

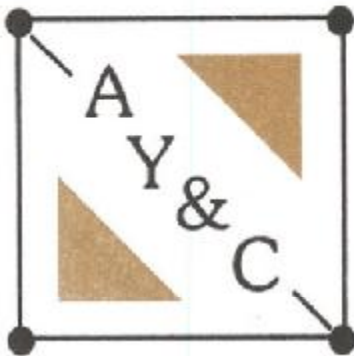
CITY OF CRESTVIEW, FLORIDA
AUDITED FINANCIAL STATEMENTS

September 30, 2008

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council Members
City of Crestview, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crestview, Florida, as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Crestview, Florida's management. 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crestview, Florida, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary fund information for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Honorable Mayor and City Council Members
City of Crestview, Florida
Independent Auditor's Report (Continued)

In accordance with *Government Auditing Standards*, we have also issued a report dated March 23, 2009 on our consideration of the City of Crestview, Florida's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5-18, the Schedule of Funding Progress on page 58 and Schedule of Contributions From the Employer and Other Contributing Entities on page 59 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Crestview, Florida's basic financial statements. The introductory section and the combining and individual nonmajor fund financial statements listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of Federal financial assistance listed in the table of contents as supplementary information have been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.



Crestview, Florida
March 23, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Crestview, we offer readers of the City of Crestview's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2008.

FINANCIAL HIGHLIGHTS

- The assets of the City of Crestview exceeded its liabilities by \$45.34 million (net assets), and represents an increase of \$2.25 million (or 5%) in net assets from the prior year. Of this amount, \$26.90 million represent investments in capital assets (e.g. land, infrastructure, building, machinery and equipment), net of related debt, \$5.69 million are restricted for future obligations, and \$12.75 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The governmental net assets increased by \$583 thousand (or 3%). The increase in net assets over the prior year can primarily be attributed to the increases in tax revenues, including property taxes.
- The net assets of the business-type activities of the City increased by \$1.66 million (or 8%) from the prior year. The increase is primarily a result of the City managing expenses as the City's growth rate subsides.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$6.60 million, or 45% of the total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Crestview's finances, in a manner similar to a private-sector business. The government-wide financial statements consolidate governmental and business-type activities into two columns, which add to a total for the Primary Government.

The statement of net assets presents information on all of the City of Crestview's assets and liabilities, with the difference between the two reported as net assets. The statement combines and consolidates the governmental fund's current financial resources (short-term spendable

resources) with capital assets and long-term obligations. Over time, increases or decreases in net assets may serve as a useful indicator of the financial position of the City of Crestview.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City of Crestview that are principally supported by taxes and inter-governmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Crestview include general government (includes city clerk, city council, mayor, finance service maintenance and non-departmental expenses), public safety (police, fire and animal control), public works (administration and engineering), transportation (streets and right-of-way), culture and recreation (parks and library) and debt service interest. The business-type activities of the City of Crestview include utilities (water and sewer) and sanitation. The government-wide financial statements are found on pages 19-20 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Crestview, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

FUNDS

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Such information may be useful in evaluating a government's near-term financial requirements. Found on pages 21-25 of this report are the basic governmental fund financial statements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of

revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Crestview maintains six individual governmental funds (General Fund, Community Redevelopment Fund, Law Enforcement Trust Fund, Capital Projects Fund, Debt Service Fund and the Permanent Fund). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered a major fund. Data from the other five governmental funds (Community Redevelopment Fund, Debt Service Fund, Capital Projects Fund, Law Enforcement Trust Fund, and Permanent Fund) are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Crestview adopts an annual appropriated budget for its General Fund. A budgetary comparison statement is provided for the General Fund to demonstrate compliance with this budget.

Proprietary Funds

All proprietary funds of the City of Crestview are maintained as enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Crestview uses enterprise funds to account for its utilities operations (water operations and distribution and sewer collections and treatment), and sanitation operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Utilities Fund and Sanitation Fund are both considered major proprietary funds. Found on pages 26-30 of this report are the proprietary fund financial statements.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Crestview's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City of Crestview did not maintain any fiduciary funds during 2008.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information, which is essential to the full understanding of the data provided in the government-wide and fund financial statements. Beginning on page 31 of this report is the notes to the financial statements.

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Crestview, assets exceeded liabilities by \$45.34 million (net assets) for the fiscal year ended 2008 as reported in Table 1.

By far the largest portion of the City of Crestview's net assets, \$26.90 million or (69%), reflects its investment in capital assets (e.g. land, infrastructure, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding.

The City of Crestview uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Crestview reports investment in its capital assets net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

Table 1

STATEMENT OF NET ASSETS AS OF SEPTEMBER 30

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and Other Assets	\$ 10,390,516	\$ 9,385,278	\$ 17,168,041	\$ 11,094,671	\$ 27,558,557	\$ 20,479,949
Capital Assets	20,489,102	18,035,174	28,488,022	22,477,278	48,977,124	40,512,452
Total Assets	30,879,618	27,420,452	45,656,063	33,571,949	76,535,681	60,992,401
Long-Term Liabilities						
Outstanding	6,651,107	5,212,285	20,509,082	9,380,564	27,160,189	14,592,849
Other Liabilities	2,499,383	1,062,476	1,532,997	2,240,305	4,032,380	3,302,781
Total Liabilities	9,150,490	6,274,761	22,042,079	11,620,869	31,192,569	17,895,630
Net Assets						
Invested in Capital Assets						
Net of Related Debt	14,106,353	13,047,175	12,795,070	13,102,664	26,901,423	26,149,839
Restricted	1,189,862	2,013,482	4,500,736	3,629,719	5,690,598	5,643,201
Unrestricted	6,432,913	6,085,034	6,318,178	5,218,698	12,751,091	11,303,732
Total Net Assets	\$ 21,729,128	\$ 21,145,691	\$ 23,613,984	\$ 21,951,081	\$ 45,343,112	\$ 43,096,772

An additional portion of the City of Crestview's net assets, \$5.69 million (or 13%) represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$12.75 million, may be used to meet the government's ongoing obligations to citizens and creditors.

The overall increase in the City's net assets was \$2.25 million (or 5%) during FY 2008, which resulted from both governmental and business-type activities.

Governmental Activities

Governmental activities increased the City of Crestview's net assets by \$583 thousand (or 3%), thereby accounting for all of the total growth in the net assets of the City of Crestview. Reported in Table 2 are the key elements of this increase.

Table 2

	CHANGE IN NET ASSETS					
	Governmental Activities		Business-Type Activities		Primary Government Total	
	2008	2007	2008	2007	2008	2007
REVENUES						
Program revenues						
Charges for services	\$ 2,249,701	\$ 2,062,168	\$ 8,079,743	\$ 7,400,324	\$ 10,329,444	\$ 9,462,492
Operating grants and contributions	-	105,882	-	-	-	105,882
Capital grants and contributions	44,029	46,514	760,986	820,199	805,015	866,713
General revenues						
Property taxes	6,690,444	5,981,619	-	-	6,690,444	5,981,619
Other taxes	4,267,604	4,535,743	-	-	4,267,604	4,535,743
Other revenue	868,529	886,944	152,420	104,925	1,020,949	991,869
TOTAL REVENUES	14,120,307	13,618,870	8,993,149	8,325,448	23,113,456	21,944,318
EXPENSES						
Primary government						
General government	2,459,506	2,341,351	-	-	2,459,506	2,341,351
Public safety	7,180,745	5,946,651	-	-	7,180,745	5,946,651
Physical environment	27,376	26,115	-	-	27,376	26,115
Transportation	2,296,694	2,109,380	-	-	2,296,694	2,109,380
Economic environment	-	-	-	-	-	-
Culture and recreation	1,354,981	1,240,736	-	-	1,354,981	1,240,736
Debt service interest	217,568	191,956	-	-	217,568	191,956
Business-type activities						
Water and sewer	-	-	4,918,478	4,322,025	4,918,478	4,322,025
Sanitation	-	-	2,411,769	1,703,367	2,411,769	1,703,367
TOTAL EXPENSES	13,536,870	11,856,189	7,330,247	6,025,392	20,867,117	17,881,581
Increase (decrease) in net assets before transfers	583,437	1,762,681	1,662,902	2,300,056	2,246,339	4,062,737
Transfers	-	-	-	-	-	-
Increase (decrease) in net assets	583,437	1,762,681	1,662,902	2,300,056	2,246,339	4,062,737
NET ASSETS						
BEGINNING	21,145,691	19,383,010	21,951,082	19,651,025	43,096,773	39,034,035
NET ASSETS ENDING	\$ 21,729,128	\$ 21,145,691	\$ 23,613,984	\$ 21,951,081	\$ 45,343,112	\$ 43,096,772

Financial Impacts

Normal Impacts

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

Revenues

- Economic Condition – This can reflect a declining, stable, or growing economic environment and has a substantial impact on property, sales, gas or other tax revenue.
- Council Approved Rate Adjustments – While certain tax rates are set by statute, the City Council has significant authority to impose and periodically adjust rates (water, wastewater, sanitation, impact fees, recreation user fees, etc.)
- Changing Patterns in Intergovernmental Grant Revenue (both recurring and non-recurring) – Certain recurring revenues (state revenue sharing and community development grants) may experience significant changes periodically while non-recurring (or one-time) grants are less predictable and often distorting in their impact on year-to-year comparison.
- Market Impacts on Investment Income – The current market conditions have little influence on the City's investment income since the City's investments consists of certificates of deposit.

Expenses

- Introduction of New Programs – Within functional expense categories, (police, fire, public works, community development, parks and recreation, etc.) individual programs may be added or deleted to meet changing community needs.
- Authorized Position Adjustments – Changes in service demand may cause the City Council to change authorized staffing. Staffing costs (salary and related benefits) represent 53% of the City's operating costs.
- Salary Adjustments – The ability to attract and retain human and intellectual resources requires the City to strive to approach a competitive salary range position in the marketplace.
- Inflation – While overall inflation appears to be reasonably modest, the City is a major consumer of certain commodities such as paper, chemicals, supplies, fuel, oil, and parts. Some fluctuations may experience commodity specific increases.

Current Year Impacts – Governmental Activities

- The change in net assets decreased from \$1.76 million in the prior year to \$583 thousand in current year as the City's growth rate has subsided from the pace of previous years. While governmental activities revenues increased slightly,

expenses increased at a greater rate as the City increased staff to support the growing population of the past few years.

- Property taxes increased by \$902 thousand (or 15%) due to increases in property valuations.
- Charges for services for governmental activities decreased \$94 thousand (or 26%) due in part to a decrease in the number of building permits and other administrative services related to the slowing of construction and growth within the City.
- Sales taxes decreased \$96 thousand (or 1%) due to the current economic condition.
- Other taxes for governmental activities decreased \$209 thousand (or 1%) due to a slight decrease in utility service taxes.
- Public safety expenses increased \$1.1 million (or 17%) due to primarily to an increase in the number of police and firefighters employed by the City. The City also increased salary ranges in order to be more competitive with the current market conditions.

Chart 1

Expenses and Program Revenue – Governmental Activities

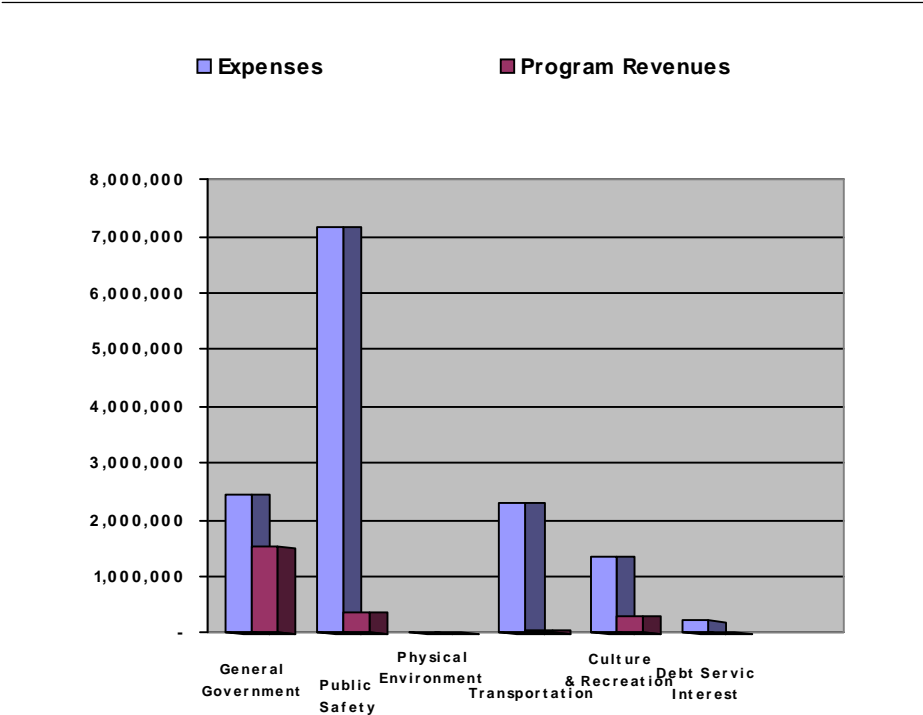
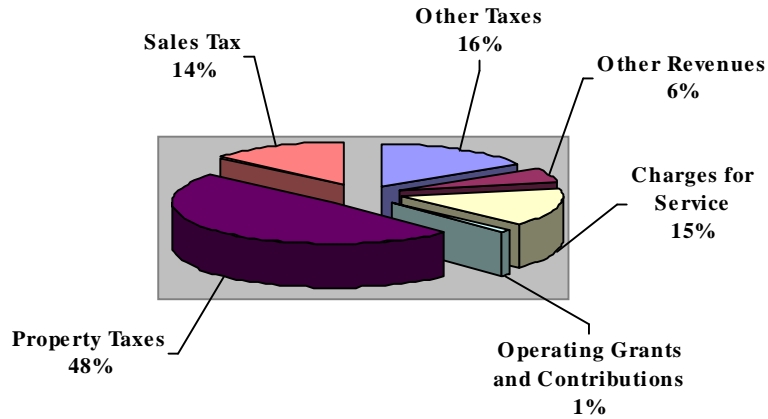


Chart 2

Revenues by Source – Governmental Activities



Business-Type Activities

The net assets from business-type activities increased by \$1.4 million (or 8%).

- The change in net assets decreased from \$2.3 million in the prior year to \$1.7 million in the current year. The change is primarily a result of slowing of the rate of growth within the City's utility customers. Although the actual number of customers increased in the current year, the rate of the increase was lower than in previous years. The current number of customers at fiscal year end is 8421.
- Charges for services for business-type activities increased by \$679 thousand (or 9%).
- Water and sewer expenses increased \$1.3 million or 22% in large part due to the completion of the wastewater treatment plant renovation.

Chart 3

Expense and Program Revenue – Business-Type Activities

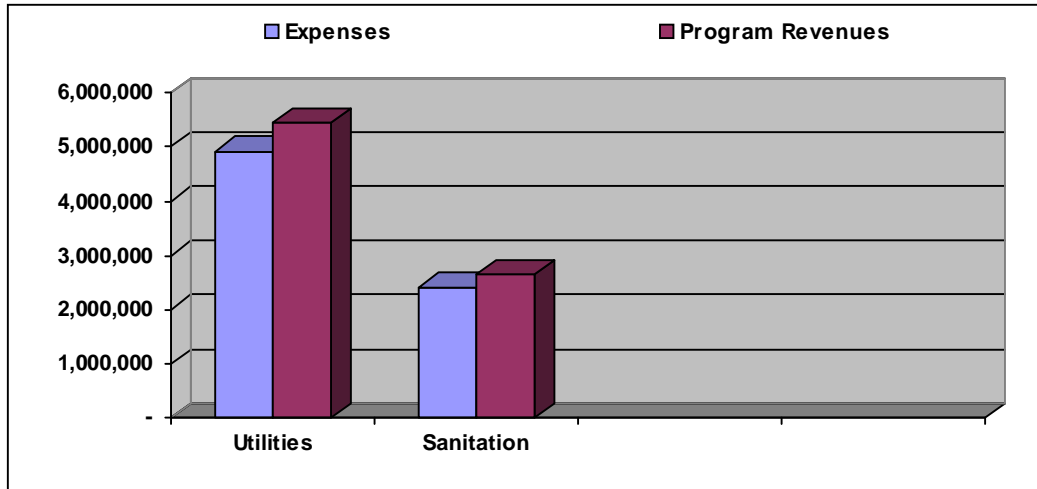
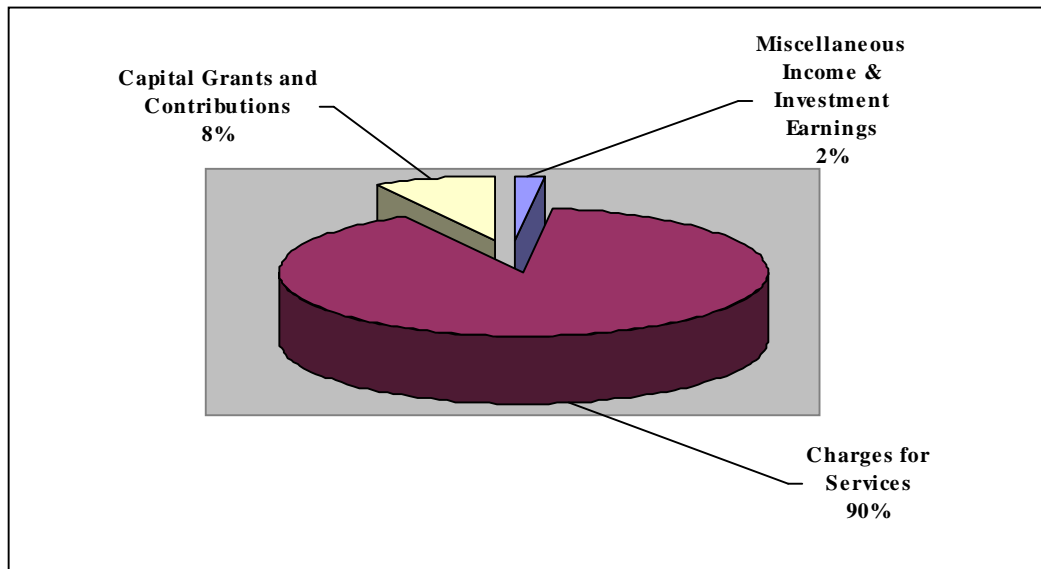


Chart 4

Revenues by Source – Business-Type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the City of Crestview's governmental funds reported combined ending fund balance of \$7.90 million, a decrease of \$418,769 thousand in comparison with the prior year. Approximately 84% of this total amount (\$6.60 million) constitutes unreserved/undesignated fund balance in the General Fund, which is available for spending at the City Council's discretion. Fund balance reservations consist of amounts assessed but not yet received in a special assessment (\$26,079) and amounts that will benefit future periods (prepaid expenses, \$81,320). Additionally, other amounts are reserved via restrictions from outside donors, for the purchase of library books (\$9,207 expendable, and \$50,000 non-expendable). The remainder of fund balance is designated to indicate that it is not available for new spending because it has already been committed by the City 1) for capital improvements (\$337,621), 2) for debt service (\$298,963), 3) for economic development (\$478,064), 4) and for law enforcement (\$16,004).

The General Fund is the chief operating fund of the City of Crestview. At the end of the current fiscal year, unreserved/undesignated fund balance of the General Fund was \$6.60 million, while total fund balance reached \$7.90 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved / undesignated fund balance and total fund balance to total expenditures. Unreserved / undesignated fund balance represents 49% of the total General Fund expenditures, while total fund balance represents 58 % of that same amount.

Proprietary Funds

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

Unrestricted net assets of the proprietary funds totaled \$6.32 million at the end of the year, of that the Utilities Fund amounted to \$5.08 million, and the Sanitation Fund totaled \$1.23 million. The net assets for this fiscal year in the proprietary funds increased by \$1.66 million. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Crestview's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, the City's budget was amended several times for the following purposes:

- Increase in intergovernmental revenues is a result of an increase in public safety grants expected.
- To recognize settlement revenues, grants and other transfers that were not anticipated in the adopted budget, and expenditures funded with such revenues.
- Transfer of discretionary appropriations to a contingency reserve to avoid overall budget overruns.

Revenues for the year exceeded the amended estimated revenues by approximately \$398,347 thousand.

Expenditures were less than budgeted amounts by \$2,648,664.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Crestview's investments in capital assets for its governmental and business-type activities as of September 30, 2008 amounts to \$48.98 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, water, wastewater and drainage systems improvements, machinery and equipment, park facilities, roads, and highways, etc. The total increase in the City of Crestview's investment in capital assets for the current fiscal year was \$8.47 million, or 20.91% overall, and is summarized as follows:

- Various vehicle and equipment purchases for administrative services, public works, and police departments.
- Improvements to highways and streets
- Purchases of library books
- Purchases of new electronic meters for the utility department
- Completion of the work on the additions to the wastewater treatment plant

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 1,690,801	\$ 1,366,818	\$ 2,168,711	\$ 770,512	\$ 3,859,512	\$ 2,137,330
Buildings	8,309,783	5,150,740	8,954,297	6,583,569	17,264,080	11,734,309
Improvements other than buildings	3,815,660	2,721,550	605,025	478,072	4,420,685	3,199,622
Infrastructure	12,111,303	6,740,568	21,605,946	6,037,775	33,717,249	12,778,343
Machinery and equipment	4,159,728	1,727,864	2,395,813	1,302,899	6,555,541	3,030,763
Equipment under capital lease	377,002	188,502	-	-	377,002	188,502
Construction in progress	-	139,132	110,216	7,304,451	110,216	7,443,583
Total Assets	\$ 30,464,277	\$ 18,035,174	\$ 35,840,008	\$ 22,477,278	\$ 66,304,285	\$ 40,512,452

Long-term Debt

At the end of the current fiscal year, the City of Crestview had total bonded debt outstanding of \$19.61 million. The City of Crestview's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds), state revolving loan, and capital leases. The State of Florida does not place a legal limit of debt on municipalities. For general obligation debts, greater than one year, the City is required to conduct a voter referendum process for approval of this type of debt. The City has no general obligation debts greater than one year as of September 30, 2008.

Table 4
City of Crestview Outstanding Debt
Revenue Bonds, State Revolving Loans and Capital Leases

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenue Bonds	\$ 6,292,365	\$ 4,855,052	\$ 13,318,203	\$ 770,512	\$ 19,610,568	\$ 5,625,564
State revolving loan	-	-	7,158,238	6,583,569	7,158,238	6,583,569
Capital leases	90,384	132,947	-	7,304,451	90,384	7,437,398
Total Assets	\$ 6,382,749	\$ 4,987,999	\$ 20,476,441	\$ 14,658,532	\$ 26,859,190	\$ 19,646,531

The City of Crestview's total debt increased by \$6.4 million during the 2008 fiscal year.

Additional information on the City of Crestview's long-term debt can be found in Notes 9 and 10 of this report.

ECONOMIC FACTORS AND NEXT YEARS'S BUDGETS AND RATES

The State of Florida, by constitution, does not have a state personal income tax and therefore the State operates primarily using sales, gasoline, and corporate income taxes. Local governments (cities, counties, and school boards) primarily rely upon property and limited array of permitted other taxes (sales, gasoline, utility service taxes, etc) and fees (franchise and occupational license) for their governmental activities. There are a limited number of state shared revenues and recurring and non-recurring grants from both the state and federal government, which provide funding for specific programs, projects, or activities. For the business-type activities and certain governmental activities (permitting and recreational programs) the user pays a relate fee or charge associated with the service.

The level of taxes, fee, and charges for services (including development related impact fees) has an impact on the City's specific competitive ability to encourage development and redevelopment (office, retail, residential, and industrial) for those businesses that choose to locate in our jurisdiction. As the City and the surrounding area continues to experience rapid growth, the City places great emphasis on forecasting the needs of the future in order to ensure the continued financial and economic health of our community.

The military has a significant presence in our community with Duke Field, Eglin Air Force Base and Hurlburt Special Operations, employing military and civilian personnel. These installations are essential to the continued long-term economic vitality of this area. Combined, the military and defense-related industries have a \$30 billion annual impact on Florida's economy. The Governor's Office of Trade, Tourism & Economic Development (OTTED) is positioned closely with the military commanders in Florida, which may aid in limiting future base realignment and closures from negatively affecting this area. This strong relationship with the commanders gives the Governor and the State early warning of support issues they contend with on a regular basis.

Regional economic indicators were also considered in preparing the 2008-2009 budget for the City of Crestview.

- The average unemployment rate for the Crestview Metropolitan Statistical Area (MSA) has been 3.9% over the past year, which impacts the City's ability to recruit and retain staff, and has been consistently below the state average of 6.7%. The Crestview MSA unemployment rate as of September 2008, was 4.8 which is an increase of 2% from prior year.
- The cost of living index is competitive with the rest of the state. Okaloosa County ranks 26th out of 67 Florida counties in regards to the cost of living index. Many newcomers to northwest Florida have chosen to reside in Crestview, which is a short commute to the coastal communities of Okaloosa County.
- Increased emphasis on military spending at the federal government level should benefit the Crestview MSA. It is estimated the local military and related businesses have a \$1 billion positive impact on the area. Due to recent decision by the Realignment Commission (BRAC), the Crestview area expects additional military presence in the next several years, resulting from transferring certain military personnel from military that will be closing.
- The overall population in the Crestview Area is expected to double in the next four years, based on development, an available skilled workforce, industrial park space, reasonable housing costs, and planned growth.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City of Crestview's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the office of the Finance Director, 198 N. Wilson Street, City of Crestview, Florida 32536. The City's website address is www.cityofcrestview.org. Inquires may also be sent via email to the Finance Department at pattibeebe@cityofcrestview.org.

City of Crestview, Florida
STATEMENT OF NET ASSETS
September 30, 2008

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 8,054,605	\$ 10,470,771	\$ 18,525,376
Receivables, net	312,016	615,761	927,777
Due from other governments	1,571,384	362,688	1,934,072
Prepays	81,321	139,162	220,483
Restricted assets			
Cash and cash equivalents	277,858	4,641,508	4,919,366
Certificates of deposit	76,682	409,019	485,701
Capital assets			
Non-depreciable	1,690,801	2,278,925	3,969,726
Depreciable, net	18,798,301	26,209,097	45,007,398
Other assets			
Bond issue costs, net	16,650	529,132	545,782
TOTAL ASSETS	<u>\$ 30,879,618</u>	<u>\$ 45,656,063</u>	<u>\$ 76,535,681</u>
LIABILITIES			
Accounts payable	\$ 286,895	\$ 864,702	\$ 1,151,597
Accrued liabilities	1,438,808	24,725	1,463,533
Due to other governments	401,865		401,865
Payable from restricted assets			
Escrow funds	346,058		346,058
Accrued interest	25,757	99,827	125,584
Customer deposits		543,743	543,743
Non-current liabilities			
Due within one year			
Compensated absences		25,553	25,553
Capital leases payable	42,564		42,564
Revenue bonds payable	378,982	443,315	822,297
State revolving loan		320,405	320,405
Due in more than one year			
Compensated absences	268,358	7,089	275,447
Capital leases payable	47,820		47,820
State revolving loan payable		6,837,832	6,837,832
Revenue bonds payable	5,913,383	12,874,888	18,788,271
TOTAL LIABILITIES	<u>9,150,490</u>	<u>22,042,079</u>	<u>31,192,569</u>
NET ASSETS			
Invested in capital assets, net of related debt	14,106,353	12,795,070	26,901,423
Restricted			
Debt service	298,963	1,516,414	1,815,377
Capital projects	337,621	2,984,322	3,321,943
Public safety	16,004		16,004
Community redevelopment	478,067		478,067
Other	59,207		59,207
Unrestricted	6,432,913	6,318,178	12,751,091
TOTAL NET ASSETS	<u>\$ 21,729,128</u>	<u>\$ 23,613,984</u>	<u>\$ 45,343,112</u>

The accompanying notes are an integral part of these financial statements.

City of Crestview, Florida
STATEMENT OF ACTIVITIES
Year Ended September 30, 2008

			Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Function/program activities							
Government activities							
General government	\$ 2,459,506	\$ 1,515,860	\$	\$	\$ (943,646)	\$	\$ (943,646)
Public safety	7,180,745	368,137		44,029	(6,768,579)		(6,768,579)
Physical environment	27,376				(27,376)		(27,376)
Transportation	2,296,694	61,128			(2,235,566)		(2,235,566)
Culture and recreation	1,354,981	304,576			(1,050,405)		(1,050,405)
Debt service interest	217,568				(217,568)		(217,568)
Total government activities	13,536,870	2,249,701		44,029	(11,243,140)		(11,243,140)
Business-type activities							
Utilities	4,918,478	5,290,318		905,392		1,277,232	1,277,232
Sanitation	2,411,769	2,645,019				233,250	233,250
Total business-type activities	7,330,247	7,935,337		905,392		1,510,482	1,510,482
Total primary government	\$ 20,867,117	\$ 10,185,038	\$	\$ 949,421	(11,243,140)	1,510,482	(9,732,658)
General Revenues							
Taxes							
Property taxes					6,690,444		6,690,444
Sales and fuel taxes					1,949,901		1,949,901
Utility service taxes					2,317,703		2,317,703
Intergovernmental, unrestricted					600,946		600,946
Contributions from private sources					5,466		5,466
Miscellaneous					144,069	108,922	252,991
Investment earnings					118,048	43,498	161,546
Total general revenues and transfers					11,826,577	152,420	11,978,997
Change in net assets					583,437	1,662,902	2,246,339
Net assets - beginning of year					21,145,691	21,951,082	43,096,773
Net assets - end of year					\$ 21,729,128	\$ 23,613,984	\$ 45,343,112

The accompanying notes are an integral part of these financial statements.

City of Crestview, Florida
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2008

	<u>General Fund</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
ASSETS	\$		
Cash and cash equivalents	7,219,455	\$ 835,150	\$ 8,054,605
Receivables	311,844	172	312,016
Due from other governments	1,571,384		1,571,384
Prepays	81,321		81,321
Restricted assets			
Cash and cash equivalents		277,858	277,858
Certificate of deposit		76,682	76,682
TOTAL ASSETS	<u>\$ 9,184,004</u>	<u>\$ 1,189,862</u>	<u>\$ 10,373,866</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 286,895	\$	\$ 286,895
Accrued liabilities	1,438,808		1,438,808
Due to other governments	401,865		401,865
Escrow funds	346,058		346,058
Total liabilities	<u>2,473,626</u>		<u>2,473,626</u>
Fund balance			
Reserved			
Assessments	26,079		26,079
Prepays	81,320		81,320
Library books, expendable		9,207	9,207
Library books, non-expendable		50,000	50,000
Unreserved			
Designated			
Community redevelopment		478,067	478,067
Law enforcement		16,004	16,004
Capital projects		337,621	337,621
Debt service		298,963	298,963
Undesignated general fund	6,602,979		6,602,979
Total fund balance	<u>6,710,378</u>	<u>1,189,862</u>	<u>7,900,240</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 9,184,004</u>	<u>\$ 1,189,862</u>	<u>\$ 10,373,866</u>

The accompanying notes are an integral part of these financial statements.

City of Crestview, Florida
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
September 30, 2008

Fund balance - total governmental funds		\$ 7,900,240
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental non-depreciable assets	\$ 1,690,801	
Governmental depreciable assets	28,773,476	
Less accumulated depreciation	<u>(9,975,175)</u>	20,489,102
Other assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.		
Bond issuance costs	26,165	
Less amortization	<u>(9,515)</u>	16,650
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Revenue bonds payable	(6,292,366)	
Accrued interest	(25,757)	
Capital leases	(90,383)	
Compensated absences	<u>(268,358)</u>	(6,676,864)
Net assets of governmental activities		<u>\$ 21,729,128</u>

The accompanying notes are an integral part of these financial statements.

City of Crestview, Florida
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended September 30, 2008

	\$	Other Governmental Funds	\$	Total Governmental Funds
REVENUES				
Taxes	10,206,127		191,056	10,397,183
Licenses and permits	358,443			358,443
Intergovernmental	2,118,171		323,754	2,441,925
Charges for services	320,405			320,405
Fines and forfeits	129,235		26,571	155,806
Interest	131,643		7,085	138,728
Miscellaneous	294,367		28,664	323,031
TOTAL REVENUES	13,558,391		577,130	14,135,521
EXPENDITURES				
Current				
General governmental services	2,353,461		276	2,353,737
Public safety	6,843,699		35,022	6,878,721
Transportation	1,822,329			1,822,329
Culture and recreation	1,136,626			1,136,626
Capital outlay	2,348,614		1,207,433	3,556,047
Debt service				
Principal	42,564		201,686	244,250
Interest	7,331		199,718	207,049
Other debt service costs				
TOTAL EXPENDITURES	14,554,624		1,644,135	16,198,759
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(996,233)		(1,067,005)	(2,063,238)
OTHER FINANCING SOURCES (USES)				
Transfers in	192,615		436,000	628,615
Transfers out	(436,000)		(192,615)	(628,615)
Contributions from private sources	5,466			5,466
Debt proceeds	1,639,000			1,639,000
TOTAL OTHER FINANCING SOURCES (USES)	1,401,081		243,385	1,644,466
NET CHANGE IN FUND BALANCE	404,848		(823,620)	(418,772)
FUND BALANCE - BEGINNING OF YEAR	6,305,530		2,013,482	8,319,012
FUND BALANCE - END OF YEAR	\$ 6,710,378		\$ 1,189,862	\$ 7,900,240

The accompanying notes are an integral part of these financial statements.

City of Crestview, Florida
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2008

Net change in fund balance - total governmental funds \$ (418,772)

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

Governmental funds do not report capital assets on the balance sheet; however, they are reported in the government wide financial statements. Accordingly, proceeds received for disposals of capital assets are shown as income on the governmental financial statements and a gain or loss is reported in the statement of activities.

Expenditure for capital assets, net of disposals	3,535,368	
Less current year depreciation	<u>(1,081,439)</u>	2,453,929

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Debt proceeds	(1,639,000)	
Principal payments on long-term debt	244,250	
Change in accrued interest on long-term debt	(10,519)	
Amortization of current year bond costs	<u>(2,379)</u>	(1,407,648)

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

Change in long-term compensated absences		(44,072)
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Change in net assets of governmental activities		<u><u>\$ 583,437</u></u>
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The accompanying notes are an integral part of these financial statements.

City of Crestview, Florida
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
-BUDGET AND ACTUAL
Year Ended September 30, 2008

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 10,150,697	\$ 10,206,110	\$ 10,206,127	\$ 17
Licenses and permits	423,345	367,932	358,443	(9,489)
Intergovernmental	2,155,741	2,269,217	2,118,171	(151,046)
Charges for services	250,232	287,785	320,405	32,620
Fines and forfeits	60,188	129,235	129,235	
Interest	120,000	146,871	131,643	(15,228)
Miscellaneous	542,237	549,588	294,367	(255,221)
TOTAL REVENUES	13,702,440	13,956,738	13,558,391	(398,347)
EXPENDITURES				
Current				
General government services	3,005,206	3,193,420	2,353,461	839,959
Public safety	7,219,771	7,285,022	6,843,699	441,323
Transportation	2,033,513	2,064,659	1,822,329	242,330
Culture and recreation	1,252,199	1,255,666	1,136,626	119,040
Capital outlay	1,551,790	3,354,626	2,348,614	1,006,012
Debt service	49,895	49,895	49,895	
TOTAL EXPENDITURES	15,112,374	17,203,288	14,554,624	2,648,664
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,409,934)	(3,246,550)	(996,233)	2,250,317
OTHER FINANCING SOURCES (USES)				
Transfers in		192,616	192,615	(1)
Transfers out			(436,000)	(436,000)
Contributions from private sources		5,000	5,466	466
Debt proceeds		1,639,000	1,639,000	
TOTAL OTHER FINANCING SOURCES (USES)		1,836,616	1,401,081	(435,535)
NET CHANGE IN FUND BALANCE	(1,409,934)	(1,409,934)	404,848	1,814,782
FUND BALANCE - BEGINNING OF YEAR	1,409,934	1,409,934	6,305,530	4,895,596
FUND BALANCE - END OF YEAR	\$ 6,710,378	\$ 6,710,378	\$ 6,710,378	\$ 6,710,378

The accompanying notes are an integral part of these financial statements.

City of Crestview, Florida
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2008

	<u>Utilities</u>	<u>Sanitation</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 9,254,942	\$ 1,215,829	\$ 10,470,771
Receivables, net	371,533	244,228	615,761
Prepaid expenses	139,162		139,162
Due from other governments	362,688		362,688
Total current assets	<u>10,128,325</u>	<u>1,460,057</u>	<u>11,588,382</u>
Non-current assets			
Restricted assets			
Cash and cash equivalents	4,635,460	6,048	4,641,508
Investments	409,019		409,019
Total restricted assets	<u>5,044,479</u>	<u>6,048</u>	<u>5,050,527</u>
Capital assets, net			
Non-depreciable	2,278,925		2,278,925
Depreciable, net	26,209,097		26,209,097
Total capital assets	<u>28,488,022</u>		<u>28,488,022</u>
Other assets			
Bond issue costs, net	529,132		529,132
Total non-current assets	<u>34,061,633</u>	<u>6,048</u>	<u>34,067,681</u>
TOTAL ASSETS	<u>44,189,958</u>	<u>1,466,105</u>	<u>45,656,063</u>

The accompanying notes are an integral part of these financial statements.

City of Crestview, Florida
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS-CONTINUED
September 30, 2008

	<u>Utilities</u>	<u>Sanitation</u>	<u>Total</u>
LIABILITIES			
Current liabilities			
Accounts payable	633,649	231,053	864,702
Accrued liabilities			
Compensated absences	25,553		25,553
Wages and other employee compensation	24,725		24,725
Accrued interest	99,827		99,827
Revenue bonds payable	443,315		443,315
State revolving loan	320,405		320,405
Payable from restricted assets			
Customer deposits	<u>543,743</u>		<u>543,743</u>
Total current liabilities	<u>2,091,217</u>	<u>231,053</u>	<u>2,322,270</u>
Non-current liabilities			
Accrued liabilities			
Compensated absences	7,089		7,089
State revolving loan	6,837,832		6,837,832
Revenue bonds payable	<u>12,874,888</u>		<u>12,874,888</u>
Total non-current liabilities	<u>19,719,809</u>		<u>19,719,809</u>
TOTAL LIABILITIES	<u>21,811,026</u>	<u>231,053</u>	<u>22,042,079</u>
NET ASSETS			
Invested in capital assets, net of related debt	12,795,070		12,795,070
Restricted			
Debt service	1,516,414		1,516,414
Capital improvements	2,984,322		2,984,322
Unrestricted	5,083,126	1,235,052	6,318,178
TOTAL NET ASSETS	<u>\$ 22,378,932</u>	<u>\$ 1,235,052</u>	<u>\$ 23,613,984</u>

The accompanying notes are an integral part of these financial statements.

City of Crestview, Florida
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended September 30, 2008

	<u>Utilities</u>	<u>Sanitation</u>	<u>Total</u>
OPERATING REVENUES	\$ 5,290,318	\$ 2,645,019	\$ 7,935,337
Charges for services			
OPERATING EXPENSES	1,474,292		1,474,292
Personal services	2,396,310	2,411,351	4,807,661
Operating	611,615	418	612,033
Depreciation			
TOTAL OPERATING EXPENSES	<u>4,482,217</u>	<u>2,411,769</u>	<u>6,893,986</u>
OPERATING INCOME	<u>808,101</u>	<u>233,250</u>	<u>1,041,351</u>
NON-OPERATING REVENUES (EXPENSES)			
Intergovernmental	346,808		346,808
Transfers in (out)			
Interest expense	(421,339)		(421,339)
Other debt services costs	(14,922)		(14,922)
Interest	38,161	5,337	43,498
Miscellaneous	108,922		108,922
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>57,630</u>	<u>5,337</u>	<u>62,967</u>
INCOME BEFORE CONTRIBUTIONS	<u>865,731</u>	<u>238,587</u>	<u>1,104,318</u>
Contributed capital - impact fees	558,584		558,584
CHANGE IN NET ASSETS	<u>1,424,315</u>	<u>238,587</u>	<u>1,662,902</u>
NET ASSETS - BEGINNING OF YEAR	20,954,617	996,465	21,951,082
NET ASSETS - END OF YEAR	<u>\$ 22,378,932</u>	<u>\$ 1,235,052</u>	<u>\$ 23,613,984</u>

The accompanying notes are an integral part of these financial statements.

City of Crestview, Florida
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended September 30, 2008

	Utilities	Sanitation	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 5,372,805	\$ 2,549,711	\$ 7,922,516
Payments to suppliers	(3,322,114)	(2,318,309)	(5,640,423)
Payments to employees	(1,454,297)		(1,454,297)
Miscellaneous income	108,922		108,922
Net cash provided (used) by operating activities	705,316	231,402	936,718
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Increase in due from other governments	(121,500)		(121,500)
Grants and aids	346,808		346,808
Net cash provided (used) by non-capital financing activities	225,308		225,308
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisitions of fixed assets	(6,622,776)		(6,622,776)
Proceeds from impact fees	558,584		558,584
Debt proceeds	11,142,164		11,142,164
Principal paid on notes payable	(305,609)		(305,609)
Interest and other costs paid on bonds, loans, and leases payable	(519,758)		(519,758)
Net cash provided (used) by capital and related financing activities	4,252,605		4,252,605
NET CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	38,161	5,337	43,498
Net cash provided (used) by investing activities	38,161	5,337	43,498
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,221,390	236,739	5,458,129
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,669,012	985,138	9,654,150
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 13,890,402	\$ 1,221,877	\$ 15,112,279

The accompanying notes are an integral part of these financial statements.

City of Crestview, Florida
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS - CONTINUED
Year Ended September 30, 2008

	Utilities	Sanitation	Total
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Current assets	\$ 9,254,942	\$ 1,215,829	\$ 10,470,771
Restricted assets	4,635,460	6,048	4,641,508
Total cash and cash equivalents	\$ 13,890,402	\$ 1,221,877	\$ 15,112,279
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income	\$ 808,101	\$ 233,250	\$ 1,041,351
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	611,615	418	612,033
Miscellaneous revenue	108,922		108,922
Decrease (increase) in assets			
Accounts receivable	71,561	(95,308)	(23,747)
Prepaid expenses	(50,759)		(50,759)
Increase (decrease) in liabilities			
Accounts payable	(875,045)	93,042	(782,003)
Compensated absences payable	7,472		7,472
Wages	12,523		12,523
Other liabilities			
Accrued interest			
Customer deposits	10,926		10,926
Net cash provided (used) by operating activities	\$ 705,316	\$ 231,402	\$ 936,718
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS			
Amortization of bond issue costs and discounts	\$ 13,422	\$	\$ 13,422
Amortization of deferred loss on refunding	\$ 2,107	\$	\$ 2,107
Refunding of bonds, including interest, net of reserves	\$ 5,243,492	\$	\$ 5,243,492

The accompanying notes are an integral part of these financial statements.

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Crestview, Florida, (the City) was originally incorporated as the Town of Crestview under general law on April 11, 1916. This incorporation was validated by act of the Florida Legislature in 1917. The town was re-incorporated by Ch. 9718, Acts 1923, and Ch. 25754, Special Acts 1949, as the City of Crestview. The City operates under the Council-Mayor form of government, and provides the following services: public safety (police and fire), roads and streets, water and sewer, sanitation, culture and recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America applicable to governmental units and the Uniform Accounting System mandated by Chapter 218.33, Florida Statutes. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Some minor differences between amounts have occurred due to rounding.

The following is a summary of the more significant accounting policies of the City:

A. The Reporting Entity

A five member City Council and a Mayor govern the City, each elected at-large for four-year terms. The Council has no powers other than those expressly vested in it by State Statute and the City Charter, and their governmental powers cannot be delegated.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Crestview (the primary government) and its component unit. In evaluating the City as a reporting entity, management has considered all potential component units for which the City may or may not be financially accountable and, as such, be included within the City's financial statements. Management utilized criteria set forth in GASB No. 14 for determining financial accountability of potential component units in evaluating all potential component units. In accordance with GASB No. 14, the City (primary government) is financially accountable if it appoints a voting majority of the potential component unit's governing board and 1) it is able to impose its will on the organization or 2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. In addition, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. The Reporting Entity (Continued)

The Crestview Community Redevelopment Agency (the Agency) was established by the City as a separate legal entity in accordance with Florida Statute 166.021, Chapter 163, Part III. The Agency oversees the redevelopment of the downtown area. The Community Redevelopment Board of Commissioners consist of the City Council. The president and vice president of the City Council function as the chairman and vice-chairman of the Community Redevelopment Agency. In addition, City employees manage the Agency's assets. The Agency is reported in the financial statements of the primary government as a "blended component unit" as defined by GASB 14. Separate financial statements of the Agency are not prepared.

The City of Crestview employees may participate in one of two public employee retirement plans: a General Employees plan or a Police Officers/Firefighters plan. Each plan is administered by a separate five-person retirement board consisting of two members appointed by the City Council, two elected members of the plan, and a fifth member elected by the other four and appointed by the City Council. All financial, actuarial and policy decisions are made by the Board. In addition, contributions by the City can be terminated at any time. Therefore, these organizations have not been included in the reporting entity as component units defined by GASB 14 as of September 30, 2008.

The City of Crestview Housing Authority (the Authority) is considered a related organization to the City rather than a component unit. The Mayor of the City of Crestview, Florida appoints each of the five board members of the Authority. The Mayor and members of the City Council have no oversight responsibility nor any financial relationship with the Authority, other than providing certain security services. Thus, the Crestview Housing Authority is determined not to be a part of the reporting entity as defined by GASB 14 and is not included as a component unit in the financial statements of the City of Crestview, Florida.

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. 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.

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

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 fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus and Basis of Accounting

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 recorded 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 City considers revenues to be available if they are collected within six months of the end of the current fiscal period, except for property taxes, for which the period is 60 days. 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.

Franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have therefore been recognized as revenues of the current fiscal period.

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Only the portion of special assessments receivable within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Sales taxes, gasoline taxes, and other intergovernmental revenues collected and held by the state at year-end on behalf of the City, are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Okaloosa County Tax Collector bills and collects property taxes for the City in accordance with the laws of the State of Florida. Property taxes attach as an enforceable lien on property as of the date of assessment and remain in effect until discharge by payment. Taxes are payable when levied (on November 1, or as soon thereafter as the assessment roll becomes available to the Tax Collector).

The following is the current property tax calendar:

Lien Date	January 1, 2008
Levy Date	November 1, 2008
Due Date	November 1, 2008
Delinquent Date	April 1, 2009

Discounts of 1% for each month taxes are paid prior to March 2009, are granted.

Revenue recognition criteria for property taxes under the GASB requires that property taxes expected to be collected within 60 days of the current period be accrued. No accrual has been made for 2008 ad valorem taxes because property taxes are not legally due until subsequent to the end of the fiscal year. Current year taxes, which are uncollected as of the end of the fiscal year, are generally immaterial in amount and highly susceptible to uncollectibility and, therefore, are not recorded as a receivable on the balance sheet date.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with, or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected to follow subsequent private-sector guidance.

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation

The financial transactions of the City are recorded in individual funds. Each fund is a separate accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. 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 government's utility 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. 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 enterprise funds are charges to customers for sales and services. The City considers all impact fee revenue as capital contributions for the water and sewer systems; therefore, no amount from the impact fee is included in operating revenue. Operating expenses for enterprise funds include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The following three broad classifications are used to categorize the fund types used by the City:

Governmental

Governmental funds focus on the determination of financial position and changes in financial position (sources, uses, and balances of financial resources) and not net income. The City has the following major governmental fund.

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

General Fund - This is the City's primary operating fund. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Many of the more important activities of the City, including operation of the City's general service departments, street and highway maintenance, public safety, parks, library, and recreation programs are accounted for in this fund.

Proprietary

Proprietary funds focus on the determination of net income, changes in net assets, financial position, and cash flows. All of the City's proprietary funds are enterprise funds, as fees are charged to external users for services. The following is a description of the major proprietary funds of the City.

Utility Fund - Used to account for the operations of the City, which provides distribution of potable water, sales and service and sanitary wastewater collection, treatment and disposal.

Sanitation Fund - Accounts for the operation of the City that provides for solid waste collection, disposal, and/or recycling.

E. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents

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

Section 218.415, Florida Statutes, requires the investment of surplus public funds and prescribes the instruments in which those investments are authorized, specifically the State of Florida Local Government Surplus Funds Trust Fund, direct obligations of the United States Government or other obligations unconditionally guaranteed by the United States Government, collateralized interest-bearing time deposits or savings accounts in state or federal banks or savings and loan associations, debt securities of the Federal Farm Credit Banks, the Federal Home Loan Mortgages Corporation, the Federal Home Loan Bank, the Government National Mortgage Association, the Federal National Mortgage Association, and securities of or other interest in certain investment companies or investment trusts, the portfolio of which is limited to United States Government obligations or repurchase agreements fully collateralized by such obligations.

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Assets or Equity (Continued)

Cash and Cash Equivalents (Continued)

The City adheres strictly to the provisions of those cited Statutes, as well as with Chapter 280, Florida Statutes, which requires the City to maintain deposits only with "Qualified Public Depositories." The City maintains a cash pool available for use by all funds. Earnings from the pool are allocated to the respective funds based on applicable cash participation by each fund.

In addition, restricted cash accounts, certificates of deposit, and other investments are separately maintained by a few City funds in accordance with bond ordinances, retirement fund plan documents and other contractual agreements. Investments are stated at fair value.

Certain cash accounts in the general and utilities fund are invested in the Local Government Surplus Trust Fund, operated by Florida's State Board of Administration (SBA). The SBA is governed by Chapter 19-1 of the Florida Administrative Code (FAC). The FAC provides guidance and establishes the general operating procedures for the administration of the Local Government Surplus Trust Funds. Additionally, the Florida Auditor General performs an operational audit of activities and investments of the SBA.

Due to certain concerns, the Fund was split into two separate pools in December, 2007. Pool A consisted of money market assets, and is still titled the Local Government Surplus Funds Trust Fund (LGIP). Pool B, now called Fund B Surplus Funds Trust Fund, contained securities with significant credit and liquidity risk. At the time of restructuring, all current pool participants had their existing balances proportionally allocated into LGIP and Fund B.

In March 1997, GASB issued Statement 31, titled "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." GASB 31 applies to the LGIP and Fund B. GASB 31 outlines the two options for accounting and reporting for money market investment pools as either "2a-7 like" or fluctuating net asset value ("NAV"). GASB 31 describes a "2a-7 like" pool as an external investment pool that is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with Rule 2a-7 under the Investment Company Act of 1940 (the "1940 Act"). Rule 2a-7 is the rule that permits money market funds to use amortized cost to maintain a constant NAV of \$1.00 per share, provided that such fund has met certain conditions.

The LGIP is considered a SEC 2a7-like fund, thus the account balance should also be considered the fair value of the investment (\$1,643,422) at September 30, 2008.

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Assets or Equity (Continued)

The Fund B is accounted for as a fluctuation NAV pool. The Fair Value for September 30, 2008 was .798385. Thus Fund B's fair value was reduced from \$75,531 to \$60,302 at September 30, 2008.

As regards credit quality, the LGIP is currently rated AAAM by Standard and Poor's. Fund B is not rated by any nationally recognized statistical rating agency.

As regards interest rate risk, the weighted average days to maturity of the LGIP was 8.5 days at September 30, 2008; Fund B's weighted average life was 9.36 years.

Additional information regarding the Funds may be obtained from the State Board of Administration of Florida, 1801 Hermitage Boulevard, Tallahassee, Florida. 32308.

Receivables and Payables

Interfund transactions are reflected as loans, services provided, reimbursements, or transfers.

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

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

Services provided, deemed to be at market, or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

All proprietary fund receivables are shown net of an allowance for uncollectibles. The allowance is computed by analytically reviewing the aging of receivables compared to the total account write-offs during the current year. This information is then compared to a trend analysis of the aging of receivables to account write-offs over the past several years.

Restricted Assets

Certain proceeds of fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. In addition, restricted assets include funds set aside for repayment of customer deposits and capital improvements.

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Assets or Equity (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, curbs and sidewalks, drainage systems, lighting systems and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$1,000 or more and an initial useful life of one year or greater. Such assets are recorded at historical cost if purchased or constructed. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

GASB No. 34 required the City to report and depreciate new infrastructure assets effective with the fiscal year ending September 30, 2003. Infrastructure assets include roads, drainage systems, water and sewer systems, etc., both constructed and donated by developers. Constructed infrastructure has been reported in prior financial statements but not depreciated, until the fiscal year ended September 30, 2003. Developer-donated roads, drainage systems, water and sewer systems, etc., accepted by the City in return for maintenance have been capitalized and depreciated, beginning in fiscal year ending September 30, 2003.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until the completion of the project with interest earned on the invested proceeds over the same period. Interest of \$84,197 was capitalized in 2008.

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

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

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Assets or Equity (Continued)

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave based on the length of service to the City. All vacation leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for the amounts of vacation leave is reported in the governmental fund financial statements only if they have matured, for example, as a result of employee resignations and retirements.

Annual leave is accrued by full-time employees as follows:

Years of Employment	Hours Accrued Per Year Firefighters/All Others
After one year	72 hours/40 hours
After three years	120 hours/80 hours
After five years	168 hours/120 hours
After seven years	240 hours/160 hours

Upon termination or retirement, a maximum of 160 hours of accrued benefit will be paid to general employees, while a maximum of 240 hours of accrued benefit will be paid to firefighters. Sick leave is accrued at the rate of eight hours per month for all employees with the exception of firefighters, who accrue sick leave at the rate of 11.2 hours per month. Upon retirement of a vested employee, all accrued sick leave will be converted and serve as city service for the purpose of retirement pay computations. In addition, the City will pay (if requested by the employee) for 24 hours of unused leave each December, which is expensed as paid.

Long-Term Obligations

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

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Assets or Equity (Continued)

Long-Term Obligations (Continued)

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

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are restricted by outside parties for use as a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

F. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted by ordinance for all governmental and proprietary funds.

However, budgets for proprietary funds are not legally required to be reported on and are not included in these financial statements. All appropriations lapse at fiscal year end except for appropriations related to multi-year capital projects.

Budgetary data reflected in the financial statements are established by the following procedures:

Prior to September 1 of each year, the City Council prepares in detail and adopts a budget of anticipated revenues and expenditures for all City purposes for the ensuing fiscal year.

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

A. Budgets (Continued)

Proposed budgets are advertised in a newspaper of general circulation in the City and detailed in the minutes of the Council. Public hearings are conducted for the purposes of receiving input, responding to complaints, and providing reasons and explanations for intended actions to all citizens participating. When the budget is adopted, it has the force and effect of appropriations for the various items and purposes specified.

The limits shall not be exceeded by the Council nor any office or department during the year.

Amendments and transfers may be made to the budget by a two-thirds vote of the Council and the consent of the Mayor. The level of budgetary control (that is the level at which expenditures cannot legally exceed appropriations) has been established at the fund level.

A budget amendment shall be deemed to mean the act of increasing the total budgeted amount of a given fund as opposed to the transfer of a budgeted amount from one account to another within the same fund. Budgeted amounts are as originally adopted, or as amended with the approval of the City Council.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

The Local Government Surplus Trust Fund is operated by Florida's State Board of Administration (SBA). Further details about investments held in the SBA Trust Fund may be found in Note 1E.

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

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits

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

The value of the City's deposits at Sunday, September 30, 2008, excluding those held by the Florida Local Government Surplus Trust Fund, as detailed in Note 1E, was \$22,799,423, and was held by qualified public depositories under Chapter 280, Florida Statutes.

Investments

The types of investments, which can be made by the City, are restricted by state statutes, bond ordinances, retirement fund plan documents, and other contractual agreements. A description of the requirements and the types of investments allowed can be found in Note 1E.

As of September 30, 2008, the City's investments consist of those held in the Local Government Surplus Trust Fund (the Trust Fund), and various equity and debt investments maintained in the City's pension funds. At September 30, 2008, the fair value of the investment held in the LGIP was \$1,643,422 and \$60,302 in Pool B (See Note 1E).

Pension Fund Investments

As of September 30, 2008, the City's Pension Fund included the following investments and maturities:

	Fair Value	INVESTMENT MATURITIES (YEARS)						
		1	1-5	6-10	11-15	16-20	21-25	>25
Corporate bonds	\$1,692,347	\$20,411	\$776,961	\$638,152	\$	\$35,849	\$98,593	\$122,381
Corporate asset backed securities	307,474	6,882			3,673		32,990	263,929
U.S. Treasury	252,293		252,293					
U.S. government agency pools	3,412,666		342,028	155,991	303,815	10,026	1,141,309	1,459,497
Foreign bonds	95,988		55,001	40,987				
	<u>5,760,768</u>	<u>\$27,293</u>	<u>\$1,426,283</u>	<u>\$835,130</u>	<u>\$307,488</u>	<u>\$45,875</u>	<u>\$1,272,892</u>	<u>\$1,845,807</u>
Other investments								
Money market funds	540,433							
Corporate equities	8,979,410							
Foreign stocks	74,345							
Corporate equity mutual funds	<u>45,053</u>							
Total	<u>\$15,400,009</u>							

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Pension Fund Investments (Continued)

Interest Rate Risk - Neither the General Employees' Retirement Plan nor the Police Officers' and Firefighters' Retirement Plans have policies that limit their investment maturities as a means of managing their exposure to fair value losses arising from increasing interest rates.

Credit Rate Risk - According to the General Employees' Retirement Plan and the Police Officers' and Firefighters' Retirement Plans, investments in corporate bonds are limited to investment grade bonds as rated by Standard and Poor's and Moody's investment ratings service. All corporate debt was limited to investment grade as of September 30, 2008. The City's only exposure to credit rate risk is in the investments held in the Local Government Surplus Trust Fund.

Concentration of Credit Risk - The investment policies of both the General Employees' Retirement Plan and the Police Officers' and Firefighters' Retirement Plans state that the investment value of the bonds of a single corporation shall not be greater than 10% of the total value of the investments of each respective plan. Investments in corporate common stock and convertible bonds shall not exceed 60% of the fund assets at cost or 70% of the funds assets at market value. Foreign securities shall not exceed 10% of the value at cost of either fund. As of September 30, 2008, no single corporate bond accounted for more than 1% of the total portfolio value of either plan. Investments in corporate common stock and convertible bonds represented 63% of the total fair value (market value) of investments in the General Employees' Retirement Plan Trust Fund and 55% of the total fair value of investments in the Police Officers' and Firefighter's Retirement Plan. The General Employees' Retirement Plan Trust Fund investments in foreign securities as of September 30, 2008, was 5% of the total fair value of investment and 4% of the total fair value of investments in the Police Officers' and Firefighter's Retirement Plan.

NOTE 4 - RECEIVABLES

Receivables at September 30, 2008, were as follows:

	Governmental Activities		Business-Type Activities		Total
	General	Nonmajor	Utilities	Sanitation	
Taxes	\$240,535	\$	\$	\$	\$240,535
Accounts	43,689		651,599	304,179	999,467
Less allowance for doubtful accounts			(282,926)	(60,000)	(342,926)
Assessments	26,079				26,079
Other	1,540	172	2,860	49	4,621
Receivables, net	311,843	172	371,533	244,228	927,776
Intergovernmental	1,571,384		362,688		1,934,072
Total	<u>\$1,883,227</u>	<u>\$172</u>	<u>\$734,221</u>	<u>\$244,228</u>	<u>\$2,861,848</u>

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 5 - CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2008, was as follows:

Primary Government

Governmental Activities	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
Capital assets not being depreciated				
Land	\$ 1,366,818	\$ 323,983	\$	\$ 1,690,801
Construction in progress	<u>139,132</u>	<u>(139,132)</u>		
Total capital assets not being depreciated	1,505,950	184,851		1,690,801
Capital assets being depreciated				
Buildings	6,134,795	2,174,988		8,309,783
Improvements other than buildings	3,535,967	279,693		3,815,660
Infrastructure	11,806,922	304,381		12,111,303
Machinery and equipment	3,663,613	612,134	(116,019)	4,159,728
Equipment under capital lease	<u>377,002</u>			<u>377,002</u>
Total capital assets being depreciated	<u>25,518,299</u>	<u>3,371,196</u>	<u>(116,019)</u>	<u>28,773,476</u>
Less accumulated depreciation				
Buildings	(984,055)	(138,830)		(1,122,885)
Improvements other than buildings	(814,417)			(814,417)
Infrastructure	(5,066,354)	(541,408)		(5,607,762)
Machinery and equipment	(1,935,749)	(376,068)	95,340	(2,216,477)
Equipment under capital lease	<u>(188,500)</u>	<u>(25,133)</u>		<u>(213,633)</u>
Total accumulated depreciation	<u>(8,989,075)</u>	<u>(1,081,439)</u>	<u>95,340</u>	<u>(9,975,174)</u>
Total capital assets being depreciated, net	<u>16,529,224</u>	<u>2,289,757</u>	<u>(20,679)</u>	<u>18,798,302</u>
Governmental activities, net	<u>\$ 18,035,174</u>	<u>\$ 2,474,608</u>	<u>\$ (20,679)</u>	<u>\$ 20,489,103</u>
Business-Type Activities				
Capital assets not being depreciated				
Land	\$ 659,607	\$ 1,509,104	\$	\$ 2,168,711
Construction in progress	<u>7,415,358</u>	<u>(7,305,142)</u>		<u>110,216</u>
Total capital assets not being depreciated	8,074,965	(5,796,038)		2,278,927
Capital assets being depreciated				
Buildings	8,843,392	110,905		8,954,297
Improvements other than buildings	570,028	34,997		605,025
Infrastructure	9,738,420	11,867,526		21,605,946
Machinery and equipment	<u>2,022,342</u>	<u>405,386</u>	<u>(31,915)</u>	<u>2,395,813</u>
Total capital assets being depreciated	<u>21,174,182</u>	<u>12,418,814</u>	<u>(31,915)</u>	<u>33,561,081</u>
Less accumulated depreciation				
Buildings	(2,259,824)	(184,824)		(2,444,648)
Improvements other than buildings	(91,954)	(25,621)		(117,575)
Infrastructure	(3,700,647)	(256,638)		(3,957,285)
Machinery and equipment	<u>(719,442)</u>	<u>(144,951)</u>	<u>31,915</u>	<u>(832,478)</u>
Total accumulated depreciation	<u>(6,771,867)</u>	<u>(612,034)</u>	<u>31,915</u>	<u>(7,351,986)</u>
Total capital assets being depreciated, net	<u>14,402,315</u>	<u>11,806,780</u>		<u>26,209,095</u>
Business-type activities, net	<u>\$ 22,477,280</u>	<u>\$ 6,010,742</u>	<u>\$</u>	<u>\$ 28,488,022</u>

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 5 - CHANGES IN CAPITAL ASSETS (CONTINUED)

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

Governmental Activities	
General government	\$98,063
Public safety	272,380
Physical environment	27,376
Transportation	468,583
Culture and recreation	215,037
Total depreciation expense - governmental activities	<u>\$1,081,439</u>
Business-Type Activities	
Utilities fund	\$611,615
Sanitation fund	418
Total depreciation expense - business-type activities	<u>\$612,033</u>

Construction Commitments

The City was not committed under any significant construction contracts at September 30, 2008. However, major capital projects underway or anticipated to begin in the 2009 fiscal year and the estimated cost of the projects are as follows:

Project	Estimated Cost
Completion of Well #10	\$700,000
Construction of a rapid infiltration basin spray field (RIBS) on land contiguous to the existing wastewater treatment plant (land purchased in 2008)	3,000,000
Renovation of new police department building (acquired in 2008)	236,000
Utility relocation project at PJ Adams Parkway and State Road 85	232,000
	<u>\$4,168,000</u>

Financing of the cost of the RIBS project had begun in September, 2008, with the borrowing of \$4,800,000 (part of an \$11,080,000 issue); additional costs are expected to be financed with moneys borrowed from the Florida Clean Water State Revolving Loan Fund loan program or with additional bonded indebtedness.

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 6 - DEFINED BENEFIT PENSION PLANS

The City of Crestview, Florida administers two single-employee defined benefit pension plans - the Crestview General Employees' Retirement Plan Trust Fund and the Crestview Police Officers' and Firefighters' Plan Trust Fund. These plans provide benefits for all qualifying employees of the City. Each plan is administered by a five-person retirement committee consisting of two members appointed by the City Council, two elected members of the Plan, and a fifth member elected by the other four and appointed by the City Council. The Plans issue a publicly available financial report that includes certain additional disclosures required by GASB Statement No. 25. These reports may be obtained by writing to the Secretary, Retirement Plans, P.O. Box 1209, Crestview, Florida, 32536. Following are excerpts from the reports regarding certain required employer disclosures for the Plans.

A. Plan Descriptions

General Employees' Retirement Plan (GERP) - Plan Description

The Crestview General Employees' Retirement Plan Trust Fund is the administrator of a single employer public employee retirement system established by the City of Crestview, Florida. It is mandatory that all full-time general employees of the City participate in the Plan.

Crestview General Employees' Retirement Plan (GERP) provides retirement benefits and reduced early retirement benefits, as well as death and disability benefits. All benefits vest after 10 years of credited service. Employees who retire at or after age 55 with 10 years of credited service are entitled to an annual retirement benefit, payable monthly, of 2.64% of Average Final Compensation for each year of credited service plus \$215 per month. This benefit is paid in the form of a Life Annuity (options available). Employees who have attained age 50 and completed 10 years of credited service are eligible for early retirement and may elect to receive an immediate actuarially reduced benefit. Disability benefits are also provided at a reduced benefit amount for qualifying employees determined by the Board to be totally and permanently disabled. Benefit provisions are established by the Trust Instrument. Any amendments to the Plan are accomplished through revision and amendment of City Ordinances.

During the fiscal year ended September 30, 2000, the City of Crestview adopted Ordinance No. 1020 and 1029, amending and restating the City of Crestview General Employees' Retirement Plan adopted by Ordinance No. 781. This ordinance includes a provision for a deferred retirement option plan (DROP). A member becomes eligible when normal retirement requirements are satisfied. The member may not participate in the DROP for more than 60 months. The average daily balance in a member's DROP account shall be credited or debited at a rate equal to the actual net rate of investment return, net of brokerage commissions, transaction costs and management fees. Upon entering the DROP, the members shall not accrue any additional credited service or additional benefits and shall not be permitted to again contribute to the System. All benefits payable to a member from the DROP shall be paid from the assets of the member's DROP account and neither the City nor the Board shall have a duty or liability to furnish the DROP with any funds, securities or other assets except to the extent required by any applicable law.

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Plan Descriptions (Continued)

Police Officers' and Firefighters' Retirement Plan (POFRP) - Plan Description

The Crestview Police Officers' and Firefighters' Retirement Plan Trust Fund is the administrator of a single employer public employee retirement system established by the City of Crestview, Florida. It is mandatory that all full-time City police officers and firefighters participate in the Plan.

The Police Officers' and Firefighters' Retirement Plan (POFRP) provides retirement benefits and reduced early retirement benefits, as well as death and disability benefits. All benefits vest after 10 years of credited service. Employees who retire at or after age 55 with 10 years of credited service or age 52 with 25 years of credited service are eligible for normal retirement and are entitled to an annual retirement benefit, payable monthly, of three and one-fifth percent (3.2%) of Average Final Compensation times credited service. This benefit is paid in the form of a Ten Year Certain and Life Annuity (options available). Employees who have attained age 45 and completed 10 years of credited service are eligible for early retirement and may elect to receive a benefit reduced 3% for each year that early retirement precedes age 50 and actuarially reduced accordingly. Disability benefits are also provided at a reduced benefit amount for qualifying employees determined by the Board to be totally and permanently disabled. Benefit provisions are established by the Trust Instrument. The State also contributes to the Plan. Any amendments to the Plan are accomplished through revision and amendment of City Ordinances.

During the fiscal year ended September 30, 2000, the City of Crestview adopted Ordinance No. 1027, amending and restating the City of Crestview Police Officers' and Firefighters' Retirement Plan adopted by Ordinance No. 780. This ordinance includes a provision for a deferred retirement option plan (DROP). A member becomes eligible when normal retirement requirements are satisfied. The member may not participate in the DROP for more than 60 months. An eligible member which elects to enter the DROP can select either 1) actual net rate of investment return, net of brokerage commissions, transaction costs and management fees or 2) interest at an effective rate of 6.5% per annum compounded monthly on the prior month's ending balance. Upon entering the DROP, the member shall not accrue any additional credited service or additional benefits and shall not be permitted to again contribute to the System. All benefits payable to a member from the DROP shall be paid only from the assets of the member's DROP account and neither the City nor the Board shall have a duty or liability to furnish the DROP with any funds, securities or other assets except to the extent required by any applicable law. Membership of each plan consisted of the following at October 1, 2007, the date of the latest actuarial valuation:

	GERP	POFRP
Retirees and beneficiaries currently receiving benefits	20	11
Terminated plan members entitled to but not yet receiving benefits	12	1
ROP plan members	6	1
Active plan members	120	83
Total	158	96

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Contributions, Funding Policy and Annual Pension Costs

The contribution requirements of plan members and the City are established annually and amended by City ordinance. Plan members are required to contribute at a set percentage of their annual covered salaries. The City is required to contribute at an actuarially determined rate. The City's annual pension cost for October 1, 2007, the date of the last actuarial valuation, was follows:

	GERP	POFRP
Contribution rates (percentage of covered payroll)		
City	14.40%	7.90%
Plan members	6.40%	6.40%
Annual pension cost	\$358,312	\$157,141
Contributions made		
Employer	\$358,312	\$157,141
Other sources	\$ - - - 0 - - -	\$184,180
Members	\$210,715	\$172,656
Net pension obligation (asset)	\$353,846	\$359,590
Actuarial valuation date	10/1/2007	10/1/2007
Actuarial cost method	Frozen Entry Age	Frozen Entry Age
Amortization method	Level percentage of pay, closed	Level percentage of play, closed
Remaining amortization period	22 years	25 years
Asset valuation method	4-year smoothed market	4-year smoothed market
Actuarial assumptions		
Invested rate of return	8.0%	8.0%
Projected salary increases*	6.0%	6.0%
* Includes inflation at	3.0%	3.0%
Post retirement COLA	%	%

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage Contribution	Net Pension Obligation (Asset)
GERP	September 30, 2007	\$358,312	100.00%	\$ - - - 0 - - -
	September 30, 2006	\$369,782	100.00%	\$ - - - 0 - - -
	September 30, 2005	\$202,598	100.00%	\$ - - - 0 - - -
POFRP	September 30, 2007	\$155,494	100.00%	\$ - - - 0 - - -
	September 30, 2006	\$102,539	100.00%	\$ - - - 0 - - -
	September 30, 2005	\$102,333	100.00%	\$ - - - 0 - - -

C. Required Supplementary Information

The schedule of funding progress and schedule of contributions from the employer and other contributing entities can be found in the required supplementary information section of this annual financial report.

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 7 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee medical benefits and natural disasters. The City purchases insurance through commercial carriers and participates in the Florida Municipal Insurance Trust, which is a public entity risk pool. Coverage through the Florida Municipal Insurance Trust includes comprehensive general and professional liability, automobile, property, and workers' compensation coverages. The remaining insurance coverage, which includes, but is not limited to health and life coverages, is purchased from various commercial carriers.

The City does not retain a risk of loss as a participant in the public entity risk pool. The City maintains minimal deductibles for insurance policies from its various commercial carriers.

There has been no significant reduction in insurance coverage from the prior fiscal year. Insurance has been sufficient to cover all claims made in the prior five fiscal years.

NOTE 8 - OPERATING LEASES

The City is committed under various operating leases for certain telephone and office equipment. Lease expenditures for these leases for the fiscal year ended September 30, 2008, totaled \$93,781.

Future minimum lease payments for the next five years are as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>
2009	\$83,901
2010	65,056
2011	55,074
2012	23,619
2013	7,028
Total minimum lease payments	<u>\$234,678</u>

NOTE 9 - CAPITAL LEASES

The City has entered into lease agreements as lessee for financing the acquisition of a ladder fire truck. The lease agreement qualifies as a capital lease for accounting purposes as a result of the transfer of title at the end of the lease term, and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

<u>Assets</u>	<u>Governmental Activities</u>
Fire Truck	\$377,002
Less accumulated depreciation	(213,634)
	<u>\$163,368</u>

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 9 - CAPITAL LEASES (CONTINUED)

The future minimum lease obligations and net present value of these minimum lease payments as of September 30, 2008, is as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>
2009	49,895
2010	49,895
	<u>99,790</u>
Less amount representing interest	(9,406)
Present value of minimum lease payments	<u>\$90,384</u>

NOTE 10 - LONG-TERM DEBT

Changes in Long-Term Debt Liabilities

The following is a summary of changes in long-term debt liabilities of the City for the year ended September 30, 2008:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Revenue bonds					
Gas tax refunding revenue bond, Series 2004	\$ 1,303,250		\$ (143,023)	\$ 1,160,227	\$ 148,253
Public improvement revenue bond, Series 2001A	314,802		(31,664)	283,138	30,815
Public improvement revenue bond, Series 2001	2,337,000		(27,000)	2,310,000	28,000
Public improvement revenue bond, Series 2008		1,639,000		1,639,000	81,914
Public safety facilities fee revenue bond, Series 2007	900,000			900,000	90,000
Capital leases	132,947		(42,563)	90,384	42,564
Compensated absences	224,286	44,072		268,358	
Total governmental activities	<u>\$ 5,212,285</u>	<u>\$ 1,683,072</u>	<u>\$ (244,250)</u>	<u>\$ 6,651,107</u>	<u>\$ 421,546</u>
Business-Type Activities					
Florida DEP state revolving loan, 2008	\$ 1,492,910	\$ 5,665,328		\$ 7,158,238	\$ 320,405
Water & sewer revenue refunding bonds, Series 2004	1,705,000		(220,000)	1,485,000	230,000
Less unamortized loss	(16,855)		2,107	(14,748)	
Public improvement bonds, Series 2001A	853,560		(85,609)	767,951	83,315
Water & sewer revenue bonds, Series 1997	751,000		(751,000)		
Water & sewer refunding revenue and improvements bonds, Series 2008		11,080,000		11,080,000	130,000
FHA wastewater and transmission treatment and disposal revenue bond, Series 1992	4,589,000		(4,589,000)		
Compensated absences	25,170	7,472		32,642	25,553
Total business-type activities	<u>\$ 9,399,785</u>	<u>\$ 16,752,800</u>	<u>\$ (5,643,502)</u>	<u>\$ 20,509,083</u>	<u>\$ 789,273</u>

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 10 - LONG-TERM DEBT (CONTINUED)

Description of Long-Term Debt Outstanding

	Current	Long-Term	Total
GOVERNMENTAL ACTIVITIES			
<i>Revenue Bonds</i>			
\$900,000 Public Safety Facilities Fee Revenue Bond, Series 2007, incurred to finance construction of a public safety building. Interest on the bond accrues at 4.44%, with an annual interest payments beginning March 1, 2008, and annual principal payments of \$90,000 beginning March 1, 2009, through March 1, 2018. Bonds are secured and payable from public safety facilities fees.	\$90,000	\$810,000	\$900,000
\$1,639,000 Public Improvement Revenue Bond, Series 2008, incurred to finance the acquisition of a municipal office building in the area of the City. Interest on the bond accrues at 3.99% with annual interest payments beginning March 1, 2009, through March 1, 2023. Bonds are secured an payable from the local government half-cent sales tax.	81,914	1,557,086	1,639,000
\$1,722,511 Gas Tax Refunding Revenue Bonds, Series 2004, incurred to finance the cost of refunding the Gas Tax Refunding Revenue bond, Series 2000, 3.69% serial bonds due in annual installments of \$132,982 to \$184,257 beginning March 1, 2005, through March 1, 2015. Bonds are secured by the six cent optional gas tax.	148,253	1,011,975	1,160,228
\$1,500,000 Capital Improvement Revenue Bonds, Series 2001, incurred to finance the construction of water well, water tanks, public safety building, and park improvements. Bonds are divided into two denominations: \$1,000,000 and \$500,000. \$1,000,000 bond is a variable interest rate during construction period, 5.15% thereafter; interest payable on March 1 and September 1, with principal payment due March 1. \$500,000 bond is a variable interest rate during construction period and 5.15% thereafter. Principal and interest payments of \$4,662 are due each month after the construction period through March 1, 2016. Bonds are secured by public service taxes, communications service taxes and other fees.	30,815	252,323	283,138
\$2,452,000 Capital Improvement Revenue Bonds, Series 2001, incurred to finance the acquisition and construction of library improvements, 4.75% serial bonds due in annual installments of \$21,000 to \$139,000 plus interest beginning September 1, 2003, through 2041. Bonds are secured by franchise fees and public service taxes.	28,000	2,282,000	2,310,000
Total revenue bonds	378,982	5,913,384	6,292,366

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 10 - LONG-TERM DEBT (CONTINUED)

Description of Long-Term Debt Outstanding (Continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Balance forward	378,982	5,913,384	6,292,366
Leases			
\$498,949 capital lease payable, 1999, due in annual installments of \$49,895 through October 2009, collateralized by a fire truck.	<u>42,564</u>	<u>47,820</u>	<u>90,384</u>
Total leases	42,564	47,820	90,384
Accrued Compensated Absences			
Total long-term portion of accumulated, vested annual and sick leave for governmental fund types.		268,358	268,358
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$421,546</u>	<u>\$6,229,562</u>	<u>\$6,651,108</u>
BUSINESS-TYPE ACTIVITIES			
Revenue Bonds			
\$11,080,000 Water & Sewer Refunding and Improvement Revenue Bonds, Series 2008, incurred to retire the Water & Sewer Revenue Bonds, Series 1997, to retire the Water & Sewer Revenue Bonds, Series 1992, and to finance the cost of additions and improvements to the water and sewer system of the City. Interest rates range from 3.00% to 5.25%; interest is payable March 1 and September 1; principal is payable September 1; payments begin March 1, 2009 and continue through September 1, 2038, ranging in annual amounts from \$538,256 to \$1,165,181. Bonds are secured by the net revenues of the water and sewer system.	\$130,000	\$10,950,000	\$11,080,000
\$1,705,000 Water & Sewer refunding revenue bonds, Series 2004, incurred to partially retire Series 1996 bonds; interest rate ranges from 2.75% to 3.50% with semi-annual interest payments due March 1, and September 1; annual principal payments begin September 1, 2008, and continue through 2014, ranging from \$220,000 to 265,000. Bonds are secured by the net revenues of the water and sewer system.	230,000	1,255,000	1,485,000
Less unamortized deferred loss on refunding		(14,748)	(14,748)
Subtotal of Revenue Bonds	<u>360,000</u>	<u>12,190,252</u>	<u>12,550,252</u>

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 10 - LONG-TERM DEBT (CONTINUED)

Description of Long-Term Debt Outstanding (Continued)

BUSINESS-TYPE ACTIVITIES (CONTINUED)

Revenue Bonds (Continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Balance forward	360,000	12,190,252	12,550,252
\$1,500,000 Capital Improvement Revenue Bonds, Series 2001 incurred to finance the construction of water well, water tanks, public safety building, and park improvements. Bonds are divided into two denominations: \$1,000,000 and \$500,000. \$1,000,000 bond is a variable interest rate during construction period, 5.15% thereafter; interest payable on March 1, and September 1, with principal payment due March 1. \$500,000 bond is a variable interest rate during construction period and 5.15% thereafter. Principal and interest payments of \$4,662 are due each month after the construction period through March 1, 2016. Bonds are secured by public service taxes, communications service taxes and other fees.	83,315	684,636	767,951
Total Revenue Bonds	<u>443,315</u>	<u>12,874,888</u>	<u>13,318,203</u>
State Revolving Loan			
\$7,667,000 State of Florida Department of Environmental Protection Revolving Loan Fund; semi-annual payments of \$250,253, including interest at 2.53% beginning December 15, 2008, through December 15, 2028.	320,405	6,837,833	7,158,238
Total state revolving loan	<u>320,405</u>	<u>6,837,833</u>	<u>7,158,238</u>
Accrued Compensated Absences			
Accumulated, vested annual compensation for Enterprise Funds	25,553	7,089	32,642
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$789,273</u>	<u>\$19,719,810</u>	<u>\$20,509,083</u>
GRAND TOTAL LONG-TERM DEBT			<u>\$27,160,191</u>

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 10 - LONG-TERM DEBT (CONTINUED)

Annual Requirements to Amortize Debt Outstanding

The annual requirements to amortize all debt outstanding except accrued and annual leave and advances from other funds as of September 30, 2008, are as follows:

Governmental Activities

Year Ending September 30	Revenue Bonds		Leases	
	Principal	Interest	Principal	Interest
2009	\$378,982	\$273,308	\$42,564	\$7,331
2010	391,628	257,590	47,820	2,075
2011	403,636	241,367		
2012	415,670	224,720		
2013	429,794	207,433		
2014-2018	1,662,671	783,374		
2019-2023	912,984	521,510		
2024-2028	331,000	373,113		
2029-2033	424,000	286,093		
Thereafter	942,000	213,085		
Total	<u>\$6,292,365</u>	<u>\$3,381,593</u>	<u>\$90,384</u>	<u>\$9,406</u>

Business-Type Activities

Year Ending September 30	Revenue Bonds		State Revolving Loans	
	Principal	Interest	Principal	Interest
2009	\$443,315	\$624,109	\$320,405	\$180,101
2010	458,472	609,019	329,580	140,926
2011	478,708	593,025	337,971	162,535
2012	490,377	575,704	346,576	153,930
2013	514,434	558,320	355,400	147,340
2014-2018	1,372,897	2,557,731	1,919,122	609,058
2019-2023	1,005,000	2,344,944	2,181,680	355,429
2024-2028	1,000,000	2,091,456	1,367,503	77,565
2029-2033	4,305,000	1,535,519		
Thereafter	3,250,000	519,225		
Total	<u>\$13,318,203</u>	<u>\$12,009,052</u>	<u>\$7,158,237</u>	<u>\$1,826,884</u>

In September, 2008, the City issued \$11,080,000 in Water & Sewer Refunding and Improvement Revenue Bonds at an average interest rate of 5.2335% to fund certain improvements to the wastewater treatment facilities. Net proceeds of \$5,875,540 (including providing for a reserve account, underwriters discount, and other issuance costs) resulted in a \$4,800,000 deposit to the improvement account; the remaining proceeds of \$5,243,367 were used to refund \$4,589,000 of Water and Sewer Revenue Bonds, Series 1992, and also refund \$751,000 of Water & Sewer Refunding Bonds, Series 1997. The City reduced its aggregate debt service payments by \$58,000 over the next 28 years. The city realized an economic loss (difference between the present values of the old and new debt service payments) of approximately \$55,000.

Bond Restrictions A number of limitations and restrictions are contained in the various bond resolutions. The City is not aware of any noncompliance with the significant requirements.

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Contracts

In January 1994, the City signed an agreement with Operations Management International, Inc. (OMI) to operate, maintain, and manage the new sewer treatment plant. Fees are payable monthly and are subject to adjustment on a regular basis.

The contract also provides for electrical cost or consumption increases to be absorbed by the City. Fees for the year ended September 30, 2008, were approximately \$668,514.

OMI assumed additional duties with the sewer treatment plant addition that became operational July 1, 2008, and annual modifications were executed through January, 2009.

A new contract was signed for the initial term beginning February 1, 2009 through September 30, 2009. The agreement will automatically renew for a 5 year term unless canceled not less than 120 days prior to expiration.

The initial term provides for monthly payments of \$86,592. The base fee will be adjusted annually to reflect certain Bureau of Labor Statistics index changes; however, the base fee adjustment will not exceed 5% or be less than 2%. The base fee and other cost components (repairs, chemicals, electricity and residuals disposal) are to be adjusted annually.

Sanitation Collection

In December 2007, the City contracted with Waste Pro of Florida, Inc., for the collection and disposal of residential and commercial solid waste, yard refuse, and recycling. The non-exclusive franchise agreement began January 1, 2008, and extends through September 30, 2013. The City is responsible for billings and collections related to the sanitation services, and retains 5% of the collections as payment for managing the collections; the remainder of the collections are remitted to Waste Pro of Florida, Inc. Collections remitted to Waste Pro of Florida amounted to \$1,777,699 for the eight contract months included in the September 30, 2008 fiscal year.

Legal Matters

The City Attorney has indicated that there are no items of pending or recently resolved litigation which would materially affect the City's financial statements as of September 30, 2008.

City of Crestview, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 11 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Grants

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

In September 2004, Hurricane Ivan impacted northwest Florida, including the City of Crestview with considerable damage. Many of the expenses incurred for debris removal and other repairs were reimbursed to the City through grant funding from the Federal Emergency Management Agency (FEMA). In 2005, FEMA reimbursed the City for most of the expenses incurred, but then later determined that certain expenses did not qualify for reimbursement according to the grant. FEMA has notified the City that the City will be responsible for those expenses determined not to be reimbursable. The City will not know the exact amount of funds that are to be repaid to FEMA until FEMA has performed a final close-out audit. The City has estimated the liability to FEMA for non-reimbursable expenses to be \$401,865. This amount is included in due to other governments in the accompanying financial statements.

In April, 2008, the City was awarded a SAFER (Staffing for Adequate Fire and Emergency Response) by the Federal Emergency Management Agency in the amount of \$1,171,278. The City is obligated to fund certain amounts for the July to June periods as follows:

Period Through June				
2009	2010	2011	2012	2013
\$44,487	\$93,422	\$245,232	\$363,008	\$540,737

Future years budgets will recognize the City's responsibilities under the grant.

Retirement Plans

The City had to supplement its regular contributions to the Police Officers' and Firefighters' Retirement Plan and the General Employees' Retirement Plan by \$22,228 and \$103,965 respectively in the fiscal year ended September 30, 2008, due primarily to payroll increases and variances in actual versus expected investment returns and other assumptions.

Additional contributions of \$58,910 for the Police Officers' and Firefighters' Retirement Plan must be paid by April 1, 2009 to meet the funding requirements of the most recent actuarial report; the General Employees' Retirement Plan is due an additional \$279,144 by the same date.

City of Crestview, Florida
REQUIRED SUPPLEMENTAL INFORMATION
 Unaudited

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as % of Payroll
General Employees' Retirement Plan						
October 1, 2007	\$9,534,209	\$9,888,055	\$353,846	96.42%	\$3,284,376	10.77%
October 1, 2006	\$8,523,229	\$8,798,387	\$275,158	96.87%	\$2,864,238	9.61%
October 1, 2005	\$7,525,909	\$7,828,265	\$302,356	96.14%	\$2,377,019	12.72%
October 1, 2004	\$7,176,724	\$7,431,597	\$254,873	96.57%	\$2,093,552	12.17%
October 1, 2003	\$6,933,328	\$7,189,655	\$256,327	96.43%	\$2,069,858	12.38%
October 1, 2002	\$6,597,119	\$6,903,821	\$306,702	95.56%	\$2,090,456	14.67%
Police Officers' and Firefighters' Retirement Plan						
October 1, 2007	\$7,409,015	\$7,768,605	\$359,590	95.37%	\$2,879,395	12.49%
October 1, 2006	\$6,641,793	\$6,944,698	\$302,905	95.64%	\$2,319,699	13.06%
October 1, 2005	\$6,037,999	\$6,306,888	\$268,889	95.74%	\$1,893,960	14.20%
October 1, 2004	\$5,638,521	\$5,955,958	\$317,437	94.67%	\$1,687,094	18.82%
October 1, 2003	\$5,455,764	\$5,779,110	\$323,346	94.40%	\$1,726,946	18.72%
October 1, 2002	\$5,197,248	\$5,581,205	\$383,957	93.12%	\$1,744,984	22.00%

Note: The information presented in this schedule was determined as part of the actuarial valuations at the dates indicated.

Additional information as of the latest actuarial valuation can be found in Note 6 to the financial statements.

City of Crestview, Florida
REQUIRED SUPPLEMENTAL INFORMATION
 Unaudited

**SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER
 CONTRIBUTING ENTITIES**

General Employees' Retirement Plan

	Annual Required <u>Contribution</u>	Employer <u>Contribution</u>	Other Contributing <u>Entity Contribution</u>	Percentage <u>Contributed</u>
September 30, 2007	\$358,312	\$358,312	\$	100.00%
September 30, 2006	\$369,782	\$369,782	\$	100.00%
September 30, 2005	\$202,598	\$202,598	\$	100.00%
September 30, 2004	\$146,705	\$146,705	\$	100.00%
September 30, 2003	\$66,916	\$108,314	\$	161.87%
September 30, 2002	\$63,128	\$107,372	\$	170.09%

Police Officers' and Firefighters' Retirement Plan

	Annual Required <u>Contribution</u>	City <u>Contribution</u>	State <u>Contribution</u>	Percentage <u>Contributed</u>
September 30, 2007	\$339,674	\$157,141	\$184,180 *	100.48%
September 30, 2006	\$286,719	\$113,966	\$184,180 *	103.99%
September 30, 2005	\$286,512	\$102,333	\$184,180 *	100.00%
September 30, 2004	\$253,773	\$91,008	\$179,605 *	106.64%
September 30, 2003	\$189,561	\$90,004	\$159,284	131.51%
September 30, 2002	\$148,435	\$85,891	\$143,366	154.45%

* "Frozen" per Chapter 185, as amended.

Additional information as of the latest actuarial valuation can be found in Note 6 to the financial statements.

City of Crestview, Florida
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2008

	<u>Special Revenue Funds</u>					<u>Total</u>
	<u>Law Enforcement</u>	<u>Community</u>	<u>Debt Service</u>	<u>Permanent</u>	<u>Capital</u>	
	<u>Trust</u>	<u>Redevelopment Agency</u>			<u>Projects Fund</u>	
ASSETS						
Cash and cash equivalents	\$ 16,004	\$ 478,067	\$	\$ 3,458	\$ 337,621	\$ 835,150
Interest receivable			172			172
Restricted assets						
Cash and cash equivalents			277,858			277,858
Certificates of deposit			20,933	55,749		76,682
TOTAL ASSETS	<u>\$ 16,004</u>	<u>\$ 478,067</u>	<u>\$ 298,963</u>	<u>\$ 59,207</u>	<u>\$ 337,621</u>	<u>\$ 1,189,862</u>
FUND BALANCE						
Reserved for law enforcement	\$ 16,004	\$	\$	\$	\$	\$ 16,004
Reserved for community development		478,067				478,067
Reserved for debt service			298,963			298,963
Reserved for library books, expendable				9,207		9,207
Reserved for library books, nonexpendable				50,000		50,000
Reserved for capital projects					337,621	337,621
TOTAL FUND BALANCE	<u>\$ 16,004</u>	<u>\$ 478,067</u>	<u>\$ 298,963</u>	<u>\$ 59,207</u>	<u>\$ 337,621</u>	<u>\$ 1,189,862</u>

City of Crestview, Florida
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended September 30, 2008

	<u>Special Revenue Funds</u>					<u>Total</u>
	<u>Law Enforcement</u>	<u>Community</u>	<u>Debt Service</u>	<u>Permanent</u>	<u>Capital</u>	
	<u>Trust</u>	<u>Redevelopment Agency</u>			<u>Projects Fund</u>	
REVENUES						
Taxes	\$	\$	\$ 191,056	\$	\$	\$ 191,056
Intergovernmental		86,065	237,689			323,754
Fines and forfeits	26,571					26,571
Interest			1,330	2,914	2,841	7,085
Miscellaneous	2,801		25,863			28,664
TOTAL REVENUES	<u>29,372</u>	<u>86,065</u>	<u>455,938</u>	<u>2,914</u>	<u>2,841</u>	<u>577,130</u>
EXPENDITURES						
General government				276		276
Public safety	35,022					35,022
Capital outlay		61,180			1,146,253	1,207,433
Debt service						
Principal			201,686			201,686
Interest			199,718			199,718
Other debt service costs						
TOTAL EXPENDITURES	<u>35,022</u>	<u>61,180</u>	<u>401,404</u>	<u>276</u>	<u>1,146,253</u>	<u>1,644,135</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(5,650)</u>	<u>24,885</u>	<u>54,534</u>	<u>2,638</u>	<u>(1,143,412)</u>	<u>(1,067,005)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in		150,462			285,538	436,000
Transfers (out)					(192,615)	(192,615)
Debt proceeds						
TOTAL OTHER FINANCING SOURCES (USES)		<u>150,462</u>			<u>92,923</u>	<u>243,385</u>
NET CHANGE IN FUND BALANCE	<u>(5,650)</u>	<u>175,347</u>	<u>54,534</u>	<u>2,638</u>	<u>(1,050,489)</u>	<u>(823,620)</u>
FUND BALANCE - BEGINNING OF YEAR	21,654	302,720	244,429	56,569	1,388,110	2,013,482
FUND BALANCE - END OF YEAR	<u>\$ 16,004</u>	<u>\$ 478,067</u>	<u>\$ 298,963</u>	<u>\$ 59,207</u>	<u>\$ 337,621</u>	<u>\$ 1,189,862</u>

City of Crestview, Florida
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
Year Ended September 30, 2008

Federal Agency Pass-Through Entity Federal Program	CFDA Number	Contract/Grant Number	Expenditures	Transfers to Subrecipients
U.S. Environmental Protection Agency				
Indirect Program				
Pass-Through from				
Florida Department of Environmental Protection				
Capitalization Grants for State Revolving Funds	66.458	WW432110	\$ 3,167,071	\$ 0
Total U.S. Environmental Protection Agency			3,167,071	0
U.S. Department of Housing and Urban Development				
Indirect Program				
Pass-Through from				
Florida Department of Community Affairs.				
Small Cities Community Development Block Grant	14.228	06-DB-1Q-1-56-02-N40	346,807	0
Total U.S. Department of Housing and Urban Development			346,807	0
U.S. Department of Justice				
Indirect Program				
Pass-Through from				
Florida Department of Law Enforcement				
Edward Byrne Memorial Justice Assistance Grant	16.738	2008-JAGC-OKAL-1-Q9-121	34,618	0
Edward Byrne Memorial Justice Assistance Grant	16.738	2008-JAGC-OKAL-1-Q0-037	9,411	0
Total U.S. Department of Justice			44,029	0
Department of Homeland Security				
Indirect Program				
Pass-Through from				
Grants Management, Operations Department				
Public Safety Grant for SAFER (Staffing for Adequate Program				
Fire and Emergency Response)	97.044	EMW-2007-FF-01459	86,951	0
Public Safety Grant for Assistant to Firefighters	97.044	EMW-2007-FO-06660	104,065	0
Total Department of Homeland Security			191,016	0
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,748,923	\$ 0

The accompanying notes are an integral part of this schedule.

City of Crestview, Florida
NOTES TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
Year Ended September 30, 2008

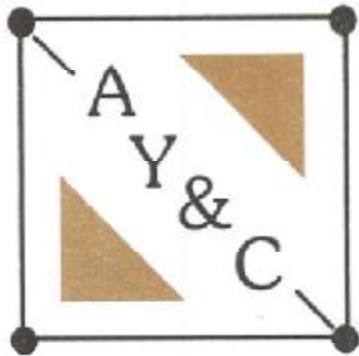
Note 1. Basis of Presentation

The accompanying Schedule of expenditures of federal awards includes the federal grant activity of the City of Crestview, Florida, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Note 2. Loans Outstanding

The City of Crestview, Florida, had the following loan balances outstanding at September 30, 2008. Loans made during the year are included in the federal expenditures presented in the schedules.

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
U.S Environmental Protection Agency, Pass-through from Florida Department of Environmental Protection Capitalization Grants for State Revolving Funds	66.458	\$ 7,158,238



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

Honorable Mayor and City Council Members
City of Crestview, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the City of Crestview, Florida, as of and for the year ended September 30, 2008, which collectively comprise the City of Crestview's basic financial statements and have issued our report thereon dated March 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Honorable Mayor and City Council Members
City of Crestview, Florida
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 (Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

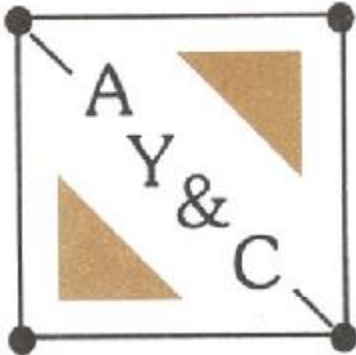
We noted certain matters that we reported to management of the City of Crestview, Florida, in a separate letter dated March 23, 2009.

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



Crestview, Florida
March 23, 2009

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and City Council Members
City of Crestview, Florida

Compliance

We have audited the compliance of the City of Crestview (the City) with the types of compliance requirements described in OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Those standards, and OMB Circular A-133 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 a major federal program 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. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Crestview, Florida, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

Honorable Mayor and City Council Members
City of Crestview, Florida
Report on Compliance with Requirements Applicable to Each Major
Program and on Internal Control Over Compliance in Accordance
with OMB Circular A-133 (Continued)

Internal Control Over Compliance

The management of the City of Crestview, Florida, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency is an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control 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, as defined above.

This report is intended solely for the information and use of Management and the City Council of the City of Crestview, Florida, the State of Florida, the Office of the Auditor General, and Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Allen, Yagor & Co

Crestview, Florida
March 23, 2009

City of Crestview, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2008

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that is/are not considered to be material weakness(es)? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that is/are not considered to be material weakness(es)? _____ Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number	Name of Federal Program
66.458	Capitalization Grants for State Revolving Funds

Dollar threshold used to distinguish Between type A and type B programs \$ 300,000

Auditee qualified as low-risk auditee? _____ Yes X No

City of Crestview, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2008

II. FINANCIAL STATEMENT FINDINGS

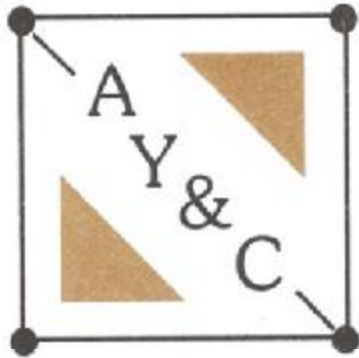
The results of our audit of the City of Crestview, Florida, did not disclose any findings required to be reported under GAGAS.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

We noted no matters involving noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget Circular A-133.

IV. SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

The prior year's single audit disclosed no findings in the Schedule of Finds and Questioned Costs relative to federal awards.



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MANAGEMENT LETTER

Honorable Mayor and City Council Members
City of Crestview, Florida

We have audited the financial statements of the City of Crestview, Florida, as of and for the year ended September 30, 2008, and have issued our report thereon dated March 23, 2009.

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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our 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*, Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and Schedule of Findings and Questioned Costs. Disclosures in that report, which are dated March 23, 2009, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the State of Florida and, unless otherwise required to be reported in the report on compliance and internal controls or schedule of findings and questioned costs, this letter is required to include the following information.

The *Rules of the Auditor General* (Section 10.554(1)(i)(1)) require that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address significant findings and recommendations made in the preceding financial audit report; thus they have been excluded from this year's Schedule of Findings and Recommendations.

As required by the *Rules of the Auditor General* (Section 10.554(1)(i)(2)), the scope of our audit included a review of the provisions of Section 218-415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City of Crestview, Florida complied with Section 218.415, Florida Statutes.

Honorable Mayor and City Council Members
City of Crestview, Florida
Management Letter (Continued)

The *Rules of the Auditor General* (Section 10.554(1)(i)(3)) require that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. Our comments and recommendations are reported under the headings of Current Year Comments and Prior Year Comments.

The *Rules of the Auditor General* (Section 10.554(1)(i)(4)) require that we address violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

The *Rules of the Auditor General* (Section 10.554(1)(i)(5)) require disclosure in the management letter of the following matters if not already addressed in the auditor's report on compliance and internal control or schedule of findings and questioned costs and are not clearly inconsequential: 1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or are likely to have occurred; 2) improper or illegal expenditures that may not materially affect the financial statements; 3) control deficiencies that are not significant deficiencies, including, but not limited to: (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. Current year comments are reported under the heading Utility Rates.

The *Rules of the Auditor General* (Section 10.554(1)(i)(6)) require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. The City of Crestview, Florida, was originally incorporated on April 11, 1916. The town was established as a municipality by Act of the Florida Legislature in 1917. It was reincorporated in 1923 by Chapter 9718, and then as the City of Crestview by Chapter 25754, Special Act 1949.

During 1990, the Department of Community Affairs, as required by the Uniform Special District Accountability Act of 1989, determined that the Crestview Housing Authority to be dependent to the City of Crestview. The Crestview Housing Authority is included in the 2008 State of Florida Annual Local Government Financial Report. The definitions of the USDA Act differ from the reporting entity definition of U.S. generally accepted accounting principles (GAAP). Utilizing the standards set forth in GASB 14, the Crestview Housing Authority was not considered as having met sufficient criteria for inclusion within the City's audited financial statements for the year ended September 30, 2008.

The *Rules of the Auditor General* (Section 10.554(1)(i)(7.a.)), a statement must be included as to whether or not the City met one or more of the conditions described in Section 218.503(1) Florida Statutes. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

The *Rules of the Auditor General* (Section 10.554(1)(i)(7.b.)), we determined that the annual financial report for the City of Crestview, Florida, for the fiscal year ended September 30, 2008, filed with the Florida Department of Financial Services pursuant to Section 218.32(1), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2008.

The *Rules of the Auditor General* (Section 10.554(1)(i)(7.c) and 10.556(7)), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by the same.

All prior year comments have been addressed and taken under consideration by management; those requiring improved controls or additional procedures have been implemented.

UTILITY RATES

The City is continuing to expand the capacity of its waste water treatment plant to accommodate anticipated future increases in population. This expansion has required significant borrowings and an increase in debt service requirements. Additional borrowings may be required.

STATUS

Utility rates have not been adjusted since 2002.

RECOMMENDATION

Management should consider obtaining a rate study in the near future to begin the required analysis of its utility rate structure.

Honorable Mayor and City Council Members
City of Crestview, Florida
Management Letter (Continued)

MANAGEMENT RESPONSE

We are addressing this issue and have requested a rate study from the Florida Rural Water Association.

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

We sincerely hope these comments and recommendations will be of assistance in the administration and operation of the City. Please feel free to contact us regarding the preceding or any other aspect of the audit of your financial statements. We greatly appreciate the assistance and cooperation extended us during our audit.

Allen, Yagow & Carr

Crestview, Florida
March 23, 2009