

CITY OF CRYSTAL RIVER, FLORIDA

FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2016**

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CITY OF CRYSTAL RIVER, FLORIDA

FINANCIAL REPORT
SEPTEMBER 30, 2016

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of
the City Council,
City of Crystal River, FL

Report on the Financial Statements

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 Crystal River, Florida** (the "City"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14 and the Required Supplementary Information on pages 55 through 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Bradenton, Florida
May 15, 2017

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CITY OF CRYSTAL RIVER, FLORIDA

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2016

As management of the City of Crystal River, Florida, (the "City") we offer readers of the City of Crystal River, Florida's financial statements this narrative overview and analysis of the financial activities of the City of Crystal River, Florida for the fiscal year ended September 30, 2016.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City'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's finances, in a manner similar to a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, highways and streets, developmental services, and culture and recreation. The business-type activities of the City include water, sewer and sanitation operation.

The government-wide financial statements can be found on pages 15 - 17 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, 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 two categories: (1) governmental funds and (2) proprietary funds.

CITY OF CRYSTAL RIVER, FLORIDA

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2016

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental 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 maintains eight individual governmental funds. 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, Capital Improvement Fund, and Community Redevelopment, which are considered to be major funds. Data from the other governmental funds 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 adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund and capital improvements fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 18 -22 of this report.

Proprietary funds. The City of Crystal River, Florida maintains proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, sanitation, and Three Sisters operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer, and sanitation operation, which are considered to be major funds.

The basic proprietary fund financial statements can be found on pages 23 - 26 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27 - 54 of this report.

CITY OF CRYSTAL RIVER, FLORIDA

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2016

Other information. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements.

Combining and individual fund statements can be found on pages 58-59 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Crystal River, Florida, assets exceeded liabilities by \$47,316,014 at the close of the most recent fiscal year.

By far the largest portion of the City's net position, 80%, reflects its net investment in capital assets (e.g., land, buildings, machinery and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

| | City of Crystal River, Florida's Net Position | | | | | |
|---|--|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | Governmental Activities | | Business-type Activities | | Totals | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Current and other assets | \$ 6,992,615 | \$ 7,919,199 | \$ 4,871,705 | \$ 4,653,553 | \$ 11,864,320 | \$ 12,572,752 |
| Capital assets | 13,524,376 | 11,308,740 | 30,293,716 | 30,244,555 | 43,818,092 | 41,553,295 |
| Total assets | <u>20,516,991</u> | <u>19,227,939</u> | <u>35,165,421</u> | <u>34,898,108</u> | <u>55,682,412</u> | <u>54,126,047</u> |
| Total deferred outflows of resources | <u>800,584</u> | <u>595,777</u> | <u>152,002</u> | <u>77,324</u> | <u>952,586</u> | <u>673,101</u> |
| Other liabilities | 683,561 | 435,577 | 678,108 | 495,146 | 1,361,669 | 930,723 |
| Long-term liabilities | 2,242,195 | 1,005,885 | 5,696,085 | 5,980,477 | 7,938,280 | 6,986,362 |
| Total liabilities | <u>2,925,756</u> | <u>1,441,462</u> | <u>6,374,193</u> | <u>6,475,623</u> | <u>9,299,949</u> | <u>7,917,085</u> |
| Total deferred inflows of resources | <u>17,258</u> | <u>330,594</u> | <u>1,777</u> | <u>-</u> | <u>19,035</u> | <u>330,594</u> |
| Net position: | | | | | | |
| Net investment in capital assets | 12,924,376 | 11,308,740 | 24,745,126 | 24,264,078 | 37,669,502 | 35,572,818 |
| Restricted | 2,384,634 | 3,346,039 | 65,734 | 60,256 | 2,450,368 | 3,406,295 |
| Unrestricted | 3,065,551 | 3,396,881 | 4,130,593 | 4,175,475 | 7,196,144 | 7,572,356 |
| Total net position | <u>\$ 18,374,561</u> | <u>\$ 18,051,660</u> | <u>\$ 28,941,453</u> | <u>\$ 28,499,809</u> | <u>\$ 47,316,014</u> | <u>\$ 46,551,469</u> |

An additional portion of the City's net position (5%) represents resources that are subject to external restrictions on how they may be used. The remaining \$7,196,144 balance of *unrestricted net position* may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

CITY OF CRYSTAL RIVER, FLORIDA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

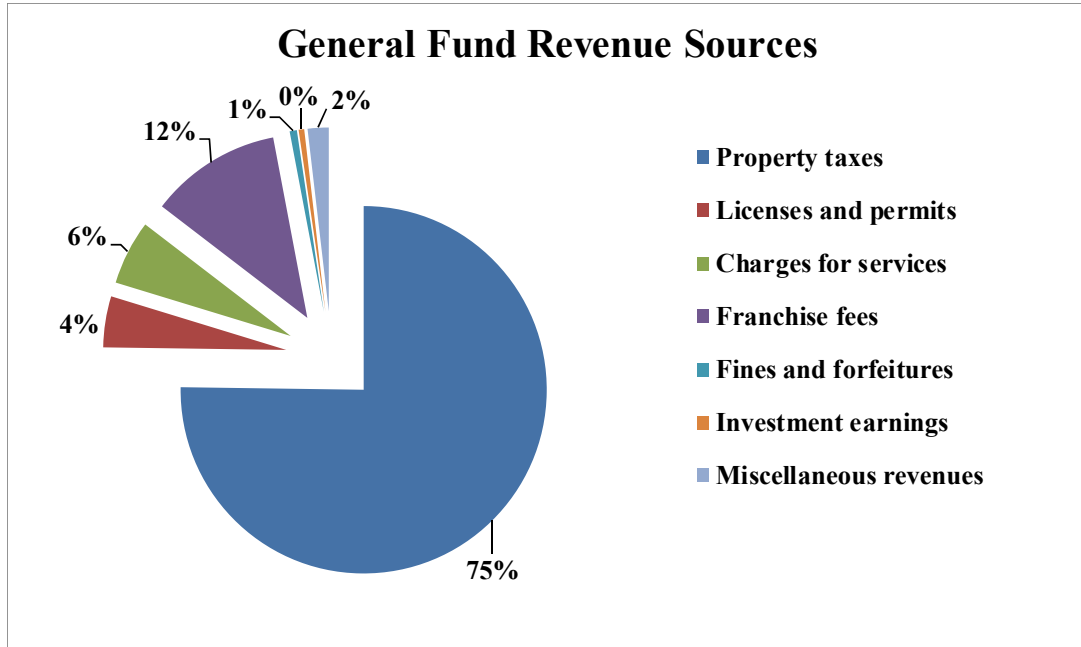
Governmental activities. Governmental activities increased the City's net position by \$322,901.

City of Crystal River, Florida's Changes in Net Position

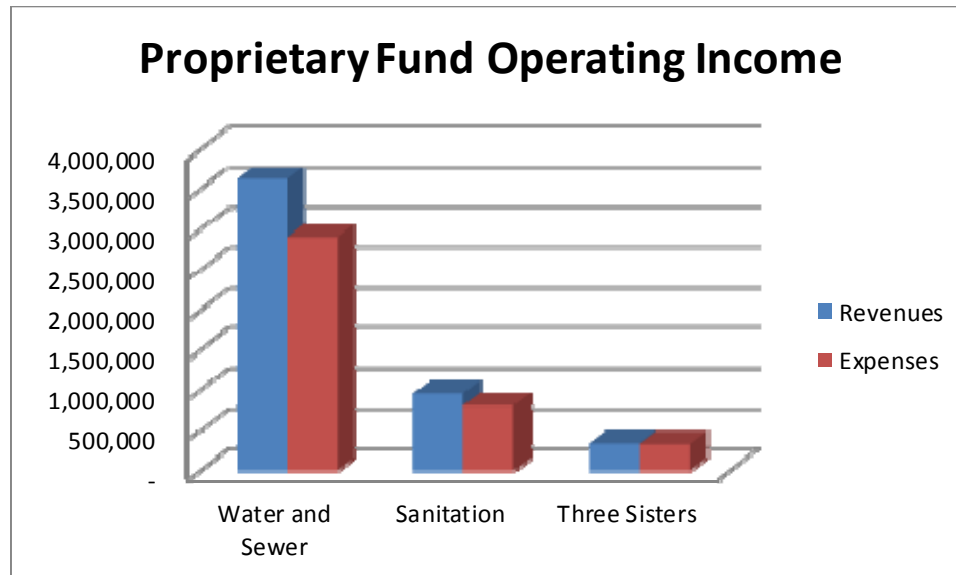
| | Governmental Activities | | Business-type Activities | | Totals | |
|---|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 407,123 | \$ 281,972 | \$ 4,912,471 | \$ 4,537,734 | \$ 5,319,594 | \$ 4,819,706 |
| Capital grants and contributions | 442,119 | - | - | 1,404,708 | 442,119 | 1,404,708 |
| General revenues: | | | | | | |
| Property taxes | 3,317,496 | 3,321,138 | - | - | 3,317,496 | 3,321,138 |
| Other taxes | 690,935 | 853,589 | - | - | 690,935 | 853,589 |
| Other | 94,839 | 101,235 | 35,702 | 40,426 | 130,541 | 141,661 |
| Total revenues | <u>4,952,512</u> | <u>4,557,934</u> | <u>4,948,173</u> | <u>5,982,868</u> | <u>9,900,685</u> | <u>10,540,802</u> |
| Operating Expenses: | | | | | | |
| General government | 1,911,661 | 1,617,027 | - | - | 1,911,661 | 1,617,027 |
| Public safety | 1,252,203 | 1,423,638 | - | - | 1,252,203 | 1,423,638 |
| Highways and streets | 1,460,684 | 1,269,070 | - | - | 1,460,684 | 1,269,070 |
| Culture and recreation | 52,434 | 181,706 | - | - | 52,434 | 181,706 |
| Economic development | 253,544 | 310,734 | - | - | 253,544 | 310,734 |
| Interest | 15,900 | - | - | - | 15,900 | - |
| Water and Sewer | - | - | 3,053,703 | 2,980,489 | 3,053,703 | 2,980,489 |
| Sanitation | - | - | 812,157 | 814,500 | 812,157 | 814,500 |
| Three Sisters | - | - | 323,854 | - | 323,854 | - |
| Total operating expenses | <u>4,946,426</u> | <u>4,802,175</u> | <u>4,189,714</u> | <u>3,794,989</u> | <u>9,136,140</u> | <u>8,597,164</u> |
| Increase in net position before transfers | 6,086 | (244,241) | 758,459 | 2,187,879 | 764,545 | 1,943,638 |
| Transfers | 316,815 | 183,106 | (316,815) | (183,106) | - | - |
| Change in net position | 322,901 | (61,135) | 441,644 | 2,004,773 | 764,545 | 1,943,638 |
| Net position, beginning | <u>18,051,660</u> | <u>18,112,795</u> | <u>28,499,809</u> | <u>26,495,036</u> | <u>46,551,469</u> | <u>44,607,831</u> |
| Net position, ending | <u>\$ 18,374,561</u> | <u>\$ 18,051,660</u> | <u>\$ 28,941,453</u> | <u>\$ 28,499,809</u> | <u>\$ 47,316,014</u> | <u>\$ 46,551,469</u> |

CITY OF CRYSTAL RIVER, FLORIDA

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016



Business-type activities. Business-type activities increased the City of Crystal River, Florida's net position by \$441,644.



CITY OF CRYSTAL RIVER, FLORIDA

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2016

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Crystal River, Florida's governmental funds reported combined ending fund balances of \$6,309,054 a decrease of \$1,174,568 in comparison with the prior year. Of the total, \$2,708,313 or 43% constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *nonspendable, restricted or committed* to indicate that it is not available for new spending because it has already been set aside for other purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,708,313, while total fund balance was \$3,969,823. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 70% of total general fund expenditures, while total fund balance represents 102% of that same amount.

The fund balance of the City's general fund decreased by \$214,869 during the current fiscal year. This was primarily due to the unexpected expenditures from Hurricane Hermine. This storm brought extensive flooding which caused some business closures and some forced business relocations. Thirty-one residences were severely damaged, and many were abandoned. The storm destroyed carpeting, furniture and incidentals. These items were piled up on the edges of the road in the lowest lying areas of the City, causing a potential health hazard. Council approved management to transfer up to \$1,000,000 from emergency reserves to hire contractors and professional services related to clean-up and recovery from the storm. City staff began immediate cleanup efforts and completed the task before many unincorporated areas had begun. Additionally, staff developed a process to expedite the insurance of building permits so homeowners could begin repairs promptly. As of the close of fiscal year 2016, staff had only spent \$142,873 of which it is expected to receive up to approximately 75% back from FEMA; additional expenditures will occur in fiscal year 2017, as well as new building permits will be issued in an effort to rebuild/repair the City of Crystal River community.

Revenue receipts came in 10.5% less than budgeted; however, expenditures were 43.0% less than originally budgeted as an offset – 32.5% more than the reduction in revenue. While several revenues came in higher than projected, several grant funding programs projected were not received within the fiscal year 2016 creating the revenue shortfall of \$394,917 reflected in the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund. The net result of these variances did lower the City's General Fund fund balance at the close of the year.

CITY OF CRYSTAL RIVER, FLORIDA

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2016

The City developed a new department, Waterfront and Community Services that addresses code enforcement, park enforcement and water enforcement matters. While code enforcement is not a new service of the City, park and water enforcement are. Management desired to better enhance and strengthen the oversight of the Crystal River parks, waterways and residential and business community. Management and the community have observed a positive effect on illegal and dangerous situations within our parks and on our waterways. Overall, the general fund revenues collected were in line with expectations and operating expenditures were not as high as projected.

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

The Water and Sewer fund shows revenues greater than expenses for the year. Revenues for this fund primarily are derived from water and sewer utility billings – 87.5% of total revenues. The City also receives funds monthly from Duke Energy for reclaimed water; the City pumps reclaimed water to the Duke Energy Crystal River Power Plant for electricity. The effluent water is used in lieu of operation of two coal plants CR4 and CR5. The City received a total of \$31,801 from Duke Energy during fiscal year 2016. The overall net position for the water and sewer operating and construction funds continues to grow as the City continues to build up the renewal and replacement account. Staff is currently completing a \$1 million parallel sanitary sewer force main to the City's wastewater treatment plant as well as preparing to add another extension of the sewer line system at an estimated cost of \$1.6 million.

City of Crystal River staff solicited bids for Utility Operations Management during the summer of fiscal year 2016; it had been approximately eight years since the City solicited bids and the same company has held this position with the City for approximately 26 years. Interviews were held with all three firms whom submitted proposals and staff prepared ranking sheets to evaluate each firm accordingly. Per the SOQ/PP, factors considered were the Firm's profile, experience, operating plan, personnel provided, operations and maintenance (O & M) plan, and the yearly fee for the services. Following a very extensive and detailed review, one company, U.S. Water Services Corp stood out above all three. Council approved a five year contract with U.S. Water Service Corporation in August, 2016; they took over the City's Utility Operations Management effective December 1, 2016 (fiscal year 2017).

The City created a new enterprise fund in fiscal year 2016, to record the Three Sister Springs operations, which are reported in the Three Sisters Fund. The Crystal River National Wildlife Refuge was jointly purchased in 2010 by City of Crystal River, U.S. Fish and Wildlife Service and Florida Community Trust. Three Sisters Springs established in 1983 covers more than 200 acres and provides a critical habitat for the Florida Manatee, a subspecies of the West Indian Manatee, populations that migrate here each winter. This Refuge has never in the history of the spring been opened to the public except for a few special events. U.S. Fish and Wildlife Service opened the Refuge utilizing a vendor during fiscal year 2015, however this effort was unsuccessful. The City, at the request of the community, successfully opened Three Sister Springs for business in fiscal year 2016 to promote a high, quality experience. Management desired to provide the community and tourists the opportunity

CITY OF CRYSTAL RIVER, FLORIDA

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2016

to share an experience with the manatee and enjoy one of the most beautiful and memorable sites of the City of Crystal River.

Capital Improvements Fund Budgetary Highlights

During the year there was an increase between the original budget and the final amended budget due to a few projects that began in prior years and were not completed; as a result, the remaining budget was rolled forward to fiscal year 2016. Such projects included the City's Welcome signage, several stormwater projects, waterline replacement and lift station projects as well as the Hunter Springs Park renovation that has been postponed for several years.

Capital Asset and Debt Administration

Capital assets. The City of Crystal River's investment in capital assets for its governmental and business type activities as of September 30, 2016, amounts to \$43,818,092 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, park facilities and roads. The total increase in the City's investment in capital assets for the current fiscal year was 5% (a 19.6% increase for governmental activities and a .2% increase for business-type activities). Major capital asset events during the current fiscal year included the following:

- The City added \$2,831,020 of Construction in Progress for the governmental and business type funds, primarily due to the design of the Hunter Springs Park renovation and the Riverwalk project, as well as the force main Third to Plant improvement along with several waterline replacement projects and lift station replacement projects.
- The City commenced on the redevelopment of the Hunter Springs Park in February 2016, as well as acquired an adjoining property for overflow parking on April 21, 2016, for expansion of the Park. The redevelopment process has been in the design process since 2012 and finally began improvements to the land and shoreline in 2016. The City hired a consultant to prepare a master plan for the complete reconstruction of Hunter Springs Park. The master plan included demolishing, re-locating and replacing the bathrooms, picnic pavilion, parking lot, pedestrian walkways, beach and kayak launch. In addition, there was a new living shoreline along the perimeter of the park that was funded through a SWFWMD grant of \$500,000. The schedule for this project was very tight and work along the shoreline was limited to outside of the manatee season (March 15 – November 15); to assist in expediting the construct, staff recommended the park be closed for up to six months. Hunter Springs Park is one of the two waterfront parks located adjacent to the downtown area and continues to be a popular destination throughout the surrounding area for swimmers and kayakers. As ecotourism has grown, along with elevated Manatee awareness, Crystal River has become a popular destination. Because of the location of Hunter Springs Park and its accessibility this use will continue to be an important asset to the community. Hurricane Hermine delayed the grand opening of the park until October 1, 2016.

CITY OF CRYSTAL RIVER, FLORIDA

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2016

- The City acquired several parcels during fiscal year 2016, which included the old Chamber building at the cost of \$144,278, the Health Department building at the cost of \$125,179 and the expansion property for Hunter Springs Park improvements at the cost of \$325,000.
 - The *old Citrus County Chamber Building* located at 28 NW Highway 19 situated across from the City Hall was purchased with several potential enhancements for the betterment of the City. Staff believed that providing direct access off of Highway 19 into the public parking area being developed to support both the South Citrus district and the waterfront district would ultimately be very advantageous in terms of visibility and convenience.
 - The *old Citrus County Health Department* building located directly behind the City Hall building was discovered to have some history. There was a fairly unusual property arrangement that developed over a period of time. The original construction of City Hall in 1969 was a shared building with the County. City donated the property and paid for 30% of construction costs and 70% was paid by Citrus County. It appears the Health Department is a separate structure built sometime later; which also backs up to what is now the Citrus County Sheriff's Department facility. The City originally owned the land the Health Department is built on; however, there appears to be no parking or access easement to the property surrounding the Health Department. In April, 1993, after the No Name Storm an Inter-local Agreement was made to allow Citrus County to relocate their office. The City desired to purchase the building and compensated Citrus County \$118,000 for title of the facility. September 1993, an Addendum to the Inter-local Agreement was made to convey lands that Crystal River Health Department sits on. It was determined the Health Department was transferred in error. City of Crystal River had the right to purchase the building from the County if the Health Department ceases to use it any longer. This is a strategic piece of property that allows for future redevelopment of the site. City Hall is slated in time to be replaced because it is a critical governmental building that is constructed below the flood plain and is currently on the County's list with FEMA for funding its replacement. The Health Department is located near the center of the site and affects the value of the site and limits redevelopment if it remains owned by another party. Management determined the feasibility and importance to make this purchase this year.
 - The *Hunter Springs Park expansion property* was purchased for the operations of the park and it was highly believed the purchase of said property would help to secure a community benefit that can be enjoyed for generations to come. A portion of the Hunter Springs Park land acquisition was to be reimbursed through a grant; however, those funds were not received at the close of fiscal year 2016.

CITY OF CRYSTAL RIVER, FLORIDA

MANAGEMENT’S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2016

- The City of Crystal River began the design of the long-awaited Riverwalk project. After nearly thirty years of talking, imagining, and speculating, the \$5 million project finally took on to the design phase this year. The landward portion of the project should be completed in the fall of fiscal year 2017 with construction of the waterside part of the project being slated to begin in the Spring of fiscal year 2018. When complete, the Riverwalk will provide infill to our empty downtown buildings, and create a direct link to the revitalized downtown. It will attract new businesses, entrepreneurs, residents and tourists, nationally and internationally, and will be a magnet for visitors who have already enjoyed the manatee experience and are looking for other things to do in Crystal River. It will be a place for a relaxing stroll, to pause for a meal, a place to view nature. For some couples it will be a place to be married. Lined with restaurants, bars, shops, nature and public art, it will be tourist magnet in its own right. All of this has the potential for making the Riverwalk an economic engine for Crystal River.

- The Crystal River Community Redevelopment Association authorized the issuance of a \$3,500,000 loan to finance certain improvements within the CRA area, including design and construction of the Riverwalk projects and substantial redesign and redevelopment of Hunter Springs Park. Staff originally explored options for a \$5 million loan; however the City was informed of some additional funding available for said projects that assisted in reducing the loan needs. The City obtained a loan covering a three year draw period, interest only at Prime less 2.28%, plus a 12 year term loan with a fixed rate of Prime less 1.30%. This note was designated as a “qualified tax-exempt obligation” pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986 as amended.

City of Crystal River, Florida’s Capital Assets (net of depreciation)

| | Governmental Activities | | Business-type Activities | | Totals | |
|----------------------------|-------------------------|---------------|--------------------------|---------------|---------------|---------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Land | \$ 2,692,724 | \$ 2,364,370 | \$ 616,898 | \$ 616,898 | \$ 3,309,622 | \$ 2,981,268 |
| Construction in progress | 2,040,885 | 327,766 | 917,087 | 2,685,962 | 2,957,972 | 3,013,728 |
| Buildings and improvements | 2,839,563 | 2,466,986 | 11,297,779 | 10,922,584 | 14,137,342 | 13,389,570 |
| Equipment and vehicles | 862,325 | 765,061 | 1,814,661 | 1,824,913 | 2,676,986 | 2,589,974 |
| Infrastructure | 5,088,879 | 5,384,557 | 15,647,291 | 14,194,198 | 20,736,170 | 19,578,755 |
| Total capital assets | \$ 13,524,376 | \$ 11,308,740 | \$ 30,293,716 | \$ 30,244,555 | \$ 43,818,092 | \$ 41,553,295 |

Additional information on the City of Crystal River, Florida’s capital assets can be found in Note 5 on pages 39-40 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$4,017,000 and notes payable of \$2,131,590. The bonds payable represent bonds secured solely by specified revenue sources (i.e., revenue bonds). The City also had state revolving loan debt outstanding of \$1,531,590 for the sewer expansion project and had drawn down \$600,000 on the CRA note payable. Additional information can be found in Note 6 on pages 40-42.

CITY OF CRYSTAL RIVER, FLORIDA

**MANAGEMENT’S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

City of Crystal River, Florida’s Long-term Liabilities Outstanding

| | Governmental Activities | | Business-type Activities | | Totals | |
|-----------------------|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Net OPEB obligation | \$ 116,000 | \$ 102,000 | \$ - | \$ - | \$ 116,000 | \$ 102,000 |
| Compensated absences | 93,351 | 72,228 | - | - | 93,351 | 72,228 |
| Net pension liability | 1,432,844 | 831,657 | 147,495 | - | 1,580,339 | 831,657 |
| Bonds payable | - | - | 4,017,000 | 4,389,000 | 4,017,000 | 4,389,000 |
| Notes payable | 600,000 | - | 1,531,590 | 1,591,477 | 2,131,590 | 1,591,477 |
| Total debt | <u>\$ 2,242,195</u> | <u>\$ 1,005,885</u> | <u>\$ 5,696,085</u> | <u>\$ 5,980,477</u> | <u>\$ 7,938,280</u> | <u>\$ 6,986,362</u> |

Economic Factors

- ➔ Rate increases for water usage and sewer usage were implemented in fiscal year 2013 and have increased 3% each year through the current year based on a rate study completed in fiscal year 2012.
- ➔ Ad Valorem tax reduction continues to impact the City’s general fund revenues.
- ➔ Health care insurance premiums increased approximately 10%; the additional cost was part of the benefit package for employees, The FRS pension requirements for the City increased slightly as well for fiscal year 2016.
- ➔ Interest rates have fallen significantly on money placed on deposit with SBA and local bank accounts. The City maintains \$1,081,081 in short-term CD’s in order to earn a slightly higher rate of interest on funds.
- ➔ Many residents and businesses continue to feel financial impacts from Hurricane Hermine which hit Florida on September 2, 2016.

Requests for Information

This financial report is designed to provide a general overview of the City of Crystal River, Florida’s finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mr. Dave Burnell, City Manager, 123 NW Highway 19, Crystal River, Florida 34428.

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BASIC FINANCIAL STATEMENTS

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CITY OF CRYSTAL RIVER, FLORIDA

**STATEMENT OF NET POSITION
SEPTEMBER 30, 2016**

| | Primary Government | | |
|---|------------------------------------|-------------------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| Assets | | | |
| Cash and cash equivalents | \$ 4,235,644 | \$ 3,633,103 | \$ 7,868,747 |
| Investments | 1,177,835 | 57,347 | 1,235,182 |
| Accounts receivables, net | 210,924 | 819,198 | 1,030,122 |
| Notes receivable | - | 695,363 | 695,363 |
| Due from other governments | 410,600 | 5,761 | 416,361 |
| Internal balances | 879,756 | (879,756) | - |
| Prepaid items | 77,856 | 23,338 | 101,194 |
| Inventory | - | 236,647 | 236,647 |
| Restricted asset, cash and cash equivalents | - | 280,704 | 280,704 |
| Capital assets | | | |
| Non-depreciable | 4,733,609 | 1,533,985 | 6,267,594 |
| Depreciable, net | 8,790,767 | 28,759,731 | 37,550,498 |
| Total assets | <u>20,516,991</u> | <u>35,165,421</u> | <u>55,682,412</u> |
| Deferred Outflows of Resources | | | |
| Deferred outflows - pension | 800,584 | 82,411 | 882,995 |
| Deferred charge on refunding | - | 69,591 | 69,591 |
| Total deferred outflows | <u>800,584</u> | <u>152,002</u> | <u>952,586</u> |
| Liabilities | | | |
| Accounts payable | 632,511 | 367,456 | 999,967 |
| Accrued liabilities | 45,606 | 2,956 | 48,562 |
| Due to other governments | 5,444 | - | 5,444 |
| Accrued interest payable | - | 60,990 | 60,990 |
| Customer deposits payable | - | 246,706 | 246,706 |
| Noncurrent liabilities | | | |
| Due within one year | 84,016 | 451,504 | 535,520 |
| Due in more than one year | 2,158,179 | 5,244,581 | 7,402,760 |
| Total liabilities | <u>2,925,756</u> | <u>6,374,193</u> | <u>9,299,949</u> |
| Deferred Inflows of Resources | | | |
| Deferred inflows - pension | 17,258 | 1,777 | 19,035 |
| Net position | | | |
| Net investment in capital assets | 12,924,376 | 24,745,126 | 37,669,502 |
| Restricted for | | | |
| Capital improvements | 1,555,781 | - | 1,555,781 |
| Community development | 763,637 | - | 763,637 |
| Public safety | 18,107 | - | 18,107 |
| Cemetery | 47,109 | - | 47,109 |
| Debt service | - | 65,734 | 65,734 |
| Unrestricted | 3,065,551 | 4,130,593 | 7,196,144 |
| Total net position | <u>\$ 18,374,561</u> | <u>\$ 28,941,453</u> | <u>\$ 47,316,014</u> |

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

CITY OF CRYSTAL RIVER, FLORIDA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

| Functions/programs | Expenses | Program Revenues | | |
|----------------------------------|---------------------|--------------------------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government: | | | | |
| Governmental activities: | | | | |
| General government | \$ 1,911,661 | \$ 381,898 | \$ - | \$ - |
| Public safety | 1,252,203 | 24,225 | - | - |
| Highways and streets | 1,460,684 | 1,000 | - | 442,119 |
| Culture/recreation | 52,434 | - | - | - |
| Economic development | 253,544 | - | - | - |
| Interest on long-term debt | 15,900 | - | - | - |
| Total governmental activities | <u>4,946,426</u> | <u>407,123</u> | <u>-</u> | <u>442,119</u> |
| Business-type activities: | | | | |
| Water and sewer | 3,053,703 | 3,620,572 | - | - |
| Sanitation | 812,157 | 958,297 | - | - |
| Three Sisters | 323,854 | 333,602 | - | - |
| Total business-type activities | <u>4,189,714</u> | <u>4,912,471</u> | <u>-</u> | <u>-</u> |
| Total primary government | <u>\$ 9,136,140</u> | <u>\$ 5,319,594</u> | <u>\$ -</u> | <u>\$ 442,119</u> |
| | | General revenues | | |
| | | Property taxes | | |
| | | Gas taxes | | |
| | | Sales taxes | | |
| | | Franchise fees | | |
| | | Investment earnings | | |
| | | Miscellaneous | | |
| | | Transfers | | |
| | | Total general revenues and transfers | | |
| | | Change in net position | | |
| | | Net position, beginning of year | | |
| | | Net position, end of year | | |

| Net (Expense) Revenue and Changes in Net Position | | |
|--|-------------------------------------|----------------------|
| Primary Government | | |
| Governmental Activities | Business-type Activities | Total |
| \$ (1,529,763) | \$ - | \$ (1,529,763) |
| (1,227,978) | - | (1,227,978) |
| (1,017,565) | - | (1,017,565) |
| (52,434) | - | (52,434) |
| (253,544) | - | (253,544) |
| (15,900) | - | (15,900) |
| <u>(4,097,184)</u> | <u>-</u> | <u>(4,097,184)</u> |
| - | 566,869 | 566,869 |
| - | 146,140 | 146,140 |
| - | 9,748 | 9,748 |
| - | <u>722,757</u> | <u>722,757</u> |
| <u>(4,097,184)</u> | <u>722,757</u> | <u>(3,374,427)</u> |
| 3,317,496 | - | 3,317,496 |
| 206,957 | - | 206,957 |
| 47,057 | - | 47,057 |
| 436,921 | - | 436,921 |
| 22,791 | 35,702 | 58,493 |
| 72,048 | - | 72,048 |
| 316,815 | <u>(316,815)</u> | <u>-</u> |
| <u>4,420,085</u> | <u>(281,113)</u> | <u>4,138,972</u> |
| 322,901 | 441,644 | 764,545 |
| 18,051,660 | 28,499,809 | 46,551,469 |
| <u>\$ 18,374,561</u> | <u>\$ 28,941,453</u> | <u>\$ 47,316,014</u> |

CITY OF CRYSTAL RIVER, FLORIDA

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016**

| | <u>General Fund</u> | <u>Capital Improvements Fund</u> | <u>Community Redevelopment</u> | <u>Other Governmental Funds</u> | <u>Total Nonmajor Governmental Funds</u> |
|---|-------------------------|--|------------------------------------|---|--|
| Assets | | | | | |
| Cash and cash equivalents | \$ 2,303,301 | \$ 876,717 | \$ 1,031,682 | \$ 23,944 | \$ 4,235,644 |
| Investments | 1,156,357 | 10,095 | 11,383 | - | 1,177,835 |
| Accounts receivable, net | 189,727 | 21,197 | - | - | 210,924 |
| Due from other funds | 466,612 | 413,194 | - | - | 879,806 |
| Due from other governments | - | 410,600 | - | - | 410,600 |
| Prepaid items | 76,150 | - | 1,706 | - | 77,856 |
| Total assets | <u>\$ 4,192,147</u> | <u>\$ 1,731,803</u> | <u>\$ 1,044,771</u> | <u>\$ 23,944</u> | <u>\$ 6,992,665</u> |
| Liabilities and Fund Balances | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 175,563 | \$ 176,022 | \$ 280,805 | \$ 121 | \$ 632,511 |
| Accrued liabilities | 41,317 | - | 4,289 | - | 45,606 |
| Due to other governments | 5,444 | - | - | - | 5,444 |
| Due to other funds | - | - | - | 50 | 50 |
| Total liabilities | <u>222,324</u> | <u>176,022</u> | <u>285,094</u> | <u>171</u> | <u>683,611</u> |
| Fund balances | | | | | |
| Nonspendable | 76,150 | - | 1,706 | - | 77,856 |
| Restricted | | | | | |
| Capital improvements | - | 1,555,781 | - | - | 1,555,781 |
| Community development | - | - | 757,971 | 5,666 | 763,637 |
| Public safety | - | - | - | 18,107 | 18,107 |
| Cemetery | 47,109 | - | - | - | 47,109 |
| Committed | | | | | |
| Capital improvements | 638,251 | - | - | - | 638,251 |
| Emergency reserves | 500,000 | - | - | - | 500,000 |
| Unassigned | 2,708,313 | - | - | - | 2,708,313 |
| Total fund balances | <u>3,969,823</u> | <u>1,555,781</u> | <u>759,677</u> | <u>23,773</u> | <u>6,309,054</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 4,192,147</u> | <u>\$ 1,731,803</u> | <u>\$ 1,044,771</u> | <u>\$ 23,944</u> | |
| Amounts reported for governmental activities in the statement of net position are different because: | | | | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | | | | |
| Governmental capital assets | | | | 19,704,871 | |
| Accumulated depreciation | | | | <u>(6,180,495)</u> | 13,524,376 |
| Deferred outflows, deferred inflows, and the net pension liability related to the City's pension plan are not expected to be liquidated with expendable available financial resources and, therefore are not reported in the funds. | | | | | |
| Deferred outflows - pension | | | | 800,584 | |
| Deferred inflows - pension | | | | (17,258) | |
| Net pension liability | | | | <u>(1,432,844)</u> | (649,518) |
| Certain liabilities are not due and payable in the current period and are therefore not reported in the funds. | | | | | |
| Compensated absences | | | | (93,351) | |
| OPEB payable | | | | (116,000) | |
| Note payable | | | | <u>(600,000)</u> | (809,351) |
| Net position of governmental activities | | | | | <u>\$ 18,374,561</u> |

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

CITY OF CRYSTAL RIVER, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | <u>General Fund</u> | <u>Capital Improvements Fund</u> | <u>Community Redevelopment</u> | <u>Other Governmental Funds</u> | <u>Total Nonmajor Governmental Funds</u> |
|--|-------------------------|--|------------------------------------|---|--|
| Revenues | | | | | |
| Property taxes | \$ 2,828,947 | \$ - | \$ 488,549 | \$ - | \$ 3,317,496 |
| Other taxes | - | 206,957 | - | - | 206,957 |
| Licenses and permits | 168,562 | - | - | - | 168,562 |
| Intergovernmental revenues | - | 489,176 | - | - | 489,176 |
| Charges for services | 213,336 | - | - | - | 213,336 |
| Franchise fees | 436,921 | - | - | - | 436,921 |
| Fines and forfeitures | 24,225 | - | - | - | 24,225 |
| Impact fees | - | - | - | 1,000 | 1,000 |
| Investment earnings | 18,886 | 55 | 3,830 | 20 | 22,791 |
| Miscellaneous revenues | 69,648 | - | 2,000 | 400 | 72,048 |
| Total revenues | <u>3,760,525</u> | <u>696,188</u> | <u>494,379</u> | <u>1,420</u> | <u>4,952,512</u> |
| Expenditures | | | | | |
| Current | | | | | |
| General government | 1,218,441 | - | 1,336,850 | - | 2,555,291 |
| Public safety | 1,199,909 | 83,432 | - | - | 1,283,341 |
| Highways and streets | 985,735 | - | - | - | 985,735 |
| Economic development | 191,207 | - | - | - | 191,207 |
| Culture/recreation | 293,738 | - | - | - | 293,738 |
| Debt service | | | | | |
| Interest | - | - | 900 | - | 900 |
| Issuance costs | - | - | 15,000 | - | 15,000 |
| Capital outlay | - | 1,718,683 | - | - | 1,718,683 |
| Total expenditures | <u>3,889,030</u> | <u>1,802,115</u> | <u>1,352,750</u> | <u>-</u> | <u>7,043,895</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(128,505)</u> | <u>(1,105,927)</u> | <u>(858,371)</u> | <u>1,420</u> | <u>(2,091,383)</u> |
| Other financing sources (uses) | | | | | |
| Proceeds from the issuance of debt | - | - | 600,000 | - | 600,000 |
| Transfers in | 343,136 | 429,500 | - | - | 772,636 |
| Transfers out | (429,500) | - | (16,884) | (9,437) | (455,821) |
| Total other financing sources (uses) | <u>(86,364)</u> | <u>429,500</u> | <u>583,116</u> | <u>(9,437)</u> | <u>916,815</u> |
| Change in fund balances | (214,869) | (676,427) | (275,255) | (8,017) | (1,174,568) |
| Fund balances, beginning of year | 4,184,692 | 2,232,208 | 1,034,932 | 31,790 | 7,483,622 |
| Fund balances, end of year | <u>\$ 3,969,823</u> | <u>\$ 1,555,781</u> | <u>\$ 759,677</u> | <u>\$ 23,773</u> | <u>\$ 6,309,054</u> |

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

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

Net Change in Fund Balances – Total Governmental Funds \$ (1,174,568)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is depreciated over their estimated useful lives.

| | | |
|--------------------------------|------------------|-----------|
| Capital outlay | \$ 2,866,186 | |
| Less current year depreciation | <u>(639,218)</u> | 2,226,968 |

The net effect of various miscellaneous transactions involving capital assets (i.e. sales) is to decrease net position. (11,332)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position.

| | | |
|---------------|--|-----------|
| Debt proceeds | | (600,000) |
|---------------|--|-----------|

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.

| | | |
|--------------------------------|-----------------|------------------|
| Change in compensated absences | (21,123) | |
| Change in OPEB payable | (14,000) | |
| Pension expense | <u>(83,044)</u> | <u>(118,167)</u> |

Change in net position of governmental activities \$ 322,901

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

CITY OF CRYSTAL RIVER, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|---------------------|---------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Property taxes | \$ 2,866,442 | \$ 2,866,442 | \$ 2,828,947 | \$ (37,495) |
| Licenses and permits | 151,899 | 151,899 | 168,562 | 16,663 |
| Intergovernmental revenues | 53,450 | 453,450 | - | (453,450) |
| Charges for services | 110,274 | 137,283 | 213,336 | 76,053 |
| Franchise fees | 457,500 | 457,500 | 436,921 | (20,579) |
| Fines and forfeitures | 16,950 | 16,950 | 24,225 | 7,275 |
| Investment earnings | 18,102 | 18,102 | 18,886 | 784 |
| Miscellaneous revenues | 19,550 | 53,816 | 69,648 | 15,832 |
| Total revenues | <u>3,694,167</u> | <u>4,155,442</u> | <u>3,760,525</u> | <u>(394,917)</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 1,279,150 | 1,498,517 | 1,218,441 | 280,076 |
| Public safety | 1,252,078 | 1,252,636 | 1,199,909 | 52,727 |
| Highways and streets | 995,431 | 1,988,375 | 985,735 | 1,002,640 |
| Economic development | 213,659 | 230,671 | 191,207 | 39,464 |
| Culture/recreation | 162,537 | 592,848 | 293,738 | 299,110 |
| Total expenditures | <u>3,902,855</u> | <u>5,563,047</u> | <u>3,889,030</u> | <u>1,674,017</u> |
| Deficiency of revenues over expenditures | <u>(208,688)</u> | <u>(1,407,605)</u> | <u>(128,505)</u> | <u>1,279,100</u> |
| Other financing sources (uses) | | | | |
| Transfers in | 823,990 | 1,488,491 | 343,136 | (1,145,355) |
| Transfers out | (568,500) | (1,233,001) | (429,500) | 803,501 |
| Total other financing sources (uses) | <u>255,490</u> | <u>255,490</u> | <u>(86,364)</u> | <u>(341,854)</u> |
| Change in fund balance | 46,802 | (1,152,115) | (214,869) | 937,246 |
| Fund balance, beginning of year | <u>4,184,692</u> | <u>4,184,692</u> | <u>4,184,692</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 4,231,494</u> | <u>\$ 3,032,577</u> | <u>\$ 3,969,823</u> | <u>\$ 937,246</u> |

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

**CITY OF CRYSTAL RIVER, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
COMMUNITY REDEVELOPMENT
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|--------------------|-------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Property taxes | \$ 505,540 | \$ 505,540 | \$ 488,549 | \$ (16,991) |
| Intergovernmental revenues | 517,000 | 567,000 | - | (567,000) |
| Investment earnings | 1,500 | 1,500 | 3,830 | 2,330 |
| Miscellaneous revenues | 64 | 64 | 2,000 | 1,936 |
| Total revenues | <u>1,024,104</u> | <u>1,074,104</u> | <u>494,379</u> | <u>(579,725)</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 2,733,732 | 3,769,114 | 1,336,850 | 2,432,264 |
| Debt service | | | | |
| Interest | - | - | 900 | (900) |
| Issuance costs | 100,000 | 100,000 | 15,000 | 85,000 |
| Total expenditures | <u>2,833,732</u> | <u>3,869,114</u> | <u>1,352,750</u> | <u>2,516,364</u> |
| Deficiency of revenues over expenditures | <u>(1,809,628)</u> | <u>(2,795,010)</u> | <u>(858,371)</u> | <u>1,936,639</u> |
| Other financing sources (uses) | | | | |
| Debt proceeds | 1,826,512 | 1,776,512 | 600,000 | (1,176,512) |
| Transfers out | (16,884) | (16,884) | (16,884) | - |
| Total other financing sources (uses) | <u>1,809,628</u> | <u>1,759,628</u> | <u>583,116</u> | <u>(1,176,512)</u> |
| Change in fund balance | - | (1,035,382) | (275,255) | 760,127 |
| Fund balance, beginning of year | <u>1,034,932</u> | <u>1,034,932</u> | <u>1,034,932</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 1,034,932</u> | <u>\$ (450)</u> | <u>\$ 759,677</u> | <u>\$ 760,127</u> |

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

CITY OF CRYSTAL RIVER, FLORIDA

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2016**

| | Major Funds | | Nonmajor Fund | Total |
|---|----------------------|-------------------|------------------|----------------------|
| | Water and Sewer | Sanitation | Three Sisters | |
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 3,348,500 | \$ 113,639 | \$ 170,964 | \$ 3,633,103 |
| Investments | 56,775 | 572 | - | 57,347 |
| Restricted cash and cash equivalents | 280,704 | - | - | 280,704 |
| Accounts receivable, net | 677,448 | 141,750 | - | 819,198 |
| Notes receivable, current | 87,740 | - | - | 87,740 |
| Due from other governments | 5,761 | - | - | 5,761 |
| Due from other funds | - | 41,912 | - | 41,912 |
| Prepays | 23,327 | - | 11 | 23,338 |
| Inventory | 236,647 | - | - | 236,647 |
| Total current assets | <u>4,716,902</u> | <u>297,873</u> | <u>170,975</u> | <u>5,185,750</u> |
| Noncurrent assets | | | | |
| Notes receivable, long-term | 607,623 | - | - | 607,623 |
| Capital assets, non-depreciable | 1,533,985 | - | - | 1,533,985 |
| Capital assets, net | 28,759,731 | - | - | 28,759,731 |
| Total noncurrent assets | <u>30,901,339</u> | <u>-</u> | <u>-</u> | <u>30,901,339</u> |
| Total assets | <u>35,618,241</u> | <u>297,873</u> | <u>170,975</u> | <u>36,087,089</u> |
| Deferred Outflows of Resources | | | | |
| Deferred outflows - pension | 28,311 | - | 54,100 | 82,411 |
| Deferred charge on refunding | 69,591 | - | - | 69,591 |
| Total deferred outflows of resources | <u>97,902</u> | <u>-</u> | <u>54,100</u> | <u>152,002</u> |
| Liabilities | | | | |
| Current liabilities | | | | |
| Accounts payable | 229,251 | 135,132 | 3,073 | 367,456 |
| Notes payable | 70,504 | - | - | 70,504 |
| Bonds payable | 381,000 | - | - | 381,000 |
| Accrued liabilities | 1,439 | - | 1,517 | 2,956 |
| Due to other funds | 911,447 | - | 10,221 | 921,668 |
| Liabilities payable from restricted assets | | | | |
| Accrued interest | 60,990 | - | - | 60,990 |
| Customer deposits payable | 153,980 | - | 92,726 | 246,706 |
| Total current liabilities | <u>1,808,611</u> | <u>135,132</u> | <u>107,537</u> | <u>2,051,280</u> |
| Noncurrent liabilities | | | | |
| Notes payable, net of current portion | 1,461,086 | - | - | 1,461,086 |
| Bonds payable, net of current portion | 3,636,000 | - | - | 3,636,000 |
| Net pension liability | 50,669 | - | 96,826 | 147,495 |
| Total non-current liabilities | <u>5,147,755</u> | <u>-</u> | <u>96,826</u> | <u>5,244,581</u> |
| Total liabilities | <u>6,956,366</u> | <u>135,132</u> | <u>204,363</u> | <u>7,295,861</u> |
| Deferred Inflows of Resources | | | | |
| Deferred inflows - pension | 610 | - | 1,167 | 1,777 |
| Net position | | | | |
| Net investment in capital assets | 24,745,126 | - | - | 24,745,126 |
| Restricted for | | | | |
| Debt service | 65,734 | - | - | 65,734 |
| Unrestricted | 3,948,307 | 162,741 | 19,545 | 4,130,593 |
| Total net position | <u>\$ 28,759,167</u> | <u>\$ 162,741</u> | <u>\$ 19,545</u> | <u>\$ 28,941,453</u> |

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

CITY OF CRYSTAL RIVER, FLORIDA

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016**

| | <u>Major Funds</u> | | <u>Nonmajor Fund</u> | <u>Total</u> |
|--|----------------------------|-------------------|--------------------------|----------------------|
| | <u>Water and Sewer</u> | <u>Sanitation</u> | <u>Three Sisters</u> | |
| Operating revenues | | | | |
| Charges for services | \$ 3,240,102 | \$ 925,861 | \$ 293,416 | \$ 4,459,379 |
| Miscellaneous | 380,470 | 32,436 | 40,186 | 453,092 |
| Total operating revenues | <u>3,620,572</u> | <u>958,297</u> | <u>333,602</u> | <u>4,912,471</u> |
| Operating expenses | | | | |
| General and administrative | 1,696,453 | 812,157 | 323,854 | 2,832,464 |
| Depreciation | 1,204,690 | - | - | 1,204,690 |
| Total operating expenses | <u>2,901,143</u> | <u>812,157</u> | <u>323,854</u> | <u>4,037,154</u> |
| Operating income | <u>719,429</u> | <u>146,140</u> | <u>9,748</u> | <u>875,317</u> |
| Nonoperating revenues (expenses) | | | | |
| Investment earnings | 35,020 | 322 | 360 | 35,702 |
| Interest expense | (152,560) | - | - | (152,560) |
| Total nonoperating revenues (expenses) | <u>(117,540)</u> | <u>322</u> | <u>360</u> | <u>(116,858)</u> |
| Income before transfers | 601,889 | 146,462 | 10,108 | 758,459 |
| Transfers in | - | - | 9,437 | 9,437 |
| Transfers out | <u>(160,430)</u> | <u>(165,822)</u> | <u>-</u> | <u>(326,252)</u> |
| Changes in net position | 441,459 | (19,360) | 19,545 | 441,644 |
| Total net position, beginning of year | <u>28,317,708</u> | <u>182,101</u> | <u>-</u> | <u>28,499,809</u> |
| Total net position, end of year | <u>\$ 28,759,167</u> | <u>\$ 162,741</u> | <u>\$ 19,545</u> | <u>\$ 28,941,453</u> |

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

CITY OF CRYSTAL RIVER, FLORIDA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

| | <u>Major Funds</u> | | <u>Nonmajor Fund</u> | <u>Total</u> |
|---|----------------------------|-------------------|--------------------------|---------------------|
| | <u>Water and Sewer</u> | <u>Sanitation</u> | <u>Three Sisters</u> | |
| Cash flows from operating activities | | | | |
| Cash received from customers | \$ 3,697,876 | \$ 951,833 | \$ 426,317 | \$ 5,076,026 |
| Cash paid to suppliers for goods and services | (1,498,498) | (745,935) | (265,150) | (2,509,583) |
| Net cash provided by operating activities | <u>2,199,378</u> | <u>205,898</u> | <u>161,167</u> | <u>2,566,443</u> |
| Cash flows from noncapital financing activities | | | | |
| Transfer to other funds | (160,430) | (165,822) | - | (326,252) |
| Transfer from other funds | - | - | 9,437 | 9,437 |
| Net cash provided by (used by) noncapital financing activities | <u>(160,430)</u> | <u>(165,822)</u> | <u>9,437</u> | <u>(316,815)</u> |
| Cash flows from capital and related financing activities | | | | |
| Acquisition and construction of capital assets | (1,384,891) | - | - | (1,384,891) |
| Principal paid on notes payable | (59,887) | - | - | (59,887) |
| Principal paid on bonds payable | (372,000) | - | - | (372,000) |
| Capital grants received | 207,858 | - | - | 207,858 |
| Interest paid | (149,855) | - | - | (149,855) |
| Net cash used in capital and related financing activities | <u>(1,758,775)</u> | <u>-</u> | <u>-</u> | <u>(1,758,775)</u> |
| Cash flows from investing activities | | | | |
| Cash received on sale of investments | (307) | - | - | (307) |
| Purchase of investments | - | (2) | - | (2) |
| Interest received | 35,020 | 322 | 360 | 35,702 |
| Net cash provided by investing activities | <u>34,713</u> | <u>320</u> | <u>360</u> | <u>35,393</u> |
| Net change in cash and cash equivalents | 314,886 | 40,396 | 170,964 | 526,246 |
| Cash and cash equivalents, beginning of year | <u>3,314,318</u> | <u>73,243</u> | <u>-</u> | <u>3,387,561</u> |
| Cash and cash equivalents, end of year | <u>\$ 3,629,204</u> | <u>\$ 113,639</u> | <u>\$ 170,964</u> | <u>\$ 3,913,807</u> |
| Cash and cash equivalents classified as | | | | |
| Cash and cash equivalents | \$ 3,348,500 | \$ 113,639 | \$ 170,964 | \$ 3,633,103 |
| Restricted cash and cash equivalents | 280,704 | - | - | 280,704 |
| Total cash and cash equivalents | <u>\$ 3,629,204</u> | <u>\$ 113,639</u> | <u>\$ 170,964</u> | <u>\$ 3,913,807</u> |

(Continued)

CITY OF CRYSTAL RIVER, FLORIDA

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016**

| | Major Funds | | Nonmajor Fund | Total |
|--|--------------------|------------|------------------|--------------|
| | Water and Sewer | Sanitation | Three Sisters | |
| Reconciliation of operating income to net cash provided by operating activities | | | | |
| Operating income | \$ 719,429 | \$ 146,140 | \$ 9,748 | \$ 875,317 |
| Adjustment to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation | 1,204,690 | - | - | 1,204,690 |
| Change in operating assets and liabilities: | | | | |
| (Increase) decrease in assets: | | | | |
| Accounts receivable | (48,687) | (6,464) | - | (55,151) |
| Notes receivable | 111,446 | - | - | 111,446 |
| Due from other funds | 9,934 | - | - | 9,934 |
| Prepays | 771 | - | (11) | 760 |
| Deferred outflows - pension | (28,311) | - | (54,100) | (82,411) |
| Inventory | 23,335 | - | - | 23,335 |
| Increase (decrease) in liabilities: | | | | |
| Accounts payable | 139,508 | 66,222 | 3,073 | 208,803 |
| Accrued liabilities | 1,439 | - | 1,517 | 2,956 |
| Due to other funds | - | - | 10,221 | 10,221 |
| Net pension liability | 50,669 | - | 96,826 | 147,495 |
| Deferred inflows - pension | 610 | - | 1,167 | 1,777 |
| Customer deposits | 14,545 | - | 92,726 | 107,271 |
| Net cash provided by operating activities | \$ 2,199,378 | \$ 205,898 | \$ 161,167 | \$ 2,566,443 |

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

CITY OF CRYSTAL RIVER, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements of the City of Crystal River, Florida (the “City”) have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant policies of the City are described below.

The City was incorporated on July 1, 1903, by Senate Bill No. 603 under Article VIII, Section 2 of the Constitution of the State of Florida. The City operates under a Commission-Manager form of government under which a Mayor and a five member Commission is elected to serve as the executive and legislative body for the City. The Commissioners appoint a City Manager whose duties include the administration of directives and policies of the Commissioners and who has the responsibility for the operation of all City provided services as authorized by its charter.

The accompanying financial statements present the City’s primary government and component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships). Blended component units, although legally separate entities, are in substance part of the City’s operations and as a result considered to be financially accountable. The financial transactions of these component units are merged in with similar transactions of the City as part of the primary government.

Blended Component Unit

The financial statements of the City of Crystal River, Florida Community Redevelopment Agency (the CRA) are included in the financial reporting entity as a blended component unit. The CRA was created by City Ordinance No. 88-0-19 as authorized by Part III of Chapter 163 of the Florida State Statutes. The members of the CRA’s board are appointed by the City Council. The CRA is fiscally dependent on the City, and the City Council approves the CRA’s annual budget.

B. Government-Wide and Fund Financial Statements

The basic financial statements consist of the government-wide financial statements and fund financial statements. Both sets of statements distinguish between the governmental and business-type activities of the City.

CITY OF CRYSTAL RIVER, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Government-Wide and Fund Financial Statements – Continued

Each statement distinguishes between activities that are supported primarily by taxes and intergovernmental revenues (*governmental activities*) and activities that are intended to recover all or most of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, highways and streets, economic development and culture and recreation. The business-type activities of the City include the water and sewer system and sanitation.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. The effect of administrative and support services' indirect expense allocations has been eliminated in the government-wide financial statements. Depreciation expense for capital assets that serve all functions is reported as a direct expense of the general government function on the government-wide statement of activities. All interest on long term debt is considered indirect and is reported separately in the government-wide statement of activities.

Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, and other items not properly included among program revenues are reported instead as *general revenues*. For identifying the function to which program revenue pertains, the determining factor for *charges for services* is the function that generates the revenue. For *grants and contributions*, the determining factor is the function to which the revenues are restricted.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Fund structures have been designed to comply with all the requirements of bond resolutions and regulatory provisions or administrative action. The fund financial statements report additional and detailed information about the City's operations for major funds individually and non-major funds in the aggregate for governmental and proprietary funds. A reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentations.

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

The government-wide financial statements, as well as the fund financial statements for proprietary funds and fiduciary funds, are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized in the period in which they are earned and expenses are recognized in the period incurred regardless of the timing of related cash flows. Agency funds, however, have no measurement focus.

CITY OF CRYSTAL RIVER, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Proprietary Funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from producing or providing goods and services such as water, sewer and garbage services. Operating expenses for these operations include all costs related to providing the service or product. These costs include salaries, supplies, travel, contract services, depreciation, administrative expenses or other expense directly related to costs of services. All other revenue and expenses not meeting these definitions are reported as non-operating revenues and expenses.

All governmental fund financial statements are reported using a *current financial resources measurement focus* on a *modified accrual basis of accounting*. Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, considered to be sixty days. However, grant revenues are considered to be available if they are collected within 120 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated sick pay and accumulated vacation pay, which are not recorded as expenditures; (2) prepaid insurance and similar items, which are reported only on the balance sheet and do not affect expenditures; and (3) principal and interest on long-term debt, which are recognized when due.

Licenses and permits, charges for services, and miscellaneous revenues (except investment earnings) are recorded as revenues when received in cash, because they are generally not measurable until actually received. Investment earnings and most fines and forfeitures are recorded as earned since they are measurable and available.

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. All general tax revenues and other receipts that are not required either legally or by generally accepted accounting principles to be accounted for in other funds are accounted for in the General Fund.

The *Capital Improvement Fund* is used to account for a portion of State revenue sharing and local option gas tax revenue, which is restricted for street and drainage expenditures.

The *Community Redevelopment* is used to account for the tax increment development receipts and expenditures thereof.

CITY OF CRYSTAL RIVER, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

The following are reported as major proprietary funds:

The *Water and Sewer Fund* is used to account for the operation of the City's potable water, wastewater services to residents and businesses.

The *Sanitation Fund* is used to account for the operations of the City's sanitation collection services.

The City also reports the following fund type:

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditure for specific purposes.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and other charges between certain City's functions because the elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. Unrestricted resources are used in the following order: committed, assigned and then unassigned.

CITY OF CRYSTAL RIVER, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Deposits and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

State Statutes authorize the City to invest in direct obligations of the U.S. Treasury, Local Government Surplus Trust Fund, SEC registered money market funds with the highest credit quality rating and savings, the State Treasurer's Investment Pool, and certificate of deposit accounts in State-certified public depositories.

Cash in excess of current requirements is invested in the State of Florida's Local Government Investment Pool (Florida Fund B). Florida Fund B, created by Section 218.409(6)(a) of the Florida Statutes, is a stable net asset value investment pool which follows Standard & Poor's criteria for AAAM rated money market funds and is regulated by the Florida State Board of Administration. However, Florida Fund B operates in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940 and is considered to be a 2a-7 like pool. The pool is not registered with the SEC as an investment company. The pool's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal (\$1.00 per share value). Net asset value is calculated weekly to ensure stability. The pool distributes earnings net of management fees on a monthly basis and determines participants' shares sold and redeemed based on \$1.00 per share.

Cash deposits are reported at carrying amount, which reasonably estimates fair value.

E. Receivables

All trade receivables are reported net of an allowance for uncollectibles, which is generally equivalent to the receivables that are over 90 days past due.

F. Inventory and Prepaid Items

Inventories are determined by physical count and valued at cost using first-in first-out (FIFO) method. Inventories, consisting of expendable supplies are recorded as expenditures as they are used (consumption method). Governmental Fund inventories are classified as nonspendable fund balance which indicates that the fund balance is not in spendable form. A prepaid expense/expenditure is recognized when a cash expense/expenditure is made for goods or services that were purchased for consumption, but not consumed as of September 30.

CITY OF CRYSTAL RIVER, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

G. Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” in the fund financial statements. Short-term interfund loans are classified as “interfund receivables/payables.” Long-term interfund loans are classified as advances.

H. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and major improvements are capitalized as projects are constructed. Interest incurred during the construction period of capital assets of the business-type activities is included as part of the capitalized value of the assets constructed. The amount of interest capitalized is calculated by offsetting interest expense incurred (from the date of borrowing until the date of completion of the project) with interest earned on investment proceeds over the same period. During the fiscal year ended September 30, 2016, no interest was capitalized.

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

| | |
|----------------------------|--------------|
| Buildings and improvements | 10-40 years |
| Infrastructure | 10-25 years |
| Equipment and vehicles | 5 - 10 years |

The costs of normal maintenance and repairs that do not add to the value of the asset or materiality extend asset lives are not capitalized.

CITY OF CRYSTAL RIVER, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The *deferred charge on refunding* reported in the proprietary statement of net position as well as the government-wide statement of net position results from the difference in the carrying value of refunded debt and its requisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

The City has deferred inflows and deferred outflows related to the recording of changes in its net pension liability. Certain changes in the net pension liability are recognized as pension expense over time instead of all being recognized in the year of occurrence. Experience gains or losses result from periodic studies by the City's actuary which adjust the net pension liability for actual experience for certain trend information that was previously assumed, for example the assumed dates of retirement of plan members. These experience gains or losses are recorded as deferred outflows of resources or deferred inflows of resources and are amortized into pension expense over the expected remaining service life of plan members. Changes in actuarial assumptions which adjust the net pension liability are also recorded as deferred outflows of resources or deferred inflows of resources and are amortized into pension expense over the expected remaining lives of plan members. The difference between projected investment return on pension investments and actual return on those investments is also deferred and amortized against pension expense over a five year period. The changes in proportion and differences between City contributions and proportionate share of contributions are also deferred and amortized against pension expense over a five year period. Additionally, any contributions made by the City to the pension plan before year end but subsequent to the measurement date of the City's net pension liability are reported as deferred outflows of resources.

J. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses in the year the debt is issued.

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 while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF CRYSTAL RIVER, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

K. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when the employees separate from service with the City. Therefore, all sick pay is expensed when incurred. The City does allow for employees to accumulate earned but unused vacation time with such time being fully vested when earned. For the City's government-wide funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

L. Net Position/Fund Balance Classification

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure into one component of net position. Accumulated depreciation and the outstanding balance of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors or laws and regulations of other governments and restrictions imposed by law through constitutional provisions in enabling legislation.

At year end, governmental activities net position restricted for other purposes was composed of amounts related to purposes as noted in the Statement of Net Position.

Unrestricted Net Position – This category represents net position that does not meet the definition of "net investment in capital assets" or "restricted."

In accordance with GASB Statement No. 54, the City classifies governmental fund balance as follows:

Nonspendable Fund Balance – This represents amounts that cannot be spent due to form (e.g. inventories, prepaid amounts) or legally or contractually required to be maintained intact (such as corpus of an endowment fund).

Restricted Fund Balance – This represents amounts constrained for a specific purpose by external parties, such as creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

CITY OF CRYSTAL RIVER, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

L. Net Position/Fund Balance Classification – Continued

Committed Fund Balance – This represents amounts that can only be used for specific purposes determined by a formal action (ordinance) of the City Council, the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the City removes those constraints by taking the same type of action.

Assigned Fund Balance – Assigned fund balances includes spendable fund balance amounts established by management of the City that are intended to be used for a specific purposes that are neither considered restricted or committed. Intent is expressed by the City Council or a body or official to which the City Council have delegated authority, which is the City Manager, to assign amounts to be used for specific purposes. Appropriations of existing fund balances to eliminate deficits in a future budget and encumbrances are considered assignments of fund balance.

Unassigned Fund Balance – This represents fund balance in the General Fund in excess of nonspendable, restricted, committed and assigned fund balance. If another governmental fund has a fund balance deficit, it is reported as a negative amount in unassigned fund balance.

The desired unassigned General Fund balance shall be not less than two months or 16% of General Fund operating expenditures. The desired combined unrestricted available fund balances should not be less than three months or 25%. The three month minimum is based on the caveat that there is sufficient cash available for borrowing in other funds in case of a natural disaster. Minimum target levels of unassigned fund balance are reviewed annually. If fund balance falls below minimum target levels, the City Manager will so advise the City Council in order for the necessary action to be taken to restore the unassigned fund balance to acceptable levels within two budget cycles.

When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it such as in grant agreements requiring dollar for dollar spending.

When committed, assigned and unassigned funds are available for expenditure, committed funds should be spent first, assigned funds second, and unassigned funds last.

CITY OF CRYSTAL RIVER, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

M. Property Taxes

Property tax revenue is recognized in the year for which taxes are levied provided the availability test is met.

The value of all taxable property is assessed as of January 1. The City Council levies property taxes by approving the millage rate for the following fiscal year in September. Property taxes become due and payable on November 1 of the same year. A 4% discount is allowed if the taxes are paid in November, with the discount declining by 1% each month thereafter. Taxes become delinquent on April 1 of the next year and tax certificates for the full amount of any unpaid taxes and assessments must be sold not later than June 1. Tax certificate proceeds are remitted to the City, thereby assuring that virtually all taxes levied are collected within the same fiscal year, after allowing for discounts and any disputed assessment in litigation. The tax certificate, once sold, represents a lien on the property, which may be redeemed by the property owner by paying the face amount of the certificate plus interest and other costs. Property taxes receivable and a corresponding reserve for uncollectable property taxes are not included in the financial statements, as there are no material delinquent taxes as of September 30, 2016. No accrual for the property tax levy becoming due in November of 2016 is included in the accompanying financial statements, since such taxes are collected to finance expenditures of the subsequent period.

N. 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/expenditures during the reporting period. Actual results could differ from those estimates.

O. Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's FRS plan and additions to/deductions from this plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF CRYSTAL RIVER, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 2 – LEGAL COMPLIANCE – BUDGETS

A. Budgets and Budgetary Data

The annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopts a project-length budget.

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

1. The City Council prepares a proposed operating budget for the year commencing on October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted at the City offices to obtain taxpayer comments.
3. After the public hearing, the City Council formally adopts the budget.
4. Formal budgetary integration is employed as a management control device during the year for all the governmental funds and the enterprise funds. Budgets for the enterprise funds are prepared for planning and control purposes only.
5. Budgets for the governmental funds and the enterprise funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Budget amounts are as originally adopted or as amended by the City Council.

B. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the City.

NOTE 3 – DEPOSITS AND INVESTMENTS

At September 30, 2016, the City had the following investments:

| <u>Investments</u> | <u>Maturities</u> | <u>Rating</u> | <u>Fair Value</u> |
|-------------------------|--------------------------|---------------|---------------------|
| Florida Fund B | 50 days weighted average | AAAm | \$ 151,387 |
| Certificates of deposit | 7 month weighted average | N/A | 1,083,795 |
| | | | <u>\$ 1,235,182</u> |

Interest rate risk. The City does not have a formal investment policy limiting investment maturities as part of managing its exposure to fair value losses arising from increasing interest rates. However, the City has minimal interest rate risk as cash and cash equivalents have maturity dates of less than one year.

CITY OF CRYSTAL RIVER, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 3 – DEPOSITS AND INVESTMENTS – CONTINUED

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

Custodial Credit risk. Custodial credit risk for deposits is the risk that, in the event of a depository financial institution’s failure, the City’s deposits may not be returned. The City does not have a formal custodial credit risk policy. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of September 30, 2016, the City had no uncollateralized deposits as defined by GASB pronouncements.

NOTE 4 – RECEIVABLES

Receivables as of September 30, 2016, including the applicable allowances for uncollectible accounts, are as follows:

| | General Fund | Capital Improvements Fund | Water and Sewer Fund | Sanitation Fund | Total |
|--|-------------------------|--|-------------------------------------|----------------------------|---------------------|
| Receivables | | | | | |
| Accounts | \$ 189,727 | \$ 21,197 | \$ 842,846 | \$ 187,300 | \$ 1,241,070 |
| Notes | - | - | 695,363 | - | 695,363 |
| Due from other governments | - | 410,600 | 5,761 | - | 416,361 |
| Less allowance for uncollectible receivables | - | - | (165,398) | (45,550) | (210,948) |
| | <u>\$ 189,727</u> | <u>\$ 431,797</u> | <u>\$ 1,378,572</u> | <u>\$ 141,750</u> | <u>\$ 2,141,846</u> |

Notes receivable represent amounts due from new water and sewer customers for expansion fees. Principal and interest are due in monthly installments of \$36 on various maturities.

CITY OF CRYSTAL RIVER, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2016, was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Net Transfers</u> | <u>Ending Balance</u> |
|--------------------------------------|--------------------------|---------------------|---------------------|----------------------|-----------------------|
| Primary Government: | | | | | |
| Governmental Activities | | | | | |
| Capital assets not being depreciated | | | | | |
| Land | \$ 2,364,370 | \$ 328,354 | \$ - | \$ - | \$ 2,692,724 |
| Construction in progress | 327,766 | 1,943,690 | | (230,571) | 2,040,885 |
| Total assets not being depreciated | <u>2,692,136</u> | <u>2,272,044</u> | <u>-</u> | <u>(230,571)</u> | <u>4,733,609</u> |
| Capital assets being depreciated | | | | | |
| Buildings and improvements | 4,297,435 | 359,743 | - | 160,994 | 4,818,172 |
| Equipment and vehicles | 2,635,087 | 234,399 | (16,000) | 37,675 | 2,891,161 |
| Infrastructure | 7,230,027 | - | - | 31,902 | 7,261,929 |
| Total assets being depreciated | <u>14,162,549</u> | <u>594,142</u> | <u>(16,000)</u> | <u>230,571</u> | <u>14,971,262</u> |
| Less accumulated depreciation | | | | | |
| Buildings and improvements | (1,830,449) | (148,160) | - | - | (1,978,609) |
| Equipment and vehicles | (1,870,026) | (163,478) | 4,668 | - | (2,028,836) |
| Infrastructure | (1,845,470) | (327,580) | - | - | (2,173,050) |
| Total accumulated depreciation | <u>(5,545,945)</u> | <u>(639,218)</u> | <u>4,668</u> | <u>-</u> | <u>(6,180,495)</u> |
| Total assets depreciated, net | 8,616,604 | (45,076) | (11,332) | 230,571 | 8,790,767 |
| Governmental activities, net | <u>\$ 11,308,740</u> | <u>\$ 2,226,968</u> | <u>\$ (11,332)</u> | <u>\$ -</u> | <u>\$ 13,524,376</u> |
| Business-type Activities | | | | | |
| Capital assets not being depreciated | | | | | |
| Land | \$ 616,898 | \$ - | \$ - | \$ - | \$ 616,898 |
| Construction in progress | 2,685,962 | 988,842 | (106,362) | (2,651,355) | 917,087 |
| Total assets not being depreciated | <u>3,302,860</u> | <u>988,842</u> | <u>(106,362)</u> | <u>(2,651,355)</u> | <u>1,533,985</u> |
| Capital assets being depreciated | | | | | |
| Buildings and improvements | 20,766,832 | 22,616 | - | 934,622 | 21,724,070 |
| Equipment and vehicles | 7,540,314 | 188,758 | (24,678) | - | 7,704,394 |
| Infrastructure | 15,005,285 | 184,675 | - | 1,716,733 | 16,906,693 |
| Total assets being depreciated | <u>43,312,431</u> | <u>396,049</u> | <u>(24,678)</u> | <u>2,651,355</u> | <u>46,335,157</u> |
| Less accumulated depreciation | | | | | |
| Buildings and improvements | (9,844,248) | (582,043) | - | - | (10,426,291) |
| Equipment and vehicles | (5,715,401) | (174,332) | - | - | (5,889,733) |
| Infrastructure | (811,087) | (448,315) | - | - | (1,259,402) |
| Total accumulated depreciation | <u>(16,370,736)</u> | <u>(1,204,690)</u> | <u>-</u> | <u>-</u> | <u>(17,575,426)</u> |
| Total assets depreciated, net | 26,941,695 | (808,641) | (24,678) | 2,651,355 | 28,759,731 |
| Business-type activities, net | <u>\$ 30,244,555</u> | <u>\$ 180,201</u> | <u>\$ (131,040)</u> | <u>\$ -</u> | <u>\$ 30,293,716</u> |

CITY OF CRYSTAL RIVER, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 5 – CAPITAL ASSETS – CONTINUED

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

| | |
|--------------------------|---------------------|
| Governmental activities: | |
| General government | \$ 47,216 |
| Public safety | 65,158 |
| Highways and streets | 443,824 |
| Culture and recreation | 29,306 |
| Economic development | 53,714 |
| | <u>\$ 639,218</u> |
| Business-type Activities | |
| Water and sewer | <u>\$ 1,204,690</u> |

NOTE 6 – LONG TERM DEBT

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2016:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|--------------------------------|------------------------------|---------------------|---------------------|---------------------------|--|
| Governmental activities | | | | | |
| Note payable | \$ - | \$ 600,000 | \$ - | \$ 600,000 | \$ - |
| Net OPEB obligation | 102,000 | 14,000 | - | 116,000 | - |
| Net pension liability | 831,657 | 781,999 | (180,812) | 1,432,844 | - |
| Compensated absences | 72,228 | 93,324 | (72,201) | 93,351 | 84,016 |
| Total governmental activities | <u>\$ 1,005,885</u> | <u>\$ 1,489,323</u> | <u>\$ (253,013)</u> | <u>\$ 2,242,195</u> | <u>\$ 84,016</u> |
| Business-type activities | | | | | |
| Bonds payable | \$ 4,389,000 | \$ - | \$ (372,000) | \$ 4,017,000 | \$ 381,000 |
| Notes payable | 1,591,477 | - | (59,887) | 1,531,590 | 70,504 |
| Net pension liability | - | 165,377 | (17,882) | 147,495 | - |
| Total business-type activities | <u>\$ 5,980,477</u> | <u>\$ 165,377</u> | <u>\$ (449,769)</u> | <u>\$ 5,696,085</u> | <u>\$ 451,504</u> |

CITY OF CRYSTAL RIVER, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 6 – LONG TERM DEBT – CONTINUED

Long-Term Debt payable as of September 30, 2016, is composed of the following issues:

Revenue Bonds

Utility System Revenue Refunding Bond, Series 2012, due in annual installments through October 1, 2026, in amounts ranging from \$233,000 to \$462,000, plus interest at a rate of 2.39%; collateralized by revenue from the water and sewer system. The purpose of the issuance was: (1) refunding the City's Water and Sewer Revenue Refunding Bonds, Sereies 1992, (2) financing improvements to the City's water and sewer system, and (3) funding the cost of issuance of the bonds.

\$ 4,017,000

Total bonds payable

\$ 4,017,000

Notes Payable

Community Redevelopment Agency Note, this is a construction line of credit agreement for \$3,500,000 of which \$600,000 had been drawn as of September 30, 2016. The note bears interest during the construction period at the floating rate of the Wall Street Journal Prime Rate minus 2.28% reset each time the Wall Street Journal Prime Rate changes during the construction period. Actual principal and interest payments will commence on June 15, 2019, or completion of the construction period.

\$ 600,000

Water and Sewer State Revolving Fund Loan, due in annual installments of \$37,977 including interest at the rate of 2.06% on various maturities; collateralized by revenues of the Water and Sewer Fund.

501,216

Water and Sewer State Revolving Fund Loan, due in annual installments of \$37,518 including interest at the rate of 1.46% on various maturities; collateralized by revenues of the Water and Sewer Fund.

537,164

Water and Sewer State Revolving Fund Loan, due in annual installments of \$34,050 including interest at the rate of 1.23% on various maturities; collateralized by revenues of the Water and Sewer Fund.

493,210

Total business-type notes payable

\$ 1,531,590

CITY OF CRYSTAL RIVER, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 6 – LONG TERM DEBT – CONTINUED

The annual debt service payments required on outstanding debt at September 30, 2016, are as follows:

| Fiscal Year | Revenue Bonds, Series 2012 | | | State Revolving Fund Loans | | |
|------------------------|-----------------------------------|-------------------|---------------------|-----------------------------------|-------------------|---------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2017 | \$ 381,000 | \$ 93,748 | \$ 474,748 | \$ 70,504 | \$ 39,060 | \$ 109,564 |
| 2018 | 391,000 | 84,582 | 475,582 | 72,346 | 37,219 | 109,565 |
| 2019 | 401,000 | 75,189 | 476,189 | 74,235 | 35,330 | 109,565 |
| 2020 | 410,000 | 65,558 | 475,558 | 76,175 | 33,390 | 109,565 |
| 2021 | 419,000 | 55,698 | 474,698 | 78,165 | 31,401 | 109,566 |
| 2022-2026 | 2,015,000 | 122,308 | 2,137,308 | 422,543 | 125,282 | 547,825 |
| 2027-2031 | - | - | - | 480,717 | 67,108 | 547,825 |
| 2032-2035 | - | - | - | 256,905 | 10,881 | 267,786 |
| | <u>\$ 4,017,000</u> | <u>\$ 497,083</u> | <u>\$ 4,514,083</u> | <u>\$ 1,531,590</u> | <u>\$ 379,671</u> | <u>\$ 1,911,261</u> |

The debt service requirements to maturity schedule above does not include a provision for the Community Redevelopment Agency Note which is in the construction phase as of September 30, 2016. Repayment of the note will be determined when construction is complete.

NOTE 7 – INTERFUND BALANCES AND TRANSFERS

The composition of interfund balances as of September 30, 2016, is as follows:

Due to/from other funds:

| Receivable Fund | Payable Fund | Amount |
|---------------------------|-----------------------------|-------------------|
| General Fund | Water & Sewer | \$ 456,341 |
| General Fund | Nonmajor Enterprise Fund | 10,221 |
| General Fund | Nonmajor Governmental Funds | 50 |
| Capital Improvements Fund | Water & Sewer | 413,194 |
| Sanitation | Water & Sewer | 41,912 |
| | | <u>\$ 921,718</u> |

These balances resulted from the time lag between the dates that: (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

CITY OF CRYSTAL RIVER, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 7 – INTERFUND BALANCES AND TRANSFERS – CONTINUED

Interfund transfers:

| <u>Transfers In</u> | <u>Transfers Out</u> | <u>Amount</u> |
|---------------------------|------------------------------|-------------------|
| General Fund | Water & Sewer Fund | \$ 160,430 |
| General Fund | Sanitation Fund | 165,822 |
| General Fund | Community Redevelopment Fund | 16,884 |
| Capital Improvements Fund | General Fund | 429,500 |
| 3 Sisters Fund | Nonmajor Governmental Funds | 9,437 |
| | | <u>\$ 782,073</u> |

NOTE 8 – 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; natural disasters and pollution related activities. The City’s participation in the risk pool described below requires annual premium payments in return for transferring risks among pool participants. Settled claims from these risks have not exceeded the risk pool insurance limits nor have additional premiums been assessed relative to the past three years.

The City is a member of a purchasing cooperative of government agencies for the purpose of providing employee health benefits through Public Risk Management of Florida Group Health Trust. The City offers to its employees and covered dependents a choice of two medical plans, two dental plans, vision, life and long and short term disability insurance. Medical plans do not have a lifetime maximum per insured.

NOTE 9 – PENSION PLAN

Florida Retirement System:

General Information – Substantially all of the City’s employees participate in the Florida Retirement System (FRS). As provided by Chapters 121 and 112, Florida Statutes, the FRS provides two cost sharing, multiple employer defined benefit plans administered by the Florida Department of Management Services, Division of Retirement, including the FRS Pension Plan (“Pension Plan”) and the Retiree Health Insurance Subsidy (“HIS Plan”). Under Section 121.4501, Florida Statutes, the FRS also provides a defined contribution plan (“Investment Plan”) alternative to the FRS Pension Plan, which is administered by the State Board of Administration (“SBA”). As a general rule, membership in the FRS is compulsory for all employees working in a regularly established position for a state agency, county government, district school board, state university, community college, or a participating Town or special district within the State of Florida. The FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 121, Florida Statutes, and Chapter 60S, Florida Administrative Code. Amendments to the law can be made only by an act of the Florida State Legislature.

CITY OF CRYSTAL RIVER, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016

NOTE 9 – PENSION PLAN – CONTINUED

The State of Florida annually issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. The latest available report may be obtained by writing to the State of Florida Division of Retirement, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or from the Web site: www.dms.myflorida.com/workforce_operations/retirement/publications.

Pension Plan

Plan Description – The Pension Plan is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program (“DROP”) for eligible employees.

Benefits Provided – Benefits under the Pension Plan are computed on the basis of age, average final compensation, and service credit. For Pension Plan members enrolled before July 1, 2011, Regular class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service. Vested members with less than 30 years of service may retire before age 62 and receive reduced retirement benefits. Special Risk Administrative Support class members who retire at or after age 55 with at least six years of credited service or 25 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service. Special Risk class members (sworn law enforcement officers, firefighters, and correctional officers) who retire at or after age 55 with at least six years of credited service, or with 25 years of service regardless of age, are entitled to a retirement benefit payable monthly for life, equal to 3.0% of their final average compensation based on the five highest years of salary for each year of credited service.

Senior Management Service class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 2.0% of their final average compensation based on the five highest years of salary for each year of credited service. Elected Officers’ class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 3.0% (3.33% for judges and justices) of their final average compensation based on the five highest years of salary for each year of credited service.

For Plan members enrolled on or after July 1, 2011, the vesting requirement is extended to eight years of credited service for all these members and increasing normal retirement to age 65 or 33 years of service regardless of age for Regular, Senior Management Service, and Elected Officers’ class members, and to age 60 or 30 years of service regardless of age for Special Risk and Special Risk Administrative Support class members. Also, the final average compensation for all these members will be based on the eight highest years of salary.

CITY OF CRYSTAL RIVER, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016

NOTE 9 – PENSION PLAN – CONTINUED

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the Pension Plan before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3% per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3% determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3%. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

In addition to the above benefits, the DROP program allows eligible members to defer receipt of monthly retirement benefit payments while continuing employment with a FRS employer for a period not to exceed 60 months after electing to participate. Deferred monthly benefits are held in the FRS Trust Fund and accrue interest. There are no required contributions by DROP participants

Contributions – Effective July 1, 2011, all enrolled members of the FRS, other than DROP participants, are required to contribute 3% of their salary to the FRS. In addition to member contributions, governmental employers are required to make contributions to the FRS based on state-wide contribution rates established by the Florida Legislature. These rates are updated as of July 1 of each year. The employer contribution rates by job class for the periods from October 1, 2015 through June 30, 2016, and from July 1, 2016 through September 30, 2016, respectively, were as follows: Regular–7.26% and 7.52%; Special Risk Administrative Support–32.95% and 28.06%; Special Risk–22.04% and 22.57%; Senior Management Service–21.43% and 21.77%; Elected Officers’–42.27% and 42.47%; and DROP participants–12.88% and 12.99%. These employer contribution rates include 1.66% HIS Plan subsidy for the periods October 1, 2015 through June 30, 2016, and from July 1, 2016 through September 30, 2016.

The City’s contributions, including employee contributions, to the Pension Plan totaled \$110,162 for the fiscal year ended September 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2016, the City reported a liability of \$1,140,629 for its proportionate share of the Pension Plan’s net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The City’s proportionate share of the net pension liability was based on the City’s 2015-16 fiscal year contributions relative to the 2014-15 fiscal year contributions of all participating members. At June 30, 2016, the City’s proportionate share was 0.004517327%, which was an increase of .000469316% from its proportionate share measured as of June 30, 2015.

CITY OF CRYSTAL RIVER, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 9 – PENSION PLAN – CONTINUED

For the fiscal year ended September 30, 2016, the City recognized pension expense of \$232,611. In addition the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ 87,335 | \$ 10,620 |
| Change of assumptions | 69,005 | - |
| Net difference between projected and actual earnings on Pension Plan investments | 294,838 | - |
| Changes in proportion and differences between City Pension Plan contributions and proportionate share of contributions | 238,041 | - |
| City Pension Plan contributions subsequent to the measurement date | 29,580 | - |
| Total | <u>\$ 718,799</u> | <u>\$ 10,620</u> |

The deferred outflows of resources related to the Pension Plan, totaling \$29,580 resulting from City contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pension Plan will be recognized in pension expense as follows:

| Fiscal Year Ending September 30: | <u>Amount</u> |
|-------------------------------------|---------------|
| 2017 | \$ 93,474 |
| 2018 | 93,474 |
| 2019 | 270,527 |
| 2020 | 185,147 |
| 2021 | 27,233 |
| Thereafter | 8,744 |

CITY OF CRYSTAL RIVER, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 9 – PENSION PLAN – CONTINUED

Actuarial Assumptions – The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumption, applied to all period included in the measurement:

| | |
|---------------------------|--|
| Inflation | 2.60% |
| Salary increases | 3.25%, average, including inflation |
| Investment rate of return | 7.60%, net of pension plan investment expense, including inflation |

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

The long-term expected rate of return on Pension Plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy’s description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation ⁽¹⁾</u> | <u>Annual Arithmetic Return</u> | <u>Compound Annual (Geometric) Return</u> | <u>Standard Deviation</u> |
|--------------------------|---|---|---|-------------------------------|
| Cash | 1.00% | 3.00% | 3.00% | 1.70% |
| Fixed income | 18.00% | 4.70% | 4.60% | 4.60% |
| Global equity | 53.00% | 8.10% | 6.80% | 17.20% |
| Real estate | 10.00% | 6.40% | 5.80% | 12.00% |
| Private equity | 6.00% | 11.50% | 7.80% | 30.00% |
| Strategic investments | 12.00% | 6.10% | 5.60% | 11.10% |
| Total | <u>100.00%</u> | | | |
| Assumed Inflation - Mean | | 2.60% | | 1.90% |

(1) As outlined in the Pension Plan's investment policy

Discount Rate – The discount rate used to measure the total pension liability was 7.60%. The Pension Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculation the total pension liability is equal to the long-term expected rate of return.

CITY OF CRYSTAL RIVER, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 9 – PENSION PLAN – CONTINUED

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following represents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.60%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.60%) or one percentage point higher (8.60%) than the current rate:

| | 1% Decrease <u>(6.60%)</u> | Current Discount Rate <u>(7.60%)</u> | 1% Increase <u>(8.60%)</u> |
|--|-------------------------------|--|-------------------------------|
| City's proportionate share of the net pension liability | \$ 2,099,975 | \$ 1,140,629 | \$ 342,100 |

Pension Plan Fiduciary Net Position – Detailed information regarding the Pension Plan’s fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan -- At September 30, 2016, the City reported a payable in the amount of \$0 for outstanding contributions to the Pension Plan required for the fiscal year ended September 30, 2016.

HIS Plan

Plan Description – The HIS Plan is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

Benefits Provided – For the fiscal year ended September 30, 2016, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month. To be eligible to receive these benefits, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include medicare.

Contributions – The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2016, the HIS contribution for the period October 1, 2015 through September 30, 2016, was 1.66%. The City contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contribution are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

CITY OF CRYSTAL RIVER, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 9 – PENSION PLAN – CONTINUED

The City’s contributions to the HIS Plan totaled \$19,338 for the fiscal year ended September 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2016, the City reported a liability of \$439,710 for its proportionate share of the HIS Plan’s net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The City’s proportionate share of the net pension liability was based on the City’s 2015-16 fiscal year contributions relative to the 2014-15 fiscal year contributions of all participating members. At June 30, 2016, the City's proportionate share was 0.003772839% which was an increase of .000744905% from its proportionate share measured as of June 30, 2015.

For the fiscal year ended September 30, 2016, the City recognized pension expense of \$50,351. In addition the City reported deferred outflows of resources and deferred in flows of resources related to pensions from the following sources:

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ - | \$ 1,001 |
| Change of assumptions | 69,001 | - |
| Net difference between projected and actual earnings on HIS Plan investments | 222 | - |
| Changes in proportion and differences between City HIS Plan contributions and proportionate share of contributions | 90,745 | 7,414 |
| City HIS Plan contributions subsequent to the measurement date | 4,228 | - |
| Total | <u>\$ 164,196</u> | <u>\$ 8,415</u> |

The deferred outflows of resources related to the HIS Plan, totaling \$4,228 resulting from City contributions to the HIS Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan will be recognized in pension expense as follows:

| Fiscal Year Ending | Amount |
|--------------------|-----------|
| September 30: | |
| 2017 | \$ 27,138 |
| 2018 | 27,138 |
| 2019 | 27,044 |
| 2020 | 26,999 |
| 2021 | 23,358 |
| Thereafter | 19,876 |

CITY OF CRYSTAL RIVER, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 9 – PENSION PLAN – CONTINUED

Actuarial Assumptions – The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------|-------------------------------------|
| Inflation | 2.60% |
| Salary increases | 3.25%, average, including inflation |
| Municipal bond rate | 2.85% |

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

Discount Rate – The discount rate used to measure the total pension liability was 2.85%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following represents the City’s proportionate share of the net pension liability calculated using the discount rate of 2.85%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (1.85%) or one percentage point higher (3.85%) than the current rate:

| | 1% Decrease (1.85%) | Current Discount Rate (2.85%) | 1% Increase (3.85%) |
|--|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net pension liability | \$ 504,446 | \$ 439,710 | \$ 385,981 |

Pension Plan Fiduciary Net Position – Detailed information regarding the HIS Plan’s fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan – At September 30, 2016, the City reported a payable in the amount of \$0 for outstanding contributions to the HIS Plan required for the fiscal year ended September 30, 2016.

CITY OF CRYSTAL RIVER, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016

NOTE 9 – PENSION PLAN – CONTINUED

Investment Plan

The SBA administers the defined contribution plan officially titled the FRS Investment Plan. The investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. City employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected officers, etc.), as the Pension Plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04% of payroll and by forfeited benefits of plan members. Allocations to the investment member's accounts during the 2015-16 fiscal year, as established by Section 121.72, Florida Statutes, are based on a percentage of gross compensation, by class, as follows: Regular class 6.30%, Special Risk Administrative Support class 7.95%, Special Risk class 14.00%, Senior Management Service class 7.67% and Elected Officers class 11.34%.

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the Pension Plan is transferred to the Investment Plan, the member must have the years of service required for Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to five years. If the employee returns to FRS-covered employment within the five-year period, the employee will regain control over their account. If the employee does not return within the five-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended September 30, 2016, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the City.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided; the member may either transfer the account balance to the Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

CITY OF CRYSTAL RIVER, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS

A. Plan Description

The City maintains a single employer defined benefit other post-employment benefit plan which was required by GASB 45 and implemented prospectively. The City of Crystal River Other Post-Employment Benefits Plan (the “OPEB Plan”), includes retirees from the City. The City offers post-employment benefits other than pension benefits for healthcare insurance for eligible retirees and spouse through the City’s group health insurance plan, which covers both active and retired members.

The OPEB Plan does not issue a publicly available financial report.

B. Annual OPEB Cost and Net OPEB Obligation

The City’s annual other post-employment benefit cost is calculated based on the annual required contribution (the “ARC”) of the employer. The City has elected to calculate the ARC and the related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The City establishes and may amend the funding policy for the OPEB Plan. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the 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 OPEB Plan.

| | | |
|--|----|-----------------------|
| Annual required employer contribution | \$ | 22,000 |
| Interest on net OPEB obligation | | 4,000 |
| Adjustment to annual required contribution | | <u>(12,000)</u> |
| Annual OPEB cost | | 14,000 |
| Employer and retiree contributions for period ended September 30, 2016 | | <u>-</u> |
| Increase in net OPEB obligation | | 14,000 |
| Net OPEB obligation beginning of year | | 102,000 |
| Net OPEB obligation end of year | \$ | <u><u>116,000</u></u> |

C. Trend Information

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost (APC)</u> | <u>Actual Employer Contribution</u> | <u>Percentage of APC Contributed</u> | <u>Net OPEB Obligation</u> |
|------------------------------|---------------------------------------|---|--|--------------------------------|
| 09/30/14 | \$ 10,000 | \$ 2,000 | 20.0 % | \$ 88,000 |
| 09/30/15 | 14,000 | - | 0.0 | 102,000 |
| 09/30/16 | 14,000 | - | 0.0 | 116,000 |

CITY OF CRYSTAL RIVER, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

C. Trend Information (Continued)

As of the most recent valuation date, January 1, 2016, the funded status of the OPEB Plan is as follows:

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability</u> | <u>Unfunded Actuarial Accrued Liability</u> | <u>Funded Ratio</u> | <u>Annual Covered Payroll</u> | <u>Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll</u> |
|---|--|--|---|-------------------------|---------------------------------------|--|
| 1/1/2016 | \$ - | \$ 76,000 | \$ 76,000 | - % | \$ 893,000 | 8.5 % |

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan net position is increasing or decreasing over time relative to the actuarial accrued liability.

D. Actuarial Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continued revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the plan in effect at January 1, 2016. The assumptions used in the January 1, 2016, actuarial valuation are as follows:

| | |
|--|---|
| Valuation date | January 1, 2016 |
| Actuarial cost method | Project Unit Credit |
| Amortization method | 10-year open period; level-dollar payment |
| Amortization period | 30 years |
| Asset valuation method | Market Value |
| Actuarial assumptions: | |
| Investment rate of return (includes inflation) | 4.00% |
| Inflation | 2.75% |
| Healthcare cost trend rates: | |
| Selected rates | 8.00% for 2016 graded to 5.50% for 2021 |
| Ultimate rate | 5.00% |

NOTE 11 – UTILITY OPERATING CONTRACT

The City contracts with a private company to operate the City’s water and sewer facilities. The company is responsible for operating and maintenance expenses of the facilities, including operation personnel. The City is responsible for the: (1) capital expenses, (2) debt service, (3) maintenance and repairs in excess of approximately \$77,000 annually, and (4) maintaining property damage insurance on the facilities and equipment.

CITY OF CRYSTAL RIVER, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 11 – UTILITY OPERATING CONTRACT – CONTINUED

The contract is cancelable by either party. During the year ended September 30, 2016, the monthly fee was \$107,426. Annual fees are negotiable annually on or before December 1. Failure to agree upon an annual fee will be resolved by application of a formula based upon the most current annual fee adjusted for the Consumer Price Index.

NOTE 12 – POLICE CONTRACT WITH CITRUS COUNTY SHERIFF’S OFFICE

In 2008, The City Council dissolved the police department and entered into a contract with the Citrus County Sheriff’s Office to provide public safety services. Substantially all police assets were transferred to the Sheriff’s Office. The contract with the Sheriff’s Office expires on September 30 of each year, subject to automatic renewal on an annual basis, provided no action is taken to terminate the contract. The City paid \$960,580 during the year ended September 30, 2016.

NOTE 13 – CONSTRUCTION COMMITMENTS

The City has active construction commitments on various projects in the amount of \$366,066 as of September 30, 2016.

NOTE 14 – SUBSEQUENT EVENTS

The City has evaluated all subsequent events through May 15, 2017, the date the financial statements were available to be issued. No material subsequent events occurred which would have a material impact on the City's financial statements.

CITY OF CRYSTAL RIVER, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
FLORIDA RETIREMENT SYSTEM PENSION PLAN**

| Reporting Period Ending | 9/30/2016 | 9/30/2015 | 9/30/2014 |
|---|------------------|------------------|------------------|
| Measurement Date | 6/30/2016 | 6/30/2015 | 6/30/2014 |
| City's proportion of the FRS net pension liability | 0.004517327% | 0.004048011% | 0.003132361% |
| City's proportionate share of the FRS net pension liability | \$ 1,140,629 | \$ 522,855 | \$ 191,120 |
| City's covered employee payroll | \$ 1,146,105 | \$ 966,759 | \$ 919,962 |
| City's proportionate share of the FRS net pension liability as a percentage of its covered employee payroll | 99.52% | 54.08% | 20.77% |
| FRS Plan fiduciary net position as a percentage of the FRS total pension liability | 84.88% | 92.00% | 96.09% |

**SCHEDULE OF CONTRIBUTIONS
FLORIDA RETIREMENT SYSTEM PENSION PLAN**

| Reporting Period Ending | 9/30/2016 | 9/30/2015 | 9/30/2014 |
|--|------------------|------------------|------------------|
| Measurement Date | 6/30/2016 | 6/30/2015 | 6/30/2014 |
| Contractually required FRS contribution | \$ 110,162 | \$ 98,694 | \$ 68,612 |
| FRS Contributions in relation to the contractually required FRS contribution | 110,162 | 98,694 | 68,612 |
| FRS Contribution deficiency (excess) | \$ - | \$ - | \$ - |
| Covered employee payroll | \$ 1,146,105 | \$ 966,759 | \$ 919,962 |
| FRS Contributions as a percentage of covered employee payroll | 9.61% | 10.21% | 7.46% |

Notes to the Schedule:

The schedule will present 10 years of information once it is accumulated.

CITY OF CRYSTAL RIVER, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
HEALTH INSURANCE SUBSIDY PENSION PLAN**

| Reporting Period Ending Measurement Date | <u>9/30/2016</u> <u>6/30/2016</u> | <u>9/30/2015</u> <u>6/30/2015</u> | <u>9/30/2014</u> <u>6/30/2014</u> |
|--|--------------------------------------|--------------------------------------|--------------------------------------|
| City's proportion of the HIS net pension liability | 0.003772839% | 0.003027934% | 0.002559239% |
| City's proportionate share of the HIS net pension liability | \$ 439,710 | \$ 308,802 | \$ 239,295 |
| City's covered employee payroll | \$ 1,146,105 | \$ 966,759 | \$ 919,962 |
| City's proportionate share of the HIS net pension liability as a percentage of its covered employee payroll | 38.37% | 31.94% | 26.01% |
| HIS Plan fiduciary net position as a percentage of the HIS total pension liability | 0.97% | 1.22% | 1.06% |

**SCHEDULE OF CONTRIBUTIONS
HEALTH INSURANCE SUBSIDY PENSION PLAN**

| Reporting Period Ending Measurement Date | <u>9/30/2016</u> <u>6/30/2016</u> | <u>9/30/2015</u> <u>6/30/2015</u> | <u>9/30/2014</u> <u>6/30/2014</u> |
|---|--------------------------------------|--------------------------------------|--------------------------------------|
| Contractually required HIS contribution | \$ 19,338 | \$ 11,575 | \$ 8,767 |
| HIS Contributions in relation to the contractually required HIS contribution | <u>19,338</u> | <u>11,575</u> | <u>8,767</u> |
| HIS Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered employee payroll | \$ 1,146,105 | \$ 966,759 | \$ 919,962 |
| HIS Contributions as a percentage of covered employee payroll | 1.69% | 1.20% | 0.95% |

Notes to the Schedule:

The schedule will present 10 years of information once it is accumulated.

CITY OF CRYSTAL RIVER, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION

OPEB SCHEDULE OF FUNDING PROGRESS

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability | Unfunded Actuarial Accrued Liability | Funded Ratio | Annual Covered Payroll | Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll |
|---|--|--|---|-------------------------|---------------------------------------|--|
| 7/1/2011 | \$ - | \$ 70,000 | \$ 70,000 | - % | \$ 854,000 | 8.2 % |
| 3/1/2014 | - | 67,000 | 67,000 | - | 841,000 | 8.0 |
| 1/1/2016 | - | 76,000 | 76,000 | - | 893,000 | 8.5 |

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CITY OF CRYSTAL RIVER, FLORIDA

NONMAJOR GOVERNMENTAL FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Public Safety Expansion is used to account for resources received from impact funds for the support of public safety expenditures.

3 Sisters Springs is used to account for resources received to support activities at 3 Sisters Springs Park.

Friends of Music in the Park is used to account for resources received from charges which are committed to providing other activities in the park.

Buy a Brick is used to account for resources restricted to improve the downtown streets.

Impact Fees is used to account for resources restricted for downtown improvements.

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CITY OF CRYSTAL RIVER, FLORIDA

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016**

| | <u>Special Revenue Funds</u> | | | | | <u>Total Nonmajor Governmental Funds</u> |
|--|--|------------------------------|---|------------------------|------------------------|--|
| | <u>Public Safety Expansion</u> | <u>3 Sisters Springs</u> | <u>Friends of Music In the Park</u> | <u>Buy A Brick</u> | <u>Impact Fees</u> | |
| Assets | | | | | | |
| Cash and cash equivalents | \$ 18,107 | \$ - | \$ 121 | \$ 5,716 | \$ - | \$ 23,944 |
| Total assets | <u>\$ 18,107</u> | <u>\$ -</u> | <u>\$ 121</u> | <u>\$ 5,716</u> | <u>\$ -</u> | <u>\$ 23,944</u> |
| Liabilities and fund balances | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ - | \$ - | \$ 121 | \$ - | \$ - | \$ 121 |
| Due to other funds | - | - | - | 50 | - | 50 |
| Total liabilities | <u>-</u> | <u>-</u> | <u>121</u> | <u>50</u> | <u>-</u> | <u>171</u> |
| Fund balances | | | | | | |
| Restricted | | | | | | |
| Community development | - | - | - | 5,666 | - | 5,666 |
| Public safety | 18,107 | - | - | - | - | 18,107 |
| Total fund balances | <u>18,107</u> | <u>-</u> | <u>-</u> | <u>5,666</u> | <u>-</u> | <u>23,773</u> |
| Total liabilities and fund balances | <u>\$ 18,107</u> | <u>\$ -</u> | <u>\$ 121</u> | <u>\$ 5,716</u> | <u>\$ -</u> | <u>\$ 23,944</u> |

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

| | <u>Special Revenue Funds</u> | | | | | Total Nonmajor Governmental Funds |
|-----------------------------|--|------------------------------|---|------------------------|------------------------|--|
| | Public Safety Expansion | 3 Sisters Springs | Friends of Music In the Park | Buy A Brick | Impact Fees | |
| Revenues | | | | | | |
| Impact fees | \$ 1,000 | \$ - | \$ - | \$ - | \$ - | \$ 1,000 |
| Miscellaneous | - | - | - | 400 | - | 400 |
| Income on investments | - | - | - | 20 | - | 20 |
| Total revenues | <u>1,000</u> | <u>-</u> | <u>-</u> | <u>420</u> | <u>-</u> | <u>1,420</u> |
| Other Financing Uses | | | | | | |
| Transfers to other funds | <u>-</u> | <u>(9,437)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(9,437)</u> |
| Total other financing uses | <u>-</u> | <u>(9,437)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(9,437)</u> |
| Net change in fund balance | 1,000 | (9,437) | - | 420 | - | (8,017) |
| Fund balances, beginning | <u>17,107</u> | <u>9,437</u> | <u>-</u> | <u>5,246</u> | <u>-</u> | <u>31,790</u> |
| Fund balances, ending | <u>\$ 18,107</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,666</u> | <u>\$ -</u> | <u>\$ 23,773</u> |

OTHER REPORTS

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

Honorable Mayor and Members of
the City Commission,
City of Crystal River, FL

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crystal River, Florida (the "City"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 15, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Mauldin & Jenkins, LLC". The signature is written in a cursive, flowing style.

Bradenton, Florida
May 15, 2017

CITY OF CRYSTAL RIVER, FLORIDA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

SECTION I
SUMMARY OF AUDIT RESULTS

Financial Statements

| | |
|--|---------------------|
| Type of auditor's report issued | Unmodified |
| Internal control over financial reporting: Material weaknesses identified? | ___ yes <u>X</u> no |
| Significant deficiencies identified not considered to be material weaknesses? | ___ yes <u>X</u> no |
| Noncompliance material to financial statements noted? | ___ yes <u>X</u> no |

Federal Programs and State Financial Assistance Projects

There was not an audit of major federal award programs or state award programs as of September 30, 2016, due to the total amount expended being less than \$750,000.

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

None noted.

SECTION III
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Not applicable.

SECTION IV
STATE PROJECTS FINDINGS AND QUESTIONED COSTS

Not applicable.

CITY OF CRYSTAL RIVER, FLORIDA

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

None noted.



INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Honorable Mayor and Members of
the City Council,
City of Crystal River, FL

Report on the Financial Statements

We have audited the financial statements of the City of Crystal River, Florida (the "City"), as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated May 15, 2017.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 10.550, Rules of the Auditor General.

Other Reports and Schedule

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated May 15, 2017, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. No audit findings were noted in the City's September 30, 2015, audit report.

Official Title and Legal Authority

Section 10.554(1)(i)4., 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 City of Crystal River, Florida was incorporated in 1903. Additional information on the City's creation and the City's component units is disclosed within the City's footnotes.

Financial Condition

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether or not the City has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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

Annual Financial Report

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the City for the fiscal year ended September 30, 2016, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2016. In connection with our audit, we determined that these two reports were in agreement.

Special District Component Units

Section 10.554(1)(i)5.d, Rules of the Auditor General, requires that we determine whether or not a special district that is a component unit of a county, municipality, or special district, provided the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. In connection with our audit, we determined that the City's special district component unit provided the necessary information for proper reporting in accordance with Section 218.39(3)(b), Florida Statutes.

Other Matters

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

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

Purpose of this Letter

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

Mauldin & Jenkins, LLC

Bradenton, Florida
May 15, 2017

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of
the City Council,
City of Crystal River, FL

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

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

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

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

Mauldin & Jenkins, LLC

Bradenton, Florida
May 15, 2017