

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORTS**

**CITY OF LAKE CITY  
LAKE CITY, FLORIDA**

**SEPTEMBER 30, 2016**

**CITY OF LAKE CITY  
LAKE CITY, FLORIDA**

**Elected Officials 2015-2016**

**Stephen Witt**  
Mayor Councilmember

**Zack Paulk**  
Councilmember

**Melinda Moses**  
Councilmember

**Eugene Jefferson**  
Councilmember

**George Ward**  
Councilmember

**Appointed Officials**

**City Manager**  
Wendell Johnson

**Finance Director**  
Donna Duncan

**City Attorney**  
Herbert F. Darby

**City Clerk**  
Audrey E. Sikes

**FINANCIAL STATEMENTS  
AND  
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**CITY OF LAKE CITY  
LAKE CITY, FLORIDA**

**SEPTEMBER 30, 2016**

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**CITY OF LAKE CITY  
LAKE CITY, FLORIDA**

**SEPTEMBER 30, 2016**

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## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council  
City of Lake City  
Lake City, Florida

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake City, Florida, (the City) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Certified Public Accountants

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Honorable Mayor and City Council  
City of Lake City  
Lake City, Florida

**INDEPENDENT AUDITORS' REPORT**  
*(Continued)*

**Opinions**

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

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information on pages 4–14 and 69–80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and the utility system debt service coverage ratio are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and Chapter 10.550, *Rules of the Florida Auditor General*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, utility system debt service coverage ratio, and the schedule of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the utility system debt service coverage ratio, and the schedule of expenditures of federal awards and state financial assistance are fairly stated in all material respects in relation to the basic financial statements as a whole.

Honorable Mayor and City Council  
City of Lake City  
Lake City, Florida

**INDEPENDENT AUDITORS' REPORT**  
*(Concluded)*

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Durvis, Gray and Company, LLP*

April 7, 2017  
Gainesville, Florida

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Lake City, Florida (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2016. Management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position, (d) identify any material deviations from the financial plan, and (e) identify individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

### Financial Highlights

- Assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$71,355,842. Of this amount, \$10,322,616 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$7,521,507. Government activities generated an increase of \$4,869,142 in net position while the business-type activities increased \$2,652,365.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$8,538,590. Of this total amount \$4,718,625 is available for spending at the City's discretion (unassigned fund balance).
- Bonded debt of the City increased \$1,331,036 in 2016 after refinancing to pay off debt with Florida Department of Environmental Protection and receiving additional proceeds to fund costs associated with Phase II of the Kicklighter Wastewater Treatment Plant.
- In 2014, the City accepted grants from the FAA and State of Florida DOT to make significant improvements to the Lake City Gateway Airport. In 2016, the City completed these improvements at a cost of \$7,805,384 for Airport for Taxiway A and runway lights.
- The Natural Gas Department purchased a warehouse/office building for \$626,163 to further enhance its operations. The property is located at the main gate station for natural gas distribution and prevented the City from having to relocate the gas lines where no easement existed.

### Overview of the Financial Statements

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

### Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business, in that all governmental and business-type activities are consolidated into columns which add up to a total for the primary government.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Government-Wide Financial Statements (Concluded)

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

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highway and streets, airport, physical environment, economic environment, culture and recreation, and health and welfare. Property taxes, utility service taxes, gas taxes, and sales taxes, along with the City's charges for services and interfund charges, finance the majority of these services. The business-type activities include natural gas, and water and wastewater, where the fees for service typically cover all or most of the cost of operation including depreciation.

### Fund Financial Statements

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

### Governmental Funds

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

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

The City maintains ten individual governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Fire Department Special Revenue Fund, Airport Capital Project Fund, and the Community Redevelopment Agency Fund, which are considered to be major funds. Data included in the other governmental funds consists of governmental funds that 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 on page 81 and 82 of this report.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS** *(Continued)*

### **Governmental Funds** *(Concluded)*

The City adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for the major governmental funds to demonstrate compliance with this budget.

### **Proprietary Funds**

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City maintains two enterprise funds to account for the following operations: natural gas distribution, and the water and wastewater utilities. The City has no internal service funds.

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

### **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's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City utilizes fiduciary funds to account for its employees' retirement plans.

### **Notes to the Financial Statements**

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other postemployment benefits to its employees.

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

### **Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$71,355,842 at the close of the most recent fiscal year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
*(Continued)*

**Government-Wide Financial Analysis (Continued)**

**City of Lake City's Net Position**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>FY 2016</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2015</u>
Current and Other Assets	\$ 9,512,283	\$ 9,663,035	\$ 20,033,917	\$ 21,140,890	\$ 29,546,200	\$ 30,803,925
Capital Assets	36,878,670	32,959,865	59,295,723	53,983,807	96,174,393	86,943,672
<b>Total Assets</b>	<u>46,390,953</u>	<u>42,622,900</u>	<u>79,329,640</u>	<u>75,124,697</u>	<u>125,720,593</u>	<u>117,747,597</u>
<b>Deferred Outflow of Resources</b>	<u>3,685,388</u>	<u>3,480,615</u>	<u>1,524,386</u>	<u>1,406,434</u>	<u>5,209,774</u>	<u>4,887,049</u>
Current Liabilities	1,460,099	2,228,351	3,979,254	3,986,076	5,439,353	6,214,427
Long-term Liabilities	11,370,708	12,316,638	41,522,213	39,783,614	52,892,921	52,100,252
<b>Total Liabilities</b>	<u>12,830,807</u>	<u>14,544,989</u>	<u>45,501,467</u>	<u>43,769,690</u>	<u>58,332,274</u>	<u>58,314,679</u>
<b>Deferred Inflows of Resources Pension Related</b>	1,131,990	314,124	110,261	171,508	1,242,251	485,632
<b>Net Position</b>						
Net Investment in Capital Assets	32,585,778	28,513,595	26,640,650	23,973,273	59,226,428	52,486,868
Restricted	613,758	677,836	1,193,040	1,194,879	1,806,798	1,872,715
Unrestricted	2,914,008	2,052,971	7,408,608	7,421,781	10,322,616	9,474,752
<b>Total Net Position</b>	<u>\$ 36,113,544</u>	<u>\$ 31,244,402</u>	<u>\$ 35,242,298</u>	<u>\$ 32,589,933</u>	<u>\$ 71,355,842</u>	<u>\$ 63,834,335</u>

The largest portion of the City's net position or \$59,226,428 reflects its net investment in capital assets (i.e., land, utility plant and improvements, equipment, buildings, improvements, machinery and equipment, and infrastructure). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. An additional portion of the City's net position, \$1,806,798 represents resources that are subject to external restrictions on how they may be used (restricted net position).

The unrestricted net position balance of \$10,322,616 is intended to be a corporate-style measurement of the City's current financial standing and may be used to meet the government's ongoing obligations to citizens and creditors.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
*(Continued)*

**Government-Wide Financial Analysis (Concluded)**

**City of Lake City Changes in Net Position**

	Governmental Activities		Business-type Activities		Total Primary Government	
	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015
<b>REVENUES</b>						
Program Revenues:						
Charges for Services	\$ 5,110,278	\$ 5,237,424	\$ 16,976,587	\$ 16,526,283	\$ 22,086,865	\$ 21,763,707
Operating Grants and Contributions	417,768	369,939	372,454	369,860	790,222	739,799
Capital Grant and Contributions	5,652,871	5,282,578	249,645	187,039	5,902,516	5,469,617
Property Taxes	2,803,726	2,776,460	0	0	2,803,726	2,776,460
Gain on Disposal Capital Asset	24,056	73,134	0	34,783	24,056	107,917
Other Taxes	4,813,135	4,737,751	0	0	4,813,135	4,737,751
Other	257,938	123,476	362,687	287,964	620,625	411,440
<b>Total Revenues</b>	<b>19,079,772</b>	<b>18,600,762</b>	<b>17,961,373</b>	<b>17,405,929</b>	<b>37,041,145</b>	<b>36,006,691</b>
<b>EXPENSES</b>						
General Government	1,518,157	972,979	0	0	1,518,157	972,979
Public Safety	7,657,945	7,780,834	0	0	7,657,945	7,780,834
Highway and Streets	3,194,400	3,317,324	0	0	3,194,400	3,317,324
Airport	1,447,946	1,385,759	0	0	1,447,946	1,385,759
Health and Welfare	178,620	187,559	0	0	178,620	187,559
Economic Environment	154,956	230,600	0	0	154,956	230,600
Physical Environment	441,431	439,563	0	0	441,431	439,563
Culture and Recreation	577,643	603,788	0	0	577,643	603,788
Interest on Long-term Debt	152,032	181,765	0	0	152,032	181,765
Water and Sewer Utility	0	0	11,036,011	11,870,748	11,036,011	11,870,748
Natural Gas Utility	0	0	3,160,497	3,683,296	3,160,497	3,683,296
<b>Total Expenses</b>	<b>15,323,130</b>	<b>15,100,171</b>	<b>14,196,508</b>	<b>15,554,044</b>	<b>29,519,638</b>	<b>30,654,215</b>
Increase (Decrease) in Net Position						
Before Transfers	3,756,642	3,500,591	3,764,865	1,851,885	7,521,507	5,352,476
Transfers	1,112,500	0	(1,112,500)	0	0	0
Increase (Decrease) in Net Position	4,869,142	3,500,591	2,652,365	1,851,885	7,521,507	5,352,476
Net Position - Beginning	31,244,402	27,743,811	32,589,933	30,738,048	63,834,335	58,481,859
<b>Net Position - Ending</b>	<b>\$ 36,113,544</b>	<b>\$ 31,244,402</b>	<b>\$ 35,242,298</b>	<b>\$ 32,589,933</b>	<b>\$ 71,355,842</b>	<b>\$ 63,834,335</b>

**Governmental Activities**

Governmental activities before transfers increased the City's net position \$3,756,642, which is a 12.02% overall increase from the previous fiscal year. Revenues for the City's governmental activities increased \$479,010 while total expenses increased \$222,959 for 2016. During the year the City changed its method of accounting in the General Fund for expense allocations from the Water Sewer and Natural Gas Funds. Previously allocations were included as a reduction in total government expenditures. Now a portion of those previous allocations are being reported as transfers in of \$1,112,500.

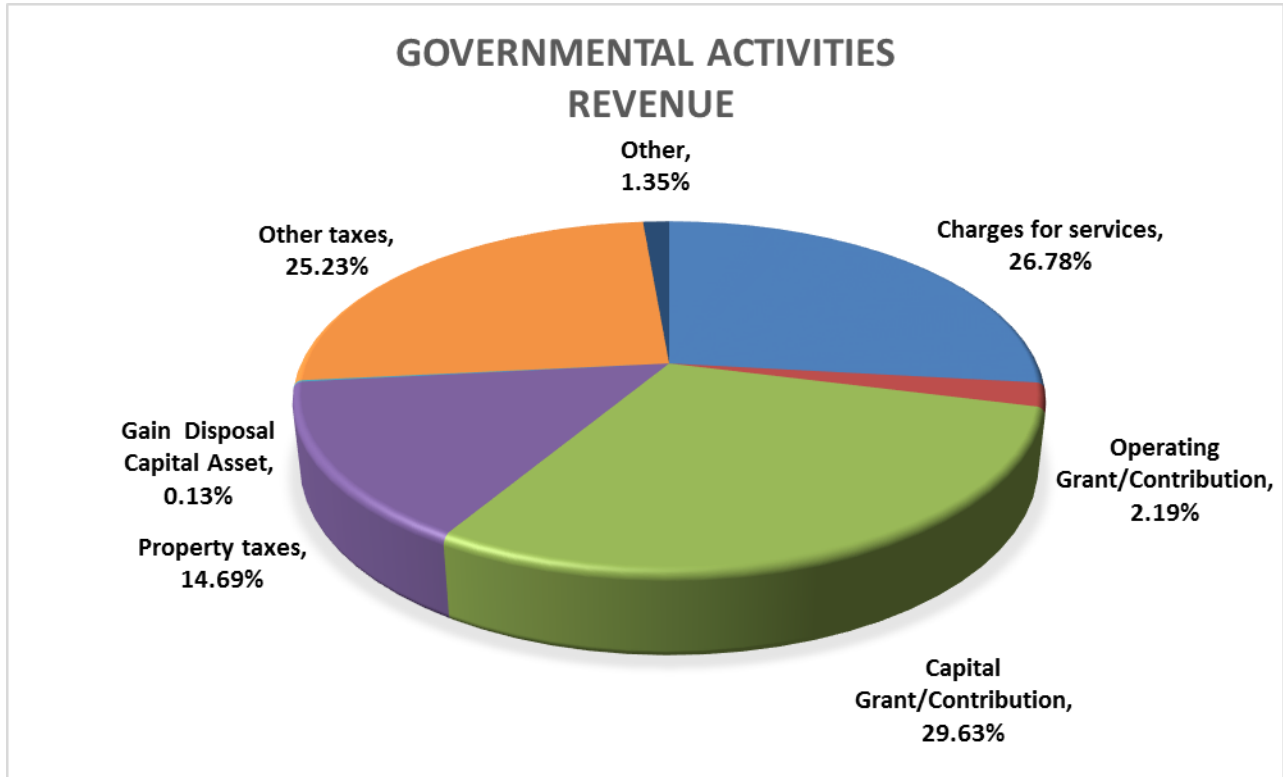
## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Governmental Activities (Continued)

Key elements of the changes in revenues and expenses include:

#### Revenues:

- Charges for services overall decrease for 2016 was \$127,146. Airport gas sales were down \$106,303 as gas rates remained stable during the year and sales volume was less than expected. Franchise fee income also saw a net decrease of \$115,166 from the previous year. Fire assessment revenue increased \$91,978 from a rate increase during the year of an estimated 6% as the City revamped its commercial versus residential rates based on incident data.
- Operating grants and contributions revenue increased in 2016 by \$47,829 mostly from an increase in FDOT traffic enforcement grant and traffic signal revenue.
- Capital grants increased \$370,293 from federal and state grants received for Lake City Airport Taxiway A improvements.
- Property taxes increased \$27,266 during 2016 due to a slight increase in the property tax rate while the overall taxable value of property declined approximately \$7 million.
- Total sales of fixed assets netted a gain of \$24,056 after being reduced by its net book value.
- Other taxes, which include utility, sales tax, revenue sharing and insurance premium tax for police and fire, increased marginally for the year for a total increase of \$75,384.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Governmental Activities (Continued)

#### Expenses:

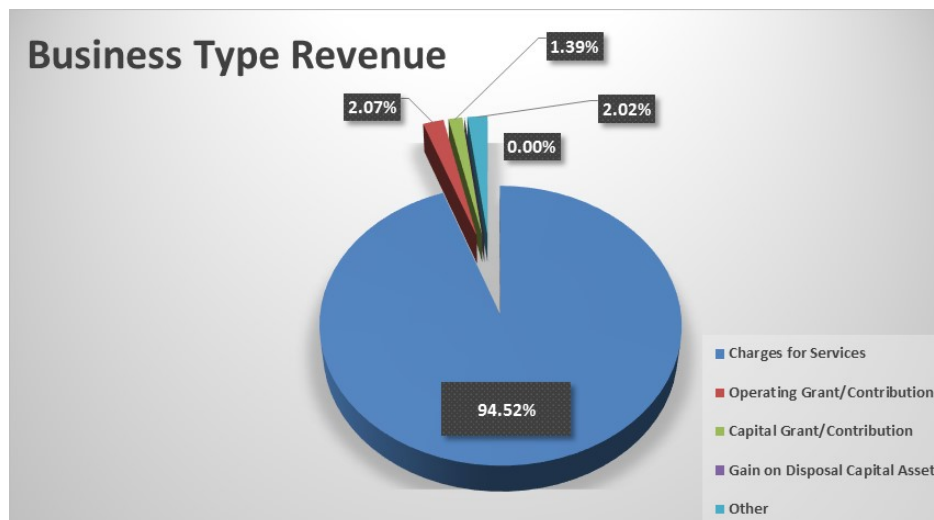
- General Government spending increased \$688,276. (Depreciation rose \$177,709 as airport hangars at the Lake City Gateway Airport were placed in service during the year.) The General Fund also received \$620,000 less in expense allocation revenue from proprietary funds. However, transfers to the General Fund increased \$1,112,500.
- Highway and Streets expenses decreased about 3.71% for the year, which was attributable to personnel costs and overall operating expenses.
- Airport expenses decreased mainly from purchases of gas. As noted previously, gas sales were down due to a decrease in sales volume.
- Community Redevelopment Agency decreased by \$75,643. In the previous year the City received a loan for improvements to the CRA district. Discretionary costs were mostly eliminated in order to maintain compliance with bond covenants.
- Culture and Recreation expenses resulted in a 4.33% decrease overall.
- Public Safety expenditures decreased \$122,889 due to a lowering of the contribution rate for retirement.
- Debt service decrease of \$29,735 was mostly from loan costs paid of \$36,250 from the previous year on the Community Redevelopment Agency bond for capital improvements.

#### Business-type Activities

Business-type activities before transfers increased the City's net position by \$3,764,865 for fiscal year 2016 compared to a decrease of \$1,851,885 for fiscal year 2015. Revenues for the City's business-type activities increased \$555,444 while total expenses decreased \$1,357,536 for fiscal year 2016. Elements of the changes in revenues and expenses include:

#### Revenues:

- Charges for services increased \$450,304 due to rate increases of 1% for utility water and sewer. However, gas sales were down \$366,382 as a result of stable gas prices and a temperate climate.
- Impact fees for new construction were up \$62,606 after a full year of reinstatement of fees. In the previous year impact fees were halted temporarily to encourage development.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Business-type Activities (Concluded)

#### Expenses:

- Water and sewer costs decreased \$834,737 during the year. Personnel service costs were down \$274,466 after a decision was made not to rehire some open positions. Repairs and maintenance and operating supplies were down \$198,167 while costs from the previous year for professional services for GIS mapping were completed. Allocations to the General Fund were reduced and reclassified as interfund transfers. The Water Sewer Fund also sustained a net loss on the sale of capital assets of \$326,485.
- Natural gas expenses decreased as well from costs of purchased gas and allocations to the General Fund reclassified as interfund transfers.

#### The City's Funds

As the City completed the year, its governmental funds reported a combined fund balance of \$8,538,590, which is a 20.48% percent increase over the previous year. Approximately 55.26% percent or \$4,718,625 of the fund balance constitutes unassigned fund balance, which is available for spending at the government's discretion. Non-spendable fund balance of 12.20% is comprised of:

■ Inventory	\$	58,081
■ Prepaid	\$	4,498
■ Advances to Other Funds	\$	979,271

The restricted fund balance of 20.79% has been obligated for debt service of \$100,749, public safety of \$201,902, airport \$254,361 and community development \$1,218,545. The assigned fund balance of 11.74% is subsequent year budget of \$1,000,000 and debt service of \$2,558.

#### Business-type Funds

The City's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of these funds have been addressed in the discussion of the City's business-type activities.

#### General Fund Budgetary Highlights

For fiscal year 2016, the City adopted a balanced budget in the General Fund. The General Fund had an original budget of \$14,720,667; the final amended budget was \$15,010,396.

The following is a brief overview of the significant budgeting changes from the original budget to the final budget.

#### General Fund:

- Insurance premium tax for police of \$118,885 was previously recorded in the Police Pension Fund. The revenue is now collected in the General Fund and charged as additional retirement contributions when paid to the pension fund.
- The Police Department received \$39,863 for various grants from the FDOT to purchase equipment, supplies and training.

**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
*(Continued)*

**General Fund Budgetary Highlights (Concluded)**

**General Fund: (Concluded)**

- Solid waste collections for residential customers was increased \$20,570.
- FDOT provided an additional \$33,924 for traffic signal maintenance.
- Various other revenues of approximately \$102,000 were received above the original budget.
- Community Redevelopment Agency received \$10,000 from Florida Power and Light designated for construction related to improvements to the CRA district.
- Insurance premium tax for Fire Fund of \$60,553 was received and applied to retirement contributions to the Firefighters’ Pension Fund.

**Airport Construction Fund:**

- Airport Construction Fund budget was adjusted \$1,190,924 for additional grants received for Taxiway A and B projects.

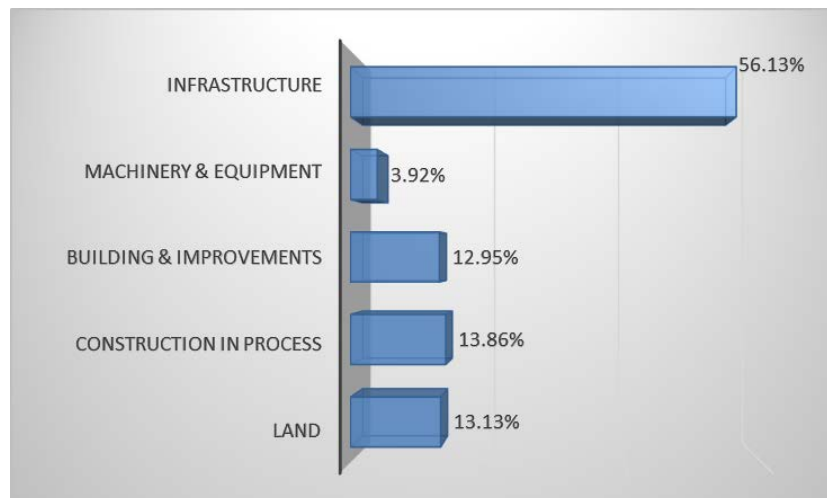
**Capital Assets and Debt Administration**

**Capital Assets:**

At the end of fiscal year 2016, the City had \$96,174,393 invested in a broad range of capital assets. This amount represents a net increase of \$9,230,721 over last year.

**Capital Assets at Year End  
(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Totals	
	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015
Land	\$ 7,335,754	\$ 7,233,492	\$ 5,295,556	\$ 5,293,630	\$ 12,631,310	\$ 12,527,122
Construction in Process	758,120	3,708,444	12,574,442	7,128,718	13,332,562	10,837,162
Building and Improvements	7,244,241	7,606,570	5,212,200	4,735,650	12,456,441	12,342,220
Machinery and Equipment	2,109,292	2,314,634	1,662,661	1,806,420	3,771,953	4,121,054
Infrastructure	19,431,263	12,096,725	34,550,864	35,019,389	53,982,127	47,116,114
<b>Totals</b>	<b>\$ 36,878,670</b>	<b>\$ 32,959,865</b>	<b>\$ 59,295,723</b>	<b>\$ 53,983,807</b>	<b>\$ 96,174,393</b>	<b>\$ 86,943,672</b>





**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

**Capital Assets and Debt Administration (Continued)**

**Capital Assets: (Continued)**

Major capital asset acquisitions and reclassifications from construction in progress to infrastructure and building improvements for 2016 include:

**Governmental Activities**

Network Upgrade w/Backup	Information Technology	\$ 41,078
Warehouse Camera System Upgrade	Procurement	10,980
Air Conditioning Units (3)	General Building	18,600
In Car Video Systems (MAVRICS)	Police	81,205
Car Radios New PD Fleet	Police	11,230
iSCSI Powervault MD3220i	Police	15,383
8 In Car Systems	Police	52,508
Ashley Street Overlay	Public Works	28,115
Arlington Blvd. Overlay	Public Works	38,036
NE Cooley St Overlay	Public Works	26,455
NE Lake Drive Overlay	Public Works	38,407
St. Margaret's St. Paving	Public Works	84,430
NE Leon St. Overlay	Public Works	44,208
Caterpillar CB24B Compactor	Public Works	42,931
Grasshopper Zero Turn Mower	Public Works	32,790
Fence – Public Works Facility	Public Works	17,691
Claw Truck	Public Works	141,192
220 Franklin St – Land and Bldg.	CRA	127,038
Panasonic Toughbooks	Fire	13,041
Firehouse Software	Fire	7,000
Fire Department Rockets	Fire	13,786
Alumacraft Boat/Motor/Trailer	Fire	6,620
Airport Digital Video Surveillance	Airport	13,400
Zetron Console Replacement	Airport	33,265
Runway Lighting	Airport	51,000
Taxiway A	Airport	4,406,196

**Business-type Activities**

General Sound Enclosure	Water Sewer	\$ 24,367
Smart Utility Software	Water Sewer	12,520
Well Pump # 2 and 8	Water Sewer	33,688
Influent Pump – Flygt	Water Sewer	39,664
Lift Station Improvements	Water Sewer	20,946
Fire Hydrant and Risers	Water Sewer	36,076
Manhole Rehab – Baseball Complex	Water Sewer	49,200
Submersible Lift Station Pumps	Water Sewer	19,588
Westside Force Main	Water Sewer	63,390
Gateway Crossing Water Lines	Water Sewer	176,726
Water Pipe, Fittings and Directional Bores	Water Sewer	383,592
Kuhn Road manhole rehab	Water Sewer	46,854
Burger King upgrade	Water Sewer	20,946
ABS Pumps – Cherry St	Water Sewer	23,551
50 Ton Paver Style Lowboy Trailer	Water Sewer	61,998
590 SW Arlington Land/Bldg.	Natural Gas	626,163
Metering Station VA Hospital	Natural Gas	10,587
Steerable Walk Behind	Natural Gas	13,490
VA Project	Natural Gas	33,235
Gas Line Improvements	Natural Gas	15,709

**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
*(Concluded)*

**Capital Assets and Debt Administration (Concluded)**

**Capital Assets: (Concluded)**

Additional information on the City’s capital assets can be found in Note 3 of the notes to the financial statements.

**Long-term Debt**

At the end of the current fiscal year, the City had total bond debt outstanding of \$44,133,498 net of unamortized refunding losses and discounts.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenue Bonds and Notes	\$ 5,444,725	\$ 5,722,154	\$ 38,688,773	\$ 37,080,308	\$ 44,133,498	\$ 42,802,462

Additional information on the City’s long-term debt can be found in Note 5 of the notes to the financial statements.

The City considered many factors when preparing the fiscal year 2016 budgetary estimates. Some of the major considerations were local and national economic factors, which included:

- Florida ranked 24<sup>th</sup> in the seasonally adjusted unemployment rate for the country in September 2016 at 4.7%, which is down 0.4% overall from the previous year. Columbia County experienced a 5.0% rate of unemployment during this same period. Overall, hiring in Florida rose 3.1% in the twelve months ending in September, the third highest total overall nationwide.
- Consumer prices twelve month average increased 1.3% over the year mostly from energy prices for gasoline and utilities.
- The City has been experiencing tremendous growth in the last couple of years. Expansion on the west end of town has included numerous restaurants and retail shops. In its analysis for the second quarter 2016, Global Economic Outlook stated that the average workers’ wages increases in the leisure and hospitality industries have outpaced wage increases in other sectors. Since most of the additional gains in employment in the City has been in these industries, it presents a positive outlook for the workforce. Ultimately, property values should rise and state shared revenues such as sales tax will likely increase as well.
- It is anticipated that interest rates will be rising in the future. Kiplinger’s economic forecast predicts that higher oil prices as a result of OPEC cutting production will lead to inflation in the coming months.

**Financial Contact**

The City’s financial statements are designed to present users with a general overview of the City’s finances and to demonstrate the City’s accountability. If you have any questions concerning any of the information provided in this report or need additional financial information, contact the City’s Finance Director at City Hall located at 205 North Marion Avenue, Lake City, Florida, 32055.

## **BASIC FINANCIAL STATEMENTS**

These basic financial statements contain Government-wide Financial Statements, Fund Financial Statements, and Notes to Financial Statements.

**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2016**  
**CITY OF LAKE CITY, FLORIDA**

	<b>Primary Government</b>		<b>Total</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	
<b>Assets</b>			
<b>Current Assets</b>			
Pooled Cash and Investments	\$ 6,097,383	\$ 8,441,876	\$ 14,539,259
Accounts Receivable, Net	379,128	2,262,456	2,641,584
Due from Other Governments	1,781,360	0	1,781,360
Inventory	58,081	226,094	284,175
Prepays	4,498	14,219	18,717
Internal Balances	40,000	(40,000)	0
<b>Total Current Assets</b>	<b>8,360,450</b>	<b>10,904,645</b>	<b>19,265,095</b>
<b>Noncurrent Assets</b>			
Restricted Pooled Cash and Investments	0	2,616,225	2,616,225
Unspent Bond Proceeds	1,151,833	6,033,699	7,185,532
Capital Assets:			
Land	7,335,754	5,295,556	12,631,310
Construction in Progress	758,120	12,574,442	13,332,562
Depreciable Buildings, Property and Equipment, Net	28,784,796	41,425,725	70,210,521
Prepaid Bond Insurance	0	479,348	479,348
<b>Total Noncurrent Assets</b>	<b>38,030,503</b>	<b>68,424,995</b>	<b>106,455,498</b>
<b>Total Assets</b>	<b>46,390,953</b>	<b>79,329,640</b>	<b>125,720,593</b>
<b>Deferred Outflows of Resources</b>			
Unamortized Refunding Loss	41,481	229,012	270,493
Pension Related	3,643,907	1,295,374	4,939,281
<b>Total Deferred Outflows of Resources</b>	<b>3,685,388</b>	<b>1,524,386</b>	<b>5,209,774</b>

See accompanying notes.

**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2016**  
**CITY OF LAKE CITY, FLORIDA**  
*(Concluded)*

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 365,576	\$ 447,048	\$ 812,624
Accrued Liabilities	152,598	506,899	659,497
Accrued Compensated Absences	571,236	253,199	824,435
Accrued Interest	41,895	0	41,895
Current Portion of Long-term Obligations	328,794	0	328,794
<b>Total Current Liabilities</b>	<b>1,460,099</b>	<b>1,207,146</b>	<b>2,667,245</b>
<b>Payable from Restricted Assets</b>			
Accrued Interest	0	437,641	437,641
Current Portion of Long-term Obligations	0	1,356,000	1,356,000
Customer Deposits	0	978,467	978,467
<b>Total Payable from Restricted Assets</b>	<b>0</b>	<b>2,772,108</b>	<b>2,772,108</b>
<b>Noncurrent Liabilities</b>			
Customer Deposits	102,812	0	102,812
Accrued Compensated Absences	184,738	79,825	264,563
Noncurrent Portion of Long-term Obligations	5,157,412	37,436,000	42,593,412
Unamortized Premium	0	125,784	125,784
Other Postemployment Benefits Obligation	271,663	113,923	385,586
Net Pension Liability	5,654,083	3,766,681	9,420,764
<b>Total Noncurrent Liabilities</b>	<b>11,370,708</b>	<b>41,522,213</b>	<b>52,892,921</b>
<b>Total Liabilities</b>	<b>12,830,807</b>	<b>45,501,467</b>	<b>58,332,274</b>
<b>Deferred Inflows of Resources</b>			
Pension Related	1,131,990	110,261	1,242,251
<b>Net Position</b>			
Net Investment in Capital Assets	32,585,778	26,640,650	59,226,428
Restricted for:			
Debt Service	58,854	254,667	313,521
Renewal and Replacement	0	500,000	500,000
System Improvements	0	438,373	438,373
Public Safety	201,902	0	201,902
Airport	286,290	0	286,290
Economic Environment	66,712	0	66,712
Unrestricted	2,914,008	7,408,608	10,322,616
<b>Total Net Position</b>	<b>\$ 36,113,544</b>	<b>\$ 35,242,298</b>	<b>\$ 71,355,842</b>

See accompanying notes.

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities</b>							
General Government	\$ 1,518,157	\$ 1,311,392	\$ 23,302	\$ 0	\$ (183,463)	\$ 0	\$ (183,463)
Public Safety	7,657,945	1,871,407	56,129	67,486	(5,662,923)	0	(5,662,923)
Highway and Street	3,194,400	163,546	98,134	946,801	(1,985,919)	0	(1,985,919)
Airport	1,447,946	938,782	0	4,638,584	4,129,420	0	4,129,420
Health and Welfare	178,620	0	0	0	(178,620)	0	(178,620)
Economic Environment	154,956	1,700	240,203	0	86,947	0	86,947
Physical Environment	441,431	690,769	0	0	249,338	0	249,338
Culture and Recreation	577,643	132,682	0	0	(444,961)	0	(444,961)
Interest on Long-term Debt	152,032	0	0	0	(152,032)	0	(152,032)
<b>Total Governmental Activities</b>	<b>15,323,130</b>	<b>5,110,278</b>	<b>417,768</b>	<b>5,652,871</b>	<b>(4,142,213)</b>	<b>0</b>	<b>(4,142,213)</b>
<b>Business-type Activities</b>							
Water and Sewer Utility	11,036,011	13,125,571	372,454	249,645	0	2,711,659	2,711,659
Natural Gas Utility	3,160,497	3,851,016	0	0	0	690,519	690,519
<b>Total Business-type Activities</b>	<b>14,196,508</b>	<b>16,976,587</b>	<b>372,454</b>	<b>249,645</b>	<b>0</b>	<b>3,402,178</b>	<b>3,402,178</b>
<b>Total Primary Government</b>	<b>\$ 29,519,638</b>	<b>\$ 22,086,865</b>	<b>\$ 790,222</b>	<b>\$ 5,902,516</b>	<b>(4,142,213)</b>	<b>3,402,178</b>	<b>(740,035)</b>
<b>General Revenues</b>							
Taxes:							
Property Taxes					2,803,726	0	2,803,726
Business and Utility Taxes					2,032,000	0	2,032,000
Discretionary Sales Surtax					1,417,933	0	1,417,933
Half-cent Sales Tax					873,342	0	873,342
Other Tax					179,439	0	179,439
State Revenue Sharing					310,421	0	310,421
Investment Earnings					34,506	20,893	55,399
Miscellaneous					223,432	341,794	565,226
Gain (Loss) on Disposal of Capital Assets					24,056	0	24,056
<b>Transfers</b>					1,112,500	(1,112,500)	0
<b>Total General Revenues and Transfers</b>					<b>9,011,355</b>	<b>(749,813)</b>	<b>8,261,542</b>
<b>Change in Net Position</b>					<b>4,869,142</b>	<b>2,652,365</b>	<b>7,521,507</b>
<b>Net Position, Beginning of Year</b>					<b>31,244,402</b>	<b>32,589,933</b>	<b>63,834,335</b>
<b>Net Position, End of Year</b>					<b>\$ 36,113,544</b>	<b>\$ 35,242,298</b>	<b>\$ 71,355,842</b>

See accompanying notes.

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2016  
CITY OF LAKE CITY, FLORIDA**

	<b>General Fund</b>	<b>Fire Department Special Revenue Fund</b>	<b>Community Redevelopment Agency Fund</b>	<b>Airport Capital Projects Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>						
Pooled Cash and Investments	\$ 5,409,230	\$ 160,040	\$ 1,236,645	\$ 0	\$ 443,301	\$ 7,249,216
Accounts Receivable, Net	320,350	0	0	0	58,778	379,128
Due from Other Governments	776,740	22,577	0	923,574	58,469	1,781,360
Inventory	27,538	0	0	0	30,543	58,081
Prepays	3,112	0	0	0	1,386	4,498
Due from Other Funds	979,271	0	0	0	42,627	1,021,898
<b>Total Assets</b>	<b>7,516,241</b>	<b>182,617</b>	<b>1,236,645</b>	<b>923,574</b>	<b>635,104</b>	<b>10,494,181</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>						
<b>Liabilities</b>						
Accounts Payable	299,551	39,547	8,700	0	17,778	365,576
Accrued Liabilities	133,222	15,238	0	0	4,138	152,598
Deposits	2,112	0	700	0	100,000	102,812
Due to Other Funds	0	0	0	923,677	58,221	981,898
<b>Total Liabilities</b>	<b>434,885</b>	<b>54,785</b>	<b>9,400</b>	<b>923,677</b>	<b>180,137</b>	<b>1,602,884</b>
<b>Deferred Inflows of Resources</b>						
Unavailable Revenues	352,707	0	0	0	0	352,707
<b>Fund Balances</b>						
Nonspendable:						
Inventory	27,538	0	0	0	30,543	58,081
Prepays	3,112	0	0	0	1,386	4,498
Advances to Other Funds	979,271	0	0	0	0	979,271
Restricted for:						
Public Safety	0	127,832	0	0	74,070	201,902
Airport	0	0	0	0	254,361	254,361
Community Development	0	0	1,218,545	0	0	1,218,545
Debt Service	0	0	8,700	0	92,049	100,749
Assigned for:						
Debt Service	0	0	0	0	2,558	2,558
Subsequent Year Budget	1,000,000	0	0	0	0	1,000,000
Unassigned	4,718,728	0	0	(103)	0	4,718,625
<b>Total Fund Balances</b>	<b>6,728,649</b>	<b>127,832</b>	<b>1,227,245</b>	<b>(103)</b>	<b>454,967</b>	<b>8,538,590</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 7,516,241</b>	<b>\$ 182,617</b>	<b>\$ 1,236,645</b>	<b>\$ 923,574</b>	<b>\$ 635,104</b>	<b>\$ 10,494,181</b>

See accompanying notes.

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2016  
CITY OF LAKE CITY, FLORIDA**

<b>Fund Balance - Total Governmental Funds</b>		\$ 8,538,590
 <b>Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:</b>		
Capital assets reported for governmental activities are not financial resources and, therefore, are not reported in the governmental funds:		
Cost of Assets	\$ 71,704,993	
(Accumulated Depreciation)	<u>(34,826,323)</u>	36,878,670
Deferred outflows and inflows of resources used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Deferred Outflows of Resources	3,685,390	
Deferred Inflows of Resources	<u>(1,131,990)</u>	2,553,400
Net pension liability does not require the use of current financial resources and, therefore, is not reported as a liability in governmental funds.		
		(5,654,085)
Other postemployment benefits liability does not require the use of current financial resources and, therefore, is not reported as a liability in the governmental funds.		
		(271,663)
Long-term liabilities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Long-term liabilities at year-end consist of:		
Revenue Bonds	(5,486,206)	
Compensated Absences	<u>(755,974)</u>	(6,242,180)
Interest on long-term debt is generally not accrued in the governmental funds, but rather is recognized as an expenditure when due.		
		(41,895)
Receivables that do not provide current financial resources are considered unavailable revenues and included as deferred inflows of resources in the governmental funds.		
		<u>352,707</u>
<b>Net Position of Governmental Activities</b>		<u><u>\$ 36,113,544</u></u>

See accompanying notes.



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

	General Fund	Fire Department Special Revenue Fund	Community Redevelopment Agency Fund	Airport Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property Taxes	\$ 2,703,768	\$ 0	\$ 98,447	\$ 0	\$ 0	\$ 2,802,215
Nonproperty Taxes	4,476,398	60,553	0	0	0	4,536,951
Franchise Fees and Permits	1,473,332	0	0	0	0	1,473,332
Intergovernmental Revenues	1,641,707	0	149,915	5,453,610	67,486	7,312,718
Charges for Services	661,551	1,854,810	1,700	0	918,555	3,436,616
Fines and Forfeitures	16,557	0	0	0	0	16,557
Investment Earnings	31,614	700	2,115	0	77	34,506
Miscellaneous Revenues	113,926	25,000	10,030	0	94,703	243,659
Interfund Charges	1,330,000	0	0	0	0	1,330,000
<b>Total Revenues</b>	<u>12,448,853</u>	<u>1,941,063</u>	<u>262,207</u>	<u>5,453,610</u>	<u>1,080,821</u>	<u>21,186,554</u>
<b>Expenditures</b>						
Current:						
General Government	2,576,245	0	0	0	0	2,576,245
Public Safety	5,244,355	1,978,378	0	0	23,101	7,245,834
Highway and Street	2,569,281	0	0	0	0	2,569,281
Airport	0	0	0	0	850,351	850,351
Health and Welfare	178,620	0	0	0	0	178,620
Economic Environment	0	0	152,941	0	0	152,941
Physical Environment	441,431	0	0	0	0	441,431
Culture and Recreation	549,670	0	0	0	0	549,670
Debt Service:						
Principal	0	0	39,773	0	241,140	280,913
Interest and Other	0	0	22,488	0	127,045	149,533
Capital Outlay	770,567	51,207	181,792	4,781,706	126,172	5,911,444
<b>(Total Expenditures)</b>	<u>(12,330,169)</u>	<u>(2,029,585)</u>	<u>(396,994)</u>	<u>(4,781,706)</u>	<u>(1,367,809)</u>	<u>(20,906,263)</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>118,684</u>	<u>(88,522)</u>	<u>(134,787)</u>	<u>671,904</u>	<u>(286,988)</u>	<u>280,291</u>
<b>Other Financing Sources (Uses)</b>						
Proceeds from the Sale of Capital						
Assets	59,101	0	0	0	0	59,101
Operating Transfers in	1,220,000	226,502	0	163,358	368,185	1,978,045
Operating Transfers (out)	(602,187)	0	(100,000)	0	(163,358)	(865,545)
<b>Total Other Financing Sources (Uses)</b>	<u>676,914</u>	<u>226,502</u>	<u>(100,000)</u>	<u>163,358</u>	<u>204,827</u>	<u>1,171,601</u>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<u>795,598</u>	<u>137,980</u>	<u>(234,787)</u>	<u>835,262</u>	<u>(82,161)</u>	<u>1,451,892</u>
<b>Fund Balances, Beginning of Year</b>	<u>5,933,051</u>	<u>(10,148)</u>	<u>1,462,032</u>	<u>(835,365)</u>	<u>537,128</u>	<u>7,086,698</u>
<b>Fund Balances, End of Year</b>	<u>\$ 6,728,649</u>	<u>\$ 127,832</u>	<u>\$ 1,227,245</u>	<u>\$ (103)</u>	<u>\$ 454,967</u>	<u>\$ 8,538,590</u>

See accompanying notes.

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

**Net Change in Fund Balances - Total Governmental Funds** \$ 1,451,892

**Amounts Reported for Governmental Activities in the Statement of  
Activities are Different Because:**

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

Expenditures for Capital Assets	\$ 5,911,444	
Donated Asset	1,500	
(Less Current Year Depreciation)	<u>(1,957,594)</u>	3,955,350

Governmental funds report proceeds from sales of general fixed assets as current financial resources. The gain or loss on disposal of general fixed assets is not reflected in the governmental funds:

Proceeds from Sales of General Fixed Assets	(59,101)	
(Loss) or Gain on Disposal of General Fixed Assets	<u>22,556</u>	(36,545)

Repayments of bond principal are expenditures in the governmental funds but the repayment reduces long-term liabilities in the statement of net position. 280,913

The changes in net pension liability and pension related deferred outflows and inflows of resources result in an adjustment to pension expense in the statement of activities, but not in the governmental fund statements. 25,676

Certain revenues reported in the statement of activities are not considered current financial resources and, therefore, are not reported as revenue in the governmental funds. (800,838)

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

Debt Interest Expense and Amortization	(2,499)	
Compensated Absences	11,731	
Other Postemployment Benefit Obligation	<u>(16,538)</u>	<u>(7,306)</u>

**Change in Net Position of Governmental Activities** \$ 4,869,142

See accompanying notes.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**  
**CITY OF LAKE CITY, FLORIDA**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$ 2,742,206	\$ 2,742,206	\$ 2,703,768	\$ (38,438)
Nonproperty Taxes	4,125,631	4,244,516	4,476,398	231,882
Franchise Fees and Permits	1,475,777	1,475,777	1,473,332	(2,445)
Intergovernmental Revenues	1,439,815	1,521,739	1,641,707	119,968
Charges for Services	627,783	648,353	661,551	13,198
Fines and Forfeitures	24,260	24,260	16,557	(7,703)
Investment Earnings	9,438	24,983	31,614	6,631
Miscellaneous Revenues	45,300	78,830	113,926	35,096
Interfund Charges	1,330,000	1,330,000	1,330,000	0
<b>Total Revenues</b>	<u>11,820,210</u>	<u>12,090,664</u>	<u>12,448,853</u>	<u>358,189</u>
<b>Expenditures</b>				
General Government	3,917,732	3,932,494	2,665,893	1,266,601
Public Safety	5,550,871	5,757,942	5,400,026	357,916
Highway and Streets	3,540,964	3,521,169	3,091,669	429,500
Health and Welfare	125,000	178,621	178,620	1
Physical Environment	416,466	443,036	441,431	1,605
Culture and Recreation	574,947	574,947	552,530	22,417
<b>(Total Expenditures)</b>	<u>(14,125,980)</u>	<u>(14,408,209)</u>	<u>(12,330,169)</u>	<u>2,078,040</u>
<b>Excess of Revenues Over Expenditures</b>	<u>(2,305,770)</u>	<u>(2,317,545)</u>	<u>118,684</u>	<u>2,436,229</u>
<b>Other Financing Sources (Uses)</b>				
Operating Transfers in	1,220,000	1,220,000	1,220,000	0
Operating Transfers (out)	(594,687)	(602,187)	(602,187)	0
Sale of General Fixed Assets	25,130	44,405	59,101	14,696
<b>Total Other Financing Sources (Uses)</b>	<u>650,443</u>	<u>662,218</u>	<u>676,914</u>	<u>14,696</u>
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<u>(1,655,327)</u>	<u>(1,655,327)</u>	<u>795,598</u>	<u>2,450,925</u>
<b>Fund Balances, Beginning of Year</b>	<u>1,655,327</u>	<u>1,655,327</u>	<u>5,933,051</u>	<u>4,277,724</u>
<b>Fund Balances, End of Year</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,728,649</u>	<u>\$ 6,728,649</u>

See accompanying notes.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FIRE DEPARTMENT SPECIAL REVENUE FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2016  
CITY OF LAKE CITY, FLORIDA**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Nonproperty Taxes	\$ 0	\$ 60,553	\$ 60,553	\$ 0
Charges for Services	1,924,895	1,924,895	1,854,810	(70,085)
Investment Earnings	0	0	700	700
Miscellaneous Revenues	0	25,000	25,000	0
<b>Total Revenues</b>	<u>1,924,895</u>	<u>2,010,448</u>	<u>1,941,063</u>	<u>(69,385)</u>
<b>Expenditures</b>				
Public Safety	2,151,397	2,236,950	2,029,585	207,365
<b>(Total Expenditures)</b>	<u>(2,151,397)</u>	<u>(2,236,950)</u>	<u>(2,029,585)</u>	<u>207,365</u>
<b>(Deficiency) of Revenues (Under) Expenditures</b>	<u>(226,502)</u>	<u>(226,502)</u>	<u>(88,522)</u>	<u>137,980</u>
<b>Other Financing Sources (Uses)</b>				
Operating Transfers in	226,502	226,502	226,502	0
<b>Total Other Financing Sources (Uses)</b>	<u>226,502</u>	<u>226,502</u>	<u>226,502</u>	<u>0</u>
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	0	0	137,980	137,980
<b>Fund Balances, Beginning of Year</b>	<u>0</u>	<u>0</u>	<u>(10,148)</u>	<u>(126,213)</u>
<b>Fund Balances, End of Year</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 127,832</u>	<u>\$ 11,767</u>

See accompanying notes.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
COMMUNITY REDEVELOPMENT AGENCY FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2016  
CITY OF LAKE CITY, FLORIDA**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$ 246,817	\$ 98,446	\$ 98,447	\$ 1
Intergovernmental Revenues	0	148,371	149,915	1,544
Charges for Service	1,650	1,650	1,700	50
Investment Earnings	585	585	2,115	1,530
Miscellaneous Revenues	0	10,000	10,030	30
<b>Total Revenues</b>	<u>249,052</u>	<u>259,052</u>	<u>262,207</u>	<u>3,155</u>
<b>Expenditures</b>				
Economic Environment	<u>1,621,552</u>	<u>1,631,552</u>	<u>396,994</u>	<u>1,234,558</u>
<b>(Total Expenditures)</b>	<u>(1,621,552)</u>	<u>(1,631,552)</u>	<u>(396,994)</u>	<u>1,234,558</u>
<b>(Deficiency) of Revenues (Under)</b>				
<b>Expenditures</b>	<u>(1,372,500)</u>	<u>(1,372,500)</u>	<u>(134,787)</u>	<u>1,237,713</u>
<b>Other Financing Sources (Uses)</b>				
Operating Transfers (out)	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>0</u>
<b>Total Other Financing Sources (Uses)</b>	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>0</u>
<b>(Deficiency) of Revenues and Other Financing Sources (Under)</b>				
<b>Expenditures and Other Financing Uses</b>	(1,472,500)	(1,472,500)	(234,787)	1,237,713
<b>Fund Balances, Beginning of Year</b>	<u>1,472,500</u>	<u>1,472,500</u>	<u>1,462,032</u>	<u>(10,468)</u>
<b>Fund Balances, End of Year</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,227,245</u>	<u>\$ 1,227,245</u>

See accompanying notes.

**STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 SEPTEMBER 30, 2016  
 CITY OF LAKE CITY, FLORIDA**

	<u>Water and Sewer Utility</u>	<u>Natural Gas Utility</u>	<u>Total</u>
<b>Assets</b>			
<b>Current Assets</b>			
Pooled Cash and Investments	\$ 6,961,804	\$ 1,480,072	\$ 8,441,876
Accounts Receivable, Net	1,864,218	398,238	2,262,456
Due from Other Funds	94,328	0	94,328
Inventory	161,804	64,290	226,094
Prepays	8,000	6,219	14,219
<b>Total Current Assets</b>	<u>9,090,154</u>	<u>1,948,819</u>	<u>11,038,973</u>
<b>Noncurrent Assets</b>			
Restricted Pooled Cash and Investments	2,317,624	298,601	2,616,225
Unspent Bond Proceeds	6,033,699	0	6,033,699
Capital Assets:			
Land	5,295,243	313	5,295,556
Construction in Progress	12,574,442	0	12,574,442
Depreciable Buildings, Property and Equipment, Net	38,844,332	2,581,393	41,425,725
Prepaid Bond Insurance	479,348	0	479,348
<b>Total Noncurrent Assets</b>	<u>65,544,688</u>	<u>2,880,307</u>	<u>68,424,995</u>
<b>Total Assets</b>	<u>74,634,842</u>	<u>4,829,126</u>	<u>79,463,968</u>
<b>Deferred Outflows of Resources</b>			
Unamortized Refunding Loss	229,012	0	229,012
Pension Related	1,073,468	221,906	1,295,374
<b>Total Deferred Outflows of Resources</b>	<u>1,302,480</u>	<u>221,906</u>	<u>1,524,386</u>

See accompanying notes.

**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2016**  
**CITY OF LAKE CITY, FLORIDA**  
*(Concluded)*

	<u>Water and Sewer Utility</u>	<u>Natural Gas Utility</u>	<u>Total</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 296,809	\$ 150,239	\$ 447,048
Accrued Liabilities	44,296	462,603	506,899
Due to Other Funds	40,000	94,328	134,328
Accrued Compensated Absences	190,798	62,401	253,199
<b>Total Current Liabilities</b>	<u>571,903</u>	<u>769,571</u>	<u>1,341,474</u>
<b>Payable from Restricted Assets</b>			
Accrued Interest	437,641	0	437,641
Current Portion of Long-term Obligations	1,356,000	0	1,356,000
Customer Deposits	679,866	298,601	978,467
<b>Total Payable from Restricted Assets</b>	<u>2,473,507</u>	<u>298,601</u>	<u>2,772,108</u>
<b>Noncurrent Liabilities</b>			
Accrued Compensated Absences	61,436	18,389	79,825
Noncurrent Portion of Long-term Obligations	37,436,000	0	37,436,000
Unamortized Premium	125,784	0	125,784
Other Postemployment Benefits Obligation	92,999	20,924	113,923
Net Pension Liability	3,115,633	651,048	3,766,681
<b>Total Noncurrent Liabilities</b>	<u>40,831,852</u>	<u>690,361</u>	<u>41,522,213</u>
<b>Total Liabilities</b>	<u>43,877,262</u>	<u>1,758,533</u>	<u>45,635,795</u>
<b>Deferred Inflows of Resources</b>			
Pension Related	90,565	19,696	110,261
<b>Net Position</b>			
Net Investment in Capital Assets	24,058,944	2,581,706	26,640,650
Restricted for:			
Renewal and Replacement	500,000	0	500,000
Debt Service	254,667	0	254,667
System Improvements	438,373	0	438,373
Unrestricted	6,717,511	691,097	7,408,608
<b>Total Net Position</b>	<u>\$ 31,969,495</u>	<u>\$ 3,272,803</u>	<u>\$ 35,242,298</u>

See accompanying notes.

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

	<u>Water and Sewer Utility</u>	<u>Natural Gas Utility</u>	<u>Total</u>
<b>Operating Revenues</b>			
Charges for Services	\$ 13,125,571	\$ 3,851,016	\$ 16,976,587
Other Charges	521,788	0	521,788
<b>Total Operating Revenues</b>	<u>13,647,359</u>	<u>3,851,016</u>	<u>17,498,375</u>
<b>Operating Expenses</b>			
Personal Services	3,622,588	811,497	4,434,085
Contractual Services, Materials, and Supplies	2,495,645	1,872,444	4,368,089
Interfund Charges	980,000	300,000	1,280,000
Depreciation	1,842,217	99,189	1,941,406
<b>(Total Operating Expenses)</b>	<u>(8,940,450)</u>	<u>(3,083,130)</u>	<u>(12,023,580)</u>
<b>Operating Income</b>	<u>4,706,909</u>	<u>767,886</u>	<u>5,474,795</u>
<b>Nonoperating Revenues (Expenses)</b>			
(Loss) from Sale of Capital Assets	(326,485)	(77,367)	(403,852)
Interest Income	17,048	3,845	20,893
Interest Subsidy	372,454	0	372,454
Interest Expense	(1,600,270)	0	(1,600,270)
Amortization	(168,806)	0	(168,806)
Other Revenues	56,965	12,686	69,651
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(1,649,094)</u>	<u>(60,836)</u>	<u>(1,709,930)</u>
<b>Income Before Capital Grants and Contributions and Operating Transfers</b>	3,057,815	707,050	3,764,865
Transfers In	7,500	0	7,500
Transfer (Out)	(870,000)	(250,000)	(1,120,000)
<b>Total Transfers</b>	<u>(862,500)</u>	<u>(250,000)</u>	<u>(1,112,500)</u>
<b>Change in Net Position</b>	2,195,315	457,050	2,652,365
<b>Net Position, Beginning of Year</b>	<u>29,774,180</u>	<u>2,815,753</u>	<u>32,589,933</u>
<b>Net Position, End of Year</b>	<u>\$ 31,969,495</u>	<u>\$ 3,272,803</u>	<u>\$ 35,242,298</u>

See accompanying notes.



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

	<u>Water and Sewer Utility</u>	<u>Natural Gas Utility</u>	<u>Total</u>
<b>Cash Flows from Operating Activities</b>			
Cash Received for Services	\$ 13,655,219	\$ 3,842,985	\$ 17,498,204
Cash from Other Sources	56,964	12,686	69,650
Cash Paid to Employees	(3,790,643)	(844,016)	(4,634,659)
Cash Paid to Outside Parties	(2,175,192)	(1,840,677)	(4,015,869)
Cash Paid for Interfund Charges	(980,000)	(300,000)	(1,280,000)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u>6,766,348</u>	<u>870,978</u>	<u>7,637,326</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Transfer to Other Funds	(862,500)	(250,000)	(1,112,500)
<b>Net Cash Provided by (Used in) Noncapital Financing Activities</b>	<u>(862,500)</u>	<u>(250,000)</u>	<u>(1,112,500)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition and Construction of Capital Assets	(6,987,005)	(710,135)	(7,697,140)
Proceeds from the Disposition of Capital Assets	39,742	225	39,967
Principal Payments on Bonds and Notes	(8,020,027)	0	(8,020,027)
Proceeds from Long-term Debt	9,547,000	0	9,547,000
Interest Paid	(1,671,968)	0	(1,671,968)
Interest Subsidy Received	372,454	0	372,454
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>	<u>(6,719,804)</u>	<u>(709,910)</u>	<u>(7,429,714)</u>
<b>Cash Flows from Investing Activities</b>			
Interest Received	17,048	3,845	20,893
<b>Net Cash Provided by (Used in) Investing Activities</b>	<u>17,048</u>	<u>3,845</u>	<u>20,893</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(798,908)	(85,087)	(883,995)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>16,112,035</u>	<u>1,863,760</u>	<u>17,975,795</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 15,313,127</u>	<u>\$ 1,778,673</u>	<u>\$ 17,091,800</u>
<b>Reported as</b>			
Cash and Cash Equivalents	\$ 6,961,804	\$ 1,480,072	\$ 8,441,876
Restricted Cash and Cash Equivalents	2,317,624	298,601	2,616,225
Unspent Bond Proceeds	6,033,699	0	6,033,699
<b>Total Cash and Cash Equivalents, End of Year</b>	<u>\$ 15,313,127</u>	<u>\$ 1,778,673</u>	<u>\$ 17,091,800</u>

See accompanying notes.

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**  
**CITY OF LAKE CITY, FLORIDA**  
*(Concluded)*

	<u>Water and Sewer Utility</u>	<u>Natural Gas Utility</u>	<u>Total</u>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</u></b>			
Operating Income (Loss)	\$ 4,706,909	\$ 767,886	\$ 5,474,795
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Miscellaneous Revenues	56,965	12,686	69,651
Depreciation	1,842,217	99,189	1,941,406
Changes in Assets - Decrease (Increase) and Liabilities - Increase (Decrease):			
Accounts Receivable	87,147	58,230	145,377
Inventory	46,039	7,490	53,529
Accounts Payable	161,772	15,372	177,144
Accrued Compensated Absences	1,247	8,227	9,474
Accrued Liabilities	(147,356)	(99,036)	(246,392)
Other Postemployment Benefit Obligations	6,078	1,348	7,426
Customer Deposits	33,354	10,072	43,426
Net Pension Liability and Related Deferred Outflows and Inflows of Resources	<u>(28,024)</u>	<u>(10,486)</u>	<u>(38,510)</u>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b><u>\$ 6,766,348</u></b>	<b><u>\$ 870,978</u></b>	<b><u>\$ 7,637,326</u></b>
<b><u>Supplemental Disclosure of Noncash Activity</u></b>			
Amortization of Prepaid Bond Insurance	\$ 25,653	\$ 0	\$ 25,653
Amortization of Bond Discount/(Premium)	(5,259)	0	(5,259)
Amortization of Refunding Loss	86,750	0	86,750

See accompanying notes.

**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**SEPTEMBER 30, 2016**  
**CITY OF LAKE CITY, FLORIDA**

	<b>General Employees' Pension Plan</b>	<b>Firemen's Pension Plan</b>	<b>Police Officers' Pension Plan</b>	<b>Pension Plan Total</b>
<b>Assets</b>				
Cash and Investments	\$ 18,196,741	\$ 8,556,535	\$ 14,033,396	\$ 40,786,672
Contributions Receivable	29,240	16,100	25,658	70,998
Interest Receivable	10,156	25,359	33,084	68,599
Prepays	0	34,511	0	34,511
<b>Total Assets</b>	<u>18,236,137</u>	<u>8,632,505</u>	<u>14,092,138</u>	<u>40,960,780</u>
<b>Liabilities</b>				
Accounts Payable	10,837	1,948	10,133	22,918
<b>Total Liabilities</b>	<u>10,837</u>	<u>1,948</u>	<u>10,133</u>	<u>22,918</u>
<b>Net Position</b>				
Held in Trust for Pension Benefits	<u>\$ 18,225,300</u>	<u>\$ 8,630,557</u>	<u>\$ 14,082,005</u>	<u>\$ 40,937,862</u>

See accompanying notes.

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016  
CITY OF LAKE CITY, FLORIDA**

	<b>General Employees' Pension Plan</b>	<b>Firemen's Pension Plan</b>	<b>Police Officers' Pension Plan</b>	<b>Pension Plan Total</b>
<b>Additions</b>				
Contributions:				
Employer	\$ 903,328	\$ 235,214	\$ 514,483	\$ 1,653,025
Employee	23,359	41,491	84,732	149,582
State of Florida	0	70,222	118,886	189,108
<b>Total Contributions</b>	<u>926,687</u>	<u>346,927</u>	<u>718,101</u>	<u>1,991,715</u>
Investment Earnings:				
Net Appreciation (Depreciation) in Fair Value of Investments	1,215,275	922,156	994,484	3,131,915
Interest and Dividends	462,546	195,766	344,653	1,002,965
(Less Investment Expenses)	(102,250)	(51,142)	(38,618)	(192,010)
Net Investment Earnings	<u>1,575,571</u>	<u>1,066,780</u>	<u>1,300,519</u>	<u>3,942,870</u>
<b>Total Additions</b>	<u>2,502,258</u>	<u>1,413,707</u>	<u>2,018,620</u>	<u>5,934,585</u>
<b>Deductions</b>				
Benefit Payments	1,156,816	414,226	552,103	2,123,145
DROP Benefit Payments	228,688	0	0	228,688
Refunds of Contributions	0	17,194	57,660	74,854
Administrative Fees	38,324	43,426	71,136	152,886
<b>(Total Deductions)</b>	<u>(1,423,828)</u>	<u>(474,846)</u>	<u>(680,899)</u>	<u>(2,579,573)</u>
<b>Net Increase</b>	1,078,430	938,861	1,337,721	3,355,012
<b>Net Position Held in Trust for Pension Benefits, Beginning of Year</b>	<u>17,146,870</u>	<u>7,691,696</u>	<u>12,744,284</u>	<u>37,582,850</u>
<b>Net Position Held in Trust for Pension Benefits, End of Year</b>	<u>\$ 18,225,300</u>	<u>\$ 8,630,557</u>	<u>\$ 14,082,005</u>	<u>\$ 40,937,862</u>

See accompanying notes.

## **NOTES TO FINANCIAL STATEMENTS**

**NOTES TO FINANCIAL STATEMENTS  
CITY OF LAKE CITY, FLORIDA**

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the City of Lake City, Florida, (the City) conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies used in the preparation of these financial statements.

**Reporting Entity**

The City was incorporated in 1859, under the State of Florida Laws, Chapter 40, Acts of 1858. The City operates under a City Council form of government and provides, under the administration of an appointed City Manager, the following services: public safety (police and fire), public works (streets and infrastructure), recreation, natural gas services, planning, zoning, water and sewer services, and general and administrative services.

As outlined by Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations whose exclusions would cause the reporting entity's financial statements to be misleading or incomplete. Each potential component unit is individually evaluated using specific criteria outlined by GASB, to determine whether it is: a) part of the primary government; b) a component unit which should be included in the reporting entity (blended or discretely presented); or c) an organization which should be excluded from the reporting entity entirely. The principal criteria for classifying a potential component unit include the legal separateness of the organization, the financial accountability of the primary government for the potential component unit resulting from either the primary government's ability to impose its will on the potential component unit, or the potential component unit's fiscal dependency on the primary government. In order for a potential component unit to be included with the financial reporting entity based on the fiscal dependency criterion, a financial benefit or burden relationship must also exist.

Based upon the application of these criteria, the Lake City Community Redevelopment Agency (the Agency) is a blended component unit of the City. The Agency was established to provide a method of eliminating blighted areas, expanding employment opportunities, and providing an environment for the social and economic growth of an area designated by City Ordinance. Each member of the City Council is a member of the Agency. The Agency is included as a major fund.

This report also includes the accounts and transactions of the following entities, which do not satisfy the definition of component units because they are not legally separate from the City:

- The City of Lake City Firemen's Pension Board
- The City of Lake City Police Officers' Pension Board

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

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

**Government-wide and Fund Financial Statements (Concluded)**

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: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

The City reports four major governmental funds: the general fund, the fire department special revenue fund, the community redevelopment agency fund, and the Airport Capital Projects Fund. The general fund is the City's primary operating fund. It accounts for all resources traditionally associated with governments except those required to be accounted for in another fund. The fire department special revenue fund accounts for the activities of the Lake City Fire Department and is primarily funded by a fire protection assessment imposed on all nongovernmental real property within the City. The community redevelopment agency fund is used to account for receipts and expenditures from certain property tax increments which are to be used for specific projects involving community redevelopment. The Airport Capital Projects Fund accounts for capital project activity related to the City's municipal airport. Fund resources are typically received in the form of local, state, and federal grants.

The City also reports two major enterprise funds, the water and sewer utility fund and the natural gas utility fund. These funds account for the activities of the City's water and sewer and natural gas utilities. In addition, the City reports three fiduciary funds: the police officers', firemen's, and general employees' pension trust funds. The City acts as a trustee for the pension plan participants.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

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

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Concluded)**

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 water, sewer, and natural gas services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Fund Balance Classifications**

Fund balance classifications are comprised of a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components: nonspendable, restricted, committed, assigned, and unassigned:

- **Nonspendable**—This component of fund balance consists of amounts that cannot be spent because: (a) they are not expected to be converted to cash, or (b) they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. On the governmental funds balance sheet, the inventory and prepaid items balances reported, as well as long-term advances to other funds, are offset by a nonspendable fund balance classification which indicates they do not constitute "available spendable resources" even though they are components of current assets.
- **Restricted**—This component of fund balance consists of amounts that are constrained either: (a) externally by third parties (creditors, grantors, contributors, or laws or regulations of other governments), or (b) by law through constitutional provisions or enabling legislation.
- **Committed**—This component of fund balance consists of amounts that can only be used for the specific purposes determined by a formal action of the City Council's highest level of decision-making authority (i.e., by ordinance). These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action employed to constrain those amounts.
- **Assigned**—This component of fund balance consists of amounts that are constrained by a less-than-formal action of the City's governing authority, or by an individual or body to whom the governing authority has delegated this responsibility. The governing body has delegated responsibility for assigning funds to the City Manager and Finance Director pursuant to Ordinance 97-804. In addition, residual balances in capital projects and debt service funds are considered assigned for the general purpose of the respective fund.
- **Unassigned**—This classification is used for: (a) deficit unrestricted fund balances in any governmental fund, or (b) fund balances within the general fund that are not restricted, committed or assigned.



**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

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

**Flow Assumption**

When both restricted and unrestricted resources are available for use, it is generally the practice of the City to use restricted resources first, then unrestricted resources as they are needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in any governmental fund, it is the City's practice to use committed resources first, then assigned, and then unassigned as needed.

**Minimum Fund Balance**

It is the City's policy to strive to maintain a minimum reserve level of 30% of the operating budget for the general fund.

**Budgets**

General governmental revenue and expenditures accounted for in budgetary funds are controlled by a budgetary accounting system in accordance with various legal requirements which govern the City's operations. Budgets are monitored at varying levels of classification detail; however, expenditures cannot legally exceed total appropriations at the individual fund level. Encumbrances are not recorded. Unexpended items at year-end must be reappropriated in the subsequent year.

The City's Finance Director and City Manager, together, are authorized to transfer budgeted amounts within departments within a fund; however, any revisions that increase the total expenditures of any department or fund must be approved by the City Council. The budgetary information presented for the general fund and any major special revenue funds is prepared on the modified accrual basis.

**Property Taxes**

The assessment of all properties and the collection of all property taxes are made through the County Property Appraiser and County Tax Collector. General property taxes are recorded as received, in cash, which approximates taxes levied less discounts for the current fiscal year.

Taxes are levied on November 1 of each year. All taxes become delinquent on April 1 of the following year. Discounts are allowed for early payment. On or prior to June 1, certificates bearing interest at 18% are sold for all uncollected real property taxes. Unsold certificates are held by the County.

**Cash and Investments**

In most instances, cash resources of the individual funds are combined to form a pool of cash and investments. Investments in the pooled cash fund consist primarily of certificates of deposit which mature in one year or less and cash invested in a repurchase agreement, the Florida Municipal Investment Trust (FMIT), and the State of Florida Board of Administration (SBA). Interest income earned on the pooled cash and investments is distributed to the appropriate funds based on the average monthly balance of investments in each fund.

Investments are valued at fair market value, except for investments in certain investment pools, which are reported at amortized cost. For the purposes of the statement of cash flows, the City considers cash and cash equivalents to include cash and investments with an original maturity of three months or less.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

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

**Receivables and Payables**

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Receivables are stated at net realizable value, reduced by an allowance for doubtful accounts, where appropriate. Unbilled utility service receivables are recorded at year-end. They are calculated by pro-rating cycle billings subsequent to year-end according to the number of days included in the current fiscal year.

**Inventories**

Inventories are valued at cost, which approximates market value, using the first-in, first-out (FIFO) method. Generally, the costs of governmental fund type inventories are recorded as expenditures when consumed (consumption method) rather than when purchased.

**Capital Assets**

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, right-of-ways, the stormwater system, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are expensed as incurred.

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

<b>Assets</b>	<b>Years</b>
Buildings and Improvements	10 - 60 Years
Equipment	2 - 10 Years
Infrastructure	20 - 60 Years

Intangible assets with definite lives are amortized over their determined lives. Intangible assets with indefinite lives are evaluated for impairment.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred during construction of business-type assets are capitalized, net of interest income from the proceeds of related debt, as part of the cost of the related assets. Interest capitalized in the current year was \$138,624.

**Deferred Inflows and Outflows of Resources**

Deferred outflows of resources represent the consumption of net position that is applicable to a future reporting period and will not be recognized as an outflow of resources (expense) until that future time. Deferred inflows of resources represent the acquisition of net position that is applicable to a future reporting period and will not be recognized as an inflow of resources (revenue) until that future time. Deferred outflows have a positive effect on net position, similar to assets, while deferred inflows have a negative effect on net position, similar to liabilities. The City reports deferred outflows of resources related to unamortized refunding losses, as well as pension-related deferred inflows and outflows of resources.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

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

**Deferred Inflows and Outflows of Resources (Concluded)**

*Unavailable Revenues*—revenues which are measureable, but not available, are recorded as deferred inflows of resources in governmental funds financial statements.

*Unamortized Refunding Loss*—the difference between the net reacquisition cost of new debt and the net carrying amount of old debt is recorded as a deferred outflow of resources. The unamortized refunding loss is recognized as expense over the remaining term of the new debt using the straight-line method.

*Pension Related*—the difference between expected and actual experience with regard to economic or demographic factors and changes to assumptions in the measurement of total pension liability, and the differences between expected and actual earnings on pension plan investments, are reported as deferred inflows or outflows of resources, to be recognized in expense as disclosed in Note 7. Contributions made subsequent to the measurement date, but prior to the reporting date, are reported as deferred outflows of resources.

**Long-term Obligations**

In the government-wide financial statements and the proprietary funds 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 statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

**Compensated Absences**

Accumulated unpaid vacation and sick pay are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported.

**New Accounting Pronouncements**

- During the year ended September 30, 2016, the City implemented GASB Statement No. 72 (GASB 72), *Fair Value Measurement and Application*, which requires governmental entities to generally record investments at fair value, unless an exception applies, and to make disclosures about those fair value measurements. GASB 72 defines an investment as a security or other asset that: (a) a government holds primarily to generate income or profit, and (b) has a present service capacity based solely on that asset's ability to generate cash or to generate cash when sold. It also clarifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. The adoption of GASB 72 resulted in the addition of the disclosure of the fair value hierarchy and valuation techniques of the City's investments.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (Concluded)**

**New Accounting Pronouncements (Concluded)**

- During the year ended September 30, 2016, the City also implemented GASB Statement No. 79 (GASB 79), *Certain External Investment Pools and Pool Participants*. GASB 79 was issued to address how certain investment pool transactions are reported in response to anticipated changes in a U.S. Securities and Exchange Commission (SEC) rule that was previously included in GASB literature by reference. This Statement allows qualifying external investment pools to measure all investments at amortized cost if the pool meets certain criteria, and establishes certain additional note disclosure requirement for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. The adoption of GASB 79 resulted in additional disclosures in the City's financial statements related to the City's investments in Florida PRIME.

**Future GASB Pronouncement Implementations**

- **GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions***, replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. This Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, including the recognition and measurement of liabilities, deferred outflows of resources, deferred inflows of resources and expense. For each qualifying plan providing postemployment benefits other than pensions, employers are required to report the difference between the actuarial OPEB liability and the related plan's fiduciary net position as the net OPEB liability on the statement of net position. Additionally, Statement No. 75 sets forth note disclosure and required supplementary disclosure requirements for defined contribution OPEB. The City is currently evaluating the impact that adoption of this Statement will have on its financial statements.
- **GASB Statement No. 77, *Tax Abatement Disclosures***, provides financial disclosure requirements for governments that enter into tax abatement agreements. This Statement indicates how disclosures for tax abatements should be organized and what descriptive information, including commitments made by the entity, should be presented. This standard will be adopted in fiscal year ending September 30, 2017. The City is currently evaluating the impact that adoption of this Statement will have on its financial statements.

**Note 2 - Deposits and Investments**

**Equity in Pooled Cash and Investments**

The City maintains a cash and investment pool that is available for use by all funds. In addition, certain deposits of the pension trust fund are held separately from those of other City funds.

**Deposits**

As of September 30, 2016, the carrying amount of the City's deposits and cash on hand was \$12,008,504 including \$1,560 of petty cash and \$978,467 of restricted customer deposits. Monies which are placed on deposit with financial institutions in the form of demand deposit accounts, time deposit accounts, and certificates of deposit are defined as public deposits. All of the City's public deposits are held in qualified public depositories pursuant to Florida Statutes Chapter 280, *Florida Security for Public Deposits Act* (the Act). Under the Act, all qualified

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 2 - Deposits and Investments (Continued)**

**Deposits (Concluded)**

public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits, times the depository's collateral pledged level. The pledging level may range from 25% to 125% depending upon the depository's financial condition and establishment period.

All collateral must be deposited with an approved financial institution. Any losses to public depositors are covered by applicable deposit insurance, sale of securities pledged as collateral and, if necessary, assessments against other qualified public depositories of the same type as the depository in default.

**Investments**

Investments other than bank deposits are registered in the name of the custodial third party and held by them for the account of the City. The custodians are primarily bank trust departments, insurance companies, brokerage firms, the SBA, and FMIT.

The SBA administers and provides regulatory oversight over Florida PRIME. The City's investment in the Florida PRIME is reported at amortized cost. The fair value of the position in the pool is equal to the value of the pool shares. Separate financial reports for the SBA investment can be obtained from the Florida State Board of Administration, 1801 Hermitage Blvd., Tallahassee, Florida 32308.

**Authorized Investments**

Under the City's investment policies, general investments' activities are to be consistent with Florida Statutes and are authorized to invest in certificates of deposit, money market funds, obligations issued by the U.S. or obligations guaranteed as to principal and interest by the U.S., repurchase agreements collateralized by U.S. securities, and the SBA. Pension trust funds can invest in the aforementioned and, additionally, authorized investments include stocks, foreign securities, mutual funds, and bonds or other evidences of indebtedness issued or guaranteed by a corporation organized under the laws of the U.S.

Following are the investments, credit ratings by Fitch and Standard & Poor's for FMIT and Florida PRIME investments, respectively, and maturities of the City's governmental and business-type activities at September 30, 2016:

Investment Type	Credit Rating	Fair Value	Investment Maturities (in Years)			
			Less Than 1	1-5	6-10	Total
Repurchase Agreement	Unrated	\$ 8,000,000	\$ 8,000,000	\$ 0	\$ 0	\$ 8,000,000
FMIT 0-2 Yr High Quality Bond Fund	AAA/V1	3,547,867	3,547,867	0	0	3,547,867
FMIT 1-3 Yr High Quality Bond Fund	AAA/V2	559,047	559,047	0	0	559,047
Florida PRIME	AAA/m	225,598	225,598	0	0	225,598
<b>Total</b>		<u>\$ 12,332,512</u>	<u>\$ 12,332,512</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 12,332,512</u>

At September 30, 2016, the weighted average maturity (WAM) is 0.80 for FMIT 0-2 Year High Quality Bond Fund and 1.40 for FMIT 1-3 Year High Quality Bond Fund. The dollar weighted average days to maturity of Florida PRIME is 29 days.

Listed below are the investments and maturities in the City's pension trust funds at September 30, 2016:

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 2 - Deposits and Investments (Continued)**

**Authorized Investments (Concluded)**

Investment Type	Fair Value	Investment Maturities (in Years)				Total
		Less Than 1	1-5	6-10	More Than 10	
Equities	\$ 22,638,439	\$ 22,638,439	\$ 0	\$ 0	\$ 0	\$ 22,638,439
Mutual Funds	7,556,812	0	7,556,812	0	0	7,556,812
Fixed Income	7,234,880	195,000	2,526,751	1,614,437	2,898,692	7,234,880
Real Estate Investments	100,939	0	100,939	0	0	100,939
<b>Total</b>	<b>\$ 37,531,070</b>	<b>\$ 22,833,439</b>	<b>\$10,184,502</b>	<b>\$ 1,614,437</b>	<b>\$ 2,898,692</b>	<b>\$ 37,531,070</b>

In addition to the above investments, the City's pension trust funds had money market funds and equity in pooled cash totaling \$3,255,602 at September 30, 2016.

Credit quality distribution for the City's pension trust fund investments with credit exposure as a percentage of the total pension investment subject to credit risk is as follows:

Investment Type	Moody's Credit Rating	Percent of Total
Corporate Bonds	Aaa	39.02%
Corporate Bonds	Aa1	0.46%
Corporate Bonds	Aa2	1.55%
Corporate Bonds	Aa3	3.15%
Corporate Bonds	A1	3.36%
Corporate Bonds	A2	5.71%
Corporate Bonds	A3	11.01%
Corporate Bonds	A	0.38%
Corporate Bonds	Baa1	17.40%
Corporate Bonds	Baa2	8.14%
Corporate Bonds	Baa3	2.10%
Corporate Bonds	Ba1	2.19%
Corporate Bonds	Ba2	0.23%
Corporate Bonds	B1	2.46%
Corporate Bonds	Unrated	2.84%

**Additional Risk Disclosures**

Investments of the City conform to the provisions of Florida Statutes, Section 218.415. The following items discuss the City and pension funds' exposure to various risks in primarily the fixed rate portions of their investment portfolios:

- *Interest Rate Risk*—The City's fixed rate investments are generally tied to bond reserve requirements and are intended to be held until the funds are needed, at maturity. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's pension funds limit their risk by averaging investment maturities at approximately seven to ten years.
- *Custodial Credit Risk*—For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City generally utilizes third party custodians to help manage custodial credit risk.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 2 - Deposits and Investments (Continued)**

**Additional Risk Disclosures (Concluded)**

- *Concentration of Credit Risk*—The pension funds’ investment policies and practices require investments to be diversified to the extent practicable to control the risk of loss resulting from overconcentration of assets in a specific maturity, issuer, instrument, dealer, or bank through which financial instruments are purchased and sold. No more than 3% of the trust fund shall be invested in any one issuer.

**Fair Value Measurements**

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels:

- **Level 1 Inputs**—are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- **Level 2 Inputs**—are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
- **Level 3 Inputs**—are unobservable inputs for an asset or liability. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

The City’s investments are measured at fair value on a recurring basis. Fair value measurements are categorized based on the valuation inputs used to measure an asset’s fair value in the hierarchy described above. The fair value measurements for the City’s operating investments are as follows at September 30, 2016:

<u>Investments by Fair Value Level</u>	<u>Amount</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Repurchase Agreement	\$ 8,000,000	\$ 0	\$ 8,000,000	\$ 0
Florida Municipal Investment Trust:				
Short-term Bond Portfolio (0-2 Years)	3,547,867	0	3,547,867	0
Short-term Bond Portfolio (1-3 Years)	559,047	0	559,047	0
<b>Total Investments by Fair Value Level</b>	<u>\$ 12,106,914</u>	<u>\$ 0</u>	<u>\$ 12,106,914</u>	<u>\$ 0</u>
<u>Investments Measured at Amortized Cost</u>	<u>Amount</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Florida State Board of Administration:				
Florida PRIME	\$ 225,598	<u>\$ 0</u>	Quarterly	45 Days
<b>Total Investments</b>	<u>\$ 12,332,512</u>			

The fair value measurements for the City’s pension trust fund investments are as follows at September 30, 2016:

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 2 - Deposits and Investments (Concluded)**

<u>Investments by Fair Value Level</u>	<u>Amount</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Equities	\$ 22,638,439	\$ 22,638,439	\$ 0	\$ 0
Mutual Funds	7,556,812	0	7,556,812	0
Corporate Bonds	7,234,880	0	7,234,880	0
Real Estate	100,939	100,939	0	0
<b>Total Investments by Fair Value Level</b>	<b>\$ 37,531,070</b>	<b>\$ 22,739,378</b>	<b>\$ 14,791,692</b>	<b>\$ 0</b>

Equities are valued based on prices quoted in active markets for those securities and are categorized as Level 1 in the fair value hierarchy. Mutual Funds, Corporate Bonds, and Florida Municipal Investment Trust Bonds are valued using quoted prices for similar securities in active markets and are categorized as Level 2 in the fair value hierarchy. Real Estate is valued at Net Asset Value (NAV) which is determined using certified annual appraisals of investment properties held by the fund.

**Note 3 - Capital Assets**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 7,233,492	\$ 127,038	\$ (24,776)	\$ 7,335,754
Construction in Progress	3,708,444	398,014	(3,348,338)	758,120
<b>Total Capital Assets Not Being Depreciated</b>	<b>10,941,936</b>	<b>525,052</b>	<b>(3,373,114)</b>	<b>8,093,874</b>
<b>Capital Assets Being Depreciated</b>				
Buildings and Improvements	14,915,661	21,305	(5,633)	14,931,333
Machinery and Equipment	10,913,790	675,755	(296,628)	11,292,917
Infrastructure	29,347,699	8,039,170	0	37,386,869
<b>Total Capital Assets Being Depreciated</b>	<b>55,177,150</b>	<b>8,736,230</b>	<b>(302,261)</b>	<b>63,611,119</b>
<b>Less Accumulated Depreciation</b>				
Buildings and Improvements	(7,309,091)	(379,432)	1,431	(7,687,092)
Machinery and Equipment	(8,599,156)	(873,530)	289,061	(9,183,625)
Infrastructure	(17,250,974)	(704,632)	0	(17,955,606)
<b>Total Accumulated Depreciation</b>	<b>(33,159,221)</b>	<b>(1,957,594)</b>	<b>290,492</b>	<b>(34,826,323)</b>
<b>Total Being Depreciated, Net</b>	<b>22,017,929</b>	<b>6,778,636</b>	<b>(11,769)</b>	<b>28,784,796</b>
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<b>\$ 32,959,865</b>	<b>\$ 7,303,688</b>	<b>\$ (3,384,883)</b>	<b>\$ 36,878,670</b>



**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 3 - Capital Assets (Concluded)**

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

General Government	\$ 254,638
Public Safety	411,776
Highway and Street	637,634
Airport	609,039
Culture and Recreation	<u>44,507</u>
<b>Total Depreciation Expense - Governmental Activities</b>	<b><u>\$ 1,957,594</u></b>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type Activities</b>				
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 5,293,630	\$ 1,926	\$ 0	\$ 5,295,556
Construction in Progress	<u>7,128,718</u>	<u>5,991,202</u>	<u>(545,478)</u>	<u>12,574,442</u>
<b>Total Capital Assets Not Being Depreciated</b>	<u>12,422,348</u>	<u>5,993,128</u>	<u>(545,478)</u>	<u>17,869,998</u>
<b>Capital Assets Being Depreciated</b>				
Buildings	6,347,243	631,833	0	6,979,076
Utility Plant and Improvements	66,274,280	1,338,191	(1,316,784)	66,295,687
Machinery and Equipment	<u>8,553,187</u>	<u>279,466</u>	<u>(79,398)</u>	<u>8,753,255</u>
<b>Total Capital Assets Being Depreciated</b>	<u>81,174,710</u>	<u>2,249,490</u>	<u>(1,396,182)</u>	<u>82,028,018</u>
<b>Less Accumulated Depreciation</b>				
Buildings	(1,611,593)	(155,283)	0	(1,766,876)
Utility Plant and Improvements	(31,254,891)	(1,362,898)	872,966	(31,744,823)
Machinery and Equipment	<u>(6,746,767)</u>	<u>(423,225)</u>	<u>79,398</u>	<u>(7,090,594)</u>
<b>Total Accumulated Depreciation</b>	<u>(39,613,251)</u>	<u>(1,941,406)</u>	<u>952,364</u>	<u>(40,602,293)</u>
<b>Total Being Depreciated, Net</b>	<u>41,561,459</u>	<u>308,084</u>	<u>(443,818)</u>	<u>41,425,725</u>
<b>Business-type Activities Capital Assets, Net</b>	<u>\$ 53,983,807</u>	<u>\$ 6,301,212</u>	<u>\$ (989,296)</u>	<u>\$ 59,295,723</u>

Depreciation expense was charged to business-type activities functions/programs of the primary government as follows:

Water and Sewer	\$ 1,842,217
Natural Gas	<u>99,189</u>
<b>Total Depreciation Expense - Business-type Activities</b>	<b><u>\$ 1,941,406</u></b>

**Note 4 - Allowance for Uncollectible Accounts**

Accounts receivable are reported net of an allowance for uncollectible accounts. As of September 30, 2016, allowances for receivables were \$15,399 in the governmental funds and \$286,442 in the enterprise funds.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 5 - Long-term Debt**

Long-term liability activity for the year ended September 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
Revenue Bonds:					
Series 2012	\$ 4,455,869	\$ 0	\$ (241,140)	\$ 4,214,729	\$ 248,170
Redevelopment Revenue					
Note, Series 2015	1,311,250	0	(39,773)	1,271,477	80,624
Compensated Absences	767,705	0	(11,731)	755,974	571,236
Net Pension Liability	6,289,368	0	(635,285)	5,654,083	0
OPEB Obligation	<u>255,125</u>	<u>16,538</u>	<u>0</u>	<u>271,663</u>	<u>0</u>
<b>Total Governmental Activities – Long-term Liabilities</b>	<u>\$ 13,079,317</u>	<u>\$ 16,538</u>	<u>\$ (927,929)</u>	<u>\$ 12,167,926</u>	<u>\$ 900,030</u>
<b>Business-type Activities</b>					
State Revolving Fund Loan	\$ 7,311,027	\$ 0	\$ (7,311,027)	\$ 0	\$ 0
Utility Revenue Bonds:					
Series 2010A	9,815,000	0	0	9,815,000	550,000
Series 2010B	18,385,000	0	0	18,385,000	0
Series 2013	1,754,000	0	(652,000)	1,102,000	152,000
Series 2016	0	9,547,000	(57,000)	9,490,000	654,000
Unamortized Premium	131,043	0	(5,259)	125,784	0
Compensated Absences	323,550	9,474	0	333,024	253,199
Net Pension Liability	3,539,241	227,440	0	3,766,681	0
OPEB Obligation	<u>106,497</u>	<u>7,426</u>	<u>0</u>	<u>113,923</u>	<u>0</u>
<b>Total Business-type Activities – Long-term Liabilities</b>	<u>\$ 41,365,358</u>	<u>\$ 9,791,340</u>	<u>\$ (8,025,286)</u>	<u>\$ 43,131,412</u>	<u>\$ 1,609,199</u>

Governmental activities' long-term liabilities are liquidated primarily by the General Fund, Fire Department Special Revenue Fund, Community Redevelopment Agency Fund, and Airport Special Revenue Fund.

A summary of the City's long-term debt outstanding at September 30, 2016, is as follows:

**Governmental Activities**

■ **Sales Tax Revenue and Refunding Bonds, Series 2012**

On December 20, 2012, the City issued \$5,006,394 of Sales Tax Revenue and Refunding Bonds, Series 2012. The proceeds were used to refund the City's Sales Tax Revenue and Refunding Bonds, Series 2011, that had an unpaid principal balance of \$4,655,330, and to pay for cost of issuance of the bonds. The proceeds were also used to finance certain public capital projects. The bonds are fully registered and bear interest payable semiannually on January 1 and July 1 each year at 2.89% through 2030. The bond principal and interest are payable solely from and secured by a pledged portion of proceeds of the local government half-cent sales tax revenue, including investment income of certain funds, as determined by resolution.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 5 - Long-term Debt (Continued)**

**Business-type Activities**

■ **CRA Redevelopment Revenues Note, Series 2015**

On April 21, 2015, the City issued a \$1,311,250 CRA Redevelopment Revenue Note, Series 2015. The proceeds were used to finance the cost of certain redevelopment projects located within the CRA and consistent with the community redevelopment plan. The note had an unpaid principal balance at year-end of \$1,271,477 with note maturing in 2030. Principal and interest payments are due October 1 and April 1 with a stated interest rate of 1.80%. The note is a limited obligation of the agency, payable from tax increment revenues.

■ **Utility System Refunding Revenue Bonds, Series 2010A**

On August 26, 2010, the City issued \$9,815,000 of Utility System Refunding Revenue Bonds, Series 2010A. The proceeds were used to refund the City's Utilities Revenue Bonds, Series 1998A, and Utilities Revenue and Refunding Bonds, Series 2000, that had an unpaid principal balance of \$9,615,000 and were originally issued to fund improvements to the water and sewer system, and to pay for cost of issuance of the bonds, including a portion of the bond and reserve fund insurance premiums.

The Series 2010A bonds are due in serial installments on July 1 of each year beginning in 2017 through 2028. The bonds bear interest payable semiannually on January 1 and July 1 of each year at 3.5% to 5.0%. The bond principal and interest are on parity with the Utility System Revenue Bonds, Series 2010B and the Utilities Revenue and Refunding Bonds, Series 2013.

■ **Utility System Revenue Bonds, Series 2010B**

On August 26, 2010, the City issued \$18,385,000 of Utility System Revenue Bonds, Series 2010B. The proceeds will finance the costs of sewer capital projects and cost of issuance of the bonds.

The Series 2010B bonds are due in serial installments on July 1 of each year, beginning 2029 through 2040. The bonds bear interest payable semiannually on January 1 and July 1 of each year at 6.025% to 6.275%. The Series 2010B bonds are taxable, elected as Build America Bonds for the purposes of the *American Recovery and Reinvestment Act of 2009*. As such, the City expects to receive direct subsidy payments from the U.S. Treasury Secretary in the amount equal to 35% of interest payable on the Series 2010B bonds. Such direct subsidy payments are not pledged to the payment of debt service of the Series 2010B bonds but are legally available for such purpose. The direct subsidy payments are not backed by the full faith and credit guarantee of the U.S. and no assurances are provided that the City will receive the direct subsidy payments. The bond principal and interest are on parity with the Utility System Refunding Revenue Bonds, Series 2010A and the Utilities Revenue and Refunding Bonds, Series 2013.

■ **Utilities Revenue and Refunding Bonds, Series 2013**

On May 30, 2013, the City issued \$3,057,200 of utilities revenue bonds to refund the Utilities Revenue and Refunding Bonds, Series 2003, to acquire and construct improvements to the City's water and sewer system, and to pay certain costs of issuance. The bonds are due serially on July 1 of each year through 2017 with term bonds due in 2023. The bonds are fully registered and require semiannual interest payments on January 1 and July 1 with a fixed interest rate of 1.27%. The bond principal and interest are payable solely from and secured by a lien on the net revenues of the City's water and sewer utility systems.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 5 - Long-term Debt (Continued)**

**Business-type Activities (Concluded)**

■ **State Revolving Fund Loan**

The City entered into an agreement with the State of Florida Department of Environmental Protection for a State Revolving Fund Loan to finance the expansion of the City's water utility. Principal and interest payments are due December 15 and June 15 each year, bearing interest at 2.64% to 2.71%. The loan principal and interest are payable solely from and secured by a lien on the gross revenues of the City's water and sewer utility after payment of the operation and maintenance expenses and debt service of all senior revenue obligations, as defined by the loan agreement. The lien is junior, inferior, and subordinate to the lien of the Utilities Revenue and Refunding Bonds, Series 2013, 2010A, and 2010B. The loan was paid off during the current year with proceeds from the Utilities Revenue and Refunding Bonds, Series 2016.

■ **Utilities Revenue and Refunding Bonds, Series 2016**

On May 17, 2016, the City issued \$9,547,000 of utilities revenue bonds to refund the State Revolving Fund Loan, to acquire and construct improvements to the City's water and sewer system, and to pay certain costs of issuance. Principal and interest payments are due December 15 and June 15 each year with the series maturing June 15, 2029 and bearing interest at a fixed rate of 1.79%. The bond principal and interest are payable solely from and secured by a lien on the net revenues of the City's water and sewer utility systems.

These bonds reduced the present value of future debt service payments. The savings were available due to improved municipal bond market conditions (i.e., lower interest rates) during the year. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of approximately \$224,982.

**Defeased Bonds**

At September 30, 2016, the City has outstanding bonds that have been defeased by the purchase of qualifying government securities in irrevocable trusts. The scheduled maturities and the interest earnings on the escrowed securities are sufficient to redeem these defeased bonds without further debt service costs to the City. Both defeased bonds and the escrowed securities are, as required by generally accepted accounting principles, omitted from the financial statements of the City.

The following bonds have been defeased by the City and no longer are included in the accompanying financial statements:

	<b>Balance</b>
	<b>September 30,</b>
	<b>2016</b>
Utilities Revenue Bonds, Series 1987	<u>\$ 560,000</u>

**Rate Covenant**

The City has covenanted to establish, maintain, and collect fees from users of the water and sewer utility systems (gross revenues of the system, as defined in the bond ordinance) sufficient to pay the costs for operation and maintenance (operating expenses of the system, as defined in the bond ordinance). Thus, resulting in net revenues (as defined in the bond ordinance) adequate to pay in each fiscal year 110% of the current annual debt service, and 100% of any amount required to be deposited in the reserve fund or in the renewal and replacement fund or with any issuer of a reserve fund letter of credit or reserve fund insurance policy. The City met all requirements and, therefore, is in compliance with the rate covenants at year-end.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 5 - Long-term Debt (Concluded)**

**Annual Debt Service**

Annual debt service requirements to maturity for the City's outstanding long-term obligations are as follows; note that interest maturities exclude anticipated subsidy receipts:

<b>Year Ending September 30,</b>	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2017	\$ 328,794	\$ 142,551	\$ 1,356,000	\$ 1,718,860
2018	337,475	133,869	1,416,000	1,677,654
2019	346,383	124,951	1,454,000	1,633,955
2020	355,547	115,790	1,497,000	1,594,960
2021	364,970	106,378	1,529,000	1,500,105
2022-2026	1,975,234	381,469	8,517,000	7,093,980
2027-2031	1,777,803	107,592	8,453,000	5,691,223
2032-2036	0	0	7,445,000	3,658,829
2037-2040	0	0	7,125,000	1,140,168
<b>Total</b>	<b>\$ 5,486,206</b>	<b>\$ 1,112,600</b>	<b>\$ 38,792,000</b>	<b>\$ 25,709,734</b>

**Letters of Credit**

As of September 30, 2016, pursuant to an agreement with First Federal Savings Bank of Florida and Florida Gas Utility, the City had available a \$165,000 unsecured line of credit; none of which was outstanding as of that date. There was no activity on the line during the year.

**Note 6 - Pledged Revenues**

The City has pledged certain revenues to repay bonds and notes outstanding as of September 30, 2016. The following table reports the revenues, sometimes net of related operating expenses, pledged for each debt issue, the amounts of such revenues received in the current year, the current year principal and interest paid on the debt, the approximate percentage of each revenue which is pledged to meet the debt obligation, the date through which the revenue is pledged under the debt agreement, and the total pledged future revenues for each debt, which is the amount of the remaining principal and interest on the bonds and notes at September 30, 2016:

<b>Pledged Revenue</b>	<b>Description of Debt</b>	<b>Revenue Received</b>	<b>Principal and Interest Paid</b>	<b>Estimated Percentage Pledged</b>	<b>Outstanding Principal and Interest</b>	<b>Pledged Through</b>
Half-cent Sales Tax	Sales Tax Revenue and Refunding Bonds, Series 2012	\$ 873,341	\$ 368,185	42%	\$ 5,154,718	2030
Tax Increment Revenues	Redevelopment Revenue Note, Series 2015	248,362	62,261	25%	1,444,087	2030
Net System Revenues	Utility Revenue and Refunding Bonds: Series 2010A Series 2010B Series 2013 Series 2016		398,119 741,173 672,212 <u>70,292</u>		12,603,825 40,063,860 1,155,086 <u>10,678,963</u>	
		\$4,482,528	\$ 1,881,796	42%	\$64,501,734	2040

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 7 - Employee Retirement Plans**

The City maintains three separate single-employer pension plans (General Employees' Pension Plan, Firemen's Pension Plan, and Police Officers' Pension Plan) which are included as pension trust funds in the City's financial reporting entity. The City's single-employer pension plans do not issue stand-alone financial statements.

The City also participates in the Florida Retirement System (FRS), which encompasses the FRS Pension and the Retiree Health Insurance Subsidy (HIS) cost-sharing, multiple-employer defined benefit plans, whose assets are not reported in the City's financial statements. FRS offers eligible employees the ability to participate in an alternative defined contribution plan, the Investment Plan. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services' website at [www.dms.myflorida.com/workforce/operations/retirement/publications](http://www.dms.myflorida.com/workforce/operations/retirement/publications).

**General Employees' Pension Plan**

**Plan Description**—The General Employees' Pension Plan is a single-employer, defined benefit plan that provides retirement, disability, and death benefits to regular full-time employees who are not classified as full-time sworn police officers or firefighters. As of January 1, 2006, the General Employees' Pension Plan was closed to all new employees and participating employees were given the option to withdraw from the plan.

**Plan Administration**—The General Employees' Pension Plan is administered by a Board of Trustees established by City Ordinance. The Board of Trustees is comprised of two appointees of the City Council, two members elected by the membership, and one member elected by the other four and appointed by the City Council. City Council has the authority to establish and amend the benefit provisions of the plan.

**Plan Membership**—General Employees' Pension Plan membership as of October 1, 2016, consisted of the following:

Inactive Members or Beneficiaries Receiving Benefits	85
Inactive Members Entitled to but Not Yet Receiving Benefits	20
Active Plan Members	<u>30</u>
<b>Total</b>	<u><u>135</u></u>

**Plan Benefits**—For non-elected members, normal retirement is generally available upon the earlier of: 1) attainment of age sixty-two and the completion of ten years of credited service, or 2) completion of thirty years of credited service regardless of age. For elected members, normal retirement is available upon attainment of age sixty-two and completion of eight years of credited service. Early retirement is available with a reduced benefit upon the attainment of age fifty-two and the completion of ten years of credited service for non-elected members and attainment of age fifty-two and the completion of eight years of credited service for elected members.

For non-elected members, the normal retirement benefit shall be equal to 2.00% of final average earnings times the first fifteen years of credited service plus 2.50% of final average earnings times credited service in excess of fifteen years. For elected members, the normal retirement benefit shall be equal to 3.00% of final average earnings times the first fifteen years of credited service plus 3.50% of final average earnings times credited service in excess of fifteen years.

**NOTES TO FINANCIAL STATEMENTS  
CITY OF LAKE CITY, FLORIDA  
(Continued)**

**Note 7 - Employee Retirement Plans (Continued)**

**General Employees' Pension Plan (Concluded)**

***Plan Benefits—(Concluded)***

Benefit terms also provide for a disability benefit, an annual 2% cost-of-living adjustment to members who completed at least twenty years of credited service, a health supplement, and a Deferred Retirement Option Program (DROP) under which members eligible for normal retirement may have their monthly pension benefit credited to an account while continuing to be actively employed for up to three years.

***Funding Policy***—The funding policy is established by City Ordinance, which may be amended by the City Council. The City is required to contribute at an actuarially determined rate. Plan members are required to contribute 2% of their annual covered salary. Administrative costs of the General Employees' Pension Plan are financed through plan contributions and investment earnings. Based on the actuarial valuation performed as of October 1, 2015, the City's required contribution was 86.3% of covered payroll during fiscal year 2016.

***Plan Investments***—The Board of Trustees is responsible for establishing and amending the General Employees' Pension Plan's investment policies. The General Employees' Pension Plan's current investment policy establishes target allocations among investment categories. The money-weighted rate of return on General Employees' Pension Plan investments, net of investment related expenses, was 9.97% for the year ended September 30, 2016. The money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

**Firemen's Pension Plan**

***Plan Description***—The Firemen's Pension Plan is a single-employer, defined benefit plan that provides retirement, disability, and death benefits to full-time firefighters.

***Plan Administration***—The Firemen's Pension Plan is administered by the Firemen's Pension Board. The Firemen's Pension Board is comprised of two appointees of the City Council, two members elected by the membership, and one member elected by the other four and appointed by the City Council. City Council has the authority to establish and amend the benefit provisions of the plan.

***Plan Membership***—The Firemen's Pension Plan membership as of October 1, 2016, consisted of the following:

Inactive Members or Beneficiaries Receiving Benefits	16
Inactive Members Entitled to but Not Yet Receiving Benefits	8
Active Plan Members	<u>18</u>
<b>Total</b>	<u><u>42</u></u>

***Plan Benefits***—Normal retirement is available upon the earlier of: 1) attainment of age fifty-five and the completion of ten years of credited service, or 2) attainment of age fifty-two and completion of twenty-five years of credited service. Early retirement is available with a reduced benefit upon the attainment of age fifty and the completion of ten years of credited service.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 7 - Employee Retirement Plans (Continued)**

**Firemen’s Pension Plan (Concluded)**

***Plan Benefits—(Concluded)***

The normal retirement benefit shall be equal to 2.75% of final compensation times years of credited service. Benefit terms also provide for a disability benefit, an annual 2% cost-of-living adjustment to members who have attained age sixty, a health supplement and a DROP, under which members eligible for normal retirement may have their monthly pension benefit credited to an account while continuing to be actively employed for up to three years.

***Funding Policy***—The funding policy is established by City Ordinance, which may be amended by the City Council. The City is required to contribute at an actuarially determined rate. Plan members are required to contribute 5% of their annual covered salary. Administrative costs of the Firemen’s Pension Plan are financed through plan contributions and investment earnings. Based on the actuarial valuation performed as of October 1, 2015, the City’s required contribution was 36.8% of covered payroll during fiscal year 2016.

***Plan Investments***—The Pension Board is responsible for establishing and amending the Firemen’s Pension Plan’s investment policies. The Firemen’s Pension Plan’s current investment policy establishes target allocations among investment categories. The money-weighted rate of return on Firemen’s Pension Plan investments, net of investment related expenses, was 14.81% for the year ended September 30, 2016. The money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

**Police Officers’ Pension Plan**

***Plan Description***—The Police Officers’ Pension Plan is a single-employer, defined benefit plan that provides retirement, disability, and death benefits to full-time police officers.

***Plan Administration***—The Police Officers’ Pension Plan is administered by a Board of Trustees established by City Ordinance. The Board of Trustees is comprised of two appointees of the City Council, two members elected by the membership, and one member elected by the other four and appointed by the City Council. City Council has the authority to establish and amend the benefit provisions of the plan.

***Plan Membership***—The Police Officers’ Pension Plan membership as of October 1, 2016, consisted of the following:

Inactive Members or Beneficiaries Receiving Benefits	20
Inactive Members Entitled to but Not Yet Receiving Benefits	17
Active Plan Members	38
<b>Total</b>	75

***Plan Benefits***—Normal retirement is available upon the earlier of: 1) attainment of age fifty-five and the completion of ten years of credited service, or 2) attainment of age fifty-two and completion of twenty-five years of credited service. Early retirement is available with a reduced benefit upon the attainment of age fifty and the completion of ten years of credited service.



**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 7 - Employee Retirement Plans (Continued)**

**Police Officers' Pension Plan (Concluded)**

***Plan Benefits—(Concluded)***

The normal retirement benefit shall be equal to 3.00% of final compensation times years of credited service. Benefit terms also provide for a disability benefit, an annual 2% cost-of-living adjustment to members who have attained age sixty, a health supplement and a DROP, under which members eligible for normal retirement may have their monthly pension benefit credited to an account while continuing to be actively employed for up to five years.

***Funding Policy***—The funding policy is established by City Ordinance, which may be amended by the City Council. The City is required to contribute at an actuarially determined rate. Plan members are required to contribute 5% of their annual covered salary. Administrative costs of the Police Officers' Pension Plan are financed through plan contributions and investment earnings. Based on the actuarial valuation performed as of October 1, 2014, the City's required contribution was 37.4% of covered payroll during fiscal year 2016.

***Plan Investments***—The Board of Trustees is responsible for establishing and amending the Police Officers' Pension Plan's investment policies. The Police Officers' Pension Plan's current investment policy establishes target allocations among investment categories. The money-weighted rate of return on Plan investments, net of investment related expenses, was 10.06% for the year ended September 30, 2016. The money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

**Additional Disclosures—Single-Employer Plans**

The following disclosures pertain to the City's single-employer defined benefit plans:

***Net Pension Liability***

The components of the net pension liability at September 30, 2016, are as follows:

	<u>General Employees'</u>	<u>Firemen's</u>	<u>Police Officers'</u>
Total Pension Liability	\$ 22,035,721	\$ 9,758,288	\$ 14,090,043
Plan Fiduciary Net Position	(18,225,030)	(8,630,557)	(14,092,138)
Net Pension Liability	<u>\$ 3,810,691</u>	<u>\$ 1,127,731</u>	<u>\$ (2,095)</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	82.71%	88.44%	100.01%

***Discount Rate***

The discount rate used to measure the total pension liability was 7.75%, 7.75%, and 7.50% respectively for the general employee, firemen, and police officer plans. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plans' fiduciary net positions were projected to be available to make all projected future benefit payments of active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 7 - Employee Retirement Plans (Continued)**

**Additional Disclosures—Single-Employer Plans (Continued)**

**Actuarial Assumptions**

The City elected to use a September 30, 2016 measurement date, to value the net pension liability and related deferred inflows and outflows. The total pension liability for the City's single-employer plans was determined by actuarial valuations as of October 1, 2015, rolled forward to September 30, 2016. The following actuarial assumptions, applied to all periods included in the measurement, were used to determine the total pension liability:

	<b>General Employees'</b>	<b>Firemen's</b>	<b>Police Officers'</b>
Inflation	3.25%	3.00%	2.5%
Salary Increases	4.00-7.00%	4.00-7.00%	6.00%
Investment Rate of Return, Including Inflation	7.75%	7.75%	7.50%
Mortality Table	RP2000	RP2000	RP2000
Actuarial Cost Method	Individual Entry Age	Individual Entry Age	Individual Entry Age

**Long-term Expected Rate of Return**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
<b>General Employees' Plan</b>		
Domestic Equities	90%	9.5%
Bonds	8%	5.5%
Cash and Equivalents	2%	2.0%
<b>Total General Employees' Plan</b>	<u>100%</u>	
<b>Firemen's Plan</b>		
Domestic Equities	67%	9.5%
Bonds	25%	5.5%
Real Estate	5%	7.5%
Cash and Equivalents	3%	2.0%
<b>Total Firemen's Plan</b>	<u>100%</u>	
<b>Police Officers' Plan</b>		
Domestic Equities	50%	7.5%
International Equities	15%	8.5%
Broad Market Fixed Income	30%	2.5%
Non-Core Fixed Income	5%	2.5%
<b>Total Police Officers' Plan</b>	<u>100%</u>	

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 7 - Employee Retirement Plans (Continued)**

**Additional Disclosures—Single-Employer Plans (Continued)**

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of the City, calculated using the current discount rates listed below, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
General Employees' Net Pension Liability	\$ 6,038,896	\$ 3,810,691	\$ 1,896,979
Firemen's Net Pension Liability	2,235,645	1,127,731	153,404
Police Officers' Net Pension Liability	1,883,730	(2,095)	(1,547,028)

***Changes in Net Pension Liability***

*General Employees' Pension Plan*

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
<b>Balances at October 1, 2015</b>	\$ 21,884,309	\$ 17,146,870	\$ 4,737,439
Changes for the Year:			
Service Cost	126,321	0	126,321
Interest	1,652,136	0	1,652,136
Differences Between Expected and Actual Experience	(241,541)	0	(241,541)
Contributions – Employer	0	903,328	(903,328)
Contributions – Employee	0	23,359	(23,359)
Net Investment Income	0	1,575,111	(1,575,111)
Benefit Payments, Including Member Refunds and DROP Payouts	(1,385,504)	(1,385,504)	0
Administrative Expenses	0	(38,134)	38,134
Net Changes	<u>151,412</u>	<u>1,078,160</u>	<u>(926,748)</u>
<b>Balances at September 30, 2016</b>	<u>\$ 22,035,721</u>	<u>\$ 18,225,030</u>	<u>\$ 3,810,691</u>

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 7 - Employee Retirement Plans (Continued)**

**Additional Disclosures—Single-Employer Plans (Concluded)**

***Changes in Net Pension Liability (Concluded)***

Differences between Plan Fiduciary Net Position for the General Employees' Pension Plan presented above and the amounts presented in the financial statements are due to timing differences in certain accruals. These differences are not considered to be significant.

*Firemen's Pension Plan*

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
<b>Balances at October 1, 2015</b>	\$ 9,420,281	\$ 7,691,695	\$ 1,728,586
Changes for the Year:			
Service Cost	129,860	0	129,860
Interest	723,418	0	723,418
Differences Between Expected and Actual Experience	(83,851)	0	(83,851)
Contributions – Employer	0	305,436	(305,436)
Contributions – Employee	0	41,491	(41,491)
Net Investment Income	0	1,066,780	(1,066,780)
Benefit Payments, Including Member Refunds and DROP Payouts	(431,420)	(431,420)	0
Administrative Expenses	0	(43,425)	43,425
Net Changes	<u>338,007</u>	<u>938,862</u>	<u>(600,855)</u>
<b>Balances at September 30, 2016</b>	<u>\$ 9,758,288</u>	<u>\$ 8,630,557</u>	<u>\$ 1,127,731</u>

*Police Officers' Pension Plan*

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
<b>Balances at October 1, 2015</b>	\$ 13,095,967	\$ 12,748,365	\$ 347,602
Changes for the Year:			
Service Cost	437,718	0	437,718
Interest	1,014,179	0	1,014,179
Change of Benefit Terms	(132,292)	0	(132,292)
Differences Between Expected and Actual Experience	(303,219)	0	(303,219)
Changes to Assumptions	587,453	0	587,453
Contributions – Employer	0	633,369	(633,369)
Contributions – Employee	0	84,732	(84,732)
Net Investment Income	0	1,279,744	(1,279,744)
Benefit Payments, Including Member Refunds	(609,763)	(609,763)	0
Administrative Expenses	0	(44,309)	44,309
Net Changes	<u>994,076</u>	<u>1,343,773</u>	<u>(349,697)</u>
<b>Balances at September 30, 2016</b>	<u>\$ 14,090,043</u>	<u>\$ 14,092,138</u>	<u>\$ (2,095)</u>

Differences between Plan Fiduciary Net Position for the Police Officers' Pension Plan presented above and the amounts presented in the financial statements are due to timing differences in certain accruals. These differences are not considered to be significant.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 7 - Employee Retirement Plans (Continued)**

**FRS Pension Plan**

**Plan Description**—The FRS Pension Plan was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. All regular employees not participating in the City’s single-employer plans are eligible. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the FRS Pension Plan.

The general classes of membership applicable to the City are as follows:

- *Regular Class*—Members of the FRS who do not qualify for membership in the other classes.
- *Elected Officer Class*—Members who hold specified elective offices in local government.
- *Senior Management Service Class*—Members in senior management level position.
- *Special Risk Class*—Members who are employed in special risk careers, such as law enforcement or fire rescue, and meet the criteria to qualify for this class.

**Plan Administration**—The FRS Pension Plan is administered by the State of Florida, Department of Management Services, Division of Retirement. Changes to the law can only occur through an act of the Florida Legislature.

**Plan Benefits**—Provisions relating to the FRS Pension Plan are established by Chapters 121 and 122, Florida Statutes; Chapter 112 Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Employees enrolled in the FRS Pension Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the FRS Pension plan on or after July 1, 2011, vest at eight years of creditable service. All vested members enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the FRS Pension Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Members of the FRS Pension Plan may include up to four years of credit for military service toward creditable service. The FRS Pension Plan also includes an early retirement provision; however, there is a 5% benefit reduction for each year a member retires before his or her normal retirement date.

DROP is available under the FRS Pension Plan when the member first reaches eligibility for normal retirement. DROP allows a member to retire while continuing employment for up to 60 months, except that certain instructional personnel may participate for up to 96 months. While in the DROP, the member’s retirement benefits accumulate in the FRS Pension Plan trust fund (increased by a cost-of-living adjustment each July). DROP participants starting the program prior to July 1, 2011, earn monthly interest equivalent to an annual rate of 6.5%. Participants starting the program on or after July 1, 2011, earn an effective annual rate of 1.3%. When the DROP period ends, the DROP account is paid out as a lump-sum payment, a rollover, or a combination, and monthly benefits are subsequently paid to the member in the amount as calculated upon entry into DROP, plus cost-of-living adjustments for intervening years. In most cases, the DROP participant must cease employment when the DROP period ends.

**NOTES TO FINANCIAL STATEMENTS  
CITY OF LAKE CITY, FLORIDA  
(Continued)**

**Note 7 - Employee Retirement Plans (Continued)**

**FRS Pension Plan (Continued)**

***Plan Benefits—(Concluded)***

Benefits under the FRS Pension Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the five highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the eight highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement class to which the member belonged when the service credit was earned (from 1.60% - 3.00%). Members are eligible for in-line-of-duty or regular disability and survivors' benefits.

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

***Contributions***—The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates for FRS during the City's 2015-16 fiscal year were as follows:

<u>Class</u>	<u>Year Beginning July 1, 2015</u>		<u>Year Beginning July 1, 2016</u>	
	<u>Percent of Gross Salary</u>		<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer <sup>(1)</sup></u>	<u>Employee</u>	<u>Employer <sup>(1)</sup></u>
Regular	3.00	5.56	3.00	7.52
Elected Officers	3.00	40.57	3.00	42.47
Senior Management Service	3.00	19.73	3.00	21.77
Special Risk Regular	3.00	20.34	3.00	22.57
DROP	0.00	11.22	0.00	12.99

<sup>(1)</sup> These rates include the normal cost and unfunded actuarial liability contributions but do not include the contribution for the Retiree Health Insurance Subsidy and the fee of 0.04% (0.06% effective July 1, 2016) for administration of the FRS Investment Plan and provision of educational tools for both plans.

The City's contributions to the FRS Pension Plan totaled \$295,085 for the fiscal year ended September 30, 2016.

***Net Pension Liability***

At September 30, 2016, the City reported the following net pension liability:

	<u>FRS Pension Plan</u>
City's Proportion	0.010698858%
City's Proportionate Share of Net Pension Liability	\$ 2,701,470

**NOTES TO FINANCIAL STATEMENTS  
CITY OF LAKE CITY, FLORIDA  
(Continued)**

**Note 7 - Employee Retirement Plans (Continued)**

**FRS Pension Plan (Continued)**

***Net Pension Liability (Concluded)***

The City's proportionate share of the net pension liability was based on the City's contributions during the FRS Pension Plan's fiscal year relative to the contributions of all participating members in the same fiscal year. At June 30, 2016, the City's proportion decreased 0.07089880% from its proportion measured as of June 30, 2015.

***Discount Rate***

The discount rate used to measure the total pension liability was 7.60%. The FRS Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Actuarial Assumptions***

The total pension liability for the FRS Pension Plan was determined as of June 30, 2016 measurement date by an actuarial valuation as of July 1, 2016. The following actuarial assumptions, applied to all periods included in the measurement, were used to determine the total pension liability:

	<b>FRS Pension Plan</b>
Inflation	2.60%
Salary Increases	3.25%
Investment Rate of Return, Including Inflation	7.60%
Mortality Table	RP2000
Actuarial Cost Method	Individual Entry Age

***Long-term Expected Rate of Return***

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

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 7 - Employee Retirement Plans (Continued)**

**FRS Pension Plan (Concluded)**

**Long-term Expected Rate of Return (Concluded)**

<u>Asset Class</u>	<u>Annual Target Allocation <sup>(1)</sup></u>	<u>Annual Arithmetic Return</u>	<u>Geometric Return</u>	<u>Standard Deviation</u>
Cash	1%	3.0%	3.0%	1.7%
Fixed Income	18%	4.7%	4.6%	4.6%
Global Equity	53%	8.1%	6.8%	17.2%
Real Estate (Property)	10%	6.4%	5.8%	12.0%
Private Equity	6%	11.6%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	11.1%
<b>Total</b>	<u>100%</u>			
Assumed Inflation – Mean		2.6%		1.9%

<sup>(1)</sup> As Outlined in the FRS Pension Plan’s Investment Policy.

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

The following presents the net pension liability of the City, calculated using the current discount rate of 7.60%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60%) or 1-percentage-point higher (8.60%) than the current rate:

	<u>1% Decrease (6.60%)</u>	<u>Current Discount Rate (7.60%)</u>	<u>1% Increase (8.60%)</u>
City’s Proportionate Share of the Net Pension Liability	\$ 4,973,589	\$ 2,701,470	\$ 810,231

**HIS Pension Plan**

***Plan Description***—The HIS Pension Plan was established under Section 112.363, Florida Statutes, to provide a monthly payment to assist retirees of state administered retirement systems in paying their health insurance costs.

***Plan Administration***—The HIS Pension Plan is administered by the State of Florida, Department of Management Services, Division of Retirement. The HIS Pension Plan may be amended by the Florida Legislature at any time.

***Plan Benefits***—For the fiscal year ended September 30, 2016, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes, retirees under a state administered retirement system must provide proof of health insurance coverage to be eligible to receive benefits.



**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 7 - Employee Retirement Plans (Continued)**

**HIS Pension Plan (Continued)**

**Contributions**—The HIS Pension Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. Contribution rates during the City’s fiscal year were 1.66%.

HIS Pension Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Pension Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The City’s contributions to the HIS Pension Plan totaled \$81,046 for the fiscal year ended September 30, 2016.

**Net Pension Liability**

At September 30, 2016, the City reported the following net pension liability:

	<b>HIS Pension Plan</b>
City’s Proportion	0.01529841900%
City’s Proportionate Share of Net Pension Liability	\$ 1,782,967

The City’s proportionate share of the net pension liability was based on the City’s contributions during the HIS Pension Plan’s fiscal year relative to the contributions of all participating members in the same fiscal year. At June 30, 2016, the City’s proportion decreased 0.018330330% from its proportion measured as of June 30, 2015.

**Discount Rate**

The discount rate used to measure the total pension liability was 2.85% for the HIS Pension Plan’s fiscal year ended June 30, 2016. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Pension Plan sponsor. The discount rate decreased from the prior year due to changes in the applicable municipal bond rate.

**Actuarial Assumptions**

The City uses a June 30, 2016 measurement date to value the net pension liability and related deferred inflows and outflows. The total pension liability for the HIS Pension Plan was determined by an actuarial valuation as of July 1, 2015, and recalculated as of June 30, 2016, using a standard actuarial roll-forward technique. The following actuarial assumptions, applied to all periods included in the measurement, were used to determine the total pension liability:

**NOTES TO FINANCIAL STATEMENTS  
CITY OF LAKE CITY, FLORIDA  
(Continued)**

**Note 7 - Employee Retirement Plans (Continued)**

**HIS Pension Plan (Concluded)**

**Actuarial Assumptions (Concluded)**

	<b>HIS Pension Plan</b>
Inflation	2.60%
Salary Increases	3.25%
Mortality Table	RP2000
Actuarial Cost Method	Individual Entry Age

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

The following presents the net pension liability of the City, calculated using the current discount rate of 2.85%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.85%) or 1-percentage-point higher (3.85%) than the current rate:

	<b>1% Decrease (1.85%)</b>	<b>Current Discount Rate (2.85%)</b>	<b>1% Increase (3.85%)</b>
City's Proportionate Share of the Net Pension Liability	\$ 2,045,469	\$ 1,782,967	\$ 1,565,106

**Investment Plan**

***Plan Description***—As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in a defined contribution plan, the Investment Plan, in lieu of the FRS defined-benefit plan. City employees participating in DROP are not eligible to participate in the Investment Plan.

***Plan Administration***—The Investment Plan is administered by the State Board of Administration (SBA), and is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

***Plan Benefits***—Service retirement benefits are based upon the value of the member's account upon retirement. Employer and employee contributions, including amounts contributed to individual members' accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 7 - Employee Retirement Plans (Continued)**

**Investment Plan (Concluded)**

***Plan Benefits—(Concluded)***

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to five-years. If the employee returns to FRS-covered employment within the five-year period, the employee will regain control over their account. If the employee does not return within the five-year period, the employee will forfeit the accumulated account balance.

Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04% (0.06% effective July 1, 2016) of payroll and by forfeited benefits of Investment Plan members. For the fiscal year ended September 30, 2016, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the City.

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

***Contributions***—The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected Officers, etc.) as the FRS Pension Plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Allocations to the investment members' accounts during the Investment Plan's fiscal year ending June 30, 2016, were as follows:

<b>Class</b>	<b>Percent of Gross Compensation</b>
FRS, Regular	6.30
FRS, Elected Officers	11.34
FRS, Senior Management Service	7.67
FRS, Special Risk Regular	14.00

The City's Investment Plan pension expense totaled \$25,157 for the fiscal year ended September 30, 2016.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 7 - Employee Retirement Plans (Continued)**

**Additional Disclosures—Defined Benefit Plans**

***Deferred Outflows of Resources***

	<u>General Employees'</u>	<u>Firemen's</u>	<u>Police Officers'</u>	<u>FRS</u>	<u>HIS</u>	<u>Total</u>
Employer Contributions						
After Measurement Date	\$ 0	\$ 0	\$ 0	\$ 79,587	\$ 21,074	\$ 100,661
Difference Between Expected and Actual Experience	0	127,687	0	206,845	0	334,532
Changes in Assumptions	0	122,634	469,963	163,431	279,792	1,035,820
Net Difference Between Projected and Actual Earnings on Investments	965,485	528,427	817,953	698,297	902	3,011,064
Changes in Proportion	<u>0</u>	<u>0</u>	<u>0</u>	<u>227,068</u>	<u>230,136</u>	<u>457,204</u>
<b>Total Deferred Outflows of Resources</b>	<u>\$ 965,485</u>	<u>\$ 778,748</u>	<u>\$ 1,287,916</u>	<u>\$ 1,375,228</u>	<u>\$ 531,904</u>	<u>\$ 4,939,281</u>

***Deferred Inflows of Resources***

	<u>General Employees'</u>	<u>Firemen's</u>	<u>Police Officers'</u>	<u>FRS</u>	<u>HIS</u>	<u>Total</u>
Difference Between Expected and Actual Experience	\$ 0	\$ (67,081)	\$ (321,653)	\$ (25,153)	\$ (4,060)	\$ (417,947)
Net Difference Between Projected and Actual Earnings on Investments	<u>(212,388)</u>	<u>(380,504)</u>	<u>(231,412)</u>	<u>0</u>	<u>0</u>	<u>(824,304)</u>
<b>Total Deferred Inflows of Resources</b>	<u>\$ (212,388)</u>	<u>\$ (447,585)</u>	<u>\$ (553,065)</u>	<u>\$ (25,153)</u>	<u>\$ (4,060)</u>	<u>\$ (1,242,251)</u>

Deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date totaling \$100,663 will be recognized as a reduction of the net pension liability in the year ending September 30, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Fiscal Year Ending</b>	<b>General Employees'</b>	<b>Firemen's</b>	<b>Police Officers'</b>	<b>FRS</b>	<b>HIS</b>	<b>Total</b>
2017	\$ 268,732	\$ 147,688	\$ 251,876	\$ 210,640	\$ 97,447	\$ 976,383
2018	268,732	147,688	251,876	210,640	97,447	976,383
2019	268,730	147,688	251,876	482,880	97,275	1,248,449
2020	(53,097)	(111,901)	(20,777)	321,150	97,193	232,568
2021	0	0	0	37,975	73,433	111,408
2022	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,212</u>	<u>43,964</u>	<u>51,176</u>
<b>Total</b>	<u>\$ 753,097</u>	<u>\$ 331,163</u>	<u>\$ 734,851</u>	<u>\$ 1,270,497</u>	<u>\$ 506,759</u>	<u>\$ 3,596,367</u>

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 7 - Employee Retirement Plans (Concluded)**

**Additional Disclosures—Defined Benefit Plans (Concluded)**

***Pension Expense***

For the year ended September 30, 2016, the City recognized pension expense from the defined benefit pension plans as follows:

General Employees'	\$	510,797
Firemen's		411,750
Police Officers'		540,579
FRS		478,832
HIS		<u>196,051</u>
<b>Total Pension Expense</b>		<u><u>\$ 2,138,009</u></u>

***Payables to the Pension Plan***

At September 30, 2016, the City did not report any payables to the pension plans for the outstanding amount of contributions. There was a timing difference in the current year between the issuance of the contribution check by the City and the crediting of funds by the bank in the fiduciary funds that resulted in an outstanding check rather than a payable on the City's records and contributions receivable in the pension fiduciary funds.

**Note 8 - Postemployment Benefits Other Than Pensions**

**Plan Description**

The City has previously established and maintains an employee group medical insurance plan (the Plan) that it makes available to eligible retirees in accordance with State of Florida law and City ordinance. The Plan is a single-employer, experience rated insurance plan that provides medical benefits to eligible retirees and their eligible dependents. The postretirement benefit portion of the Plan refers to the medical benefits applicable to current and future retirees and their eligible dependents.

As of the valuation date, the total number of participating eligible current and future retirees and dependents used for the Plan was 252. The City currently determines the eligibility, benefit provisions, and changes to those provisions applicable to retirees in accordance with applicable City ordinance, federal, and state laws. The Plan does not issue a stand-alone report, and is not included in the report of a Public Employee Retirement System or another entity.

**Funding Policy**

To-date, the City has followed a pay-as-you-go funding policy, contributing only those amounts necessary to provide for its portion of current year benefit cost and expenses. The contribution requirements of plan members, if any, are established by the City. Eligible retirees pay the full cost of blended rate premiums associated with the medical plan elected; no direct City subsidy is currently applicable. However, there are implicit costs of the medical plan for retirees, as their claims experience is higher than the blended rate premiums.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 8 - Postemployment Benefits Other Than Pensions (Continued)**

**Funding Policy (Concluded)**

State of Florida law prohibits the City from separately rating retirees and active employees specifically for medical plan benefits. The City therefore assigns eligible active employees and eligible retirees equal, blended-rate premiums and makes available to both groups the same plan options. Although both groups are assigned the same blended rate premiums, generally accepted accounting principles require the actuarial liabilities presented below to be calculated using age-adjusted premiums approximating claim costs for eligible retirees separate from active eligible members. The use of age-adjusted premiums results in the full expected retiree obligation recognized in this disclosure.

**Annual OPEB Cost and Net OPEB Obligation**

The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for postemployment health care benefits:

Annual Required City Contribution (ARC)	\$ 75,901
Interest on Plan Obligation	13,506
Adjustment to ARC	<u>(22,171)</u>
Annual OPEB Cost (Expense)	67,236
Net Contributions Made	<u>(43,272)</u>
Increase in Net OPEB Obligation	23,964
<b>Net OPEB Obligation, Beginning of Year</b>	<u>361,622</u>
<b>Net OPEB Obligation, End of Year</b>	<u>\$ 385,586</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of September 30, 2016, was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
09/30/2014	\$ 77,343	91.2%	\$ 330,870
09/30/2015	67,236	64.4%	361,622
09/30/2016	67,236	64.4%	385,586

**Funded Status and Funding Progress**

The funding status of the plan as of October 1, 2014, the most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	\$ 541,921
Actuarial Value of Plan Assets	\$ 0
Unfunded Actuarial Accrued Liability (UAAL)	\$ 541,921
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll (Active Plan Members)	\$ 9,251,065
UAAL as a Percentage of Covered Payroll	5.9%

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 8 - Postemployment Benefits Other Than Pensions (Continued)**

**Funded Status and Funding Progress (Concluded)**

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time, relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funding status of a plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

The entry age actuarial cost method is used to determine the Plan's liabilities and costs. The use of this method involves the systematic funding of the normal cost and the unfunded accrued (past service) liability.

The following table summarizes the significant actuarial methods and assumptions as of the latest actuarial valuation date:

<b>Valuation Date</b>	October 1, 2014
<b>Actuarial Cost Method</b>	Entry Age
<b>Amortization Method</b>	30-year Closed Period; Level-dollar Payment
<b>Actuarial Assumptions</b>	
Interest Rate	4.00%
Payroll Growth	0.0%
Inflation Assumption	3%
Healthcare Cost Trend Rate	8% for 2015 graded to 4.50% for 2020

Plan expenses are assumed to be included in premium rates. Benefits are assumed to be unfunded. Retiring participants were assumed to elect the same coverage they currently have under the Plan while active employees. Actual current coverage was used and status was assumed to continue. Marital status of active employees and retirees is actual, as reported. The actual age of the spouse was used if provided; if not available, assumed male spouses three years older and female spouses three years younger than employee.

**NOTES TO FINANCIAL STATEMENTS  
CITY OF LAKE CITY, FLORIDA  
(Continued)**

**Note 8 - Postemployment Benefits Other Than Pensions (Concluded)**

**Retirees Eligible to Receive Benefits**

In accordance with State of Florida law, an employee retiring from employment at or after normal retirement date with the City will be eligible to participate in the City's employee group medical insurance plans for life so long as applicable premium payments continue to be paid. Retirees have the option to elect to continue medical benefits at retirement from the City, or during an open enrollment period, or in the event of a qualified event in accordance with federal and state laws.

**Benefits**

Presently, eligible retirees may elect to receive medical benefits under the same medical plan options as active employees. Eligible retirees may change between types of plans offered, add or drop eligible dependents, or reject or re-elect coverage during an open enrollment period. Benefits are those as described in each medical Plan's certificate of coverage.

**Retiree Contributions**

Retiree's contributions are equal to 100% of the elected medical plan (blended rate) premiums applicable after retirement from employment from the City.

**Miscellaneous Valuation Procedures**

The medical benefit liability values were developed using average age-adjusted premiums for current retirees, even though the premiums applicable to retirees are based on the average costs of the entire participating group, both active and retired, as required under Florida law. The average age-adjusted premiums incorporate the application of Medicare as primary insurer of medical benefits for "retirees" age sixty-five or older that are no longer employed. It is also assumed that post-sixty-five participants in the City's program will also be participants in Medicare Parts A and B.

**Plan Assets**

No separate trust assets as of the valuation date.

**Summary of Census Data Used in the Valuation**

Membership in the Plan consisted of the following at October 1, 2014, the date of the latest actuarial valuation:

Future Retirees (Including DROP)	236
Retired and Disabled Participants Receiving Benefits	13
Spouses Receiving Benefits	3
Other Dependents Receiving Benefits	<u>0</u>
<b>Total Number of Participants and Dependents Included in Valuation</b>	<u><u>252</u></u>

**Note 9 - Restricted Net Position**

The government-wide statements of net position reports \$1,682,747 of restricted net position, of which \$1,740,086 is restricted by external resource providers and (\$57,339) is restricted by enabling legislation.



**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Continued)*

**Note 10 - Interfund Accounts**

**Due from/to Other Funds**

At September 30, 2016, the balance due from/to other funds consists of the following:

<b>Due to</b>	<b><u>Amount</u></b>	<b><u>Due from</u></b>
General Fund	\$ 40,000	Water and Sewer Fund
General Fund	881,050	Airport Capital Projects Fund
General Fund	58,221	Nonmajor Funds
Nonmajor Funds	42,627	Airport Capital Projects Fund
Water and Sewer Fund	<u>94,328</u>	Natural Gas Fund
<b>Due to Total</b>	<b><u>\$ 1,116,226</u></b>	

Interfund balances generally result from a time lag between dates that reimbursable expenditures occur and payments are made between funds as a result of the City's cash management system.

**Transfers in/(out)**

Interfund transfers during the year ended September 30, 2016, consisted of the following:

<b>Transfer (out)</b>	<b><u>Amount</u></b>	<b><u>Transfer in</u></b>
General Fund	\$ 226,502	Fire Department Fund
General Fund	368,185	Debt Service Fund
General Fund	7,500	Water and Sewer Fund
Community Redevelopment Agency Fund	100,000	General Fund
Nonmajor Funds	163,358	Airport Capital Projects Fund
Water and Sewer Fund	870,000	General Fund
Natural Gas Fund	<u>250,000</u>	General Fund
<b>Total</b>	<b><u>\$ 1,985,545</u></b>	

**Note 11 - Commitments and Contingencies**

As of September 30, 2016, the City had outstanding commitments on contracts in progress as follows:

<b><u>Project Type</u></b>	<b><u>Unexpended Contract Amounts</u></b>
Kicklighter Wastewater Diversion Force Main	\$ 5,315,937
Taxiway A Rehab and Expansion	4,900,987

Amounts received or receivable from grantor agencies are subject to audit or adjustment by grantor agencies, principally the federal government. Any disallowed claims including amounts already collected, could constitute liabilities of the applicable funds.

In the general course of business, the City is involved in various litigations. The majority of these are as defendant in litigation relating to claims arising from normal municipal activities. The City is insured for these types of suits and expects no significant adverse financial impact from the settlement of any of them.

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF LAKE CITY, FLORIDA**  
*(Concluded)*

**Note 11 - Commitments and Contingencies (Concluded)**

The City entered into an agreement with Columbia County (the County), and Lifeguard Ambulance Services of Florida, LLC (Lifeguard), for Lifeguard to provide the County and City with emergency medical services. As part of the agreement, the County will furnish and manage for and on behalf of Lifeguard emergency ambulance dispatch and communications services, the cost of which will be shared between the County and the City. Beginning October 1, 2011, and subsequently for five years, the City will pay \$79,448 annually for its share of the County's cost attributed to providing Lifeguard with emergency ambulance dispatch and communications services.

The City is in the process of upgrading and expanding the wastewater system. The cost is currently estimated to be approximately \$11.5 million and will be financed through a combination of available funds and grant proceeds.

As part of operating the City's natural gas system, the City has committed to purchase various quantities of natural gas, at fixed and variable prices, over the next several years. These contracts allow the City to secure a reliable supply of natural gas for its customers. Currently, the anticipated demand for natural gas by the City's customers exceeds the supply scheduled in advance by the City.

**Note 12 - Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors or omissions; workers' compensation; and natural disaster. The City carries commercial insurance for accidental death and dismemberment, general liability, and certain bonds. For the last three years, settled claims have not exceeded coverage, nor has there been any reduction in coverage.

The City is a member of the Florida Municipal Self-Insurance Fund (the Fund). The Fund was created to allow members to pool their liabilities pursuant to provisions in Florida Workers' Compensation Law. The City pays an annual premium to the Fund for workers' compensation coverage. The Fund's underwriting and rate setting policies were established after consulting with an independent actuary. The Fund is nonassessable and, therefore, the City has no liability for future deficits of the Fund, if any.

**OTHER REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**GENERAL EMPLOYEES' PENSION PLAN**  
**CITY OF LAKE CITY, FLORIDA**

	<u>September 30,</u> <u>2016</u>	<u>September 30,</u> <u>2015</u>	<u>September 30,</u> <u>2014</u>
<b>Total Pension Liability</b>			
Service Cost	\$ 126,321	\$ 151,095	\$ 193,901
Interest	1,652,136	1,604,706	1,642,659
Differences Between Expected and Actual Experience	(241,541)	52,506	(512,911)
Changes of Assumptions	0	40,814	39,439
Benefit Payments, Including Refunds of Member Contributions	(1,385,504)	(1,190,298)	(1,139,297)
Net Change in Total Pension Liability	151,412	658,823	223,791
Total Pension Liability - Beginning	21,884,309	21,225,486	21,001,695
Total Pension Liability - Ending (a)	<u>22,035,721</u>	<u>21,884,309</u>	<u>21,225,486</u>
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	903,328	985,384	1,089,395
Contributions - Employee	23,359	26,763	31,280
Net Investment Income	1,575,111	(252,263)	1,690,061
Benefit Payments, Including Refunds of Employee Contributions	(1,385,504)	(1,190,298)	(1,144,518)
Administrative Expense	(38,134)	(39,845)	(34,060)
Net Change in Plan Fiduciary Net Position	1,078,160	(470,259)	1,632,158
Plan Fiduciary Net Position - Beginning	17,146,870	17,617,129	15,984,971
Plan Fiduciary Net Position - Ending (b)	<u>18,225,030</u>	<u>17,146,870</u>	<u>17,617,129</u>
<b>Net Pension Liability - Ending (a) - (b)</b>	<u>\$ 3,810,691</u>	<u>\$ 4,737,439</u>	<u>\$ 3,608,357</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	82.71%	78.35%	83.00%
Covered Payroll	<u>\$ 1,087,009</u>	<u>\$ 1,496,576</u>	<u>\$ 1,625,433</u>
Net Pension Liability as a Percentage of Covered Payroll	350.57%	316.55%	221.99%

Additional years will be added to this schedule annually, until 10 years of data is presented.

Differences between Plan Fiduciary Net Position presented above and the amounts presented in the financial statements are due to certain accruals which are the result of timing differences. These differences are not considered to be significant.

**SCHEDULE OF CONTRIBUTIONS  
GENERAL EMPLOYEES' PENSION PLAN  
CITY OF LAKE CITY, FLORIDA**

	<u>September 30, 2016</u>	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Actuarially Determined Contribution <sup>(1)</sup>	\$ 976,209	\$ 988,182	\$ 1,123,502
Contributions in Relation to the Actuarially Determined Contributions <sup>(2)</sup>	938,332	1,023,568	1,130,821
Contribution Deficiency (Excess)	<u>\$ 37,877</u>	<u>\$ (35,386)</u>	<u>\$ (7,319)</u>
Covered Payroll	<u>\$ 1,087,009</u>	<u>\$ 1,496,576</u>	<u>\$ 1,625,433</u>
Contributions as a Percentage of Covered Payroll	86.32%	68.39%	69.57%

<sup>(1)</sup> Determined as of October 1, 2015, including interest adjustment to September 30, 2016.

<sup>(2)</sup> Actual contributions with interest adjustments to end of year.

Additional years will be added to this schedule annually, until 10 years of data is presented.

**Notes to Schedule:**

Valuation Date: 10/1/2015

Actuarially determined contribution rates are calculated as of October 1, one year prior to the end of the fiscal year in which contributions are reported.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method:	Individual Entry Age, Level Percent of Pay
Amortization Method:	Level Dollar, Closed
Remaining Amortization Period:	10 to 15 Years Based on Year Established
Asset Valuation Method:	Actuarial Value, Based on 5-year Recognition of Returns Greater or Less Than the Assumed Investment Return.
Inflation:	3.25%
Investment Return:	7.75%
Salary Increase:	7% to 4%
Retirement Age:	100% at Normal Retirement Eligibility Date
Mortality:	RP-2000 Mortality Table-Dynamic with Projections to Valuation Year

**SCHEDULE OF INVESTMENT RETURNS  
GENERAL EMPLOYEES' PENSION PLAN  
CITY OF LAKE CITY, FLORIDA**

<b>Year Ended</b>	<b>Annual Money Weighted Rate of Return, Net of Investment Expenses</b>
September 30, 2016	9.97%
September 30, 2015	-0.82%
September 30, 2014	11.31%

Additional years will be added to this schedule annually, until 10 years of data is presented.

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
FIREMEN'S PENSION PLAN  
CITY OF LAKE CITY, FLORIDA**

	<u>September 30, 2016</u>	<u>September 30, 2015</u>	<u>September 30, 2014</u>
<b>Total Pension Liability</b>			
Service Cost	\$ 129,860	\$ 129,239	\$ 120,314
Interest	723,418	661,734	594,942
Differences Between Expected and Actual Experience	(83,851)	212,813	759,502
Changes to Assumptions	0	204,390	0
Benefit Payments, Including Refunds of Member Contributions	(431,420)	(449,619)	(369,386)
Net Change in Total Pension Liability	338,007	758,557	1,105,372
Total Pension Liability - Beginning	9,420,281	8,661,724	7,556,352
Total Pension Liability - Ending (a)	<u>9,758,288</u>	<u>9,420,281</u>	<u>8,661,724</u>
 <b>Plan Fiduciary Net Position</b>			
Contributions - Employer	305,436	254,845	294,336
Contributions - Employee	41,491	41,979	41,811
Net Investment Income	1,066,780	(289,594)	971,584
Benefit Payments, Including Refunds of Employee Contributions	(431,420)	(449,619)	(369,386)
Administrative Expense	(43,425)	(38,590)	(30,193)
Other	0	32,341	0
Net Change in Plan Fiduciary Net Position	938,862	(448,638)	908,152
Plan Fiduciary Net Position - Beginning	7,691,695	8,140,333	7,232,181
Plan Fiduciary Net Position - Ending (b)	<u>8,630,557</u>	<u>7,691,695</u>	<u>8,140,333</u>
 <b>Net Pension Liability - Ending (a) - (b)</b>	<u>\$ 1,127,731</u>	<u>\$ 1,728,586</u>	<u>\$ 521,391</u>
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	88.44%	81.65%	93.98%
 Covered Payroll	<u>\$ 861,178</u>	<u>\$ 805,330</u>	<u>\$ 808,371</u>
Net Pension Liability as a Percentage of Covered Payroll	130.95%	214.64%	64.50%

Additional years will be added to this schedule annually, until 10 years of data is presented.

**SCHEDULE OF CONTRIBUTIONS  
FIREMEN'S PENSION PLAN  
CITY OF LAKE CITY, FLORIDA**

	<b>September 30, 2016</b>	<b>September 30, 2015</b>	<b>September 30, 2014</b>
Actuarially Determined Contribution <sup>(1)</sup>	\$ 382,832	\$ 249,267	\$ 292,123
Contributions in Relation to the Actuarially Determined Contributions <sup>(2)</sup>	317,272	264,721	303,916
Contribution Deficiency (Excess)	<u>\$ 65,560</u>	<u>\$ (15,454)</u>	<u>\$ (11,793)</u>
Covered Payroll	<u>\$ 861,178</u>	<u>\$ 805,330</u>	<u>\$ 808,371</u>
Contributions as a Percentage of Covered Payroll	36.84%	32.87%	37.60%

<sup>(1)</sup> Determined as of October 1, 2015, including interest adjustment to September 30, 2016.

<sup>(2)</sup> Actual contributions with interest adjustments to end of year.

Amounts include insurance premium tax received by the State of Florida and contributed to pension plan.

Additional years will be added to this schedule annually, until 10 years of data is presented.

**Notes to Schedule:**

Valuation Date: 10/1/2015

Actuarially determined contribution rates are calculated as of October 1, one year prior to the end of the fiscal year in which contributions are reported.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method:	Individual Entry Age, Level Percent of Pay
Amortization Method:	Level Dollar, Closed
Remaining Amortization Period:	10 to 15 Years Based on Year Established
Asset Valuation Method:	Actuarial Value, Based on 5-year Recognition of Returns Greater or Less Than the Assumed Investment Return
Inflation:	3%
Investment Return:	7.75%
Salary Increase:	7% to 4%
Retirement Age:	100% at Normal Retirement Eligibility Date
Mortality:	RP-2000 Mortality Table-Dynamic with Projection to Valuation Year



**SCHEDULE OF INVESTMENT RETURNS  
FIREMEN'S PENSION PLAN  
CITY OF LAKE CITY, FLORIDA**

<b>Year Ended</b>	<b>Annual Money Weighted Rate of Return, Net of Investment Expenses</b>
September 30, 2016	14.81%
September 30, 2015	-2.72%
September 30, 2014	14.75%

Additional years will be added to this schedule annually, until 10 years of data is presented.

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
POLICE OFFICERS' PENSION PLAN  
CITY OF LAKE CITY, FLORIDA**

	<u>September 30, 2016</u>	<u>September 30, 2015</u>	<u>September 30, 2014</u>
<b>Total Pension Liability</b>			
Service Cost	\$ 437,718	\$ 425,461	\$ 432,783
Interest	1,014,179	969,009	906,193
Changes of Benefit Terms	(132,292)	0	0
Differences Between Expected and Actual Experience	(303,219)	(118,614)	0
Changes to Assumptions	587,453	0	0
Employee Contributions	(609,763)	(536,201)	(506,056)
Net Change in Total Pension Liability	994,076	739,655	832,920
Total Pension Liability - Beginning	13,095,967	12,356,312	11,523,392
Total Pension Liability - Ending (a)	<u>14,090,043</u>	<u>13,095,967</u>	<u>12,356,312</u>
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	633,369	784,617	701,532
Contributions - Employee	84,732	88,082	84,726
Net Investment Income	1,279,744	(359,178)	1,184,164
Benefit Payments, Including Refunds of Employee Contributions	(609,763)	(536,201)	(506,056)
Administrative Expense	(44,309)	(33,094)	(20,159)
Net Change in Plan Fiduciary Net Position	1,343,773	(55,774)	1,444,207
Plan Fiduciary Net Position - Beginning	12,748,365	12,804,139	11,359,932
Plan Fiduciary Net Position - Ending (b)	<u>14,092,138</u>	<u>12,748,365</u>	<u>12,804,139</u>
<b>Net Pension Liability - Ending (a) - (b)</b>	<u>\$ (2,095)</u>	<u>\$ 347,602</u>	<u>\$ (447,827)</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	100.01%	97.35%	103.62%
Covered Payroll	<u>\$ 1,694,648</u>	<u>\$ 1,819,061</u>	<u>\$ 1,694,522</u>
Net Pension Liability as a Percentage of Covered Payroll	-0.12%	19.11%	-26.43%

Additional years will be added to this schedule annually, until 10 years of data is presented.

Differences between Plan Fiduciary Net Position presented above and the amounts presented in the financial statements are due to certain accruals which are the result of timing differences. These differences are not considered to be significant.

**SCHEDULE OF CONTRIBUTIONS  
POLICE OFFICERS' PENSION PLAN  
CITY OF LAKE CITY, FLORIDA**

	<b>September 30, 2016</b>	<b>September 30, 2015</b>	<b>September 30, 2014</b>
Actuarially Determined Contribution	\$ 460,944	\$ 598,956	\$ 701,532
Contributions in Relation to the Actuarially Determined Contributions	633,369	784,617	701,532
Contribution Deficiency (Excess)	<u>\$ (172,425)</u>	<u>\$ (185,661)</u>	<u>\$ 0</u>
Covered Payroll	<u>\$ 1,694,648</u>	<u>\$ 1,819,061</u>	<u>\$ 1,694,522</u>
Contributions as a Percentage of Covered Payroll	37.37%	43.13%	41.40%

Amounts include insurance premium tax received by the State of Florida and contributed to pension plan.

Additional years will be added to this schedule annually, until 10 years of data is presented.

**Notes to Schedule:**

Valuation Date: 10/1/2014

Actuarially determined contribution rates are calculated as of October 1, two years prior to the end of the fiscal year in which contributions are reported.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method:	Entry Age Normal Actuarial Cost Method
Amortization Method:	Level Percentage of Pay, Closed
Remaining Amortization Period:	22 Years (as of 10/1/2014 Valuation)
Mortality Rate:	RP-2000 Table with No Projection - Based on a Study of Over 650 Public Safety Funds, this Table Reflects a 10% Margin for Future Mortality Improvements (Disabled Lives Set Forward 5 Years.)
Retirement Age:	Earlier of Age 55 and 10 Years of Service, or Age 52 with 25 Years of Service
Interest Rate:	7.75% per Year Compounded Annually, Net of Investment Related Expenses
Inflation:	3% Per Year
Salary Increases:	6.0% per Year Until the Assumed Retirement Age; Projected Salary at Retirement is Increased 24% to Account for Non-regular Compensation
Early Retirement:	Commencing with the Attainment of Early Retirement Status, Members are Assumed to Retire with an Immediate Subsidized Benefit at the Rate of 5% per Year
Payroll Growth:	1% per Year
Cost of Living Adjustment:	2% per Year Beginning at Age 60
Asset Valuation Method:	Each Year, the Prior Actuarial Value of Assets is Brought Forward Utilizing the Historical Geometric 4-year Average Market Value Return; it is Possible that Over Time this Technique will Produce an Insignificant Bias Above or Below Market Value
Termination and Disability Rate:	See Table Below

<b>Age</b>	<b>Percent Terminating During the Year</b>	<b>Percent Becoming Disabled During the Year</b>
20	6.00%	0.03%
30	5.00%	0.04%
40	2.60%	0.07%
50	0.80%	0.18%

**SCHEDULE OF INVESTMENT RETURNS  
POLICE OFFICERS' PENSION PLAN  
CITY OF LAKE CITY, FLORIDA**

<b>Year Ended</b>	<b>Annual Money Weighted Rate of Return, Net of Investment Expenses</b>
September 30, 2016	10.06%
September 30, 2015	-2.79%
September 30, 2014	10.38%

Additional years will be added to this schedule annually, until 10 years of data is presented.

**FLORIDA RETIREMENT SYSTEM PENSION PLAN  
 SEPTEMBER 30, 2016  
 CITY OF LAKE CITY, FLORIDA**

**SCHEDULE OF PROPORTIONATE SHARE  
 OF THE NET PENSION LIABILITY**

	<u>September 30, 2016</u>	<u>September 30, 2015</u>	<u>September 30, 2014</u>
City of Lake City's Proportion of the Net Pension Liability	0.010698858%	0.011407846%	0.009832049%
City of Lake City's Proportionate Share of the Net Pension Liability	\$ 2,701,470	\$ 1,473,476	\$ 599,900
City of Lake City's Covered Payroll (for the Year Ended June 30)	\$ 4,722,366	\$ 4,587,672	\$ 3,918,194
City of Lake City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	57.21%	32.12%	15.31%
FRS Plan Fiduciary Net Position as a Percentage of Total Pension Liability	84.88%	92.00%	96.09%

**SCHEDULE OF CONTRIBUTIONS**

	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 260,909	\$ 278,781
Contributions in Relation to the Contractually Required Contribution	<u>260,909</u>	<u>278,781</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>
City of Lake City's Covered Payroll (for the Year Ended September 30)	\$ 4,879,325	\$ 4,701,903
Contributions as a Percentage of Covered Payroll	5.35%	5.93%

Additional years will be added to this schedule annually, until 10 years of data is presented.

**RETIREE HEALTH INSURANCE SUBSIDY PLAN  
SEPTEMBER 30, 2016  
CITY OF LAKE CITY FLORIDA**

**SCHEDULE OF PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY**

	<u>September 30, 2016</u>	<u>September 30, 2015</u>	<u>September 30, 2014</u>
City of Lake City's Proportion of the Net Pension Liability	0.015298419%	0.015115116%	0.013187655%
City of Lake City's Proportionate Share of the Net Pension Liability	\$ 1,782,967	\$ 1,541,506	\$ 1,233,078
City of Lake City's Covered Payroll (for the Year Ended June 30)	\$ 4,722,366	\$ 4,587,672	\$ 3,918,194
City of Lake City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	37.76%	33.60%	31.47%
HIS Plan Fiduciary Net Position as a Percentage of Total Pension Liability	0.97%	0.50%	0.99%

**SCHEDULE OF CONTRIBUTIONS**

	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 78,414	\$ 63,667
Contributions in Relation to the Contractually Required Contribution	<u>78,414</u>	<u>63,667</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>
City of Lake City's Covered Payroll (for the Year Ended September 30)	\$ 4,879,325	\$ 4,701,903
Contributions as a Percentage of Covered Payroll	1.61%	1.35%

Additional years will be added to this schedule annually, until 10 years of data is presented.

**REQUIRED SUPPLEMENTARY INFORMATION  
OTHER POSTEMPLOYMENT BENEFITS PLAN  
SCHEDULE OF FUNDING PROGRESS  
SEPTEMBER 30, 2016  
CITY OF LAKE CITY, FLORIDA**

<b>Actuarial Valuation Date</b>	<b>(1) Actuarial Accrued Liability (AAL)</b>	<b>(2) Actuarial Value of Assets (AVA)</b>	<b>(3) Unfunded AAL (UAAL)</b>	<b>(4) Percentage Funded (2)/(1)</b>	<b>(5) Annual Covered Payroll</b>	<b>(6) UAAL as % of Payroll (3)/(5)</b>
10/1/2008	\$ 2,201,070	\$ 0	\$ 2,201,070	0.00%	\$ 6,108,308	36.03%
10/1/2010	604,940	0	604,940	0.00%	7,652,641	7.90%
10/1/2012	689,052	0	689,052	0.00%	7,344,897	9.38%
10/1/2014	541,921	0	541,921	0.00%	9,251,065	5.86%

Analysis of the dollar amounts of net assets available for benefits, AAL, and UAAL in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the AAL provides one indication of the Plan's funded status on a going concern basis. Analysis of this percentage over time indicates whether the system is realizing its funding policy.

The financial reporting information for the City's OPEB program has changed significantly since the 2008 valuation was completed, due in large part to a change in the assumed utilization of Medicare by those retirees who are eligible for coverage. The actuarial valuation as of October 1, 2008, has assumed that post-65 participants in the City's program will also be participants in Medicare Parts A and B.

## **SUPPLEMENTARY INFORMATION**



## NONMAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are restricted to expenditures for particular purposes. The City maintains the following special revenue funds:

**Airport Special Revenue Fund**—This fund accounts for receipts and expenditures from the activities of the Lake City Airport.

**Seized Assets Fund**—This fund accounts for restricted assets on hold until such time as a court proceeding determines their disposition.

**Special Police Fund**—This fund accounts for confiscated assets, which are subsequently sold and the proceeds of which are restricted for police purposes.

**Drug Task Force Grant Fund**—This fund accounts for receipts and expenditures from a Joint Drug Task Force Grant with Columbia County from the U.S. Department of Justice.

### DEBT SERVICE FUND

The debt service fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs other than obligations payable from the operations of the business-type activities.

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2016  
CITY OF LAKE CITY, FLORIDA**

	<u>Special Revenue Funds</u>					
	<u>Airport Special Revenue Fund</u>	<u>Seized Assets Fund</u>	<u>Special Police Fund</u>	<u>Drug Task Force Grant Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>Assets</b>						
Pooled Cash and Investments	\$ 274,446	\$ 54,104	\$ 20,144	\$ 0	\$ 94,607	\$ 443,301
Accounts Receivable	58,778	0	0	0	0	58,778
Due from Other Governments	0	0	0	58,469	0	58,469
Inventory	30,543	0	0	0	0	30,543
Prepays	1,386	0	0	0	0	1,386
Due from Other Funds	42,627	0	0	0	0	42,627
<b>Total Assets</b>	<u>407,780</u>	<u>54,104</u>	<u>20,144</u>	<u>58,469</u>	<u>94,607</u>	<u>635,104</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>						
<b>Liabilities</b>						
Accounts Payable	17,352	141	37	248	0	17,778
Accrued Liabilities	4,138	0	0	0	0	4,138
Deposits	100,000	0	0	0	0	100,000
Due to Other Funds	0	0	0	58,221	0	58,221
<b>Total Liabilities</b>	<u>121,490</u>	<u>141</u>	<u>37</u>	<u>58,469</u>	<u>0</u>	<u>180,137</u>
<b>Fund Balances</b>						
Nonspendable:						
Inventory	30,543	0	0	0	0	30,543
Prepays	1,386	0	0	0	0	1,386
Restricted for:						
Public Safety	0	53,963	20,107	0	0	74,070
Airport	254,361	0	0	0	0	254,361
Debt Service	0	0	0	0	92,049	92,049
Assigned for:						
Debt Service	0	0	0	0	2,558	2,558
<b>Total Fund Balances</b>	<u>286,290</u>	<u>53,963</u>	<u>20,107</u>	<u>0</u>	<u>94,607</u>	<u>454,967</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u>\$ 407,780</u>	<u>\$ 54,104</u>	<u>\$ 20,144</u>	<u>\$ 58,469</u>	<u>\$ 94,607</u>	<u>\$ 635,104</u>

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

	<b>Special Revenue Funds</b>					<b>Total Nonmajor Governmental Funds</b>
	<b>Airport Special Revenue Fund</b>	<b>Seized Assets Fund</b>	<b>Special Police Fund</b>	<b>Drug Task Force Grant Fund</b>	<b>Debt Service Fund</b>	
<b>Revenues</b>						
Intergovernmental	\$ 0	\$ 0	\$ 0	\$ 67,486	\$ 0	\$ 67,486
Charges for Services	918,555	0	0	0	0	918,555
Investment Earnings	54	23	0	0	0	77
Miscellaneous	69,267	0	25,436	0	0	94,703
<b>Total Revenues</b>	<u>987,876</u>	<u>23</u>	<u>25,436</u>	<u>67,486</u>	<u>0</u>	<u>1,080,821</u>
<b>Expenditures</b>						
Current:						
Public Safety	0	0	10,191	12,910	0	23,101
Airport	850,351	0	0	0	0	850,351
Debt Service:						
Principal Payments	0	0	0	0	241,140	241,140
Interest and Other Charges	0	0	0	0	127,045	127,045
Capital Outlay	71,596	0	0	54,576	0	126,172
<b>(Total Expenditures)</b>	<u>(921,947)</u>	<u>0</u>	<u>(10,191)</u>	<u>(67,486)</u>	<u>(368,185)</u>	<u>(1,367,809)</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>65,929</u>	<u>23</u>	<u>15,245</u>	<u>0</u>	<u>(368,185)</u>	<u>(286,988)</u>
<b>Other Financing Sources (Uses)</b>						
Operating Transfers in	0	0	0	0	368,185	368,185
Operating Transfers (out)	(163,358)	0	0	0	0	(163,358)
<b>Total Other Financing Sources (Uses)</b>	<u>(163,358)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>368,185</u>	<u>204,827</u>
<b>(Deficiency) Excess of Revenues and Other Financing Sources (Under) Over Expenditures and Other Financing Uses</b>	<u>(97,429)</u>	<u>23</u>	<u>15,245</u>	<u>0</u>	<u>0</u>	<u>(82,161)</u>
<b>Fund Balances, Beginning of Year</b>	<u>383,719</u>	<u>53,940</u>	<u>4,862</u>	<u>0</u>	<u>94,607</u>	<u>537,128</u>
<b>Fund Balances, End of Year</b>	<u>\$ 286,290</u>	<u>\$ 53,963</u>	<u>\$ 20,107</u>	<u>\$ 0</u>	<u>\$ 94,607</u>	<u>\$ 454,967</u>

**UTILITY SYSTEM REVENUE AND REFUNDING BONDS,  
SERIES 2010, SERIES 2013, AND SERIES 2016 RATE COVENANT  
HISTORIC STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE  
FOR THE YEAR ENDED SEPTEMBER 30, 2016  
CITY OF LAKE CITY, FLORIDA**

<b>Gross Revenues</b>	
Charges for Services	\$ 13,125,571
Interest and Miscellaneous Charges	269,316
<b>Total Gross Revenues</b>	<u>13,394,887</u>
<b>Total Operating Expenses, Excluding Interest, Amortization, and Depreciation</b>	<u>(7,098,233)</u>
<b>Net Revenue Available for Debt Service</b>	<u>\$ 6,296,654</u>
<b>Current Annual Debt Service</b>	
Debt Service on 2010A Bonds	\$ 398,119
Debt Service on 2010B Bonds (Net of \$372,454 Federal Subsidy)	741,173
Debt Service on 2013 Bonds	672,212
Debt Service on 2016 Bonds	70,292
<b>Total Current Annual Debt Service</b>	<u>\$ 1,881,796</u>
 <b>Debt Service Coverage Ratio</b>	 <u>3.35</u>
 <b>Required Debt Service Coverage Ratio of Current Annual Debt Service</b>	 <u>1.10</u>

**ADDITIONAL ELEMENTS OF REPORT PREPARED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*,  
ISSUED BY THE COMPTROLLER GENERAL OF THE UNITED  
STATES; THE PROVISIONS OF THE U.S. OFFICE OF  
MANAGEMENT AND BUDGET (OMB) UNIFORM GUIDANCE;  
THE *RULES OF THE AUDITOR GENERAL* OF THE STATE OF  
FLORIDA; AND OTHER CONTRACT REQUIREMENTS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND  
STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2016  
CITY OF LAKE CITY, FLORIDA**

	<u>Grant/Contract Number</u>	<u>CFDA/ CSFA Number</u>	<u>Expenses</u>
<b><u>Federal Awards</u></b>			
<b>U.S. Department of Justice</b>			
Direct Programs:			
Edward Byrne Memorial Justice Assistance Grant	2014-DJ-BX-0209	16.738	\$ 12,978
Indirect Programs:			
Passed Through Florida Department of Law Enforcement:			
Edward Byrne Memorial Justice Assistance Grant	2016-JAGC-COLU-1-HS-028	16.738	54,508
<b>Total U.S. Department of Justice</b>			<u>67,486</u>
<b>U.S. Department of Transportation</b>			
Direct Programs:			
Airport Construction of Drainage and Taxiway Extension	3-12-0039-020-2014	20.106	3,267,534
Airport Rehabilitation of Taxiway B	3-12-0039-022-2016	20.106	290,024
Subtotal Expenditures - CFDA 20.106			<u>3,557,558</u>
Indirect Programs:			
Passed Through Florida Department of Transportation:			
LCPD STEP Seat Belt Enforcement	M2HVE-16-20-02	20.616	30,000
<b>Total U.S. Department of Transportation</b>			<u>3,587,558</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>3,655,044</u></u>
<b><u>State Financial Assistance</u></b>			
<b>Florida Department of Transportation</b>			
Airport Construction of Drainage and Taxiway Extension	FP#431371-1-94-15	55.004	1,064,846
Airport Design for Rehabilitation of Taxiway B	FP#437389-1-94-15	55.004	16,180
Subtotal Expenditures - CSFA 55.004			<u>1,081,026</u>
Road Reconstruction of NW Ashley Street	FP#438624-1-54-01	55.009	28,115
<b>Total Florida Department of Transportation</b>			<u>1,109,141</u>
<b>Total Expenditures of State Financial Assistance</b>			<u><u>1,109,141</u></u>
<b>Total Expenditures of Federal Awards and State Financial Assistance</b>			<u><u>\$ 4,764,185</u></u>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2016  
LAKE CITY, FLORIDA**

**Note 1 - General**

The accompanying schedule of expenditures of federal awards and state financial assistance presents the federal and state award activity of the City of Lake City, Florida (the City). The City's reporting entity is defined in Note 1 of the City's basic financial statements. All federal and state awards received directly from federal and state agencies, as well as federal and state awards passed through other governmental agencies, are included in these schedules.

**Note 2 - Basis of Accounting**

The accompanying schedule of expenditures of federal awards and state financial assistance is presented using the accrual basis of accounting, which is described in Note 1 of the City's basic financial statements.

**Note 3 - De Minimis Indirect Cost Rate Election**

The City did not elect to use the 10% de minimis indirect cost rate as covered in §200.414, *Indirect (F&A) costs*, of the Uniform Guidance.

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

Honorable Mayor and City Council  
City of Lake City  
Lake City, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake City, Florida, (the City), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 7, 2017.

**Internal Control Over Financial Reporting**

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

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

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

**Certified Public Accountants**

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS



Honorable Mayor and City Council  
City of Lake City  
Lake City, Florida

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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



April 7, 2017  
Gainesville, Florida

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR FEDERAL PROGRAM AND STATE PROJECT AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE; AND  
CHAPTER 10.550, RULES OF THE AUDITOR GENERAL**

The Honorable Mayor and City Council  
City of Lake City  
Lake City, Florida

**Report on Compliance for Each Major Federal Program and State Project**

We have audited The City of Lake City, Florida (the City)'s compliance with types of compliance requirements described in the *OMB Compliance Supplement*, and the requirements described in the *Department of Financial Services' State Projects Compliance Supplement*, that could have a direct and material effect on each of the City's major federal programs and state projects for the year ended September 30, 2016. The City's major federal programs and state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions applicable to its federal programs and state projects.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal program and state project based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and Chapter 10.550, *Rules of the Auditor General*. Those standards and the Uniform Guidance, and Chapter 10.550, *Rules of the Auditor General*, 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 major federal programs and state projects occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program and state project. However, our audit does not provide a legal determination of the City's compliance.

**Certified Public Accountants**

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

The Honorable Mayor and City Council  
City of Lake City  
Lake City, Florida

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR FEDERAL PROGRAM AND STATE PROJECT AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE; AND  
CHAPTER 10.550, RULES OF THE AUDITOR GENERAL  
(Concluded)**

**Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state projects of the year ended September 30, 2016.

**Report on Internal Control Over Compliance**

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

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

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

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



April 7, 2017  
Gainesville, Florida

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEDERAL AWARD PROGRAMS AND STATE PROJECTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016  
LAKE CITY, FLORIDA**

**PART A - SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unmodified opinion on the basic financial statements of the City of Lake City, Florida, as of and for the year ended September 30, 2016.
2. No significant deficiencies relating to the audit of the financial statements are reported in the report on internal control over financial reporting and on compliance and other matters based on an audit of the basic financial statements of the City of Lake City, Florida.
3. No instances of noncompliance material to the basic financial statements of the City of Lake City, Florida were disclosed during the audit (same report as No. 2 above).
4. No significant deficiencies relating to the audit of the major federal programs and state projects are reported in the report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with the Uniform Guidance and Chapter 10.550, *Rules of the Auditor General*.
5. The auditors' report on compliance for the major federal programs and state projects for the City of Lake City, Florida expresses an unmodified opinion.
6. The audit disclosed no findings required to be reported in accordance with Section 510(a) of the Uniform Guidance or Chapter 10.550, *Rules of the Auditor General*, relative to the major federal programs and state projects for the City of lake City, Florida.
7. The programs/projects tested as major programs/projects included the following:
  - **Federal Programs**
    - ▶ U.S. Department of Transportation
      - Airport Construction of Drainage and Rehabilitation Taxiway/Lighting CFDA No. 20.106
  - **State Projects**
    - ▶ Florida Department of Transportation
      - Airport Construction of Drainage and Rehabilitation Taxiway/Lighting CSFA No. 55.004
8. The threshold for distinguishing Type A and Type B programs/projects was \$750,000 for major federal award programs and \$300,000 major state financial assistance projects.
9. The City of Lake City, Florida did not qualify as a low-risk auditee pursuant to the Uniform Guidance.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEDERAL AWARD PROGRAMS AND STATE PROJECTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016  
LAKE CITY, FLORIDA  
(Concluded)**

**PART B - FINDINGS - FINANCIAL STATEMENTS**

1. No matters were reported.

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

1. No matters were reported.

**PART D - FINDINGS AND QUESTIONED COST - MAJOR STATE FINANCIAL ASSISTANCE PROJECTS**

1. No matters were reported.

**PART E - OTHER ISSUES**

1. No summary Schedule of Prior Audit Findings is required because there were no prior audit findings related to federal programs or state projects.
2. No Corrective Action Plan is required because there were no findings required to be reported under the *Federal* or *Florida Single Audit Acts*.

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE  
WITH SECTION 218.415, FLORIDA STATUTES**

Honorable Mayor and City Council  
City of Lake City  
Lake City, Florida

We have examined the City of Lake City, Florida's (the City) compliance with the requirements of Section 218.415, Florida Statutes, as of and for the year ended September 30, 2016, as required by Section 10.556(10)(a), *Rules of the Auditor General*. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

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

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

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



April 7, 2017  
Gainesville, Florida

**Certified Public Accountants**

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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS  
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

## MANAGEMENT LETTER

Honorable Mayor and City Council  
City of Lake City  
Lake City, Florida

### Report on the Financial Statements

We have audited the financial statements of the City of Lake City, Florida, (the City) as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated April 7, 2017.

### Auditors' Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance); and Chapter 10.550, *Rules of the Florida Auditor General*.

### Other Reports and Schedule

We have issued our Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditors' Report on Compliance for Each Major Federal Program and State Project and Report on Internal Control over Compliance; Schedule of Findings and Questioned Costs; and Independent Accountants' Report on an examination conducted in accordance with AICPA *Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports, which are dated April 7, 2017, should be considered in conjunction with this management letter.

### Prior Audit Findings

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings and recommendations made in the preceding annual financial audit report.

### Official Title and Legal Authority

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is included in Note 1 to the financial statements.

### Financial Condition

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

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Honorable Mayor and City Council  
City of Lake City  
Lake City, Florida

**MANAGEMENT LETTER**  
*(Continued)*

**Financial Condition (Concluded)**

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

**Annual Financial Report**

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

**Special District Component Units**

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

**Other Matters**

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit we noted the following recommendation for improvement:

**2016-1 Purchase Cards**

During the year, the City implemented a purchasing card (P-Card) system in order to facilitate its procurement process. Prior to implementation of the system, the City analyzed its risks and designed and implemented policies and procedures, including various detection controls. Since preventive controls are generally more effective than detection controls, we recommend that as part of its ongoing risk assessment and monitoring processes, management incorporate more preventive controls to further strengthen internal controls over the P-Card process. For instance, the recording and reconciling functions for P-Card transactions should be separated, the reconciler should not have access to P-Cards, and single transaction limits should be lowered to match the City's P-Card policy single transaction limit.

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



Honorable Mayor and City Council  
City of Lake City  
Lake City, Florida

**MANAGEMENT LETTER**  
*(Concluded)*

**Purpose of this Letter**

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

We wish to take this opportunity to thank you and your staff for the cooperation and courtesies extended to us during the course of our audit. Please let us know if you have any questions or comments concerning this letter, our accompanying reports, or other matters.

*Curvis, Gray and Company, LLP*

April 7, 2017  
Gainesville, Florida



*Phone (386) 752-2031*

*205 N. Marion Ave.  
Lake City, FL 32055*

*FAX (386) 758-5488*

April 6, 2017

The City of Lake City will eliminate the import process currently used. All purchase card transactions will be recorded directly into the accounts payable module by the Accounts Payable Clerk and reviewed by other staff within the Finance Department. This will ensure that recording and reconciling functions are separated. Single transaction amounts will be limited to \$1,000 per purchasing card program policy.