

**City of Inverness, Florida**  
**ANNUAL FINANCIAL REPORT**  
**For The Year Ended September 30, 2015**

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

**ANNUAL FINANCIAL REPORT**  
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CITY OF INVERNESS, FLORIDA

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CITY OF INVERNESS, FLORIDA

LIST OF PRINCIPAL OFFICIALS

September 30, 2015

**ELECTED OFFICIALS**

MAYOR	Bob Plaisted
COUNCIL MEMBER - SEAT 1	David Ryan
COUNCIL PRESIDENT	Jacque Hepfer
COUNCIL MEMBER - SEAT 3	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	Scott McCulloch
INFORMATION TECHNOLOGY DIRECTOR	Joey Johnston
COMMUNITY DEVELOPMENT DIRECTOR	Bruce Day

**LEGAL COUNSEL**

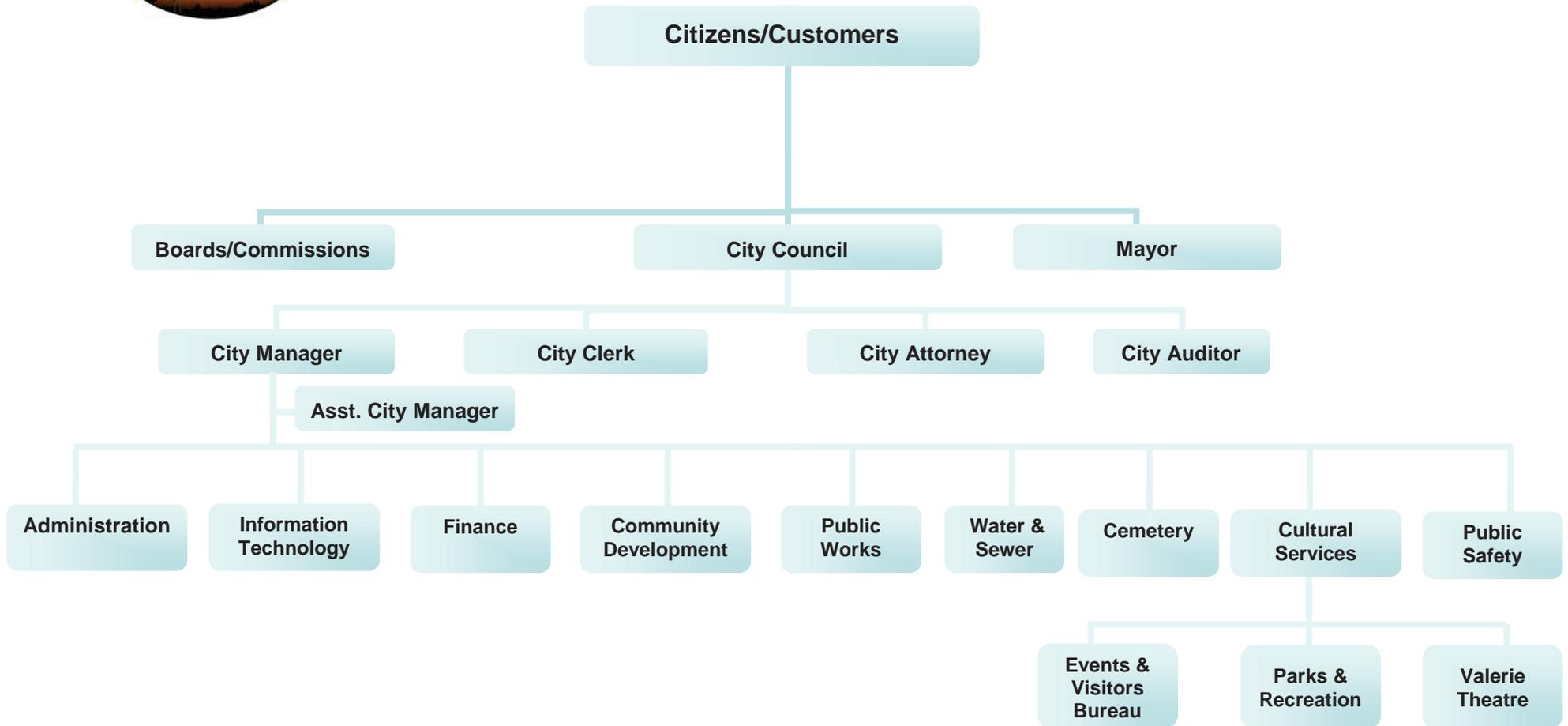
Haag Haag & Freidrich, P.A.

**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, 2015, 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, 2015, 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

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## **Change in Accounting Principle**

As discussed in Note 1 to the financial statements, in 2015 the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America, require that the management's discussion and analysis and pension and the other postemployment benefits disclosures on pages 3 through 14 and 58 through 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City 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 June 1, 2016 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  
June 1, 2016

## **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, 2015 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 and deferred outflows of the City of Inverness exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$51,830,941 (*net position*). Of this amount, \$15,397,854 (*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 \$1,912,255 or 3.8%.
- As of the close of the current fiscal year, the City of Inverness' governmental funds reported combined ending fund balances of \$10,604,127. Approximately 46% of this total amount, \$4,850,160 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 \$4,850,160, or 83% of total general fund expenditures and transfers out.
- The City of Inverness' total debt decreased by \$85,914 (0.66%) 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 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 culture 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 15-16 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of 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 non-major 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 23-25 and page 61.

The basic governmental fund financial statements can be found on pages 17-25 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 26-29 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 30-57 of this report.

**Required supplementary information (RSI).** RSI can be found on pages 58-60 of this report.

**Other information.** The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the RSI. Combining and individual fund statements and schedules can be found on pages 61-63 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 and deferred outflows exceeded liabilities and deferred inflows by \$51,830,941 at the close of the most recent fiscal year.

By far the largest portion of the City of Inverness' net position (69%) 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* (\$15,397,854) may be used to meet the government's ongoing obligations to citizens and creditors.

At September 30, 2015, 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 15.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### STATEMENT OF NET POSITION AS OF SEPTEMBER 30,

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and Other Assets	\$ 11,670,090	\$ 12,539,851	\$ 6,599,018	\$ 5,986,412	\$ 18,269,108	\$ 18,526,263
Restricted Assets	-	-	457,171	1,151,701	457,171	1,151,701
Capital Assets	21,802,290	19,364,701	25,369,224	25,460,824	47,171,514	44,825,525
Total assets	33,472,380	31,904,552	32,425,413	32,598,937	65,897,793	64,503,489
Deferred Outflow s	405,953	-	18,953	-	424,906	-
Current Liabilities	559,034	528,986	503,135	501,391	1,062,169	1,030,377
Long Term Liabilities						
Outstanding	1,379,215	205,848	11,587,926	12,111,796	12,967,141	12,317,644
Other Liabilities	-	-	258,992	238,948	258,992	238,948
Total liabilities	1,938,249	734,834	12,350,053	12,852,135	14,288,302	13,586,969
Deferred Inflow s	194,381	-	9,075	-	203,456	-
Net Position:						
Assets	21,802,290	19,364,701	14,000,670	14,236,604	35,802,960	33,601,305
Restricted	76,500	98,059	553,627	531,600	630,127	629,659
Unrestricted	9,866,913	11,706,958	5,530,941	4,978,598	15,397,854	16,685,556
Total net position	\$ 31,745,703	\$ 31,169,718	\$ 20,085,238	\$ 19,746,802	\$ 51,830,941	\$ 50,916,520

### 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 16. Note that total net position increased by \$1,912,255.

Net position for governmental activities increased by \$1,529,311. Key elements of this change are:

- Revenues for governmental activities increased by \$580,576 primarily resulting from grant revenue recognized for the renovation of the Valerie Theatre awarded by the Department of State in the amount of \$499,084 and an increase of \$199,607 in property taxes as a result of increased property valuations.
- 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.
- The City restated (reduced) the October 1, 2014 beginning Governmental Activities net position by \$953,326 as a result of the implementation of GASB Statement No. 68 to report the net pension liability and related deferred inflows and outflows.

Net position for business-type activities increased by \$382,944. Key elements of this change are:

- Business-type activities increased the City's net position by \$382,944, primarily as a result of an increase in utility charges for services in the amount of \$60,868 from a 1.41% rate adjustment and continued management of operational costs to maintain the profitability of the enterprise funds.
- The City restated (reduced) the October 1, 2014 beginning Business Type Activities net position by \$44,508 as a result of the implementation of GASB Statement No. 68 to report the net pension liability and related deferred inflows and outflows.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

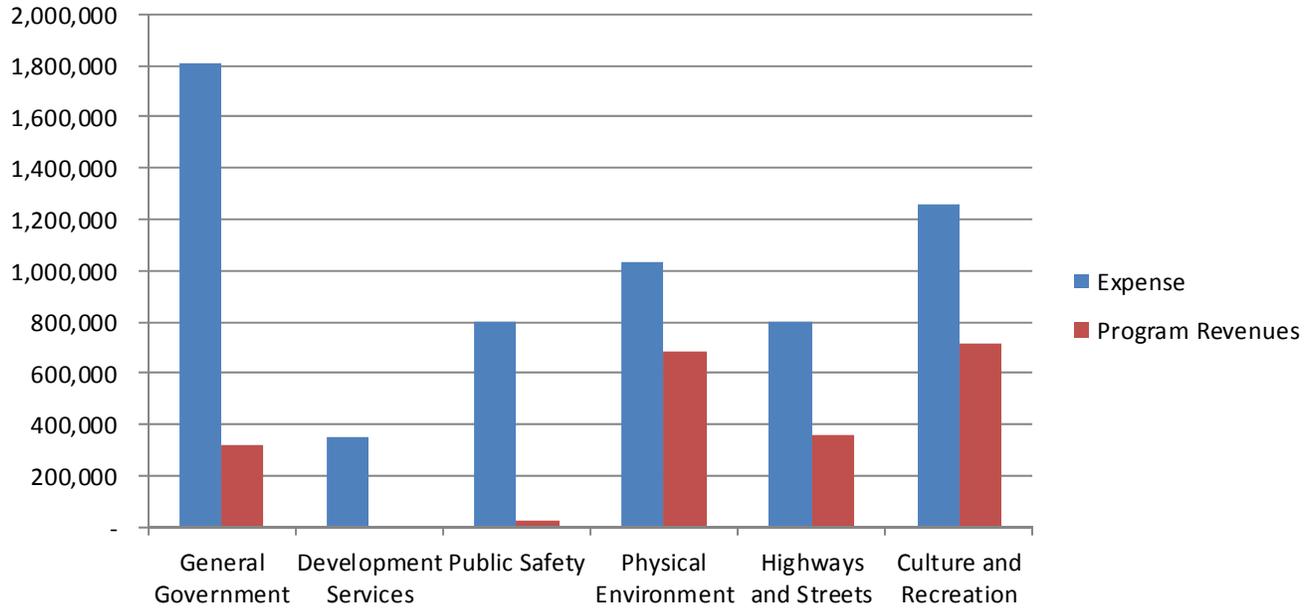
### CHANGES IN NET POSITION For the Year Ended September 30,

	Governmental Activities		Business Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,279,803	\$ 1,335,631	\$ 3,421,952	\$ 3,361,084	\$ 4,701,755	\$ 4,696,715
Operating Grants and Contributions	315,111	302,405	498,014	499,413	813,125	801,818
Capital Grants and Contributions	509,866	59,798	-	-	509,866	59,798
General Revenues:						
Property Taxes	2,432,242	2,232,635	-	-	2,432,242	2,232,635
Other Taxes and Fees	1,757,470	1,799,337	-	-	1,757,470	1,799,337
Intergovernmental	719,519	693,266	-	-	719,519	693,266
Other	112,595	172,958	35,259	38,560	147,854	211,518
<b>Total revenues</b>	<b>7,126,606</b>	<b>6,596,030</b>	<b>3,955,225</b>	<b>3,899,057</b>	<b>11,081,831</b>	<b>10,495,087</b>
Expenses:						
General Government	1,805,812	1,862,688	-	-	1,805,812	1,862,688
Community Development Services	354,537	273,594	-	-	354,537	273,594
Public Safety	800,238	748,637	-	-	800,238	748,637
Physical Environment	1,031,401	1,014,470	-	-	1,031,401	1,014,470
Roads and Streets	797,837	706,107	-	-	797,837	706,107
Culture and Recreation	1,260,970	1,134,069	-	-	1,260,970	1,134,069
Water and Sewer	-	-	3,081,116	3,019,667	3,081,116	3,019,667
Cemetery	-	-	37,665	37,816	37,665	37,816
<b>Total expenses</b>	<b>6,050,795</b>	<b>5,739,565</b>	<b>3,118,781</b>	<b>3,057,483</b>	<b>9,169,576</b>	<b>8,797,048</b>
Increase (Decrease) in Net Position Before Transfers	1,075,811	856,465	836,444	841,574	1,912,255	1,698,039
Transfers	453,500	403,500	(453,500)	(403,500)	-	-
Increase (Decrease) in Net Position	1,529,311	1,259,965	382,944	438,074	1,912,255	1,698,039
Net Position - October 1, restated	30,216,392	29,909,753	19,702,294	19,308,728	49,918,686	49,218,481
Net Position - September 30	<b>\$ 31,745,703</b>	<b>\$ 31,169,718</b>	<b>\$ 20,085,238</b>	<b>\$ 19,746,802</b>	<b>\$ 51,830,941</b>	<b>\$ 50,916,520</b>

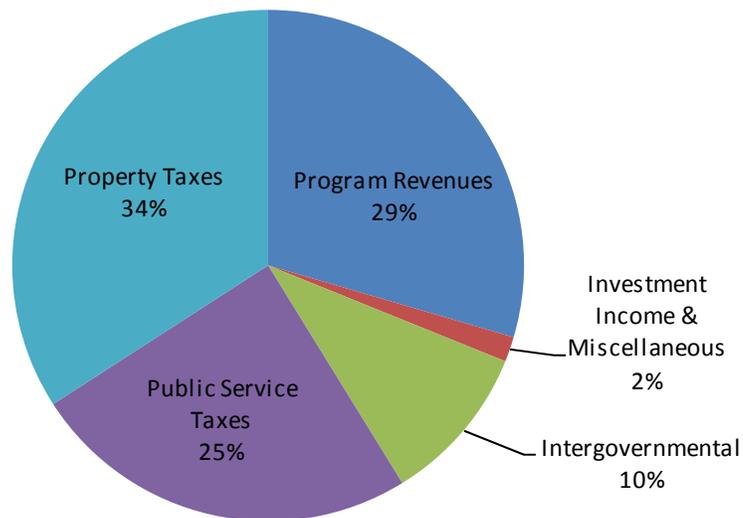
Net position October 1, 2014 includes restatement for the implementation of GASB Statement No. 68.

MANAGEMENT'S DISCUSSION AND ANALYSIS

### Expenses and Program Revenues - Governmental Activities

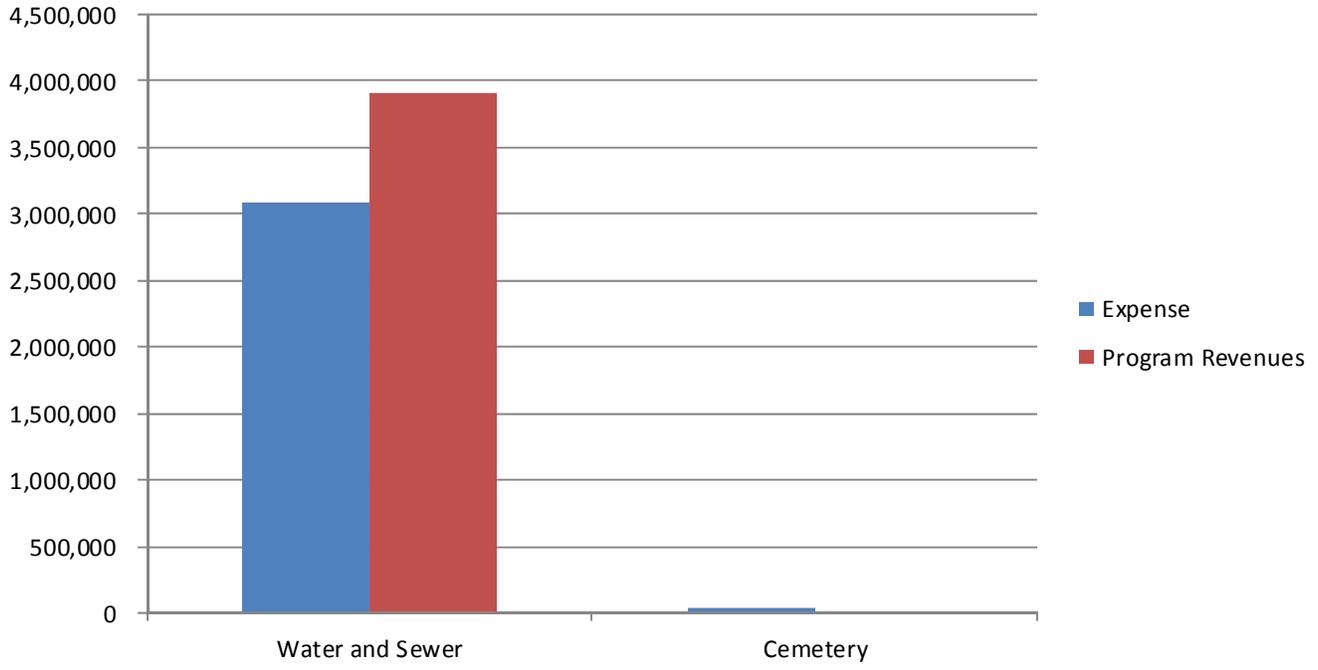


### Revenues by Source - Governmental Activities

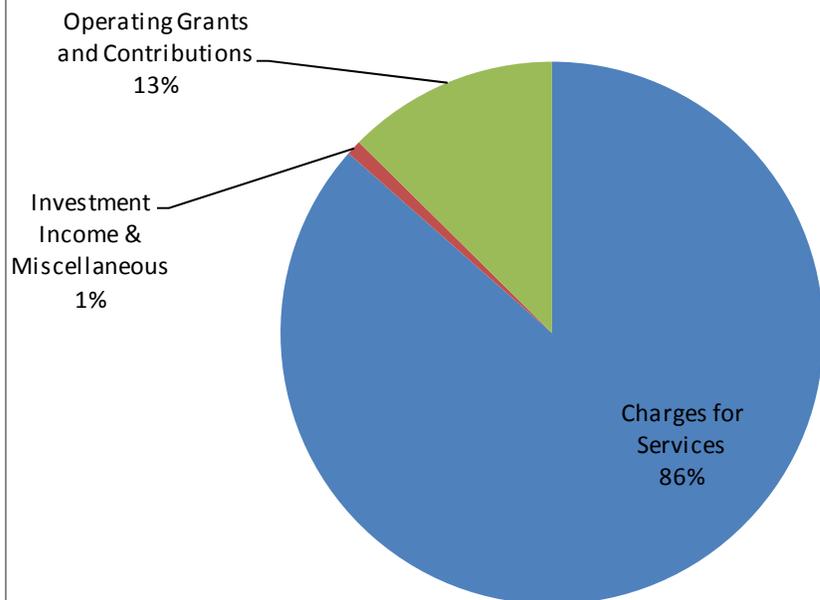


MANAGEMENT'S DISCUSSION AND ANALYSIS

### Expenses and Program Revenues - Business-Type Activities



### Revenues by Source - Business-Type Activities



## 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, 2015, the City of Inverness' governmental funds reported combined ending fund balances of \$10,604,127 a decrease of \$1,406,738 in comparison with the prior year. Approximately 46% or \$4,850,160 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 \$4,850,160 while total fund balance reached \$7,048,575. 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 83% of total general fund expenditures and transfers out, compared to 50% for last year. Total fund balance represents 121% of total general fund expenditures and transfers out, compared to 98% for last year.

Fund balance of the City of Inverness' General Fund increased by \$948,450 due to the 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, 2015, the fund balance was \$76,500 a decrease of \$20,736 over the prior year. This decrease is due to a transfer of \$100,000 to the Capital Projects Fund to fund elements of the construction of the Valerie Theatre located within the City's original CRA district.

Fund balance of Whispering Pines Park decreased \$20,736 to \$346,724. The decrease was a managed use of reserves to fund park capital projects in the amount of \$50,000.

The fund balance of the Capital Projects Fund decreased \$2,314,502 as a result of a budgetary planned decrease in fund balance for capital project expenditure; primarily the construction of the Valerie Theater.

**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 \$5,269,284 and unrestricted net position for the Cemetery Fund amounted to \$283,684. The total increase in Water and Sewer Utility Fund was \$409,210, and decrease in the Cemetery Fund was \$26,266. 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 decreased \$131,840 from the original to final budget as a result of a decrease in anticipated revenues for the Valerie Theatre in the amount of \$190,000 which was offset by a reduction in appropriations for the theatre operations

During the year revenues were more than budgetary estimates by \$33,754, due primarily to an unanticipated increase in Sales Tax revenue in the amount of \$30,470 which was not foreseen during budget development.

**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, 2015 amounts to \$47,171,514 (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**

- Streetscape Lighting Retrofit Project - \$34,834
- Information Technology – Software/Hardware Acquisitions - \$59,891
- Fire Services Equipment – \$36,910
- Storm Water Program - \$44,720
- Truck Acquisitions – Public Works - \$67,115
- Equipment Replacements/Upgrades-\$32,631
- Highland Blvd Streetscape Project - \$51,994
- Zephyr Street Project - \$43,444
- Hwy 41/44 Median Landscape Project - \$4,513
- Valerie Theatre Renovation - \$2,749,546
- Cooter Pond Lighting Project - \$69,548

**Business-Type Activities**

- Lift Station Rehabilitations - \$138,899
- WWTP Load Control - \$10,000
- Master Lift Station Valve Installation - \$29,849
- Master Lift Station Generator Acquisition - \$18,480
- Water Reclamation Facility Mixer Controller - \$32,550
- Automated Metering Infrastructure - \$428,035

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, 2015 and September 30, 2014						
	Governmental Activities		Business Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 3,341,506	\$ 3,328,507	\$ 651,855	\$ 651,855	\$ 3,993,361	\$ 3,980,362
Buildings	8,211,151	6,017,802	15,317,614	15,675,292	23,528,765	21,693,094
Improvements	8,589,191	8,464,074	8,304,034	6,231,736	16,893,225	14,695,810
Machinery and Equipment	921,560	452,881	1,074,439	1,076,923	1,995,999	1,529,804
Intangibles	51,000	85,128	-	-	51,000	85,128
Construction in Progress	687,882	1,016,309	21,282	1,825,018	709,164	2,841,327
Total capital assets	\$ 21,802,290	\$ 19,364,701	\$ 25,369,224	\$ 25,460,824	\$ 47,171,514	\$ 44,825,525

**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 \$11,533,820.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
SRF Note Payable	\$ -	\$ -	\$ 9,765,969	\$ 10,245,640	\$ 9,765,969	\$ 10,245,640
Capital Lease	-	-	1,767,851	1,856,625	1,767,851	1,856,625
Total	\$ -	\$ -	\$ 11,533,820	\$ 12,102,265	\$ 11,533,820	\$ 12,102,265

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 minimally increased in 2015. The City's total assessed valuation for real and personal property increased by 1.59% in 2015 with valuation still below the 2009 values. The unemployment rate for Inverness at September 30, 2015 was 7.1% which again is higher than the overall state percentage of 5.3% 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 2015 budget was approved with a higher millage rate of 6.9949 mils. This rate is equal to a 7.7% increase. The total operating budget adopted for fiscal year 2015-2016 is \$35,708,573.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Economic Factors and Next Year's Budgets and Rates (Continued)

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
- Storm water and lake management program
- Tree City USA designation

The adopted budget and CIP reflect the City's hallmark of community and fiscal planning. The General Fund of the City of remains stable and strong. Reserves are healthy 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 as a strength. Operational costs have been managed to not appreciably increase and the employee count has again been reduced and stands at an extremely low level when compared to like governments of the area. Whispering Pines Park operations will be modified and aligned to address reduced funding, which will involve changes to baseball and softball field availability and more user fees. A Fire Rescue Department will be made part of this budget and the City will proudly commence to operate the newly developed Valerie Theatre Cultural Center. Generally, departmental program goals are identified to ensure that services address the highest priorities established by City Council, including: public safety, community appearance, general maintenance, marketing, culture and events, and to insure development standards retain the community's history and character. Recreational, Cultural and Special Event programming provides enrichment opportunities, economic vitality, marketing and growth. A proactive presence with respect to community celebrations and special events has been well received by businesses, visitors and families alike. It's all about community and Inverness defines Small Town America.

Service levels are unchanged; culture and marketing are slightly improved, but largely consistent with prior years. The Inverness community is mostly impacted by state and national economic conditions, a weak housing rebound, with the largest concern and impact caused by activity at the State Level, which continues to direct resources away from local communities. State Revenue Sharing has not increased, funding of the State managed pension system has soared, and the latest attempt to remove telecommunication fees from the local revenue stream will be a material negative impact. County Government has been following the State, by not contributing to off-set the cost of service delivery through the operation of Whispering Pines Park that provides extensive recreational services to county residents, and increasing the costs for their delivery of Fire Service, which was the driving force for the City to create and fund its own Fire Department service agency. County action equates to roughly a 2-mill increase that the community could not support. The City is doing its best to "hold the line" with costs to residents and businesses, and for the first time in many years, enjoys a revenue increase that is directly attributed to the addition of the hospital to the tax roll.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **Economic Factors and Next Year's Budgets and Rates (Continued)**

Despite continued efforts by the State to divert local revenues and action by the County to help bridge their budget deficit, Inverness's 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 constantly 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, 2015

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 2,451,129	\$ 1,889,337	\$ 4,340,466
Investments	8,181,495	4,087,151	12,268,646
Receivables, net	375,025	468,848	843,873
Due from other governments	506,929	33,642	540,571
Inventories	1,200	98,112	99,312
Prepaid costs	154,312	21,928	176,240
Restricted assets:			
Cash and cash equivalents	-	457,171	457,171
Capital Assets:			
Capital assets not being depreciated	4,029,388	673,137	4,702,525
Capital assets being depreciated, net of accumulated depreciation	17,772,902	24,696,087	42,468,989
Total capital assets	21,802,290	25,369,224	47,171,514
Total assets	33,472,380	32,425,413	65,897,793
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Deferred outflows of pension earnings	405,953	18,953	424,906
Total deferred outflows of resources	405,953	18,953	424,906
<b>LIABILITIES:</b>			
Accounts payable and accrued expenses	456,877	441,334	898,211
Due to other governmental agencies	903	-	903
Accrued interest	-	61,801	61,801
Deposits payable	20,891	258,992	279,883
Unearned revenue	80,363	-	80,363
Noncurrent liabilities:			
Due within one year	21,600	592,394	613,994
Due in more than one year	1,357,615	10,995,532	12,353,147
Total liabilities	1,938,249	12,350,053	14,288,302
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Deferred inflows of pension earnings	194,381	9,075	203,456
Total deferred outflows of resources	194,381	9,075	203,456
<b>NET POSITION:</b>			
Net investment in capital assets	21,802,290	14,000,670	35,802,960
Restricted for:			
Community redevelopment	76,500	-	76,500
Perpetual Care	-	553,627	553,627
Unrestricted	9,866,913	5,530,941	15,397,854
Total net position	\$ 31,745,703	\$ 20,085,238	\$ 51,830,941

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, 2015

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>							
Governmental Activities							
General Government	\$ 1,805,812	\$ 317,567	\$ -	\$ -	\$ (1,488,245)	\$ -	\$ (1,488,245)
Community Development Services	354,537	-	-	-	(354,537)	-	(354,537)
Public Safety	800,238	28,969	-	-	(771,269)	-	(771,269)
Physical Environment	1,031,401	683,947	-	-	(347,454)	-	(347,454)
Highways & Streets	797,837	35,296	315,111	10,164	(437,266)	-	(437,266)
Culture and Recreation	1,260,970	214,024	-	499,702	(547,244)	-	(547,244)
Total governmental activities	<u>6,050,795</u>	<u>1,279,803</u>	<u>315,111</u>	<u>509,866</u>	<u>(3,946,015)</u>	<u>-</u>	<u>(3,946,015)</u>
Business-type activities:							
Water	3,081,116	3,410,878	498,014	-	-	827,776	827,776
Cemetery	37,665	11,074	-	-	-	(26,591)	(26,591)
Total business-type activities	<u>3,118,781</u>	<u>3,421,952</u>	<u>498,014</u>	<u>-</u>	<u>-</u>	<u>801,185</u>	<u>801,185</u>
Total primary government	<u>\$ 9,169,576</u>	<u>\$ 4,701,755</u>	<u>\$ 813,125</u>	<u>\$ 509,866</u>	<u>(3,946,015)</u>	<u>801,185</u>	<u>(3,144,830)</u>
General Revenues:							
Property taxes					2,432,242	-	2,432,242
Public service taxes					1,757,470	-	1,757,470
Intergovernmental					719,519	-	719,519
Unrestricted investment earnings					34,929	27,366	62,295
Miscellaneous					77,666	7,893	85,559
Transfers					453,500	(453,500)	-
Total general revenues and transfers					<u>5,475,326</u>	<u>(418,241)</u>	<u>5,057,085</u>
Change in net position					1,529,311	382,944	1,912,255
Net Position - beginning, as restated					30,216,392	19,702,294	49,918,686
Net Position - ending					<u>\$ 31,745,703</u>	<u>\$ 20,085,238</u>	<u>\$ 51,830,941</u>

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

CITY OF INVERNESS, FLORIDA

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

September 30, 2015

	General Fund	Special Revenue		Capital Projects
		Whispering Pines Park	Community Redevelopment Fund	
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 1,017,905	\$ 224,147	\$ -	\$ 1,111,853
Investments	5,880,524	150,063	77,047	1,673,693
Accounts Receivable, net	358,663	3,197	-	20
Due from other governments	-	-	-	506,929
Other receivables	-	-	-	-
Inventories	1,200	-	-	-
Prepaid costs	154,312	-	-	-
Total assets	<u>\$ 7,412,604</u>	<u>\$ 377,407</u>	<u>\$ 77,047</u>	<u>3,292,495</u>
<b>LIABILITIES:</b>				
Accounts payable	\$ 154,985	\$ 20,215	\$ 547	160,663
Due to other governments	903	-	-	-
Deposits payable	20,881	10	-	-
Accrued liabilities	106,897	10,458	-	-
Unearned revenue	80,363	-	-	-
Total liabilities	<u>364,029</u>	<u>30,683</u>	<u>547</u>	<u>160,663</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue-grants	-	-	-	506,929
<b>FUND BALANCES:</b>				
Nonspendable	155,512	-	-	-
Restricted for:				
Road Improvements	-	-	-	-
Community redevelopment	-	-	76,500	-
Committed to:				
Capital Equipment Replacement	217,000	-	-	-
Land Acquisition	500,687	-	-	-
Inverness Government Center Sustainability	454,216	-	-	-
Disaster Preparedness/Mitigation	500,000	-	-	-
Employee Accrual Balance	146,000	-	-	-
Tort Litigation	200,000	-	-	-
Fire Services	25,000	-	-	-
Parks Operation/Capital	-	346,724	-	-
Road Improvements	-	-	-	-
Capital Projects	-	-	-	2,624,903
Unassigned	4,850,160	-	-	-
Total fund balances	<u>7,048,575</u>	<u>346,724</u>	<u>76,500</u>	<u>2,624,903</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 7,412,604</u>	<u>\$ 377,407</u>	<u>\$ 77,047</u>	<u>\$ 3,292,495</u>

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

<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 97,224	\$ 2,451,129
400,168	8,181,495
-	361,880
-	506,929
13,145	13,145
-	1,200
-	154,312
<u>\$ 510,537</u>	<u>\$ 11,670,090</u>
\$ 3,112	\$ 339,522
-	903
-	20,891
-	117,355
-	80,363
<u>3,112</u>	<u>559,034</u>
-	506,929
-	155,512
494,264	494,264
-	76,500
-	217,000
-	500,687
-	454,216
-	500,000
-	146,000
-	200,000
-	25,000
-	346,724
13,161	13,161
-	2,624,903
-	4,850,160
<u>507,425</u>	<u>10,604,127</u>
<u>\$ 510,537</u>	<u>\$ 11,670,090</u>

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, 2015

Total Fund Balance, Governmental Funds		\$ 10,604,127
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.		21,802,290
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.		506,929
Deferred inflows and outflows of resources related to pension earnings are not recognized in the governmental funds, however, they are recorded in net position under full accrual accounting.		211,572
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	(215,927)	
Net Pension Liability	(1,140,989)	
Other postemployment benefits	(22,299)	
	<u>                    </u>	<u>(1,379,215)</u>
Net Position of Governmental Activities in the Statement of Net Position		<u>\$ 31,745,703</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, 2015

	<b>General Fund</b>	<b>Special Revenue Funds</b>		
		<b>Whispering Pines Park</b>	<b>Community Redevelopment Fund</b>	<b>Capital Projects</b>
<b>REVENUES:</b>				
Taxes and special assessments	\$ 4,103,371	\$ -	\$ 144,531	\$ -
Licenses and permits	106,837	-	-	-
Intergovernmental	1,030,117	7,500	-	7,450
Impact fees	-	-	-	-
Charges for services	841,373	77,762	-	4,300
Fees and fines	28,969	-	-	-
Investment earnings	21,953	942	377	11,122
Miscellaneous	215,720	12,962	-	-
Total revenues	<u>6,348,340</u>	<u>99,166</u>	<u>144,908</u>	<u>22,872</u>
<b>EXPENDITURES:</b>				
Current:				
General government	1,553,013	-	-	35,507
Community development services	226,140	-	54,967	-
Public safety	763,328	-	-	-
Highways and streets	575,522	-	-	45,575
Physical environment	1,031,401	-	-	-
Culture and recreation	521,486	479,902	-	49,665
Capital Outlay	-	-	-	3,140,627
Total expenditures	<u>4,670,890</u>	<u>479,902</u>	<u>54,967</u>	<u>3,271,374</u>
Excess of revenues over expenditures	<u>1,677,450</u>	<u>(380,736)</u>	<u>89,941</u>	<u>(3,248,502)</u>
<b>OTHER FINANCING USES:</b>				
Transfers in	465,000	410,000	-	934,000
Transfers out	<u>(1,194,000)</u>	<u>(50,000)</u>	<u>(111,500)</u>	<u>-</u>
Total other financing uses	<u>(729,000)</u>	<u>360,000</u>	<u>(111,500)</u>	<u>934,000</u>
Net change in fund balances	948,450	(20,736)	(21,559)	(2,314,502)
Fund balances - beginning	6,100,125	367,460	98,059	4,939,405
Fund balances - ending	<u>\$ 7,048,575</u>	<u>\$ 346,724</u>	<u>\$ 76,500</u>	<u>\$ 2,624,903</u>

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

<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 4,247,902
-	106,837
-	1,045,067
3,856	3,856
-	923,435
-	28,969
535	34,929
-	228,682
4,391	6,619,677
-	1,588,520
-	281,107
-	763,328
-	621,097
-	1,031,401
-	1,051,053
2,782	3,143,409
2,782	8,479,915
1,609	(1,860,238)
-	1,809,000
-	(1,355,500)
-	453,500
1,609	(1,406,738)
505,816	12,010,865
\$ 507,425	\$ 10,604,127

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, 2015

Net Change in Fund Balances - total governmental funds: \$ (1,406,738)

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	3,133,521	
Less: current year depreciation	<u>(695,932)</u>	2,437,589

Cash pension contributions reported in the funds were more than the calculated pension expense in the statement of activities, and therefore increased net position.

23,909

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds

506,929

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	(30,092)	
Change in other post employment benefits	<u>(2,286)</u>	<u>(32,378)</u>

Change in net position of governmental activities

\$ 1,529,311

CITY OF INVERNESS, FLORIDA

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

For the Year Ended September 30, 2015

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES:</b>				
Taxes and Special Assessments	\$ 4,186,611	\$ 4,123,611	\$ 4,103,371	\$ (20,240)
Licenses and Permits	85,600	85,600	106,837	21,237
Intergovernmental	984,500	984,500	1,030,117	45,617
Charges for Services	1,070,675	860,675	841,373	(19,302)
Fees and Fines	24,800	24,800	28,969	4,169
Investment Earnings	45,100	45,100	21,953	(23,147)
Miscellaneous	185,800	190,300	215,720	25,420
Total revenues	<u>6,583,086</u>	<u>6,314,586</u>	<u>6,348,340</u>	<u>33,754</u>
<b>EXPENDITURES:</b>				
Current:				
General government	2,243,870	2,132,075	1,553,013	579,062
Community development services	242,058	313,213	226,140	87,073
Public safety	775,000	775,000	763,328	11,672
Highways and streets	727,066	728,866	575,522	153,344
Physical environment	1,190,008	1,190,008	1,031,401	158,607
Culture and recreation	921,671	766,671	521,486	245,185
Total expenditures	<u>6,099,673</u>	<u>5,905,833</u>	<u>4,670,890</u>	<u>1,234,943</u>
Excess (deficiency) of revenues over expenditures	<u>483,413</u>	<u>408,753</u>	<u>1,677,450</u>	<u>1,268,697</u>
<b>OTHER FINANCING SOURCES:</b>				
Transfers In	465,000	465,000	465,000	-
Transfers Out	<u>(1,132,000)</u>	<u>(1,194,000)</u>	<u>(1,194,000)</u>	<u>-</u>
Total other financing sources	<u>(667,000)</u>	<u>(729,000)</u>	<u>(729,000)</u>	<u>-</u>
Net change in fund balances	(183,587)	(320,247)	948,450	1,268,697
Fund Balance - beginning	<u>6,100,125</u>	<u>6,100,125</u>	<u>6,100,125</u>	<u>-</u>
Fund Balance - ending	<u>\$ 5,916,538</u>	<u>\$ 5,779,878</u>	<u>\$ 7,048,575</u>	<u>\$ 1,268,697</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, 2015

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES:</b>				
Intergovernmental	\$ 7,500	\$ 7,500	\$ 7,500	\$ -
Charges for Services	129,750	129,750	77,762	(51,988)
Investment Earnings	800	800	942	142
Miscellaneous	3,000	3,000	12,962	9,962
Total revenues	<u>141,050</u>	<u>141,050</u>	<u>99,166</u>	<u>(41,884)</u>
<b>EXPENDITURES:</b>				
Current:				
Culture and recreation	<u>691,265</u>	<u>691,265</u>	<u>479,902</u>	<u>211,363</u>
Total expenditures	<u>691,265</u>	<u>691,265</u>	<u>479,902</u>	<u>211,363</u>
Excess (deficiency) of revenues over expenditures	<u>(550,215)</u>	<u>(550,215)</u>	<u>(380,736)</u>	<u>169,479</u>
<b>OTHER FINANCING SOURCES:</b>				
Transfers In	410,000	410,000	410,000	-
Transfers Out	<u>(75,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	-
Total other financing sources	<u>335,000</u>	<u>360,000</u>	<u>360,000</u>	-
Net change in fund balances	(215,215)	(190,215)	(20,736)	169,479
Fund Balance - beginning	<u>367,460</u>	<u>367,460</u>	<u>367,460</u>	-
Fund Balance - ending	<u>\$ 152,245</u>	<u>\$ 177,245</u>	<u>\$ 346,724</u>	<u>\$ 169,479</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, 2015

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES:</b>				
Taxes and Special Assessments	\$ 75,000	\$ 138,000	\$ 144,531	\$ 6,531
Investment Earnings	800	800	377	(423)
Total revenues	<u>75,800</u>	<u>138,800</u>	<u>144,908</u>	<u>6,108</u>
<b>EXPENDITURES:</b>				
Current:				
Community development services	<u>94,995</u>	<u>94,995</u>	<u>54,967</u>	<u>40,028</u>
Total expenditures	<u>94,995</u>	<u>94,995</u>	<u>54,967</u>	<u>40,028</u>
Excess (deficiency) of revenues over expenditures	<u>(19,195)</u>	<u>43,805</u>	<u>89,941</u>	<u>46,136</u>
<b>OTHER FINANCING SOURCES:</b>				
Transfers In	63,000	-	-	-
Transfers Out	<u>(111,500)</u>	<u>(111,500)</u>	<u>(111,500)</u>	<u>-</u>
Total other financing sources	<u>(48,500)</u>	<u>(111,500)</u>	<u>(111,500)</u>	<u>-</u>
Net change in fund balances	(67,695)	(67,695)	(21,559)	46,136
Fund Balance - beginning	98,059	98,059	98,059	-
Fund Balance - ending	<u>\$ 30,364</u>	<u>\$ 30,364</u>	<u>\$ 76,500</u>	<u>\$ 46,136</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, 2015

	<b>Enterprise Funds</b>		
	<b>Water and Sewer Utility</b>	<b>Cemetery</b>	<b>Total</b>
<b>ASSETS:</b>			
Current assets:			
Cash and cash equivalents	\$ 1,772,438	\$ 116,899	\$ 1,889,337
Investments	3,485,513	601,638	4,087,151
Accounts receivable, net	410,987	2,165	413,152
Receivables from other governments	33,642	-	33,642
Accrued interest receivable	33,759	-	33,759
Other receivables	21,937	-	21,937
Inventories	-	98,112	98,112
Prepays	21,928	-	21,928
Total current assets	<u>5,780,204</u>	<u>818,814</u>	<u>6,599,018</u>
Noncurrent assets:			
Restricted cash and cash equivalents	457,171	-	457,171
Total restricted assets	<u>457,171</u>	<u>-</u>	<u>457,171</u>
Capital assets:			
Land, buildings and equipment	38,529,808	44,763	38,574,571
Construction in progress	21,282	-	21,282
Less accumulated depreciation	(13,185,858)	(40,771)	(13,226,629)
Total capital assets (net of depreciation)	<u>25,365,232</u>	<u>3,992</u>	<u>25,369,224</u>
Total noncurrent assets	<u>25,822,403</u>	<u>3,992</u>	<u>25,826,395</u>
Total assets	<u>31,602,607</u>	<u>822,806</u>	<u>32,425,413</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Deferred outflows-pension earnings	18,953	-	18,953
<b>LIABILITIES:</b>			
Current Liabilities:			
Accounts payable and accrued expenses	437,854	2,864	440,718
Accrued liabilities	-	616	616
Accrued interest payable	61,801	-	61,801
Customer deposits payable	258,942	50	258,992
Compensated absences	1,110	-	1,110
Capital lease obligation	104,866	-	104,866
Notes payable	486,418	-	486,418
Total current liabilities	<u>1,350,991</u>	<u>3,530</u>	<u>1,354,521</u>
Noncurrent Liabilities:			
Capital lease payable	1,662,985	-	1,662,985
Net pension liability	53,269	-	53,269
Notes payable	9,279,278	-	9,279,278
Total noncurrent liabilities	<u>10,995,532</u>	<u>-</u>	<u>10,995,532</u>
Total liabilities	<u>12,346,523</u>	<u>3,530</u>	<u>12,350,053</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Deferred inflows-pension earnings	9,075	-	9,075
Total deferred inflows of resources	<u>9,075</u>	<u>-</u>	<u>9,075</u>
<b>NET POSITION:</b>			
Net investment in capital assets	13,996,678	3,992	14,000,670
Restricted for perpetual care	-	553,627	553,627
Unrestricted	5,269,284	261,657	5,530,941
Total net position	<u>\$ 19,265,962</u>	<u>\$ 819,276</u>	<u>\$ 20,085,238</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, 2015

	<b>Enterprise Funds</b>		
	<b>Water and Sewer Utility</b>	<b>Cemetery</b>	<b>Total</b>
<b>Operating Revenues:</b>			
Charges for services	\$ 3,374,733	\$ 10,770	\$ 3,385,503
Miscellaneous	36,145	304	36,449
Total operating revenues	<u>3,410,878</u>	<u>11,074</u>	<u>3,421,952</u>
<b>Operating expenses:</b>			
Salaries and benefits	128,990	742	129,732
Contractual services	1,454,899	32,325	1,487,224
Utilities	242,810	1,079	243,889
Materials and supplies	53,561	-	53,561
Other operating expenses	111,116	2,869	113,985
Depreciation	809,209	650	809,859
Total operating expenses	<u>2,800,585</u>	<u>37,665</u>	<u>2,838,250</u>
Operating income	<u>610,293</u>	<u>(26,591)</u>	<u>583,702</u>
<b>Nonoperating Revenue (Expenses):</b>			
Investment income	25,696	1,670	27,366
Operating grants and contributions	498,014	-	498,014
Gain (loss) on disposal of capital assets	5,738	2,155	7,893
Interest expense	(280,531)	-	(280,531)
Total nonoperating revenue (expenses)	<u>248,917</u>	<u>3,825</u>	<u>252,742</u>
Income before transfers	859,210	(22,766)	836,444
Transfers out	<u>(450,000)</u>	<u>(3,500)</u>	<u>(453,500)</u>
Change in net position	409,210	(26,266)	382,944
Total Net Position - beginning	18,901,260	845,542	19,746,802
Restatement of Net Position Due to Implementation of GASB 68	<u>(44,508)</u>	<u>-</u>	<u>(44,508)</u>
Net position - beginning, as restated	18,856,752	845,542	19,702,294
Total Net Position - ending	<u>\$ 19,265,962</u>	<u>\$ 819,276</u>	<u>\$ 20,085,238</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, 2015

	<b>Water and Sewer Utility</b>	<b>Cemetery</b>	<b>Total</b>
<b>Cash Flows from Operating Activities:</b>			
Receipts from customers	\$ 3,424,867	\$ 10,034	\$ 3,434,901
Payments to suppliers	(1,861,628)	(34,132)	(1,895,760)
Payments to employees	(138,528)	(126)	(138,654)
Net cash provided (used) by operating activities	<u>1,424,711</u>	<u>(24,224)</u>	<u>1,400,487</u>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Net operating transfers in (out)	(450,000)	(3,500)	(453,500)
Operating grants	498,014	-	498,014
Net cash provided (used) by noncapital financing activities	<u>48,014</u>	<u>(3,500)</u>	<u>44,514</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Proceeds from sale of capital assets	5,738	2,155	7,893
Acquisition of capital assets	(718,259)	-	(718,259)
Principal paid on long-term debt	(568,718)	-	(568,718)
Interest paid on long-term debt	(284,054)	-	(284,054)
Net cash provided (used) by capital and related financing activities	<u>(1,565,293)</u>	<u>2,155</u>	<u>(1,563,138)</u>
<b>Cash Flows from Investing Activities:</b>			
Sales of investments	(1,314,623)	(28,637)	(1,343,260)
Investment income	25,696	1,670	27,366
Net cash provided(used) by investing activities	<u>(1,288,927)</u>	<u>(26,967)</u>	<u>(1,315,894)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	(1,381,495)	(52,536)	(1,434,031)
<b>Cash and Cash Equivalents - beginning</b>	3,611,104	169,435	3,780,539
<b>Cash and Cash Equivalents - ending</b>	<u>\$ 2,229,609</u>	<u>\$ 116,899</u>	<u>\$ 2,346,508</u>
<b>Classified As:</b>			
Cash and cash equivalents	\$ 1,772,438	\$ 116,899	\$ 1,889,337
Restricted cash and cash equivalents	457,171	-	457,171
Total	<u>\$ 2,229,609</u>	<u>\$ 116,899</u>	<u>\$ 2,346,508</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>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) By Operating Activities</b>			
Operating income	<u>\$ 610,293</u>	<u>\$ (26,591)</u>	<u>\$ 583,702</u>
<b>Adjustments Not Affecting Cash:</b>			
Depreciation and amortization	809,209	650	809,859
<b>Change in Assets and Liabilities:</b>			
(Increase) Decrease in accounts receivable	(6,005)	(1,090)	(7,095)
(Increase) Decrease in prepaids	(2,379)	627	(1,752)
Increase (Decrease) in accounts payable	3,137	1,514	4,651
Increase (Decrease) in accrued liabilities	-	616	616
Increase (Decrease) in compensated absences	(8,421)	-	(8,421)
Increase (Decrease) in deferred inflows	(17,061)	-	(17,061)
Increase (Decrease) in deferred outflows	(4,523)	-	(4,523)
Increase (Decrease) in net pension liability	20,467	-	20,467
Increase in customer deposits	19,994	50	20,044
Total adjustments	<u>814,418</u>	<u>2,367</u>	<u>816,785</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 1,424,711</u>	<u>\$ (24,224)</u>	<u>\$ 1,400,487</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

**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. Then in 2014, the City expanded the CRA in accordance with Chapter 163 of the Florida Statutes designating the expanded area, and passed Ordinance 2014-703 adopting the CRA plan amendment to extend the boundaries and extend the implementation period for 30 years following the amendment of the existing plan. The incremental annual increase in tax over the base years (1990 and 2014) 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 activities) 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.

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

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

***B. Government-Wide and Fund Financial Statements (Continued)***

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*.

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.

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

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

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

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.

**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.

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

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

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

Proprietary funds distinguish *operating* revenues and expenses from *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.

***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.

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

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

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

**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.

**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 2015.

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

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

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

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

**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, net pension liability and other post-employment benefits are generally liquidated by the General Fund.

**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 has one item that qualifies for reporting in this category for the year ended September 30, 2015, deferred outflows of pension earnings.

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 has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from grant revenues. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also has deferred inflows of pension earnings reported in the enterprise and government-wide statement of net position.

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

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

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

**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.

**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, 2015

**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 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements replace the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, 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. GASB Statement No. 71 addresses the issue of the transition provisions in Statement No. 68. Beginning net position of governmental activities, business-type activities and proprietary funds has been restated and disclosed in Note 2.

**Note 2 - Accounting Changes and Restatement of Financial Statements:**

The implementation of GASB Statement No. 68 requires reporting the net pension liability, and related deferred inflows and outflows. As a result, the October 1, 2014 beginning net position of the Water and Sewer Utility Fund, business-type activities and governmental activities of the government-wide financial statements were restated as follows:

	Governmental Activities	Business -Type Activities
Net Position, October 1, 2014, previously stated	\$ 31,169,718	\$ 19,746,802
Restatement of Net Position Due FRS Net Pension Liability, Deferred Inflows and Deferred Outflows	<u>(953,326)</u>	<u>(44,508)</u>
Net Position, October 1, 2014, restated	<u>\$ 30,216,392</u>	<u>\$ 19,702,294</u>
	Water and Sewer Utility Fund	
Net Position, October 1, 2014, previously stated	\$ 18,901,260	
Restatement of Net Position dDe FRS Net Pension Liability, Deferred Inflows and Deferred Outflows	<u>(44,508)</u>	
Net Position, October 1, 2014, restated	<u>\$ 18,856,752</u>	

In addition, the October 1, 2014 beginning balances in the long-term debt schedules were restated to include the net pension liability.

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

**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 year end. The City follows these procedures set forth below in establishing the budgetary data reflected in the financial statements.

1. Prior to August 1<sup>st</sup>, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1<sup>st</sup>. 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 30<sup>th</sup> 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.

**B. *Appropriations in Excess of Funds Available***

Appropriations for the Capital Projects Fund were in excess of anticipated revenue and prior years' fund balance.

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

**Note 5 - Deposits and Investments:**

**Deposits**

At year-end, the carrying amount of the City's deposits was \$4,797,637 and the bank balance was \$4,820,014. Cash on hand of \$2,248 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, 2015

**Note 5 - Deposits and Investments (Continued):**

**Investments (Continued)**

Investments made by the City at September 30, 2015 are summarized below.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity (Years)</u>
Florida Prime	\$ 39,236	AAAm	39 days
Florida Safe Money Market	5,002,232	N/A	N/A
Florida Safe Term Securities	5,000,000		409 days
0-2 Year High Quality Bond	602,112	AAA	.75 years
1-3 Year Hight Quality Bond	1,315,450	AAA	1.49 years
Intermediate HQ Bond Fund	309,616	AAA	3.96 years
	<u>\$ 12,268,646</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, 2015, 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, 2015, 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, 2015

**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	Capital Projects	Water and Sewer Utility Fund	Cemetery Fund	Total
Receivables:						
Accounts	\$ 358,663	\$ 3,197	\$ 20	\$ 491,152	\$ 2,165	\$ 855,197
Less Allowance for Uncollectible Accounts	-	-	-	(80,165)	-	(80,165)
	<u>\$ 358,663</u>	<u>\$ 3,197</u>	<u>\$ 20</u>	<u>\$ 410,987</u>	<u>\$ 2,165</u>	<u>\$ 775,032</u>

**Note 7 - Capital Assets:**

Capital asset activity for the year ended September 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 3,328,507	\$ 12,999	\$ -	\$ 3,341,506
Construction in progress	1,016,309	2,517,534	(2,845,961)	687,882
Total capital assets, not being depreciated	<u>4,344,816</u>	<u>2,530,533</u>	<u>(2,845,961)</u>	<u>4,029,388</u>
Capital assets, being depreciated:				
Buildings	7,842,696	2,376,273	-	10,218,969
Improvements	11,757,939	504,522	-	12,262,461
Machinery and equipment	1,946,035	568,154	(179,860)	2,334,329
Intangibles	390,352	-	-	390,352
Total capital assets, being depreciated	<u>21,937,022</u>	<u>3,448,949</u>	<u>(179,860)</u>	<u>25,206,111</u>
Less accumulated depreciation for:				
Buildings	(1,824,894)	(182,924)	-	(2,007,818)
Improvements	(3,293,865)	(379,405)	-	(3,673,270)
Machinery and equipment	(1,493,154)	(99,475)	179,860	(1,412,769)
Intangibles	(305,224)	(34,128)	-	(339,352)
Total accumulated depreciation	<u>(6,917,137)</u>	<u>(695,932)</u>	<u>179,860</u>	<u>(7,433,209)</u>
Total capital assets, being depreciated, net	<u>15,019,885</u>	<u>2,753,017</u>	<u>-</u>	<u>17,772,902</u>
Governmental activities capital assets, net	<u>\$ 19,364,701</u>	<u>\$ 5,283,550</u>	<u>\$ (2,845,961)</u>	<u>\$ 21,802,290</u>

CITY OF INVERNESS, FLORIDA

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

**Note 7 - Capital Assets (Continued):**

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 651,855	\$ -	\$ -	\$ 651,855
Construction in progress	1,825,018	428,035	(2,231,771)	21,282
Total capital assets, not being depreciated	<u>2,476,873</u>	<u>428,035</u>	<u>(2,231,771)</u>	<u>673,137</u>
Capital assets, being depreciated:				
Buildings	17,669,190	-	-	17,669,190
Improvements	10,201,455	2,407,374	-	12,608,829
Machinery and equipment	7,545,427	114,621	(15,351)	7,644,697
Total capital assets, being depreciated	<u>35,416,072</u>	<u>2,521,995</u>	<u>(15,351)</u>	<u>37,922,716</u>
Less accumulated depreciation for:				
Buildings	(1,993,898)	(357,678)	-	(2,351,576)
Improvements	(3,969,719)	(335,076)	-	(4,304,795)
Machinery and equipment	(6,468,504)	(117,105)	15,351	(6,570,258)
Total accumulated depreciation	<u>(12,432,121)</u>	<u>(809,859)</u>	<u>15,351</u>	<u>(13,226,629)</u>
Total capital assets, being depreciated, net	<u>22,983,951</u>	<u>1,712,136</u>	<u>-</u>	<u>24,696,087</u>
Business-type activities capital assets, net	<u>\$ 25,460,824</u>	<u>\$ 2,140,171</u>	<u>\$ (2,231,771)</u>	<u>\$ 25,369,224</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government	\$ 237,829
Development services	57,806
Highways and streets	179,388
Culture and recreation	220,909
Total Depreciation Expense - governmental activities	<u>\$ 695,932</u>
Business-type Activities:	
Water and sewer	\$ 809,209
Cemetery	650
Total depreciation Expense - business-type activities	<u>\$ 809,859</u>

CITY OF INVERNESS, FLORIDA

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

**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		
Improvements	\$ -	\$ 2,228,626
Less: Accumulated depreciation	-	(48,138)
Total	<u>\$ -</u>	<u>\$ 2,180,488</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2015 were as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
<u>Year Ending September 30</u>		
2016	\$ -	\$ 153,500
2017	-	167,000
2018	-	181,000
2019	-	190,500
2020	-	196,000
2021-2025	-	1,069,000
2026	-	114,500
Total Minimum Lease Payments	-	2,071,500
Less: Amount representing interest	-	(303,649)
	<u>\$ -</u>	<u>\$ 1,767,851</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>	
2016	\$ 133,736
2017	125,252
2018	124,502
2019	122,200
2020	121,084
Thereafter	40,559
	<u>\$ 667,333</u>

Total income under non-cancelable operating leases for the year ended September 30, 2015 was \$151,016. 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	<u>(309,956)</u>
Capital Assets Held for Lease, net	<u>\$ 1,615,762</u>

CITY OF INVERNESS, FLORIDA

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

**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 \$11,873,206. For the fiscal year, principal and interest paid was \$712,772, which includes \$500,000 of grant funded payments; and total pledged revenue was \$1,445,197.

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

Year Ending <u>September 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ -	\$ -	\$ 486,418	\$ 221,830
2017	-	-	497,670	210,578
2018	-	-	509,182	199,065
2019	-	-	520,961	187,287
2020	-	-	533,012	175,236
2021-2025	-	-	2,855,807	685,433
2026-2030	-	-	3,201,754	339,486
2031-2035	-	-	956,183	85,057
2036	-	-	204,709	3,538
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,765,696</u>	<u>\$ 2,107,510</u>

**Changes in Long-Term Liabilities**

Long-term liability activity for the year ended September 30, 2015 was as follows:

	Beginning Balance, as restated	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
Compensated absences	\$ 185,835	\$ 30,092	\$ -	\$ 215,927	\$ 21,600
Other post employment benefits	20,013	2,286	-	22,299	-
Net pension liability	702,609	438,380	-	1,140,989	-
Governmental activity long-term liabilities	<u>\$ 908,457</u>	<u>\$ 470,758</u>	<u>\$ -</u>	<u>\$ 1,379,215</u>	<u>\$ 21,600</u>
<b>Business-type Activities:</b>					
SRF Note payable	\$ 10,245,640	\$ -	\$ (479,944)	\$ 9,765,696	\$ 486,418
Capital lease	1,856,625	-	(88,774)	1,767,851	104,866
Compensated absences	9,531	1,110	(9,531)	1,110	1,110
Net pension liability	32,802	20,467	-	53,269	-
Business-type activity long-term liabilities	<u>\$ 12,144,598</u>	<u>\$ 21,577</u>	<u>\$ (578,249)</u>	<u>\$ 11,587,926</u>	<u>\$ 592,394</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 and net pension liability will be liquidated by the General Fund.

CITY OF INVERNESS, FLORIDA

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

**Note 10- Interfund Receivables, Payables and Transfers:**

Interfund transfers for the year ended September 30, 2015 consisted of the following:

	<u>Transfers In</u>			<u>Total</u>
	<u>General Fund</u>	<u>Whispering Pines Park Fund</u>	<u>Capital Projects</u>	
<b>Transfer Out:</b>				
General Fund	\$ -	\$ 410,000	\$ 784,000	\$ 1,194,000
Whispering Pines Park Fund	-	-	50,000	50,000
Community Redevelopment Fund	11,500	-	100,000	111,500
Water and Sewer Utility Fund	450,000	-	-	450,000
Cemetery Fund	3,500	-	-	3,500
Total	<u>\$ 465,000</u>	<u>\$ 410,000</u>	<u>\$ 934,000</u>	<u>\$ 1,809,000</u>

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' defined contribution 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, 2015, 45 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, 2015

**Note 11 - Retirement Plans (Continued):**

**Florida Retirement System (Continued)**

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

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

[www.dms.myflorida.com/workforce\\_operations/retirement/publications](http://www.dms.myflorida.com/workforce_operations/retirement/publications)

**Pension Plan**

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

Benefits Provided - Benefits under the Pension Plan are computed on the basis of age, average final compensation, and service credit. For Pension Plan members enrolled before July 1, 2011, Regular class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service.

Vested members with less than 30 years of service may retire before age 62 and receive reduced retirement benefits. Special Risk Administrative Support class members who retire at or after age 55 with at least six years of credited service or 25 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service. Special Risk class members (sworn law enforcement officers, firefighters, and correctional officers) who retire at or after age 55 with at least six years of credited service, or with 25 years of service regardless of age, are entitled to a retirement benefit payable monthly for life, equal to 3.0% of their final average compensation based on the five highest years of salary for each year of credited service. Senior Management Service class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 2.0% of their final average compensation based on the five highest years of salary for each year of credited service. Elected Officers' class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 3.0% (3.33% for judges and justices) of their final average compensation based on the five highest years of salary for each year of credited service.

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

**Note 11 - Retirement Plans (Continued):**

**Pension Plan (Continued)**

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

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

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

Contributions - Effective July 1, 2011, all enrolled members of the FRS, other than DROP participants, are required to contribute three percent of their salary to the FRS. In addition to member contributions, governmental employers are required to make contributions to the FRS based on state-wide contribution rates established by the Florida Legislature. These rates are updated as of July 1 of each year. The employer contribution rates by job class for the periods from October 1, 2014 through June 30, 2015 and from July 1, 2015 through September 30, 2015, respectively, were as follows: Regular-7.37% and 7.26%; Special Risk Administrative Support-42.07% and 32.95%; Special Risk-19.82% and 22.04%; Senior Management Service-21.14% and 21.43%; Elected Officers-43.24% and 42.27%; and DROP participants-12.28% and 18.75%.

These employer contribution rates include 1.20% and 1.26% HIS Plan subsidy for the periods October 1, 2014 through June 30, 2015 and from July 1, 2015 through September 30, 2015, respectively.

The City's contributions, including employee contributions, to the Pension Plan totaled \$164,191 for the fiscal year ended September 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At September 30, 2015, the City reported a liability of \$724,585 for its proportionate share of the Pension Plan's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The City's proportionate share of the net pension liability was based on the City's 2014-15 fiscal year contributions relative to the 2013-14 fiscal year contributions of all participating members. At June 30, 2015, the City's proportionate share was .0056 percent, which was an increase (decrease) of .0002 percent from its proportionate share measured as of June 30, 2014.

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

**Note 11 - Retirement Plans (Continued):**

**Pension Plan (Continued)**

For the fiscal year ended September 30, 2015, the City recognized pension expense of \$97,098. In addition the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>Description</b>	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences Between Expected and Actual Experience	\$ 76,495	\$ 17,185
Change of Assumptions	48,093	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	173,019
Changes in Proportion and Differences Between City Pension Plan Contributions and Proportionate Share of Contributions	199,933	-
City Pension Plan Contributions Subsequent to the Measurement Date	36,237	-
Total	<u>\$ 360,758</u>	<u>\$ 190,204</u>

The deferred outflows of resources related to the Pension Plan, totaling \$36,237 resulting from City contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pension Plan will be recognized in pension expense as follows:

Fiscal Year Ending September 30:	<u>Amount</u>
2016	\$ (12,026)
2017	(12,026)
2018	(12,026)
2019	130,720
2020	33,795
Thereafter	5,880

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

**Note 11 - Retirement Plans (Continued):****Pension Plan (Continued)**

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumption, applied to all period included in the measurement:

Inflation	2.60 %
Salary Increases	3.25%, average, including inflation
Investment Rate of Return	7.65%, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

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

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.00%	3.11%	3.10%	1.65%
Intermediate-Term Bonds	18.00%	4.18%	4.05%	5.15%
High Yield Bonds	3.00%	6.79%	6.25%	10.95%
Broad US Equities	26.50%	8.51%	6.95%	18.90%
Developed Foreign Entities	21.20%	8.66%	6.85%	20.40%
Emerging Market Equities	5.30%	11.58%	7.60%	31.15%
Private Equity	6.00%	11.80%	8.11%	30.00%
Hedge Funds/Absolute Return	7.00%	5.81%	5.35%	10.00%
Real Estate (Property)	12.00%	7.11%	6.35%	13.00%
Total	<u>100.00%</u>			
Assumed Inflation - Mean		2.60%		2.00%

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

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

**Note 11 - Retirement Plans (Continued):**

**Pension Plan (Continued)**

Discount Rate - The discount rate used to measure the total pension liability was 7.65%. The Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculation the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the City's Proportionate Share of the Net Position Liability to Changes in the Discount Rate - The following represents the City's proportionate share of the net pension liability calculated using the discount rate of 7.65%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.65%) or one percentage point higher (8.65%) than the current rate:

	<u>1% Decrease</u> <u>(6.65%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(7.65%)</u>	<u>1% Increase</u> <u>(8.65%)</u>
City's Proportionate Share of the Net Pension Liability	\$ 1,877,563	\$ 724,585	\$ (234,883)

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

Payables to the Pension Plan - At September 30, 2015, the City reported a payable in the amount of \$17,100 for outstanding contributions to the Pension Plan required for the fiscal year ended September 30, 2015.

**HIS Plan**

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

Benefits Provided - For the fiscal year ended September 30, 2015, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month. To be eligible to receive these benefits, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

**Note 11 - Retirement Plans (Continued):**

**HIS Plan (Continued)**

Contributions - The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2015, the HIS contribution for the period October 1, 2014 through June 30, 2015 and from July 1, 2015 through September 30, 2015 was 1.20% and 1.26%, respectively. The City contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

The City's contributions to the HIS Plan totaled \$19,682 for the fiscal year ended September 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At September 30, 2015, the City reported a liability of \$469,673 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The City's proportionate share of the net pension liability was based on the City's 2014-15 fiscal year contributions relative to the 2013-14 fiscal year contributions of all participating members. At June 30, 2015, the City's proportionate share was .0046 percent, which was an increase (decrease) of .0003 percent from its proportionate share measured as of June 30, 2014.

For the fiscal year ended September 30, 2015, the City recognized pension expense of \$35,755. In addition the City reported deferred outflows of resources and deferred in flows of resources related to pensions from the following sources:

<b>Description</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences Between Expected and Actual Experience	\$ -	\$ -
Change of Assumptions	36,951	-
Net Difference Between Projected and Actual Earnings on HIS Plan Investments	254	-
Changes in Proportion and Differences Between City HIS Plan Contributions and Proportionate Share of Contributions	20,541	13,252
City HIS Plan Contributions Subsequent to the Measurement Date	6,402	-
<b>Total</b>	<b>\$ 64,148</b>	<b>\$ 13,252</b>

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

**Note 11 - Retirement Plans (Continued):**

**HIS Plan (Continued)**

The deferred outflows of resources related to the HIS Plan, totaling \$6,402 resulting from City contributions to the HIS Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan will be recognized in pension expense as follows:

Fiscal Year Ending September 30:	Amount
2016	\$ 7,200
2017	7,200
2018	7,200
2019	7,148
2020	7,123
Thereafter	8,623

Actuarial Assumptions - The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 %
Salary Increases	3.25%, average, including inflation
Municipal Bond Rate	3.80 %

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

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

Discount Rate - The discount rate used to measure the total pension liability was 3.80%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

**Note 11 - Retirement Plans (Continued):**

**HIS Plan (Continued)**

Sensitivity of the City's Proportionate Share of the Net Position Liability to Changes in the Discount Rate - The following represents the City's proportionate share of the net pension liability calculated using the discount rate of 3.80%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.80%) or one percentage point higher (4.80%) than the current rate:

	<u>1% Decrease (2.80%)</u>	<u>Current Discount Rate (3.80%)</u>	<u>1% Increase (4.80%)</u>
City's Proportionate Share of the Net Pension Liability	\$ 535,171	\$ 469,673	\$ 415,058

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

**Investment Plan**

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. City employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected City Officers, etc.), as the Pension Plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of plan members. Allocations to the investment member's accounts during the 2014-15 fiscal year, as established by Section 121.72, Florida Statutes, are based on a percentage of gross compensation, by class, as follows: Regular class 6.30%, Special Risk Administrative Support class 7.95%, Special Risk class 14.00%, Senior Management Service class 7.67% and City Elected Officers class 11.34%.

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

**Note 11 - Retirement Plans (Continued):**

**Investment Plan (Continued)**

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the Pension Plan is transferred to the Investment Plan, the member must have the years of service required for Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to five years. If the employee returns to FRS-covered employment within the five-year period, the employee will regain control over their account. If the employee does not return within the five-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended September 30, 2015, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the City.

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

The City's Investment Plan pension expense totaled \$21,261 for the fiscal year ended September 30, 2015.

**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, 2015 there was 1 plan member, and City contributions to the plan were \$420.

CITY OF INVERNESS, FLORIDA

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

**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, 2014, the most recent actuarial valuation date, the actuarial accrued liabilities (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$27,379, and the plan has a funded ratio of 0%.

The annual required contribution and Net OPEB Obligation for the fiscal year ended September 30, 2015 is as follows:

Annual Required Contribution	\$	8,182
Interest on Net OPEB Obligation		801
Adjustment to Annual Required Contribution		(1,234)
Annual OPEB Cost		<u>7,749</u>
Employer Contributions		(5,463)
Increase in Net OPEB Obligation		2,286
Net OPEB Obligation (Beginning of Year)		20,013
Net OPEB Obligation (End of Year)	\$	<u><u>22,299</u></u>

**Three Year Trend Information -**

<b>Fiscal Year Ending</b>	<b>Annual OPEB Cost</b>	<b>Percentage of OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
9/30/2015	\$ 7,749	70.5%	\$ 22,299
9/30/2014	7,294	56.8%	20,013
9/30/2013	10,446	70.5%	16,860

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2015

**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% per year compounded annually, net of investment related expenses

**Health Care Inflation** - Pre-Medicare: 8% in fiscal 2015; trending to 5% in 2019; with an ultimate rate of 4.5% in 2020. Post-Medicare: 8% in fiscal 2015; trending to 5% in 2019; with an ultimate rate of 4.5% in 2020.

**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, 2015

**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 received donated materials for Whispering Pines Park with an estimated value of \$7,516.

**REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF INVERNESS, FLORIDA

**REQUIRED SUPPLEMENTARY INFORMATION**

September 30, 2015

**RETIREE CONTINUATION INSURANCE PLAN**

**Schedule of Contributions From the Employer and Other Contributing Entities**

<b>Year Ended September 30,</b>	<b>Annual Required Contribution</b>	<b>Percentage of ARC Contributed</b>	<b>Net OPEB Obligation</b>
2015	\$ 8,182	66.77%	\$ 22,299
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**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll (b-a)/c</b>
10/1/2014	-	27,379	27,379	0.00%	1,173,346	2.33%
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

CITY OF INVERNESS, FLORIDA

**REQUIRED SUPPLEMENTARY INFORMATION**

September 30, 2015

Schedule of the City's Proportionate Share of Net Pension Liability  
Florida Retirement System (FRS)  
Last 10 Fiscal Years\*

	<u>2015</u>	<u>2014</u>
City's Proportion of the Net Pension Liability	0.005609830%	0.005401096%
City's Proportionate Share of the Net Pension Liability	\$ 724,585	\$ 329,546
City's Covered-employee Payroll	\$ 1,455,498	\$ 1,265,550
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-employee Payroll	49.78%	26.04%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	92.00%	96.09%

Schedule of the City's Proportionate Share of Net Pension Liability  
Health Insurance Subsidy (HIS)  
Last 10 Fiscal Years\*

	<u>2015</u>	<u>2014</u>
City's Proportion of the Net Pension Liability	0.004605352%	0.004340684%
City's Proportionate Share of the Net Pension Liability	\$ 469,673	\$ 405,865
City's Covered-employee Payroll	\$ 1,455,498	\$ 1,265,550
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-employee Payroll	32.27%	32.07%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	0.50%	0.99%

\* Information for prior years not available.

CITY OF INVERNESS, FLORIDA

**REQUIRED SUPPLEMENTARY INFORMATION**

September 30, 2015

Schedule of the City Contributions  
Florida Retirement System (FRS)  
Last 10 Fiscal Years\*

	<u>2015</u>
Contractually Required Contribution	\$ 138,199
Contributions in Relation to the	
Contractually Required Contribution	<u>(138,199)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>
 City's Covered-employee Payroll	 \$ 1,455,498
 Contributions as a Percentage of Covered- employee Payroll	 9.49%

Schedule of the City Contributions  
Health Insurance Subsidy (HIS)  
Last 10 Fiscal Years\*

	<u>2015</u>
Contractually Required Contribution	\$ 19,682
Contributions in Relation to the	
Contractually Required Contribution	<u>(19,682)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>
 City's Covered-employee Payroll	 \$ 1,455,498
 Contributions as a Percentage of Covered- employee Payroll	 1.35%

\* Information for prior years not available.

**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, 2015

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES:</b>				
Intergovernmental	\$ 1,922,321	\$ 2,050,821	\$ 7,450	\$ (2,043,371)
Impact Fees	583,000	600,043	-	(600,043)
Charges for Services	4,300	4,300	4,300	-
Investment Earnings	20,000	20,000	11,122	(8,878)
Total revenues	<u>2,529,621</u>	<u>2,675,164</u>	<u>22,872</u>	<u>(2,652,292)</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	35,507	(35,507)
Highways and streets	-	-	45,575	(45,575)
Culture and recreation	3,000	13,000	49,665	(36,665)
Capital Outlay	5,353,521	8,881,599	3,140,627	5,740,972
Total expenditures	<u>5,356,521</u>	<u>8,894,599</u>	<u>3,271,374</u>	<u>5,623,225</u>
Excess (deficiency) of revenues over expenditures	<u>(2,826,900)</u>	<u>(6,219,435)</u>	<u>(3,248,502)</u>	<u>2,970,933</u>
<b>OTHER FINANCING SOURCES:</b>				
Notes Payable	1,500,000	-	-	-
Transfers in	834,000	934,000	934,000	-
Total other financing sources	<u>2,334,000</u>	<u>934,000</u>	<u>934,000</u>	<u>-</u>
Net change in fund balances	(492,900)	(5,285,435)	(2,314,502)	2,970,933
Fund Balance - beginning	4,939,405	4,939,405	4,939,405	-
Fund Balance - ending	<u>\$ 4,446,505</u>	<u>\$ (346,030)</u>	<u>\$ 2,624,903</u>	<u>\$ 2,970,933</u>

**NONMAJOR GOVERNMENTAL FUNDS**

## **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, 2015

	<u>Special Revenue</u>		<u>Total Other Governmental Funds</u>
	<u>Road Improvement Fund</u>	<u>Impact Fee Fund</u>	
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 16	\$ 97,208	\$ 97,224
Investments	-	400,168	400,168
Assessments receivable	13,145	-	13,145
Total assets	<u>\$ 13,161</u>	<u>\$ 497,376</u>	<u>\$ 510,537</u>
<b>LIABILITIES:</b>			
Accounts payable	\$ -	\$ 3,112	\$ 3,112
Total liabilities	<u>-</u>	<u>3,112</u>	<u>3,112</u>
Fund Balances:			
Restricted for road improvements	-	494,264	494,264
Committed to:			
Road Improvements	13,161	-	13,161
Total fund balances	<u>13,161</u>	<u>494,264</u>	<u>507,425</u>
Total Liabilities and Fund Balances	<u>\$ 13,161</u>	<u>\$ 497,376</u>	<u>\$ 510,537</u>

CITY OF INVERNESS, FLORIDA

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

For the Year Ended September 30, 2015

	<u>Special Revenue</u>		<u>Total Other Governmental Funds</u>
	<u>Road Improvement Fund</u>	<u>Impact Fee Fund</u>	
<b>REVENUES</b>			
Impact fees	\$ -	\$ 3,856	\$ 3,856
Investment earnings	312	223	535
Total revenues	<u>312</u>	<u>4,079</u>	<u>4,391</u>
<b>EXPENDITURES</b>			
Capital Outlay			
General government	-	2,782	2,782
Total expenditures	<u>-</u>	<u>2,782</u>	<u>2,782</u>
Excess of Revenues Over Expenditures	<u>312</u>	<u>1,297</u>	<u>1,609</u>
Net Change in Fund Balances	312	1,297	1,609
Fund Balances - beginning	12,849	492,967	505,816
Fund Balances - ending	<u>\$ 13,161</u>	<u>\$ 494,264</u>	<u>\$ 507,425</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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 1, 2016.

***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*.

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***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  
June 1, 2016

**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 projects for the year ended September 30, 2015. The City's major state projects are 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 projects for the year ended September 30, 2015.

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## 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  
June 1, 2016

CITY OF INVERNESS, FLORIDA

**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**

Year Ended September 30, 2015

<b>Award type</b>	<b>CSFA</b>	<b>Agency or Pass-through</b>	
<b>Grantor</b>	<b>Number</b>	<b>Entity Grant Number</b>	<b>Expenditures</b>
<b>Grantor program title</b>			
<b>State Award</b>			
<b>State of Florida, Department of Environmental Protection</b>			
Small Community Wastewater Facility Grant *	37.075	SG578070	\$ 500,000
<b>State of Florida, Department of State</b>			
Cultural Facilities Grant*	45.014	15.9.200.580	450,605
<b>State of Florida, Department of Transportation</b>			
County Incentive Grant Program	55.008		<u>49,097</u>
Total state awards			<u><u>\$ 999,702</u></u>

\* Denotes a major program

**NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**

Year Ended September 30, 2015

**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, 2015. 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, 2015, 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, 2015

**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 programs tested as a major project included: State of Florida, Department of Environmental Protection Small Community Wastewater Facility Grant (CFSA 37.075) and Department of State Cultural Facilities Grant (CFSA 45.014).
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, 2015, and have issued our report thereon dated June 1, 2016.

### 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 June 1, 2016, 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. Corrective actions have been taken to address findings and recommendations made 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. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether or not the *City 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. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the *City of Inverness, Florida* for the fiscal year ended September 30, 2015, 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, 2015. 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. In connection with our audit, we did not have any such recommendations.

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

### **Purpose of this Letter**

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

*McDiernit Davis & Company, LLC*

Orlando, Florida  
June 1, 2016

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, 2015, and have issued our report thereon dated June 1, 2016. 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 accordance 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.

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## **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. 68, *Accounting and Financial Reporting for Pension Plans*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Accordingly, the cumulative effect of the accounting change as of the beginning of the year has been reported in the Statement of Activities. 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 the prior period adjustments for the implementation of new GASBs.

## **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 June 1, 2016.

### **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,

*McDiarmid Davis & Company, LLC*

Orlando, Florida  
June 1, 2016

**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, 2015. 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, 2015.

*MCDIRMIT DAVIS & COMPANY, LLC*

Orlando, Florida  
June 1, 2016

**MCDIRMIT DAVIS & COMPANY, LLC**

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