement Trust	Community Redevelopment Agency	Debt Service Fund	Permanent Fund	Capital Projects Fund	
<b>Revenues</b>						
Taxes	\$ -	\$ -	\$ 191,056	\$ -	\$ -	\$ 191,056
Licenses and permits	-	-	200,986	-	-	200,986
Intergovernmental	-	63,002	284,548	-	-	347,550
Fines and forfeitures	7,432	-	-	-	-	7,432
Interest income	-	4,983	-	250	-	5,233
Miscellaneous	376	-	-	-	125,838	126,214
<b>Total revenues</b>	<b>7,808</b>	<b>67,985</b>	<b>676,590</b>	<b>250</b>	<b>125,838</b>	<b>878,471</b>
<b>Expenditures</b>						
General government	-	536	-	-	-	536
Public safety	5,460	-	-	-	-	5,460
Capital outlay	-	148,615	-	2,041	559,947	710,603
Debt service						
Principal	-	-	457,582	-	-	457,582
Interest	-	-	235,192	-	-	235,192
<b>Total expenditures</b>	<b>5,460</b>	<b>149,151</b>	<b>692,774</b>	<b>2,041</b>	<b>559,947</b>	<b>1,409,373</b>
Excess (deficiency) of revenues over expenditures	2,348	(81,166)	(16,184)	(1,791)	(434,109)	(530,902)
<b>Other financing sources (uses)</b>						
Transfers in	-	107,175	-	-	300,840	408,015
Transfers out	-	-	-	-	(190,307)	(190,307)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>107,175</b>	<b>-</b>	<b>-</b>	<b>110,533</b>	<b>217,708</b>
<b>Net change in fund balances</b>	<b>2,348</b>	<b>26,009</b>	<b>(16,184)</b>	<b>(1,791)</b>	<b>(323,576)</b>	<b>(313,194)</b>
<b>Fund Balance, beginning of year</b>	<b>17,983</b>	<b>928,669</b>	<b>285,697</b>	<b>56,220</b>	<b>461,108</b>	<b>1,749,677</b>
<b>Fund Balance, end of year</b>	<b>\$ 20,331</b>	<b>\$ 954,678</b>	<b>\$ 269,513</b>	<b>\$ 54,429</b>	<b>\$ 137,532</b>	<b>\$ 1,436,483</b>

## 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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 25, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

Management of 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 material weaknesses.

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:

### **IC2012-1: Capital Lease**

Generally accepted accounting principles for governmental entities identify the requirements for reporting and disclosing capital lease transactions. These requirements include details on how to record capital leases on the different financial statement bases included in a set of governmental financial statements including: governmental fund, proprietary fund, and government-wide. The City of Crestview entered into a capital lease transaction that affected all three of these bases. While the lease was recorded properly on the government-wide basis, during our audit procedures, we proposed adjustments to properly record the capital lease activity on the fund level statements. These adjustments included recognizing the proceeds of the capital lease as other financial source and recording the capital outlay expenditure on the fund-level as well as recording the capital lease liability on the proprietary fund. However, our extended audit procedures cannot substitute for management's responsibility to ensure that the City's financial statements are accurate.

The City's response to the finding identified above is located on page 68. We did not audit the City's response, and accordingly, we do not express an opinion on it.

### **Compliance and Other Matters**

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*.

We noted certain matters that we reported to management of the City in a separate letter dated June 25, 2013.

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.

*Carly Riggs & Ingram, L.L.C.*

Miramar Beach, Florida  
June 25, 2013



## **MANAGEMENT LETTER**

Honorable Mayor and City Council Members  
City of Crestview, Florida

We have audited the financial statements of City of Crestview, Florida (“City”) as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated June 25, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 25, 2013, should be considered in conjunction with this management letter.

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

#### ***ML2011-1: Assessments Receivable***

##### **Prior Year Comment Summarized**

As part of our audit procedures, we identified certain accounts 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.

**Status:** Resolved.

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

### Prior Year Comment Summarized

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.

Status: Resolved.

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:

### ***ML2012-1: Open Checks***

During our audit procedures, we identified open checks were not properly canceled. An open check is a check number that is skipped in the accounting software to properly align the checks in the printer. The open checks are kept in the vault but are not defaced. We recommend the City consider defacing the checks in order to mitigate misuse and properly safeguard the open checks.

The City's response to the finding identified above is located on page 68. We did not audit the City's response, and accordingly, we do not express an opinion on it.

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 did not have any such findings.

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, 2012, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2012. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the 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 25, 2013

