

City of Inverness, Florida
ANNUAL FINANCIAL REPORT
For The Year Ended September 30, 2014

Prepared by: Finance Department

INTRODUCTORY SECTION

This section contains the following subsections:

- Table of Contents
- List of Principal Officials
- Organizational Chart

CITY OF INVERNESS, FLORIDA

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CITY OF INVERNESS, FLORIDA

LIST OF PRINCIPAL OFFICIALS

September 30, 2014

ELECTED OFFICIALS

MAYOR	Bob Plaisted
COUNCIL MEMBER – SEAT 1	David Ryan
COUNCIL MEMBER – SEAT 2	Jacque Hepfer
COUNCIL PRESIDENT	Ken Hinkle
COUNCIL MEMBER – SEAT 4	Cabot McBride
COUNCIL MEMBER – SEAT 5	Linda Bega

STAFF

CITY MANAGER	Frank DiGiovanni
CITY CLERK	Debbie Davis
ASSISTANT CITY MANAGER	Eric Williams
HUMAN RESOURCES/EXECUTIVE SECRETARY	Shelia Densmore
SPECIAL EVENTS DIRECTOR	Sharon Skeelee Hogan
FINANCE DIRECTOR	Cheryl Chiodo
PUBLIC WORKS DIRECTOR	Katie Cotrell
INFORMATION TECHNOLOGY DIRECTOR	Joey Johnston
COMMUNITY DEVELOPMENT DIRECTOR	Dale Malm

LEGAL COUNSEL

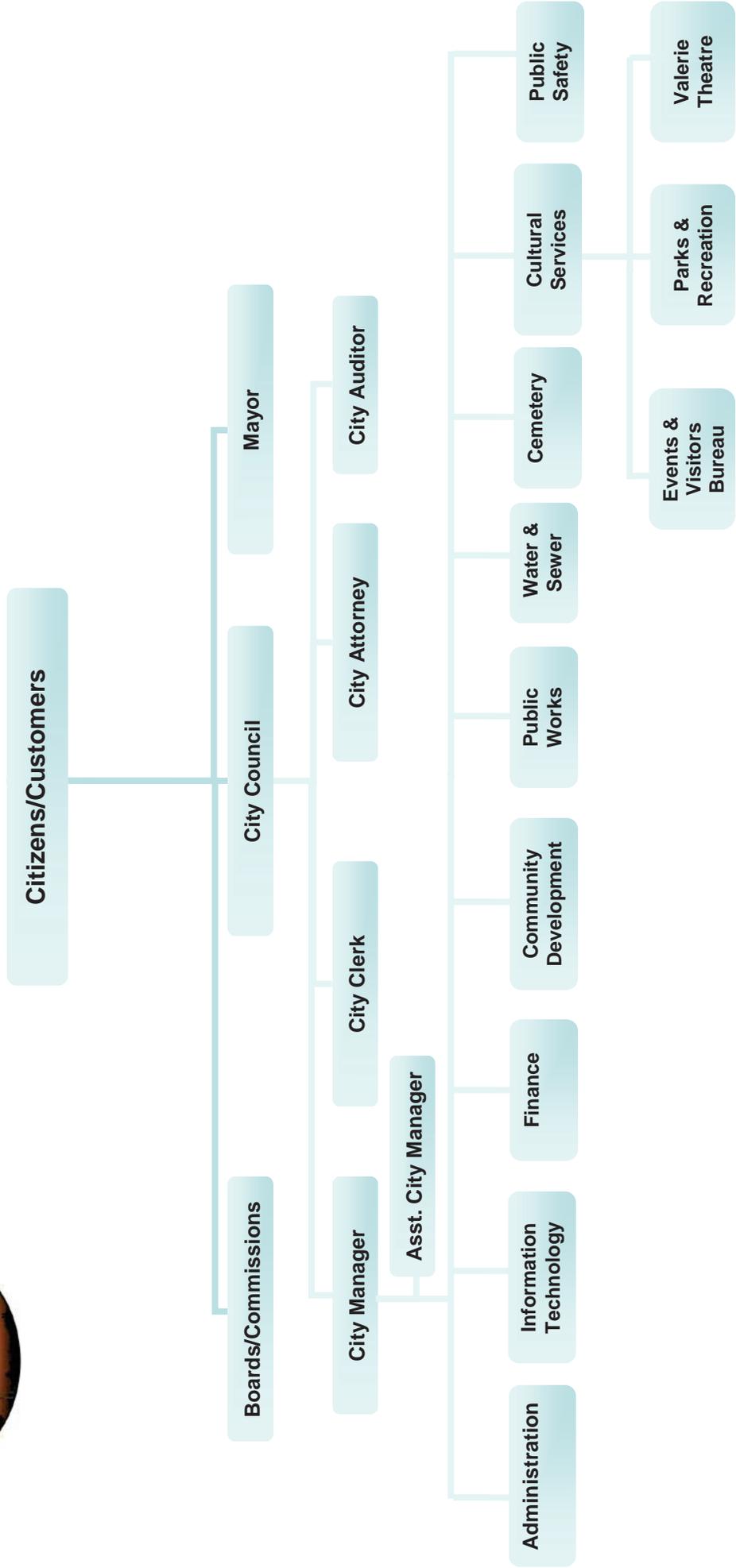
Haag Haag & Freidrich, P.A.

AUDITORS

McDermitt Davis & Company, LLC



City of Inverness, Florida



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Inverness, Florida

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 Inverness, Florida*, as of and for the year ended September 30, 2014, 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

City of Inverness's 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 Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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 accounting policies used and 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 of Inverness, Florida, as of September 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund, whispering pines park special revenue fund, and community redevelopment agency fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

MCDIRMIT DAVIS & COMPANY, LLC

934 North Magnolia Avenue, Suite 100 Orlando, Florida 32803

TELEPHONE: 407-843-5406 FAX: 407-649-9339 EMAIL: INFO@MCDIRMITDAVIS.COM

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America, require that the management's discussion and analysis and the other postemployment benefits disclosures on pages 3 through 13 and 50 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 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 of Inverness, Florida's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of state financial assistance (the Schedule) is presented for purposes of additional analysis as required by Chapter 10.550, *Rules of the Auditor General*, and is also not a required part of the financial statements.

The combining and individual nonmajor fund financial statements and Schedule are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated May 12, 2015 on our consideration of the *City of Inverness, Florida's* internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Inverness's internal control over financial reporting and compliance.

McDiernit Davis & Company, LLC

Orlando, Florida
May 12, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of the financial activities of the City of Inverness for the fiscal year ended September 30, 2014 is designed to assist the reader in a) focusing on significant financial issues, b) providing an overview of the City's financial activity, c) identifying changes in the City's financial position, d) identifying any material deviations from the approved budget, and e) identifying individual fund issues or concerns. Please read it in conjunction with the City's Independent Auditor's Report, financial statements, and accompanying notes.

Financial Highlights

- The assets of the City of Inverness exceeded its liabilities at the close of the most recent fiscal year by \$50,916,520 (*net position*). Of this amount, \$16,685,556 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$1,698,039 or 3.5%.
- As of the close of the current fiscal year, the City of Inverness' governmental funds reported combined ending fund balances of \$12,010,865. Approximately 26% of this total amount, \$3,108,257 is *available for spending* at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,108,257, or 50% of total general fund expenditures and transfers out.
- The City of Inverness' total debt decreased by \$485,827 (3.8%) during the current fiscal year.

Using this Annual Report

The financial statement's focus is on both the City as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the City's accountability.

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

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

The *statement of net position* presents information on all of the City of Inverness' assets, liabilities and deferred inflows/outflows of resources, 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 of Inverness 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).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Both of the government-wide financial statements distinguish functions of the City of Inverness 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 of Inverness include general government, public safety, highways and streets, sanitation, and parks and recreation. The business-type activities of the City of Inverness include the Public Utilities System and the Oakridge Cemetery.

The government-wide financial statements include only the City of Inverness itself (known as the *primary government*) and one blended component unit (The City of Inverness Community Redevelopment Trust Fund). The Water and Sewer Utility fund, and the Cemetery fund function as departments of the City of Inverness, and therefore have been included as an integral part of the primary government.

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

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Inverness, 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 of Inverness can be divided into two categories: governmental funds, and proprietary funds.

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

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 Inverness maintains six 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, Whispering Pines Park Special Revenue Fund, Community Redevelopment Fund, and Capital Projects Fund. Data from the other 2 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Inverness adopts an annual appropriated budget for the General Fund, Whispering Pines Park Fund, Community Redevelopment Fund, and Capital projects Fund. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with the budget on pages 22-24 and page 51.

The basic governmental fund financial statements can be found on pages 16-24 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Proprietary funds. The City of Inverness maintains one type of proprietary funds: *enterprise funds*.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Inverness uses enterprise funds to account for its Water and Sewer Utility Fund, and Cemetery Fund. Annual operating budgets are adopted for these funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Utility Fund and for the Cemetery Fund.

The basic proprietary fund financial statements can be found on pages 25-28 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 29-49 of this report.

Required supplementary information (RSI). RSI can be found on page 50 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the RSI. Combining and individual fund statements and schedules can be found on pages 51-53 of this report.

Government-wide Financial Analysis

Statement of Net Position

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 Inverness, assets exceeded liabilities by \$50,916,520 at the close of the most recent fiscal year.

By far the largest portion of the City of Inverness' net position (66%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Inverness uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Inverness' 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. An additional portion of the City of Inverness' net position (1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$16,685,556) may be used to meet the government's ongoing obligations to citizens and creditors.

At September 30, 2014, the City of Inverness 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. The following table reflects the condensed Statement of Net Position for the current and prior year. For more detail see the Statement of Net Position on page 14.

MANAGEMENT'S DISCUSSION AND ANALYSIS

STATEMENT OF NET POSITION AS OF SEPTEMBER 30,

	Governmental Activities		Business Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 12,539,851	\$ 13,183,438	\$ 5,986,412	\$ 8,403,504	\$ 18,526,263	\$ 21,586,942
Restricted Assets	-	-	1,151,701	-	1,151,701	-
Capital Assets	19,364,701	17,445,342	25,460,824	24,318,036	44,825,525	41,763,378
Total assets	31,904,552	30,628,780	32,598,937	32,721,540	64,503,489	63,350,320
Current Liabilities	528,986	840,705	501,391	1,019,925	1,030,377	1,860,630
Long Term Liabilities						
Outstanding	205,848	-	12,111,796	12,097,520	12,317,644	12,097,520
Other Liabilities	-	-	238,948	-	238,948	-
Total liabilities	734,834	840,705	12,852,135	13,117,445	13,586,969	13,958,150
Net Position:						
Net Investment in Capital Assets	19,364,701	17,445,342	14,236,604	11,729,470	33,601,305	29,174,812
Restricted	98,059	350,010	531,600	571,954	629,659	921,964
Unrestricted	11,706,958	11,992,723	4,978,598	7,302,671	16,685,556	19,295,394
Total net position	\$ 31,169,718	\$ 29,788,075	\$ 19,746,802	\$ 19,604,095	\$ 50,916,520	\$ 49,392,170

Statement of Activities

The following table reflects the condensed Statement of Activities for the current and prior year. For more detailed information see the Statement of Activities on page 15. Note that total net position increased by \$1,698,039.

Net position for governmental activities increased by \$1,259,965. Key elements of this change are:

- Revenues for governmental activities increased by \$576,327 primarily as a result of an increase of \$416,429 in charges for services from commercial sanitation services in the amount of \$194,000, increased Inverness Government Center Leases in the amount of \$97,000 for an extended lease to the Department of Children and Families, and council adopted increases in recreational and special event fees.
- General City operational costs are managed to keep from rising and the City government does not rely on the local economy to fund every project. Grants have been secured to supplement funding to complete scheduled improvement projects affordably. Operational costs are controlled with little growth or change. Overhead is low and internal connectivity and efficiencies have increased output and reduced costs.

Net position for business-type activities increased by \$438,074. Key elements of this change are:

- Business-type activities increased the City's net position by \$438,074, primarily as a result of the final year of a three-year phased utility rate modification plan that was implemented in November 2011 to ensure debt coverage is adequately maintained and debt limits are sustainable based on recommendations of utility rate study conducted by Public Resources Management Group, Inc. The results of the final year's increase as well as a decline in vacant housing was an operating revenue increase totaling \$247,073 in Utility charges for services.
- The City restated the October 1, 2013 beginning Net Position (decrease) for the Utility Fund in the amount of (\$295,367) due to the implementation of GASB 65.

MANAGEMENT'S DISCUSSION AND ANALYSIS

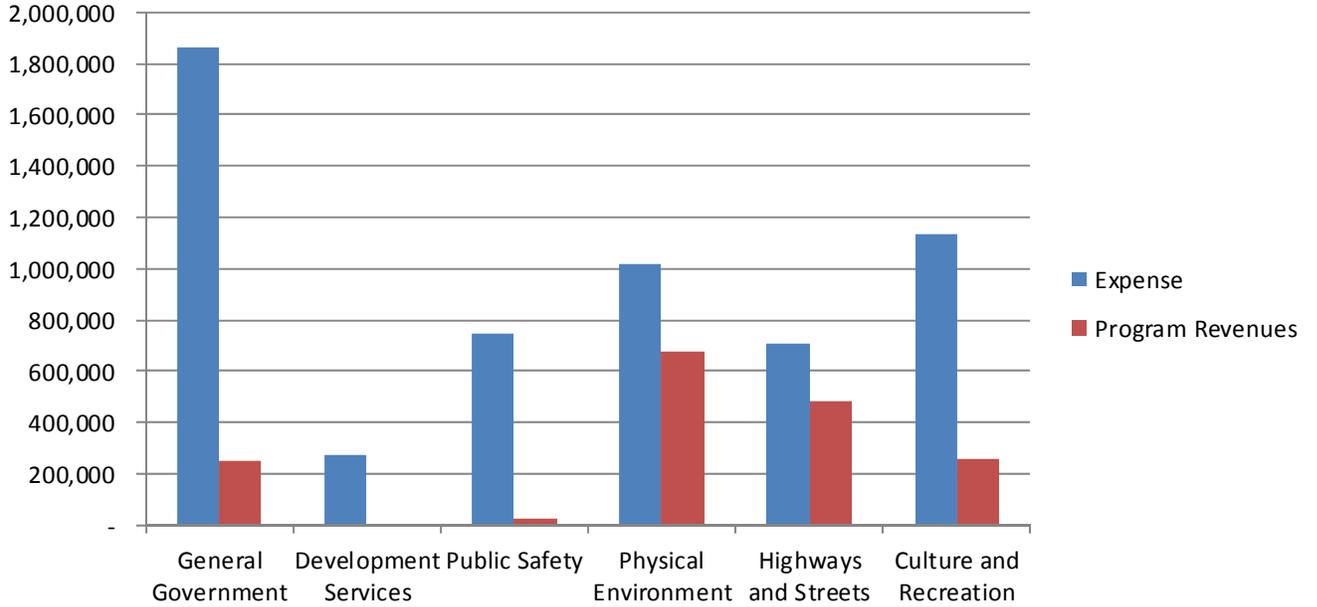
CHANGES IN NET POSITION For the Year Ended September 30,

	Governmental Activities		Business Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,335,631	\$ 919,202	\$ 3,361,084	\$ 3,071,504	\$ 4,696,715	\$ 3,990,706
Operating Grants and Contributions	302,405	313,838	499,413	498,463	801,818	812,301
Capital Grants and Contributions	59,798	-	-	-	59,798	-
General Revenues:						
Property Taxes	2,232,635	2,185,897	-	-	2,232,635	2,185,897
Other Taxes and Fees	1,799,337	2,527,851	-	-	1,799,337	2,527,851
Intergovernmental	693,266	-	-	-	693,266	-
Other	172,958	72,915	38,560	(204,975)	211,518	(132,060)
Total revenues	6,596,030	6,019,703	3,899,057	3,364,992	10,495,087	9,384,695
Expenses:						
General Government	1,862,688	1,629,809	-	-	1,862,688	1,629,809
Community Development Services	273,594	188,053	-	-	273,594	188,053
Public Safety	748,637	728,800	-	-	748,637	728,800
Physical Environment	1,014,470	976,366	-	2,686,427	1,014,470	3,662,793
Economic Environment	-	54,916	-	-	-	54,916
Roads and Streets	706,107	472,832	-	-	706,107	472,832
Culture and Recreation	1,134,069	1,021,935	-	-	1,134,069	1,021,935
Interest on Long-term Debt	-	505,443	-	-	-	505,443
Water and Sewer	-	-	3,019,667	-	3,019,667	-
Cemetery	-	-	37,816	-	37,816	-
Total expenses	5,739,565	5,578,154	3,057,483	2,686,427	8,797,048	8,264,581
Increase (Decrease) in Net Position Before Transfers	856,465	441,549	841,574	678,565	1,698,039	1,120,114
Transfers	403,500	595,909	(403,500)	(353,500)	-	242,409
Increase (Decrease) in Net Position	1,259,965	1,037,458	438,074	325,065	1,698,039	1,362,523
Net Position- October 1, restated	29,909,753	28,750,617	19,308,728	19,279,030	49,218,481	48,029,647
Net Position- September 30	\$ 31,169,718	\$ 29,788,075	\$ 19,746,802	\$ 19,604,095	\$ 50,916,520	\$ 49,392,170

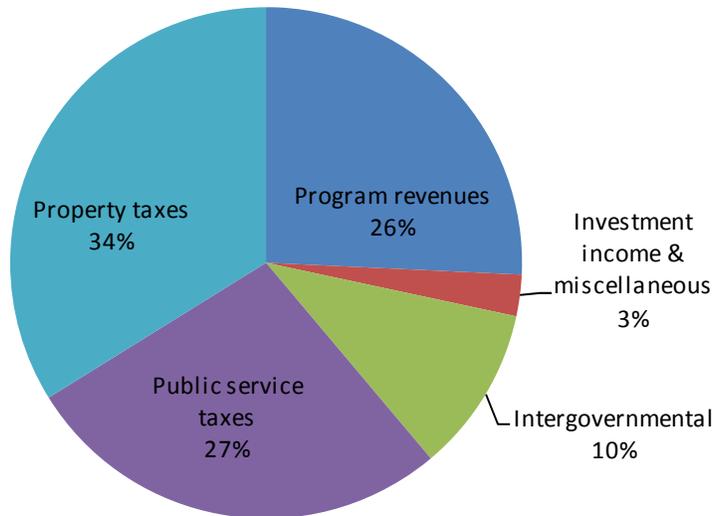
Net position October 1, 2013 includes the Community Redevelopment fund as a blended component unit. This was reported as a discretely presented component unit in 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS

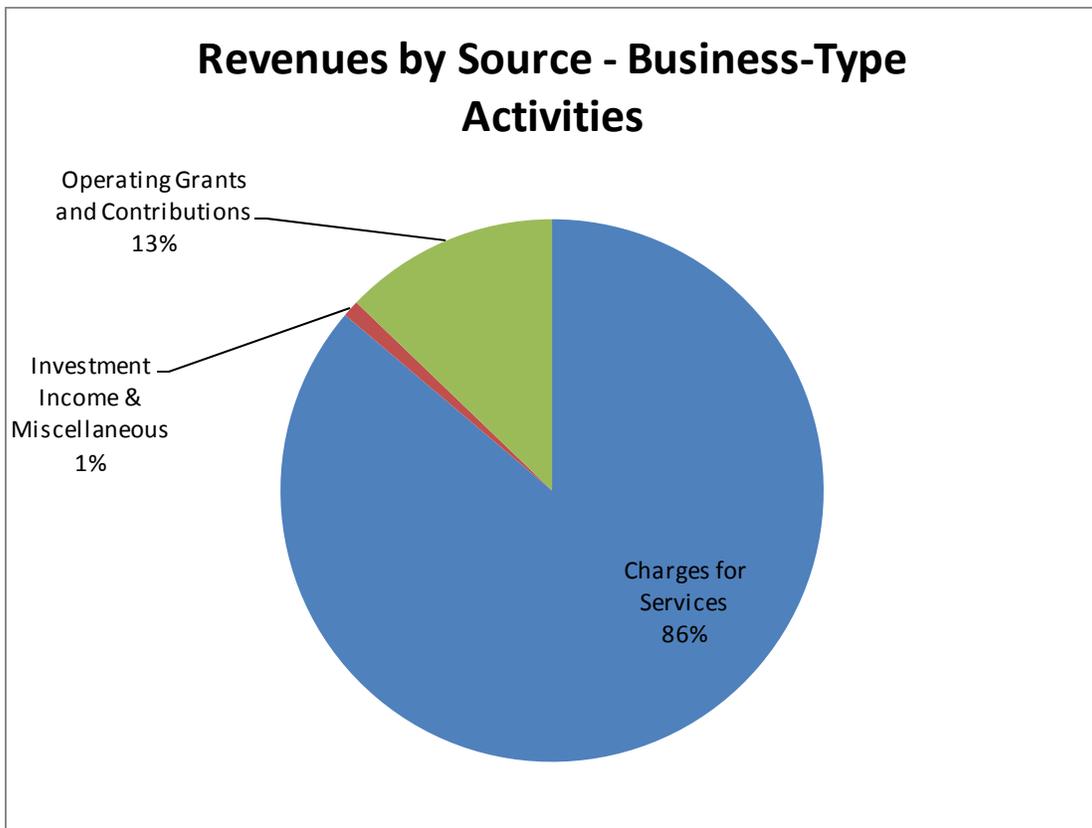
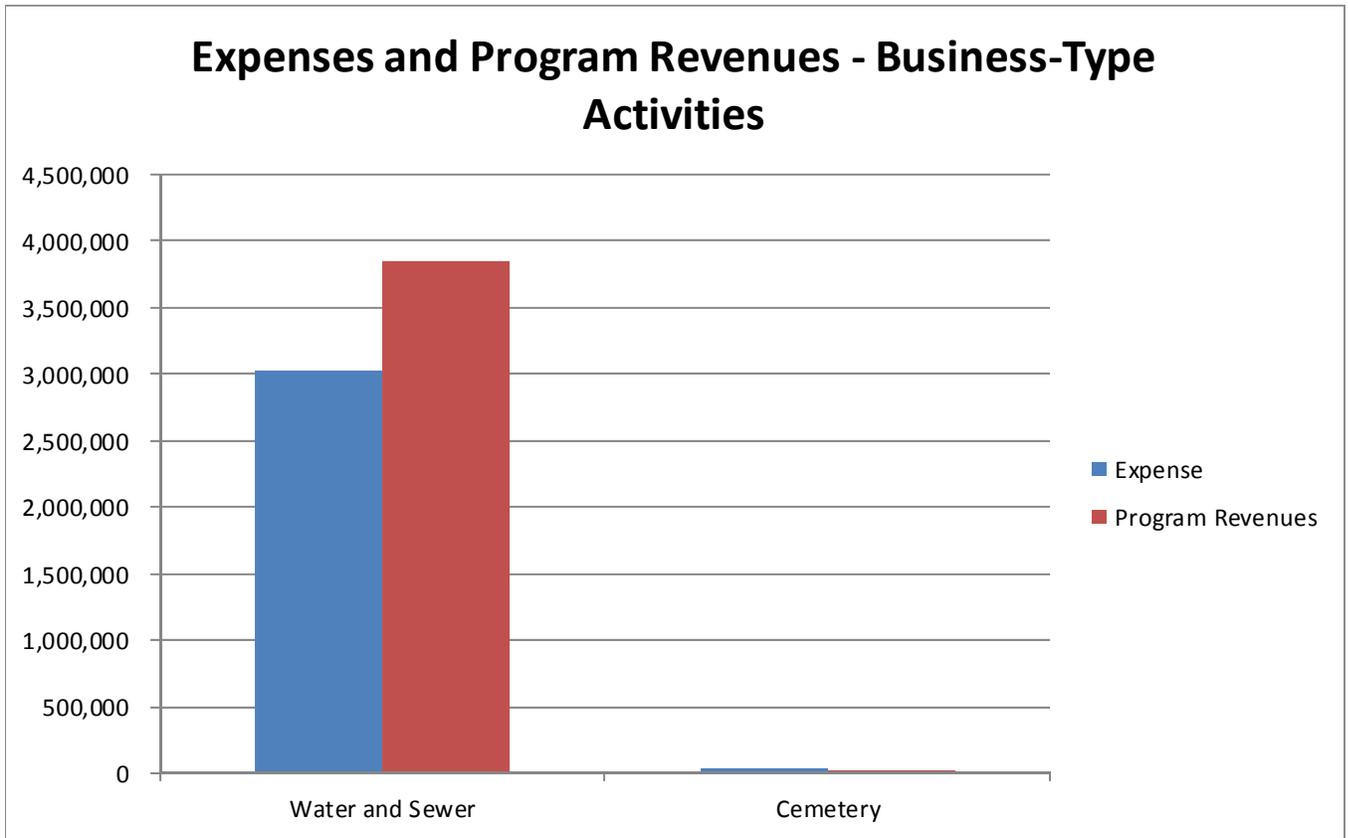
Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



MANAGEMENT'S DISCUSSION AND ANALYSIS



MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City of Inverness' *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Inverness' 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 September 30, 2014, the City of Inverness' governmental funds reported combined ending fund balances of \$12,010,865 a decrease of \$553,218 in comparison with the prior year. Approximately 26% or \$3,108,257 of this total amount constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is restricted, committed, or assigned to indicate that it is not available for new spending.

The general fund is the chief operating fund of the City of Inverness. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,108,257 while total fund balance reached \$6,100,125. 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, compared to 22% for last year. Total fund balance represents 138% of total general fund expenditures, compared to 63% for last year.

Fund balance of the City of Inverness' General Fund increased by \$288,536 due to an increase in rental revenue for space in the Inverness Government Center in the amount of \$97,000, continued revenue growth in the area of commercial sanitation as the economic conditions improve in the community generating an increase in revenues of \$194,000 over FY2013. There is a continued effort by the City to reduce operational expenditures adequately below revenues in order to maintain sufficient funding levels for future investment in capital assets.

The Community Redevelopment Special Revenue Fund is considered a major fund in order for our external auditors to express an opinion on this fund as required by Florida Statutes chapter 163.387(8). This fund was created in 1990 as a dependent taxing district. The incremental annual increase in tax over the base years is used to fund projects. As of September 30, 2014, the fund balance was \$98,059 an increase of \$50,874 over the prior year. This increase is due to continued growth in property values in the Tax Increment Financing District increasing revenues \$23,382 and a decrease in planned operational expenses in the amount of \$15,447.

Fund balance of Whispering Pines Park increased \$86,800 to \$367,460. This increase was primarily due to transfers into the fund from the General Fund.

The fund balance of the Capital Projects Fund decreased \$968,508 as a result of a budgetary planned decrease in fund balance for capital project expenditures.

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

Unrestricted net position of the Water and Sewer Fund at the end of the year amounted to \$4,669,298 and unrestricted net position for the Cemetery Fund amounted to \$309,299. The total increase in Water and Sewer Utility Fund was \$458,417, and decrease in the Cemetery Fund was \$20,343. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Inverness' business-type activities on page 6.

MANAGEMENT'S DISCUSSION AND ANALYSIS

General Fund Budgetary Highlights

Total appropriations and transfers out in the General Fund Budget increased \$935,675 from the original to final budget due primarily to an increase in transfers to the Capital Improvement Fund for land acquisitions.

During the year revenues were less than budgetary estimates by \$184,405, due primarily to decreased taxes received. Expenditures were less than budgetary estimates by \$879,901.

Capital Asset and Debt Administration

Capital Assets. The City of Inverness' investment in capital assets for its governmental and business type activities as of September 30, 2014 amounts to \$44,825,525 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, vehicles and equipment.

Major capital asset events during the current fiscal year included the following:

Governmental Activities

- Land Acquisition (Pine Street, Dampier Street and Apopka Ave.)- \$805,538
- Inverness Government Center- 2nd Floor Build-out- \$441,131
- Information Technology- Storage Network Upgrades- \$47,124
- Information Technology- Software/Hardware Acquisition- \$81,138
- Public Works Facility Roof Renovation - \$152,765
- Annual Road Resurfacing Program - \$344,208
- Valerie Theatre Renovation \$413,885
- Whispering Pines Park- Parking Lot Resurfacing- \$34,825
- Equipment Replacements- \$39,039

Business-Type Activities

- Automated Metering Infrastructure- \$1,800,591
- Mobile Generator- \$52,700

Additional information on the City of Inverness' capital assets can be found in note 7 on pages 41-42 of this report.

Capital Assets
(net of depreciation)
As of September 30, 2014 and September 30, 2013

	Governmental Activities		Business Activities		Total	
	2013		2013		2013	
	2014	(restated)	2014	(restated)	2014	(restated)
Land	\$ 3,328,507	\$ 2,523,219	\$ 651,855	\$ 651,855	\$ 3,980,362	\$ 3,175,074
Buildings	6,017,802	5,533,968	15,675,292	16,032,970	21,693,094	21,566,938
Improvements	8,464,074	8,445,260	6,231,736	6,458,881	14,695,810	14,904,141
Machinery and Equipment	452,881	434,787	1,076,923	1,145,387	1,529,804	1,580,174
Intangibles	85,128	84,531	-	-	85,128	84,531
Construction in Progress	1,016,309	498,070	1,825,018	28,943	2,841,327	527,013
Total capital assets	<u>\$ 19,364,701</u>	<u>\$ 17,519,835</u>	<u>\$ 25,460,824</u>	<u>\$ 24,318,036</u>	<u>\$ 44,825,525</u>	<u>\$ 41,837,871</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration (Continued)

Long-term debt. At the end of the current fiscal year, the City of Inverness had total debt outstanding of \$12,102,265.

**City of Inverness
Long Term Debt
As of September 30**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
SRF Note Payable	\$ -	\$ -	\$ 10,245,640	\$ 10,705,788	\$ 10,245,640	\$ 10,705,788
Capital Lease	-	-	1,856,625	1,883,000	1,856,625	1,883,000
Total	\$ -	\$ -	\$ 12,102,265	\$ 12,588,788	\$ 12,102,265	\$ 12,588,788

During Fiscal Year 2009, the City borrowed \$16,438,625 through the Department of Environmental Protection State Revolving Fund program for the purpose of constructing a Wastewater Treatment Plant and Reclamation Facility. The City received grant funding for the amount of \$10,000,000 which offset debt principal and interest payments for a period of twenty years from January 1, 2011 through July 1, 2030. The City made a principal payment in the amount of \$4,000,000 on January 15, 2012 to offset the debt and to reduce future payments. The City will be responsible for repayment of \$10,705,788 of the loan principal for a period of twenty-six years commencing on January 1, 2011 through July 1, 2036.

In September 2013, the city entered into a \$1,883,000 Master Lease Agreement with SunTrust Bank. The purpose of the lease is to finance a portion of the City's Energy Performance Program of \$2,255,246 for installation of the energy conservation measures including automated metering infrastructure. Total cost savings and revenue improvements annually for the combined program is \$207,314. The city provided \$375,000 in committed capital funding from the Utility Fund to offset the total financed investment cost of the program. The remaining project balance is financed with a Master Lease Purchase Agreement with SunTrust in the amount of \$1,883,000 at a rate of 2.8% for a period of 12 years. Repayment of the agreement commenced on June 15, 2014, payable semi-annually starting with payments of \$66,500 and increasing annually to a maximum payment of \$114,500 due in June and December 2025.

Additional information on the City of Inverness' long-term debt can be found in notes 8 and 9 on pages 43-44 of this report.

Economic Factors and Next Year's Budgets and Rates

Ad valorem revenues remain flat in fiscal year 2014. The City's total assessed valuation for real and personal property increased by only 0.15% in 2014 with valuation still below the 2009 values. The unemployment rate for Inverness at September 30, 2013 was 7.3% which again is higher than the overall state percentage of 6.1% on that same date. Interest rates remain at low levels with earning in the .25 to 1.2% range. Local indicators point to a slow growth trend but there continues to be some increased movement in commercial and residential construction as indicated by the increase in building permit revenue and sales tax receipts. The 2014 budget was approved with a slightly higher millage rate of 6.4955 mils. This rate is equal to the rolled back rate of resulting in a stable tax levy for most citizens. The total operating budget adopted for fiscal year 2014-2015 is \$36,924,471.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Inverness boasts the most extensive benefit program in Citrus County for residents and businesses alike. Highlights of services, projects and initiatives include:

- Extensive parks, recreational and cultural program
- Whispering Pines Park at 280 acres is the crown jewel leasing facility in a multi-county area
- Lake front parks and Cooter Pond Park and boardwalks envelop the Business District
- High level marketing and branding of the City
- Full year, highly energized, special event schedule
- Conservation and green initiatives like: electric vehicle charging stations, solar powered sidewalk compactors, curbside recycling and LED light efficiency program
- Residential neighborhood/street illumination program
- City beautification through the Central Business District
- Historic plaque and building identification program
- Comprehensive planning and visioning for 40+ years
- State of the art wastewater treatment and recovery plan that is regional in nature, form and function
- Production of reclaimed water for irrigation
- Potable water system to serve the City and beyond
- Law enforcement services
- Full solid waste, recycling, yard waste and bulk item program
- Full franchising of solid waste for commercial applications
- Stormwater and lake management program
- Tree City USA designation

The adopted budget and capital improvement plan reflect the City's hallmark of community and fiscal planning. The General Fund of the City of Inverness is debt free and sound. Reserves are strong and the community is well positioned to aggressively seek grants and address unforeseen anomalies that may arise. Careful planning on a fiscal and community level has been a recognized, and publicized, strength. Operational costs have been managed to not appreciably increase and payroll has been reduced to extremely low levels when compared to like governments of the area. Departmental and program goals are identified to ensure that services address the highest priorities established by City Council, including: high level public safety, community appearance, and development standards that retain our history and character. Recreational, cultural and special event programming provides enrichment opportunities, economic vitality and growth. A proactive presence by the City with respect to community celebrations and special events have been well received by businesses and families alike. It's all about community and Inverness defines "coming together" in Small Town America.

Service levels are unchanged, slightly improved, and largely consistent with prior years. The Inverness community is mostly impacted by state and national economic conditions, and we work diligently to create a model of opportunity and success for venture capital. Our concern remains with activity at the State level, which continues to direct resources away from local communities. State Revenue Sharing has decreased, funding of the State managed pension system has soared, and the latest attempt to remove telecommunication fees from the local revenue stream would be a material negative impact. Revenue loss means that fewer funds are available for important capital improvements in our downtown project area, and/or to provide services in general. Inverness' financial condition is sound, and the City holds to a course that is fiscally sustainable. All necessary steps continue to be taken to ensure a successful operation in what has become a less certain fiscal climate. Revenues and expenditures will continue to be carefully and consistently monitored to ensure the current and future budgets remain balanced, and the City will continue to offer the best possible services, plan and invest in meaningful improvement projects, and continue to support the quality of life that Inverness residents desire and expect.

Requests for Information

This financial report is designed to provide a general overview of the City of Inverness' 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 the Finance Director, 212 West Main Street, Inverness, Florida 34450.

BASIC FINANCIAL STATEMENTS

CITY OF INVERNESS, FLORIDA

STATEMENT OF NET POSITION

September 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 7,423,641	\$ 2,628,838	\$ 10,052,479
Investments	4,493,463	2,743,891	7,237,354
Receivables, net	393,991	459,767	853,758
Internal balances	-	-	-
Due from other governments	59,798	35,628	95,426
Inventories	1,200	98,112	99,312
Prepaid costs	167,758	20,176	187,934
Restricted assets:			
Cash and cash equivalents	-	1,151,701	1,151,701
Investments	-	-	-
Capital Assets:			
Capital assets not being depreciated	4,344,816	2,476,873	6,821,689
Capital assets being depreciated, net of accumulated depreciation	15,019,885	22,983,951	38,003,836
Total capital assets	<u>19,364,701</u>	<u>25,460,824</u>	<u>44,825,525</u>
Total assets	<u>31,904,552</u>	<u>32,598,937</u>	<u>64,503,489</u>
LIABILITIES:			
Accounts payable and accrued expenses	439,581	436,067	875,648
Due to other governmental agencies	4,835	-	4,835
Accrued interest	-	65,324	65,324
Deposits payable	13,968	238,948	252,916
Unearned revenue	70,602	-	70,602
Noncurrent liabilities:			
Due within one year	18,600	573,725	592,325
Due in more than one year	187,248	11,538,071	11,725,319
Total liabilities	<u>734,834</u>	<u>12,852,135</u>	<u>13,586,969</u>
NET POSITION:			
Net investment in capital assets	19,364,701	14,236,604	33,601,305
Restricted for:			
Community redevelopment	98,059	-	98,059
Perpetual Care	-	531,600	531,600
Unrestricted	11,706,958	4,978,598	16,685,556
Total net position	<u>\$ 31,169,718</u>	<u>\$ 19,746,802</u>	<u>\$ 50,916,520</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF INVERNESS, FLORIDA

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2014

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions		Primary Government			
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government								
Governmental Activities								
General Government	\$ 1,862,688	\$ 252,216	\$ -	\$ -	\$ (1,610,472)	\$ -	\$ -	(1,610,472)
Community Development Services	273,594	-	-	-	(273,594)	-	-	(273,594)
Public Safety	748,637	28,029	-	-	(720,608)	-	-	(720,608)
Physical Environment	1,014,470	676,662	-	-	(337,808)	-	-	(337,808)
Highways & Streets	706,107	183,072	302,405	-	(220,630)	-	-	(220,630)
Culture and Recreation	1,134,069	195,652	-	59,798	(878,619)	-	-	(878,619)
Total governmental activities	5,739,565	1,335,631	302,405	59,798	(4,041,731)	-	-	(4,041,731)
Business-type activities:								
Water	3,019,667	3,342,816	499,413	-	-	822,562	-	822,562
Cemetery	37,816	18,268	-	-	-	(19,548)	-	(19,548)
Total business-type activities	3,057,483	3,361,084	499,413	-	-	803,014	-	803,014
Total primary government	\$ 8,797,048	\$ 4,696,715	\$ 801,818	\$ 59,798	(4,041,731)	803,014	-	(3,238,717)
General Revenues:								
Property taxes					2,232,635	-	-	2,232,635
Public service taxes					1,799,337	-	-	1,799,337
Intergovernmental					693,266	-	-	693,266
Unrestricted investment earnings					37,834	32,055	-	69,889
Miscellaneous					135,124	6,505	-	141,629
Transfers					403,500	(403,500)	-	-
Total general revenues and transfers					5,301,696	(364,940)	-	4,936,756
Change in net position					1,259,965	438,074	-	1,698,039
Net Position - beginning, as restated					29,909,753	19,308,728	-	49,218,481
Net Position - ending					\$ 31,169,718	\$ 19,746,802	\$ -	\$ 50,916,520

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF INVERNESS, FLORIDA

BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2014

	General Fund	Special Revenue		Capital Projects
		Whispering Pines Park	Community Redevelopment Fund	
ASSETS:				
Cash and cash equivalents	\$ 2,089,887	\$ 370,282	\$ 98,192	\$ 4,373,320
Investments	3,822,365	-	-	671,098
Accounts Receivable, net	369,355	7,135	-	-
Due from other governments	-	-	-	59,798
Other receivables	-	-	-	-
Inventories	1,200	-	-	-
Prepaid costs	163,636	4,122	-	-
Total assets	<u>\$ 6,446,443</u>	<u>\$ 381,539</u>	<u>\$ 98,192</u>	<u>5,104,216</u>
LIABILITIES:				
Accounts payable	\$ 170,668	\$ 4,566	\$ 133	164,811
Due to other governments	1,190	-	-	-
Deposits payable	13,958	10	-	-
Accrued liabilities	89,900	9,503	-	-
Unearned revenue	70,602	-	-	-
Total liabilities	<u>346,318</u>	<u>14,079</u>	<u>133</u>	<u>164,811</u>
FUND BALANCES:				
Nonspendable	164,836	4,122	-	-
Restricted for:				
Road Improvements	-	-	-	-
Community redevelopment	-	-	98,059	-
Committed to:				
Capital Equipment Replacement	633,000	-	-	-
Land Acquisition	570,687	-	-	-
Inverness Government Center Sustainability	537,345	-	-	-
Disaster Preparedness/Mitigation	750,000	-	-	-
Employee Accrual Balance	136,000	-	-	-
Tort Litigation	200,000	-	-	-
Parks Operation/Capital	-	363,338	-	-
Road Improvements	-	-	-	-
Capital Projects	-	-	-	4,939,405
Unassigned	3,108,257	-	-	-
Total fund balances	<u>6,100,125</u>	<u>367,460</u>	<u>98,059</u>	<u>4,939,405</u>
Total Liabilities and Fund Balances	<u>\$ 6,446,443</u>	<u>\$ 381,539</u>	<u>\$ 98,192</u>	<u>\$ 5,104,216</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$ 491,960	\$ 7,423,641
-	4,493,463
4,668	381,158
-	59,798
12,833	12,833
-	1,200
-	167,758
\$ 509,461	\$ 12,539,851
\$ -	\$ 340,178
3,645	4,835
-	13,968
-	99,403
-	70,602
3,645	528,986
-	168,958
492,967	492,967
-	98,059
-	633,000
-	570,687
-	537,345
-	750,000
-	136,000
-	200,000
-	363,338
12,849	12,849
-	4,939,405
-	3,108,257
505,816	12,010,865
\$ 509,461	\$ 12,539,851

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF INVERNESS, FLORIDA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION**

September 30, 2014

Total Fund Balance, Governmental Funds		\$ 12,010,865
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		19,364,701
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds		
Compensated absences	(185,835)	
Other postemployment benefits	<u>(20,013)</u>	<u>(205,848)</u>
Net Position of Governmental Activities in the Statement of Net Position		<u>\$ 31,169,718</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF INVERNESS, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended September 30, 2014

	General Fund	Special Revenue Funds		
		Whispering Pines Park	Community Redevelopment Fund	Capital Projects
REVENUES:				
Taxes and special assessments	\$ 3,930,951	\$ -	\$ 147,126	\$ -
Licenses and permits	91,956	-	-	-
Intergovernmental	995,671	7,500	-	59,798
Impact fees	-	-	-	-
Charges for services	821,020	80,174	-	21,662
Fees and fines	28,029	-	-	-
Investment earnings	20,453	782	296	15,728
Miscellaneous	226,559	16,864	-	-
Total revenues	<u>6,114,639</u>	<u>105,320</u>	<u>147,422</u>	<u>97,188</u>
EXPENDITURES:				
Current:				
General government	1,576,227	-	-	34,593
Community development services	188,240	-	20,048	-
Public safety	748,637	-	-	-
Highways and streets	529,425	-	-	3,911
Physical environment	1,014,470	-	-	-
Culture and recreation	370,735	532,389	-	5,914
Capital Outlay	-	-	-	2,528,159
Total expenditures	<u>4,427,734</u>	<u>532,389</u>	<u>20,048</u>	<u>2,572,577</u>
Excess of revenues over expenditures	<u>1,686,905</u>	<u>(427,069)</u>	<u>127,374</u>	<u>(2,475,389)</u>
OTHER FINANCING USES:				
Transfers in	415,000	555,869	-	1,506,881
Transfers out	<u>(1,813,369)</u>	<u>(42,000)</u>	<u>(76,500)</u>	<u>-</u>
Total other financing uses	<u>(1,398,369)</u>	<u>513,869</u>	<u>(76,500)</u>	<u>1,506,881</u>
Net change in fund balances	288,536	86,800	50,874	(968,508)
Fund balances - beginning	5,811,589	280,660	47,185	5,907,913
Fund balances - ending	<u>\$ 6,100,125</u>	<u>\$ 367,460</u>	<u>\$ 98,059</u>	<u>\$ 4,939,405</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$ -	\$ 4,078,077
-	91,956
-	1,062,969
130,886	130,886
-	922,856
-	28,029
575	37,834
-	243,423
<u>131,461</u>	<u>6,596,030</u>
-	1,610,820
-	208,288
-	748,637
-	533,336
-	1,014,470
-	909,038
-	2,528,159
<u>-</u>	<u>7,552,748</u>
<u>131,461</u>	<u>(956,718)</u>
-	2,477,750
<u>(142,381)</u>	<u>(2,074,250)</u>
<u>(142,381)</u>	<u>403,500</u>
(10,920)	(553,218)
516,736	12,564,083
<u>\$ 505,816</u>	<u>\$ 12,010,865</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF INVERNESS, 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, 2014

Net Change in Fund Balances - total governmental funds: \$ (553,218)

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.

Expenditures for capital assets	2,498,234	
Less: current year depreciation	(645,112)	1,853,122

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins and disposals) is to decrease net assets (8,256)

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds.

Change in long-term compensated absences	(28,530)	
Change in other post employment benefits	(3,153)	(31,683)

Change in net position of governmental activities \$ 1,259,965

CITY OF INVERNESS, FLORIDA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND**

For the Year Ended September 30, 2014

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes and Special Assessments	\$ 4,083,921	\$ 4,083,921	\$ 3,930,951	\$ (152,970)
Licenses and Permits	63,300	76,300	91,956	15,656
Intergovernmental	974,000	974,000	995,671	21,671
Impact Fees	-	-	-	-
Charges for Services	886,570	897,220	821,020	(76,200)
Fees and Fines	19,500	19,500	28,029	8,529
Investment Earnings	65,250	65,250	20,453	(44,797)
Miscellaneous	132,853	182,853	226,559	43,706
Total revenues	<u>6,225,394</u>	<u>6,299,044</u>	<u>6,114,639</u>	<u>(184,405)</u>
EXPENDITURES:				
Current:				
General government	2,126,566	2,079,642	1,576,227	503,415
Community development services	212,946	225,946	188,240	37,706
Public safety	762,808	762,808	748,637	14,171
Highways and streets	659,067	701,667	529,425	172,242
Physical environment	1,021,700	1,031,700	1,014,470	17,230
Culture and recreation	469,947	505,872	370,735	135,137
Total expenditures	<u>5,253,034</u>	<u>5,307,635</u>	<u>4,427,734</u>	<u>879,901</u>
Excess (deficiency) of revenues over expenditures	<u>972,360</u>	<u>991,409</u>	<u>1,686,905</u>	<u>695,496</u>
OTHER FINANCING SOURCES:				
Transfers in	415,000	415,000	415,000	-
Transfers out	<u>(994,369)</u>	<u>(1,875,443)</u>	<u>(1,813,369)</u>	<u>62,074</u>
Total other financing sources	<u>(579,369)</u>	<u>(1,460,443)</u>	<u>(1,398,369)</u>	<u>62,074</u>
Net change in fund balances	392,991	(469,034)	288,536	757,570
Fund Balance - beginning	<u>5,811,589</u>	<u>5,811,589</u>	<u>5,811,589</u>	<u>-</u>
Fund Balance - ending	<u>\$ 6,204,580</u>	<u>\$ 5,342,555</u>	<u>\$ 6,100,125</u>	<u>\$ 757,570</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF INVERNESS, FLORIDA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
WHISPERING PINES PARK SPECIAL REVENUE FUND**

For the Year Ended September 30, 2014

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 7,500	\$ 7,500	\$ 7,500	\$ -
Charges for Services	71,850	128,450	80,174	(48,276)
Investment Earnings	800	800	782	(18)
Miscellaneous	3,500	3,500	16,864	13,364
Total revenues	<u>83,650</u>	<u>140,250</u>	<u>105,320</u>	<u>(34,930)</u>
EXPENDITURES:				
Current:				
Culture and recreation	<u>597,519</u>	<u>654,119</u>	<u>532,389</u>	<u>121,730</u>
Total expenditures	<u>597,519</u>	<u>654,119</u>	<u>532,389</u>	<u>121,730</u>
Excess (deficiency) of revenues over expenditures	<u>(513,869)</u>	<u>(513,869)</u>	<u>(427,069)</u>	<u>86,800</u>
OTHER FINANCING SOURCES:				
Transfers in	555,869	555,869	555,869	-
Transfers out	<u>(42,000)</u>	<u>(42,000)</u>	<u>(42,000)</u>	-
Total other financing sources	<u>513,869</u>	<u>513,869</u>	<u>513,869</u>	-
Net change in fund balances	-	-	86,800	86,800
Fund Balance - beginning	<u>280,660</u>	<u>280,660</u>	<u>280,660</u>	-
Fund Balance - ending	<u>\$ 280,660</u>	<u>\$ 280,660</u>	<u>\$ 367,460</u>	<u>\$ 86,800</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF INVERNESS, FLORIDA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
COMMUNITY REDEVELOPMENT FUND**

For the Year Ended September 30, 2014

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes and Special Assessments	\$ 65,000	\$ 65,000	\$ 147,126	\$ 82,126
Investment Earnings	1,500	1,500	296	(1,204)
Total revenues	<u>66,500</u>	<u>66,500</u>	<u>147,422</u>	<u>80,922</u>
EXPENDITURES:				
Current:				
Community development services	<u>38,495</u>	<u>38,495</u>	<u>20,048</u>	<u>18,447</u>
Total expenditures	<u>38,495</u>	<u>38,495</u>	<u>20,048</u>	<u>18,447</u>
Excess (deficiency) of revenues over expenditures	<u>28,005</u>	<u>28,005</u>	<u>127,374</u>	<u>99,369</u>
OTHER FINANCING SOURCES:				
Transfers in	60,000	62,074	-	(62,074)
Transfers out	<u>(76,500)</u>	<u>(76,500)</u>	<u>(76,500)</u>	<u>-</u>
Total other financing sources	<u>(16,500)</u>	<u>(14,426)</u>	<u>(76,500)</u>	<u>(62,074)</u>
Net change in fund balances	11,505	13,579	50,874	37,295
Fund Balance - beginning	47,185	47,185	47,185	-
Fund Balance - ending	<u>\$ 58,690</u>	<u>\$ 60,764</u>	<u>\$ 98,059</u>	<u>\$ 37,295</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF INVERNESS, FLORIDA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

September 30, 2014

	Enterprise Funds		
	Water and Sewer Utility	Cemetery	Total
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 2,459,403	\$ 169,435	\$ 2,628,838
Investments	2,170,890	573,001	2,743,891
Accounts receivable, net	403,287	1,075	404,362
Receivables from other governments	35,628	-	35,628
Accrued interest receivable	31,970	-	31,970
Other receivables	23,435	-	23,435
Inventories	-	98,112	98,112
Prepays	19,549	627	20,176
Total current assets	<u>5,144,162</u>	<u>842,250</u>	<u>5,986,412</u>
Noncurrent assets:			
Restricted cash and cash equivalents	1,151,701	-	1,151,701
Total restricted assets	<u>1,151,701</u>	<u>-</u>	<u>1,151,701</u>
Capital assets:			
Land, buildings and equipment	36,013,211	54,716	36,067,927
Construction in progress	1,825,018	-	1,825,018
Less accumulated depreciation	(12,382,047)	(50,074)	(12,432,121)
Total capital assets (net of depreciation)	<u>25,456,182</u>	<u>4,642</u>	<u>25,460,824</u>
Total noncurrent assets	<u>26,607,883</u>	<u>4,642</u>	<u>26,612,525</u>
Total assets	<u>31,752,045</u>	<u>846,892</u>	<u>32,598,937</u>
LIABILITIES:			
Current Liabilities:			
Accounts payable and accrued expenses	434,717	1,350	436,067
Accrued interest payable	65,324	-	65,324
Customer deposits payable	238,948	-	238,948
Compensated absences	9,531	-	9,531
Capital lease obligation	88,774	-	88,774
Notes payable	475,420	-	475,420
Total current liabilities	<u>1,312,714</u>	<u>1,350</u>	<u>1,314,064</u>
Noncurrent Liabilities:			
Capital lease payable	1,767,851	-	1,767,851
Notes payable	9,770,220	-	9,770,220
Total noncurrent liabilities	<u>11,538,071</u>	<u>-</u>	<u>11,538,071</u>
Total liabilities	<u>12,850,785</u>	<u>1,350</u>	<u>12,852,135</u>
NET POSITION:			
Net investment in capital assets	14,231,962	4,642	14,236,604
Restricted for perpetual care	-	531,600	531,600
Unrestricted	4,669,298	309,300	4,978,598
Total net position	<u>\$ 18,901,260</u>	<u>\$ 845,542</u>	<u>\$ 19,746,802</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF INVERNESS, FLORIDA

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUNDS**

For the Year Ended September 30, 2014

	Enterprise Funds		
	Water and Sewer Utility	Cemetery	Total
Operating Revenues:			
Charges for services	\$ 3,318,577	\$ 17,880	\$ 3,336,457
Miscellaneous	24,239	388	24,627
Total operating revenues	<u>3,342,816</u>	<u>18,268</u>	<u>3,361,084</u>
Operating expenses:			
Salaries and benefits	154,863	121	154,984
Contractual services	1,371,397	32,400	1,403,797
Utilities	229,701	1,249	230,950
Materials and supplies	52,810	-	52,810
Other operating expenses	147,253	3,396	150,649
Depreciation	764,049	650	764,699
Total operating expenses	<u>2,720,073</u>	<u>37,816</u>	<u>2,757,889</u>
Operating income	<u>622,743</u>	<u>(19,548)</u>	<u>603,195</u>
Nonoperating Revenue (Expenses):			
Investment income	30,425	1,630	32,055
Operating grants and contributions	499,413	-	499,413
Gain (loss) on disposal of capital assets	5,430	1,075	6,505
Interest expense	(299,594)	-	(299,594)
Total nonoperating revenue (expenses)	<u>235,674</u>	<u>2,705</u>	<u>238,379</u>
Income before transfers	858,417	(16,843)	841,574
Transfers out	<u>(400,000)</u>	<u>(3,500)</u>	<u>(403,500)</u>
Change in net position	458,417	(20,343)	438,074
Total Net Position - beginning	18,738,210	865,885	19,604,095
Restatement of Net Position Due to Implementation of GASB 65	<u>(295,367)</u>	<u>-</u>	<u>(295,367)</u>
Net position- beginning, as restated	18,442,843	865,885	19,308,728
Total Net Position - ending	<u>\$ 18,901,260</u>	<u>\$ 845,542</u>	<u>\$ 19,746,802</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF INVERNESS, FLORIDA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For The Year Ended September 30, 2014

	<u>Water and Sewer Utility</u>	<u>Cemetery</u>	<u>Total</u>
Cash Flows from Operating Activities:			
Receipts from customers	\$ 3,367,338	\$ 17,193	\$ 3,384,531
Payments to suppliers	(1,605,893)	(38,513)	(1,644,406)
Payments to employees	(150,703)	(121)	(150,824)
Net cash provided (used) by operating activities	<u>1,610,742</u>	<u>(21,441)</u>	<u>1,589,301</u>
Cash Flows from Noncapital Financing Activities:			
Net operating transfers in (out)	(400,000)	(3,500)	(403,500)
Operating grants	499,413	-	499,413
Net cash provided (used) by noncapital financing activities	<u>99,413</u>	<u>(3,500)</u>	<u>95,913</u>
Cash Flows from Capital and Related Financing Activities:			
Proceeds from sale of capital assets	5,430	1,075	6,505
Acquisition of capital assets	(1,907,487)	-	(1,907,487)
Principal paid on long-term debt	(486,301)	-	(486,301)
Interest paid on long-term debt	(288,447)	-	(288,447)
Net cash provided (used) by capital and related financing activities	<u>(2,676,805)</u>	<u>1,075</u>	<u>(2,675,730)</u>
Cash Flows from Investing Activities:			
Sales of investments	(11,102)	(1,047)	(12,149)
Investment income	30,425	1,630	32,055
Net cash provided by investing activities	<u>19,323</u>	<u>583</u>	<u>19,906</u>
Net Increase in Cash and Cash Equivalents	(947,327)	(23,283)	(970,610)
Cash and Cash Equivalents - beginning	4,558,431	192,718	4,751,149
Cash and Cash Equivalents - ending	<u>\$ 3,611,104</u>	<u>\$ 169,435</u>	<u>\$ 3,780,539</u>
Classified As:			
Cash and cash equivalents	\$ 2,459,403	\$ 169,435	\$ 2,628,838
Restricted cash and cash equivalents	1,151,701	-	1,151,701
Total	<u>\$ 3,611,104</u>	<u>\$ 169,435</u>	<u>\$ 3,780,539</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

	<u>Water and Sewer Utility</u>	<u>Cemetery</u>	<u>Total</u>
Reconciliation of Operating Income to Net Cash Provided (Used) By Operating Activities			
Operating income	<u>\$ 622,743</u>	<u>\$ (19,548)</u>	<u>\$ 603,195</u>
Adjustments Not Affecting Cash:			
Depreciation and amortization	764,049	650	764,699
Change in Assets and Liabilities:			
(Increase) Decrease in accounts receivable	13,301	(1,075)	12,226
(Increase) Decrease in prepaids	(641)	(21)	(662)
Increase (Decrease) in accounts payable	172,676	(1,447)	171,229
Increase (Decrease) in accrued liabilities	-	-	-
Increase (Decrease) in compensated absences	4,160	-	4,160
Increase in customer deposits	34,454	-	34,454
Total adjustments	<u>987,999</u>	<u>(1,893)</u>	<u>986,106</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 1,610,742</u></u>	<u><u>\$ (21,441)</u></u>	<u><u>\$ 1,589,301</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

Note 1 - Summary of Significant Accounting Policies:

A. Reporting Entity

The City of Inverness, Florida ("the City") is a political subdivision of the state of Florida located in Citrus County, and was incorporated in 1919, under the laws of Florida, Chapter 8274 (Act 492). The legislative branch of the City is comprised of a five-member elected Council and a separately elected Mayor, which is governed by the City Charter and by state and local laws and regulations. The City Council is responsible for the establishment and adoption of policy; the execution of such policy is the responsibility of the City Manager appointed by the Council.

In evaluating how to define the government, for financial reporting purposes, the City has considered all potential component units. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body, and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organizations' resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization. In applying the above criteria, the City has one blended component unit as follows:

The City of Inverness created the Downtown Redevelopment Agency (CRA) by City Resolution No. 90.07. This is a dependent taxing district established in accordance with Chapter 163, Part III, Florida Statutes. Notification to affected taxing agency was done in compliance with Chapter 163.346, Part III, Florida Statutes. The incremental annual increase in tax over the base years will be used to fund projects designed to enhance and improve the described area. The CRA is governed by a board of seven appointed by the City Council. Separate financial statements are not issued for the CRA; the CRA Fund is presented as a blended component unit and is included in the City's fund financials.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements; however interfund services provided and used are not eliminated. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued):

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The government reports the following funds:

Major Governmental Funds

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

The *Whispering Pines Park Special Revenue Fund* accounts for the operations of the Whispering Pines Park, financed principally by contributions from the School Board of Citrus County and transfers from the General Fund.

The *Community Redevelopment Fund* was established as a dependent taxing district. The incremental annual increase in tax over the base years will be used to fund projects designed to enhance and improve the described area.

The *Capital Projects Fund* accounts for the acquisition and construction of major capital assets other than those financed by proprietary funds.

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued):

***C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)***

Nonmajor Governmental Funds

Special Revenue Funds account for specific revenue sources that are legally restricted or committed to expenditures for specific purposes other than debt service or capital projects.

Major Proprietary Funds

The *Water and Sewer Utility Fund* is used to account for the operations of the City's water and sewer systems, which are financed in a manner similar to private business enterprises, where the costs, including depreciation, of providing services to the general public on an ongoing basis are financed primarily through user charges.

The *Cemetery Fund* accounts for the sale of lots and maintenance of the Oak Ridge Cemetery.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the City's water and sewer function and various other functions of the government. 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 all taxes.

All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Water and Sewer Utility and Cemetery funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

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

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued):

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments of the City are reported at fair value. The City's investments consist of investments authorized per the investment policy adopted in accordance with Section 218.415, Florida Statutes.

2. Receivables and Payables

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

Advances between funds, as reported in the fund financial statements, are offset by a non-spendable fund balance account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectibles. The County bills and collects property taxes and remits them to the City. City property tax revenues are recognized when levied to the extent that they result in current receivables.

All property is reassessed according to its fair value on the lien date, or January 1 of each year. Taxes are levied on October 1 of each year. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January, and 1% in the month of February. The taxes paid in March are without discount. All unpaid taxes become delinquent on April 1 following the year in which they are assessed. On or around May 31 following the tax year, certificates are sold for all delinquent taxes on real property.

3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These are recorded as expenditures when consumed rather than when purchased.

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued):

4. Restricted assets

Certain proceeds of the City's enterprise fund notes and leases, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts or their use is limited by applicable debt covenants. Restricted assets also include security deposits held by the enterprise funds. The General Fund also restricts assets for security deposits for commercial sanitation deposits. Assets so designated are identified as restricted assets on the balance sheet.

5. 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 \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. There was no interest capitalized in enterprise fund capital assets in 2014.

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

	<u>Years</u>
Buildings	10-50
Infrastructure and Improvements	10-50
Equipment	5-20
Intangible Assets	5-20

6. Compensated absences

It is the City's policy to permit Charter employees to accumulate earned but unused personal leave benefits. Since the City's policy is to pay accumulated personal leave when employees separate from service, all personal leave is accrued when incurred in the government-wide and proprietary fund financial statements. 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. The City pays general employees any unused leave balances on the employee's anniversary date. General employees may elect to transfer their unused sick time to a catastrophic leave bank, but unused vacation time is not carried over. For governmental funds, compensated absences, and other post-employment benefits are generally liquidated by the General Fund.

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued):

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance (Continued)

7. 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.

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

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial 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 City does not have any item that qualifies for reporting in this category for the year ended September 30, 2014.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City does not have any item that qualifies for reporting in this category for the year ended September 30, 2014.

9. Net position flow assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued):

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance (Continued)

10. Fund balance flow assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted first before using any of the components of unrestricted fund balance. Further when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

11. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision making authority for the City that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classifications are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The Council has the responsibility for assigning fund balance. The Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued):

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance (Continued)

12. New GASB Statements Implemented

In fiscal year 2014, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement provides additional guidance for the items listed in GASB 63 and includes additional changes in accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This Statement requires that debt issuance costs be expensed in the period the debt was issued. This Statement also requires that taxes and lease revenues received prior to the period to which they relate to be classified as Unavailable Revenue (a deferred inflow). Changes to the government-wide statements, schedules, and related disclosures are included in Note 2 which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

In fiscal year 2014, the City implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*. This statement replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The City has implemented the disclosure requirements in Note 11.

Note 2 - Accounting Changes and Restatement of Financial Statements:

The October 1, 2013 beginning net position of the following was restated due to the implementation of GASB Statements 65:

	<u>Water and Sewer Utility Fund</u>	<u>Business-type Activities</u>
Net Position, October 1, 2013, previously stated	\$ 18,738,210	\$ 19,604,095
Restatement of net position due to implementation of GASB 65	<u>(295,367)</u>	<u>(295,367)</u>
Net Position, October 1, 2013, restated	<u>\$ 18,442,843</u>	<u>\$ 19,308,728</u>

The water and sewer utility fund and government-wide net position balance has been adjusted via an accounting change adjustment for the write off of unamortized bond issue costs, as per the implementation of GASB Statement No. 65.

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

Note 3 - Reconciliation of Government-Wide and Fund Financial Statements:

A. *Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position*

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net position- governmental activities* as reported in the government-wide statement of net position.

B. *Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government- Wide Statement of Activities*

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities.

Note 4 - Stewardship, Compliance, and Accountability:

A. *Budgetary Information*

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Whispering Pines Park Special Revenue Fund, Community Redevelopment Agency Special Revenue Fund, Capital Projects Fund and Enterprise Funds, except as described below under Budget Basis of Accounting. All annual appropriations lapse at fiscal yearend. The City follows these procedures set forth below in establishing the budgetary data reflected in the financial statements.

1. Prior to August 1st, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1st. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayers comments.
3. On or before September 30th of each year, public hearings are completed and the Council adopts the final budget and establishes the ad valorem tax millage.
4. The City cannot legally exceed the budget; however, the City Manager is authorized to transfer budgeted amounts within departments within any fund unless the transfer affects a budgeted reserve. The City Council must approve revisions that alter the total expenditures of any department. The legal level of budgetary control is the fund level.
5. Budgetary comparisons are not presented for Enterprise Funds since not required under generally accepted accounting principles.

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

Note 5 - Deposits and Investments:

Deposits

At year-end, the carrying amount of the City's deposits was \$11,204,180 and the bank balance was \$11,534,448. Cash on hand of \$2,228 is not on deposit with a financial institution. All bank deposits were covered by Federal Depository Insurance or held in banks that are members of the State of Florida's Collateral Pool as specified under Florida law. This limits local government deposits to "authorized depositories." The State of Florida Collateral Pool is a multiple financial institution pool with the ability to assess its members for collateral shortfalls if a member institution fails. For this reason, the City considers its deposits insured or collateralized.

Investments

The City's investment policy is governed by State Statutes and City ordinances. The investment policy does not apply to funds related to the issuance of debt where there are other existing policies or indentures in effect. City ordinance allows investments in any financial institution that is a qualified public depository of the State of Florida as identified by the State Treasurer, in accordance with chapter 280 of the Florida Statutes. Authorized investments are:

1. Direct obligations of the U.S. Government, its Agencies or Instrumentalities;
2. Securities and Exchange Commission registered money market mutual funds with the highest credit quality rating from a nationally recognized rating agency;
3. Insured or fully collateralized Certificates of Deposit and other forms of deposit in financial institutions that are qualified public depositories of the State as determined by the State Treasurer, in accordance with Chapter 280.02 of the State Statutes;
4. Financial institution deposits that are in qualified public depositories of the State in accordance with Chapter 280.02, where the selected depository arranges for the deposit of the funds in certificates of deposit in one or more federally insured financial institutions, wherever located, for the account of the City in amounts that ensure that each certificate of deposit is insured by the Federal Deposit Insurance Corporation, and meet the requirements of Chapter 218.415 (23);
5. The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in s. 163.01; and
6. Repurchase agreements secured by direct obligations of the U.S. Government, its Agencies, or Instrumentalities, pledged with an independent third party approved by the City, and having a market value of not less than 102% of investment balance plus interest. All repurchase agreement transactions shall be governed in accordance with a master repurchase agreement executed in compliance with State law.

The SBA is not a registrant with the Securities and Exchange Commission (SEC); however the State of Florida does provide regulatory oversight. The Board has adopted operating procedures consistent with the requirements for a 2a-7 fund for the Florida Prime Fund; therefore, the pool account balance can be used as fair value for the financial reporting.

CITY OF INVERNESS, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

Note 5 - Deposits and Investments (Continued):

Investments (Continued)

Investments made by the City at September 30, 2014 are summarized below.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity (Years)</u>
Florida Prime	\$ 38,649	AAAm	39 days
0-2 Year High Quality Bond	5,591,243	AAA	.75 years
1-3 Year High Quality Bond	1,306,060	AAA	1.49 years
Intermediate HQ Bond Fund	301,402	AAA	3.96 years
	<u>\$ 7,237,354</u>		

Credit Risk:

The City's investment policy limits credit risk by restricting authorized investments to those described above. The policy requires that investments in U.S. Government Agency Securities be guaranteed by the full faith of the U.S. Government. Also, term repurchase agreements must be collateralized by U.S. Treasury securities and overnight (sweep) repurchase agreements must be collateralized by the full faith or general faith and credit obligations of the U.S. Government or U.S. Government Agency Securities. Securities of registered investment companies must be limited to U.S. Government obligations and to repurchase agreements fully collateralized by such U.S. Government obligations.

Custodial Credit Risk:

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires that bank deposits be secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial officer of the State of Florida, and creates the Public Deposits Trust Fund, a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred. At September 30, 2014, all of the City's bank deposits were in qualified public depositories.

For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments of collateral securities that are in the possession of an outside party. At September 30, 2014, none of the investments listed are exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk:

The policy has no limitations on portfolio composition.

Interest Rate Risk:

The policy minimizes interest rate risk by structuring investments to meet cash requirements and diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.

CITY OF INVERNESS, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

Note 6 - Receivables:

Receivables as of yearend for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Whispering Pines Park	Water and Sewer Utility Fund	Cemetery Fund	Other Governmental Funds	Total
Receivables:						
Accounts	\$ 369,355	\$ 7,135	\$ 482,630	\$ 1,075	\$ 4,668	\$ 864,863
Less Allowance for Uncollectible Accounts	-	-	(79,343)	-	-	(79,343)
	<u>\$ 369,355</u>	<u>\$ 7,135</u>	<u>\$ 403,287</u>	<u>\$ 1,075</u>	<u>\$ 4,668</u>	<u>\$ 785,520</u>

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CITY OF INVERNESS, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

Note 7 - Capital Assets:

Beginning balances for both governmental and business-type activities have been restated from prior year amounts to separately show buildings, improvements, intangibles and machinery and equipment. Capital asset activity for the year ended September 30, 2014 was as follows:

	Beginning Balance, as restated	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 2,523,219	\$ 805,288	\$ -	\$ 3,328,507
Construction in progress	498,070	1,390,249	(872,010)	1,016,309
Total capital assets, not being depreciated	<u>3,021,289</u>	<u>2,195,537</u>	<u>(872,010)</u>	<u>4,344,816</u>
Capital assets, being depreciated:				
Buildings	7,196,948	645,748	-	7,842,696
Improvements	11,368,627	392,444	(3,132)	11,757,939
Machinery and equipment	2,261,878	91,684	(407,527)	1,946,035
Intangibles	353,366	36,986	-	390,352
Total capital assets, being depreciated	<u>21,180,819</u>	<u>1,166,862</u>	<u>(410,659)</u>	<u>21,937,022</u>
Less accumulated depreciation for:				
Buildings	(1,662,980)	(161,914)		(1,824,894)
Improvements	(2,923,367)	(373,209)	2,711	(3,293,865)
Machinery and equipment	(1,827,091)	(73,600)	407,537	(1,493,154)
Intangibles	(268,835)	(36,389)		(305,224)
Total accumulated depreciation	<u>(6,682,273)</u>	<u>(645,112)</u>	<u>410,248</u>	<u>(6,917,137)</u>
Total capital assets, being depreciated, net	<u>14,498,546</u>	<u>521,750</u>	<u>(411)</u>	<u>15,019,885</u>
Governmental activities capital assets, net	<u>\$ 17,519,835</u>	<u>\$ 2,717,287</u>	<u>\$ (872,421)</u>	<u>\$ 19,364,701</u>

CITY OF INVERNESS, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

Note 7 - Capital Assets (Continued):

	Beginning Balance, as restated	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 651,855	\$ -	\$ -	\$ 651,855
Construction in progress	28,943	1,804,298	(8,223)	1,825,018
Total capital assets, not being depreciated	<u>680,798</u>	<u>1,804,298</u>	<u>(8,223)</u>	<u>2,476,873</u>
Capital assets, being depreciated:				
Buildings	17,669,190	-	-	17,669,190
Improvements	10,149,916	58,036	(6,497)	10,201,455
Machinery and equipment	7,584,757	53,376	(92,706)	7,545,427
Total capital assets, being depreciated	<u>35,403,863</u>	<u>111,412</u>	<u>(99,203)</u>	<u>35,416,072</u>
Less accumulated depreciation for:				
Buildings	(1,636,220)	(357,678)	-	(1,993,898)
Improvements	(3,691,035)	(285,181)	6,497	(3,969,719)
Machinery and equipment	(6,439,370)	(121,840)	92,706	(6,468,504)
Total accumulated depreciation	<u>(11,766,625)</u>	<u>(764,699)</u>	<u>99,203</u>	<u>(12,432,121)</u>
Total capital assets, being depreciated, net	<u>23,637,238</u>	<u>(653,287)</u>	<u>-</u>	<u>22,983,951</u>
Business-type activities capital assets, net	<u>\$ 24,318,036</u>	<u>\$ 1,151,011</u>	<u>\$ (8,223)</u>	<u>\$ 25,460,824</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government	\$ 199,734
Development services	57,806
Highways and streets	167,779
Culture and recreation	219,793
Total Depreciation Expense - governmental activities	<u>\$ 645,112</u>
Business-type Activities:	
Water and sewer	\$ 764,049
Cemetery	650
Total depreciation Expense - business-type activities	<u>\$ 764,699</u>

CITY OF INVERNESS, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

Note 8 - Leases:

Capital Leases - The City has entered into a lease agreement as lessee for financing the acquisition and installation of water meter equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Assets		
Construction in Progress	\$ -	\$ 1,800,591
Less: Accumulated depreciation	-	-
Total	<u>\$ -</u>	<u>\$ 1,800,591</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2014 were as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
<u>Year Ending September 30</u>		
2015	\$ -	\$ 140,000
2016	-	153,500
2017	-	167,000
2018	-	181,000
2019	-	190,500
2020-2024	-	1,039,000
2025-2026	-	340,500
Total Minimum Lease Payments	-	2,211,500
Less: Amount representing interest	-	(354,875)
	<u>\$ -</u>	<u>\$ 1,856,625</u>

The City leases a portion of its Government center under various operating leases. The following is a schedule of minimum future revenues from non-cancelable agreements as of September 30:

<u>Year Ending September 30</u>	
2015	\$ 128,796
2016	122,541
2017	122,806
2018	124,502
2019	122,200
Thereafter	161,644
	<u>\$ 782,489</u>

Total income under non-cancelable operating leases for the year ended September 30, 2014 was \$108,299. Following is a schedule of approximate cost or carrying value and accumulated depreciation of capital assets under operating leases:

Buildings	\$ 1,925,718
Accumulated depreciation	(264,869)
Capital assets held for lease, net	<u>\$ 1,660,849</u>

CITY OF INVERNESS, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

Note 9 - Long-Term Debt:

Notes Payable

In 2005, the City executed a State Revolving Loan agreement for various water system upgrades. The amended agreement provides total funding of \$16,052,561. Of this amount \$10,000,000 will be funded by the state through a Small Community Wastewater Grant. The loan period is 26 years with an interest rate of 2.3%. The loan is secured by the gross revenues from the water and sewer utility net of operation and maintenance costs. Total principal and interest remaining was \$12,585,978. For the fiscal year, principal and interest paid was \$707,354, which includes \$500,000 of grant funded payments; and total pledged revenue was \$1,416,542.

Annual debt service requirements to maturity for notes payable are as follows:

Year Ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2015	\$ -	\$ -	\$ 475,420	\$ 232,828
2016	-	-	486,418	221,830
2017	-	-	497,670	210,578
2018	-	-	509,182	199,065
2019	-	-	520,961	187,287
2020-2024	-	-	2,791,240	750,000
2025-2029	-	-	3,129,365	411,875
2030-2034	-	-	1,426,069	115,171
2035-2036	-	-	409,315	11,704
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,245,640</u>	<u>\$ 2,340,338</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Compensated absences	\$ 157,305	\$ 28,530	\$ -	\$ 185,835	\$ 18,600
Other post employment benefits	16,860	3,153	-	20,013	-
Governmental activity long-term liabilities	<u>\$ 174,165</u>	<u>\$ 31,683</u>	<u>\$ -</u>	<u>\$ 205,848</u>	<u>\$ 18,600</u>
Business-type activities:					
SRF Note payable	\$ 10,705,566	\$ -	\$ (459,926)	\$ 10,245,640	\$ 475,420
Capital lease	1,883,000	-	(26,375)	1,856,625	88,774
Compensated absences	5,370	9,531	(5,370)	9,531	9,531
Business-type activity long-term liabilities	<u>\$ 12,593,936</u>	<u>\$ 9,531</u>	<u>\$ (491,671)</u>	<u>\$ 12,111,796</u>	<u>\$ 573,725</u>

Governmental compensated absences will be liquidated by the General and Whispering Pines Park Funds. The General Fund pays for approximately 95% of compensated absences, while the Whispering Pines Park Fund pays 5%. Other post-employment benefits will be liquidated by the General Fund.

CITY OF INVERNESS, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

Note 10- Interfund Receivables, Payables and Transfers:

Interfund transfers for the year ended September 30, 2014 consisted of the following:

	Transfers In			
	General Fund	Whispering Pines Park Fund	Capital Projects	Total
Transfer Out:				
General Fund	\$ -	\$ 555,869	\$ 1,257,500	\$ 1,813,369
Whispering Pines Park Fund	-	-	42,000	42,000
Community Redevelopment Fund	11,500	-	65,000	76,500
Water and Sewer Utility Fund	400,000	-	-	400,000
Cemetery Fund	3,500	-	-	3,500
Nonmajor Governmental	-	-	142,381	142,381
Total	\$ 415,000	\$ 555,869	\$ 1,506,881	\$ 2,477,750

Transfers between funds are primarily to move unrestricted revenues collected in funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 11 - Retirement Plans:

Florida Retirement System

City employees, except for participants in the separate general employees' pension fund and the City Manager, participate in the State of Florida Retirement System (FRS), a cost-sharing multiple-employer public employee retirement plan administered by the State of Florida Department of Management Services, Division of Retirement, to provide retirement and survivor benefits to participating public employees. The City elected to opt out of the System beginning with employees hired after January 1, 1996, then elected to re-enter with employees hired on or after January 1, 2005.

All employees, other than those described above participate in FRS. Employees who retire at or after age 62 with 10 years of credited service, or 30 years of credited service regardless of age, are entitled to a retirement benefit equal to 1.6% to 1.68% (dependent upon age and years of service) of their average final compensation. The average final compensation is the average of the five highest fiscal years of earnings. Benefits are adjusted annually for a cost of living increase in the Consumer Price Index up to a maximum of 3%. At September 30, 2014, 44 City employees were members of the FRS Retirement plans.

Benefits are payable monthly under one of four options elected by the participant upon retirement. The options range from a full benefit during life of the member to reduced benefits paid to survivors upon the death of the member. Benefits fully vest on reaching 6 years of service. Vested employees may retire at any time after vesting and receive a 5% benefit reduction for each year prior to normal retirement age or date. FRS also provides death and disability benefits.

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

Note 11 - Retirement Plans (Continued):

Florida Retirement System (Continued)

The contribution requirements of the City are established and may be amended by FRS. The plan was noncontributory for employees through June 30, 2011 with all contributions being the obligation of the employer. Effective July 1, 2011, employee salary deferral was implemented with employee contributions rate of 3% for all classes of employees. Total contributions for the last three years are as follows:

<u>Year Ended September 30</u>	<u>Total Contribution</u>	<u>Percent Contributed</u>
2014	\$ 146,111	100%
2013	156,125	100%
2012	133,904	100%

The statutory contribution rates as a percent of earnings were as follows:

	<u>10/1/13 - 6/30/14</u>	<u>7/1/14 - 9/30/14</u>
Regular Class- members not qualifying for other classes	6.95%	7.37%
Elected Officers' Class	28.28%	33.17%
Senior Management	18.31%	21.14%
Deferred Retirement Option Program (DROP)	12.84%	12.28%

The State of Florida issues a report that includes financial statements and required supplementary information for FRS. That report may be obtained by writing to Florida Retirement System, State of Florida, Tallahassee, FL 32399-1560.

General Employees Defined Contribution Pension Plan

All of the City's full-time general employees hired after January 1, 1996, but before January 1, 2005, participate in a single-employer, defined contribution pension plan.

Chapter 112 of the Florida Statutes provides for a system of retirement plans for general employees. Chapter 112 sets forth maximum benefits, administrative arrangements, and fiduciary responsibilities. Non-bargaining unit employees contribute 3% of their earnings to the fund, union employees make voluntary contributions only, not to exceed 7%, and the City is required to make contributions from general revenues at the rate of 10% of covered earnings.

The plan assets are held in trust for the employees by a third party administrator and are not subject to creditors of the City. Therefore, the assets, liabilities, net assets and operations of this plan are not presented in the City's financial statements.

At September 30, 2014 there was 1 plan member, and City contributions to the plan were \$420.

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

Note 11 - Retirement Plans (Continued):

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The plan assets are held in trust for the employees by a third party administrator and investments are directed by the participating employees. Therefore, the assets, liabilities, net assets and operations of this plan are not presented on the City's financial statements.

Note 12 - Other Post-Employment Benefits:

In accordance with Florida Statutes Section 112.0801, the City makes continued group health insurance through the City's current provider available to retirees and eligible dependents provided certain service requirements and normal age retirement requirements have been met. This benefit has no cost to the City, other than the implicit cost of including retirees in the group calculation. All premiums are paid by the retiree. The City has no retirees currently receiving benefits. The City has chosen pay-as-you-go funding, but is recording the liability in the government wide financial statements. This plan does not issue stand-alone financial statements.

As of October 1, 2013, the most recent actuarial valuation date, the actuarial accrued liabilities (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$40,955, and the plan has a funded ratio of 0%.

The annual required contribution and Net OPEB Obligation for the fiscal year ended September 30, 2014 is as follows:

Annual Required Contribution	\$ 7,627
Interest on Net OPEB Obligation	759
Adjustment to Annual Required Contribution	<u>(1,092)</u>
Annual OPEB Cost	7,294
Employer Contributions	<u>(4,141)</u>
Increase in Net OPEB Obligation	3,153
Net OPEB Obligation (beginning of year)	16,860
Net OPEB Obligation (end of year)	<u><u>\$ 20,013</u></u>

Three Year Trend Information -

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
9/30/2014	\$ 7,294	56.8%	\$ 20,013
9/30/2013	10,446	70.5%	16,860
9/30/2012	10,012	54.0%	13,780

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

Note 12 - Other Post-Employment Benefits (Continued):

Summary of Actuarial Methods & Assumptions:

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The City qualifies to use the alternative measurement method, and has elected to do so. The following are the significant assumptions used:

Actuarial Cost Method - the Entry Age Normal (level % of pay) actuarial cost method was used.

Amortization Method - Level percentage of payroll (Closed amortization over 30 years)

Mortality Rates - RP 2000 Combined Health Mortality Table

Interest Rate - 4.5% per year compounded annually, net of investment related expenses

Health Care Inflation - Pre-Medicare: 7.5% in fiscal 2014; trending to 4.5% in 2017. Post-Medicare: 7.5% in fiscal 2014; trending to 4.5% in 2017.

Retiree Contributions - Retirees participating in the group insurance plans offered by the City are required to contribute 100% of the active premiums. In future years, contributions are assumed to increase at the same rate as premiums. Note that the projected employee contributions for the Dental and Vision benefits are assumed to cover the entire cost of the program.

Retirement Rate - 100% at age 62

Termination Rates - Selected rates for various ages listed below:

Age	% Remaining Employed Until Assumed Retirement Age
20	29.60%
30	59.30%
40	84.10%
50	100.00%

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

Note 12 - Other Post-Employment Benefits (Continued):

Participation Rates - 20% of active employees are assumed to maintain benefit coverage after retirement.

Spousal Coverage - 50% of active employees who have elected benefit coverage are assumed to cover their spouse..

Note 13 - 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; job-related illnesses or injuries to employees; and natural disasters for which the City carries commercial insurance.

Risk of loss from above is transferred by the City to various commercial insurers through the purchase of insurance. There have been no significant reductions in insurance coverage from the prior year, and settlements have not exceeded insurance coverage during the past three years.

Note 14 - Commitments and Contingencies:

Litigation

The City is engaged in various liability claims incidental to the conduct of its general government operations. While the outcome of the litigation is not presently determinable, management believes that any amounts not covered by insurance, if any, resulting from these lawsuits would not materially affect the financial position of the City.

Grants

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

Note 15 – In-Kind Contributions:

The City receives in-kind donations in the form of advertising and prize donations for various City events. The estimated value of these contributions for the year ended September 30, 2014 was \$77,675.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF INVERNESS, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2014

RETIREE CONTINUATION INSURANCE PLAN

Schedule of Contributions From the Employer and Other Contributing Entities

Year Ended September 30,	Annual Required Contribution	Percentage of ARC Contributed	Net OPEB Obligation
2014	\$ 7,627	54.20%	\$ 20,013
2013	10,676	69.00%	16,860
2012	10,157	53.20%	13,780
2011	8,239	44.70%	9,176
2010	11,032	58.10%	4,621

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c
10/1/2012	-	40,955	40,955	0.00%	1,337,771	3.06%
10/1/2009*	-	54,656	54,656	0.00%	1,189,269	4.60%

* Initial valuation date

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

Major Governmental Fund

Capital Projects Fund

- Accounts for the acquisition and construction of major capital assets other than those financed by proprietary funds.

CITY OF INVERNESS, FLORIDA

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
CAPITAL PROJECTS FUND**

For the Year Ended September 30, 2014

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 1,163,000	\$ 1,207,000	\$ 59,798	\$ (1,147,202)
Impact Fees	262,500	262,500	-	(262,500)
Charges for Services	-	-	21,662	21,662
Investment Earnings	20,000	20,000	15,728	(4,272)
Miscellaneous	320,000	320,000	-	(320,000)
Total revenues	<u>1,765,500</u>	<u>1,809,500</u>	<u>97,188</u>	<u>(1,712,312)</u>
EXPENDITURES:				
Current:				
General government	-	-	34,593	(34,593)
Highways and streets	15,000	15,000	3,911	11,089
Culture and recreation	-	-	5,914	(5,914)
Capital Outlay	4,948,799	8,082,920	2,528,159	5,554,761
Total expenditures	<u>4,963,799</u>	<u>8,097,920</u>	<u>2,572,577</u>	<u>5,525,343</u>
Excess (deficiency) of revenues over expenditures	<u>(3,198,299)</u>	<u>(6,288,420)</u>	<u>(2,475,389)</u>	<u>3,813,031</u>
OTHER FINANCING SOURCES:				
Capital Leases	221,899	221,899	-	(221,899)
Transfers in	639,570	1,518,570	1,506,881	(11,689)
Total other financing sources	<u>861,469</u>	<u>1,740,469</u>	<u>1,506,881</u>	<u>(233,588)</u>
Net change in fund balances	(2,336,830)	(4,547,951)	(968,508)	3,579,443
Fund Balance - beginning	5,907,913	5,907,913	5,907,913	-
Fund Balance - ending	<u>\$ 3,571,083</u>	<u>\$ 1,359,962</u>	<u>\$ 4,939,405</u>	<u>\$ 3,579,443</u>

Nonmajor Governmental Funds

Special Revenue Funds

Road Improvement

- Accounts for capital road facilities projects funded by special assessments.

Impact Fee

- Accounts for the collection and expenditures of transportation impact fees. All proceeds are collected from the fee and all interest accrued on said funds shall be used for the purpose of capital road facilities on the major road system within the corporate city limits of the City of Inverness.

CITY OF INVERNESS, FLORIDA

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS

September 30, 2014

	<u>Special Revenue</u>		<u>Total Other Governmental Funds</u>
	<u>Road Improvement Fund</u>	<u>Impact Fee Fund</u>	
ASSETS:			
Cash and cash equivalents	\$ 16	\$ 491,944	\$ 491,960
Accounts Receivable, net	-	4,668	4,668
Assessments receivable	12,833	-	12,833
Total assets	<u>\$ 12,849</u>	<u>\$ 496,612</u>	<u>\$ 509,461</u>
LIABILITIES:			
Due to other governments	\$ -	\$ 3,645	\$ 3,645
Total liabilities	<u>-</u>	<u>3,645</u>	<u>3,645</u>
Fund Balances:			
Restricted for road improvements	-	492,967	492,967
Committed to:			
Road Improvements	12,849	-	12,849
Total fund balances	<u>12,849</u>	<u>492,967</u>	<u>505,816</u>
Total Liabilities and Fund Balances	<u>\$ 12,849</u>	<u>\$ 496,612</u>	<u>\$ 509,461</u>

CITY OF INVERNESS, FLORIDA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES -
OTHER GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2014

	<u>Special Revenue</u>		<u>Total Other Governmental Funds</u>
	<u>Road Improvement Fund</u>	<u>Impact Fee Fund</u>	
REVENUES			
Impact fees	\$ -	\$ 130,886	\$ 130,886
Investment earnings	575	-	575
Total revenues	<u>575</u>	<u>130,886</u>	<u>131,461</u>
EXPENDITURES			
Current:			
Capital Outlay	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>575</u>	<u>130,886</u>	<u>131,461</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	(142,381)	-	(142,381)
Total Other Financing Sources and Uses	<u>(142,381)</u>	<u>-</u>	<u>(142,381)</u>
Net Change in Fund Balances	(141,806)	130,886	(10,920)
Fund Balances - beginning	154,655	362,081	516,736
Fund Balances - ending	<u>\$ 12,849</u>	<u>\$ 492,967</u>	<u>\$ 505,816</u>

OTHER REPORTS

**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**

The Honorable Mayor and City Council
City of Inverness, Florida

We have audited, 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, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the *City of Inverness, Florida*, as of and for the year ended September 30, 2014, 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 12, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the *City of Inverness, Florida'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 *City of Inverness'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 *City of Inverness'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 result of our tests disclosed no instances of noncompliance, or other matters that are required to be reported under *Government Auditing Standards*.

MCDIRMIT DAVIS & COMPANY, LLC

934 NORTH MAGNOLIA AVENUE, SUITE 100 ORLANDO, FLORIDA 32803
TELEPHONE: 407-843-5406 FAX: 407-649-9339 EMAIL: INFO@MCDIRMITDAVIS.COM

Purpose of this Report

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

McDiernit Davis & Company, LLC

Orlando, Florida

May 12, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR THE MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY CHAPTER 10.550, RULES OF THE AUDITOR GENERAL**

Honorable Mayor and City Council
City of Inverness, Florida

Report on Compliance for the Major State Project

We have audited the *City of Inverness's* (the City) compliance with the types of compliance requirements described in the Florida Department of Financial Services *State Projects Compliance Supplement* that could have a direct and material effect on the City's major state project for the year ended September 30, 2014. The City's major state project is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state project.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major state project based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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*. Those standards and rules require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major state project occurred. An audit includes 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 audit provides a reasonable basis for our opinion on compliance for the major state project. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major State Project

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state project for the year ended September 30, 2014.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major state project and to test and report on internal control over compliance in accordance with Chapter 10.550, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.550, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.

McDiernit Davis & Company, LLC

Orlando, Florida
May 12, 2015

CITY OF INVERNESS, FLORIDA

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

Year Ended September 30, 2014

Award type	CSFA	Agency or Pass-through	
Grantor	Number	Entity Grant Number	Expenditures
Grantor program title			
State Award			
State of Florida, Department of Environmental Protection			
Small Community Wastewater Facility Grant *	37.075	SG578070	\$ 500,000
State of Florida, Department of State			
Cultural Facilities Grant	45.014	15.9.200.580	48,479
State of Florida, Department of Transportation			
County Incentive Grant Program	55.008		<u>11,319</u>
Total state awards			<u>\$ 559,798</u>

* Denotes a major program

NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

Year Ended September 30, 2014

Note 1 - Basis of Presentation:

The accompanying schedule of expenditures of state financial assistance (the Schedule) includes the state grant activity of the City of Inverness (the City) under programs of the State of Florida government for the year ended September 30, 2014. The information in this Schedule is presented in accordance with the requirements of Section 215.97, Florida Statutes. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

Note 2 - Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Therefore, amounts reported on the Schedule are based on expenditures incurred as of September 30, 2014, even if grant or loan was received subsequent to that date. State expenditures are recognized following the cost principles contained in Florida Department of Financial Services *State Projects Compliance Supplement*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
STATE PROJECTS**

Year Ended September 30, 2014

Part A - Summary of Auditor's Results:

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Inverness (the City).
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the City, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major state project are reported in the Independent Auditor's Report on Compliance for the Major Program and on Internal Control over Compliance Required By Chapter 10.550, *Rules of the Auditor General*.
5. The auditor's report on compliance for the major state project for the City expresses an unqualified opinion.
6. The program tested as a major project included: State of Florida, Department of Environmental Protection Small Community Wastewater Facility Grant (CFSA 37.075).
7. The threshold used for distinguishing between Type A and B programs was \$300,000.
8. The City did not qualify as a low-risk auditee.

Part B - Findings - Financial Statement Audit:

None

Part C - Findings and Questioned Costs - Major Federal Award Programs:

None

MANAGEMENT LETTER

Honorable Mayor and City Council
City of Inverness, Florida

Report on the Financial Statements

We have audited the financial statements of the *City of Inverness, Florida*, as of and for the fiscal year ended September 30, 2014, and have issued our report thereon dated May 12, 2015.

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 Florida 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 the Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditor's Report on Compliance for Each Major State Project and Report on Internal Control over Compliance; Schedule of Findings and Questioned Costs; and Independent Auditor'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 12, 2015, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, require that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no such findings in the preceding annual financial 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. This information has been disclosed in the notes to the financial statements.

Financial Condition

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

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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 of Inverness, Florida's* financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Annual Financial Report

Section 10.554(1)(i)5.b., Rules of the Auditor General, requires that we report the results of our determination as to whether the annual financial report for the *City of Inverness, Florida* for the fiscal year ended September 30, 2014, 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, 2014. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. See Appendix A.

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. See Appendix B.

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, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

McDiarmid Davis & Company, LLC

Orlando, Florida
May 12, 2015

CITY OF INVERNESS, FLORIDA

APPENDIX A - CURRENT YEAR RECOMMENDATIONS TO IMPROVE THE CITY'S
FINANCIAL MANAGEMENT, ACCOUNTING PROCEDURES AND INTERNAL CONTROLS

ML 14-01 - Purchasing Procedures

Criteria - The City has established purchasing and competitive bidding procedures related to purchases.

Condition - During our audit, we found an instance where a monthly purchase did not have a recently signed contract, or documentation of competitive bid procedures in the past 10 years.

Cause - The City had previously bid the purchase in 2002, however a signed contract could not be located, or documentation of recent competitive bid or sole source vendor documentation.

Effect - City may not be receiving the best price for services.

Recommendation - We recommend that the City review the need to competitively bid purchases, and maintain signed copies of contract agreements. If the City determines that competitive bid procedures are not necessary, this fact should be documented in the vendor file, or brought to Council for approval.

CITY OF INVERNESS, FLORIDA

APPENDIX B - NONCOMPLIANCE WITH PROVISIONS OF
CONTRACTS OR GRANT AGREEMENTS

ML 14-02 - Investment Policy

Criteria - The City has established an investment policy requiring continuing education pursuant to Florida Statutes 218.415.

Condition - During our audit, we noted that the required continuing education courses were not properly taken and documented.

Cause - Due to various staffing issues and time limitations the courses were not taken during the fiscal year ended September 30, 2014.

Effect - City is not in compliance with FS 218.415 related to the investment of public funds.

Recommendation - We recommend that the City ensure that the required personnel are authorized to complete the required training per the City's investment policy and Florida Statutes.

Honorable Mayor and City Council
City of Inverness, Florida

We have audited the financial statements of *City of Inverness* as of and for the year ended September 30, 2014, and have issued our report thereon dated May 12, 2015. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated October 10, 2014, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of *City of Inverness* solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by City of Inverness is included in Note 1 to the financial statements. As described in Note 1 to the financial statements, during the year, *City of Inverness* changed accounting policies related to the adoption of Statement of Governmental Accounting Standards (GASB Statement) No. 65 and 67. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate for the allowance for doubtful accounts is based on historical loss levels, and an analysis of the individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimation for the allowance for depreciation is based on the estimated useful lives of the capital assets. We evaluated the reasonableness of the useful lives as well as the depreciation methods in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting City of Inverness's financial statements relate to revenue recognition as described in Note 1.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to City of Inverness's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated May 12, 2015.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with City of Inverness , we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as City of Inverness's auditors

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

Very truly yours,

McDiernit Davis & Company, LLC

Orlando, Florida
May 12, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
THE REQUIREMENTS OF SECTION 218.415, FLORIDA STATUTES**

The Honorable Mayor and City Council
City of Inverness, Florida

We have examined City of Inverness' (the City) compliance with the requirements of Section 218.415, Florida Statutes, during the year ended September 30, 2014. 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 the standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States 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, City of Inverness complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2014, except for the noncompliance disclosed in Appendix B on page 64.

MCDIRMIT DAVIS & COMPANY, LLC

Orlando, Florida
May 12, 2015

MCDIRMIT DAVIS & COMPANY, LLC

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FINANCE DEPARTMENT



212 W. Main Street
Inverness, FL 34450
(352) 726-5016 Phone
(352) 726-5534 Fax

May 13, 2015

Mr. David W. Martin, Auditor General
State of Florida
Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin;

In accordance with Chapter 10.550 RULES OF THE AUDITOR GENERAL – LOCAL GOVERNMENT ENTITY AUDITS, enclosed are two (2) copies of the fiscal year 2014 audited Financial Statements for the City of Inverness. McDirmit Davis & Company, LLC, Certified Public Accountants prepared the audit report.

The City of Inverness respectfully submits the following corrective action plan for the year ending September 30, 2014. Findings from the “schedule of findings” and questioned costs are discussed below:

PART B – FINANCIAL STATEMENT AUDIT

No findings in the current year.

PART C - FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS

No findings in the current year.

PART D – PRIOR YEAR FINANCIAL STATEMENT FINDINGS

No findings in the preceding annual financial audit report.

APPENDIX A – CURRENT YEAR RECOMMENDATIONS TO IMPROVE THE CITY’S FINANCIAL MANAGEMENT, ACCOUNTING PROCEDURES AND INTERNAL CONTROLS.

Condition – Reference Number ML-14-01 – Purchasing procedures

During our audit, we found an instance where a monthly purchase did not have a recently signed contract, or documentation of competitive bid procedures in the past 10 years.

The City had previously bid the purchase in 2002, however a signed contract could not be located or documentation of recent competitive bid or sole source vendor documentation.

The City may not be receiving the best price for services.

We recommend that the city review the need to competitively bid purchases, and maintain signed copies of contract agreements. If the City determines that competitive bid procedures are not necessary, this fact should be documented in the vendor file, or brought to Council for approval.

Response

The contract in question is for monthly utility bill printing services at a cost of \$9,600/year for printing services and a pass through US Postal Service postage cost of \$20,400/annually for a total annual cost of \$30,000. The City's current purchasing policy establishes a threshold limit of \$35,000 for bid purposes which follows state statute thresholds defined in F.S 287.017. Although the contract amount remains below the City's bid threshold for a category two contract, the City will request written quotes this fiscal year to ensure the City is obtaining the best price for the service and will enter into a new contract with the selected vendor. Additionally, the City will review all current contracts to ensure copies are on file and bid requirements have been met for all current and future contracts. If bid requirements are not necessary, such decision will be documented in the Vendor's file.

Condition – Reference Number ML 14-02 – Investment Policy

The City has established an investment policy requiring continuing education pursuant to Florida Statutes 218.415.

During our audit, we noted that the required continuing education courses were not properly taken and documented.

Due to various staffing issues and time limitations the courses were not taken during the fiscal year ended September 30, 2014.

City is not in compliance with FS 218.415 related to the investment of public funds.

We recommend that the City ensure that the required personnel are authorized to complete the required training per the City's investment policy and Florida Statutes.

Response

The City will ensure that all required personnel will be authorized and scheduled annually to complete the required (8) hour CPE training per the City's investment policy and Florida Statutes. The City's Finance Director has been scheduled to attend the FGFOA's pre-conference seminar for investments in June, 2015 to meet the FY 2015 continuing education requirements.

PART E – PRIOR YEAR MAJOR FEDERAL AWARD PROGRAM AUDIT FINDINGS AND QUESTIONED COSTS

No findings reported in the prior year.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Cheryl A. Chiodo". The signature is written in black ink and is positioned above the printed name.

Cheryl A. Chiodo, PMP
Director of Finance