

**CITY OF DEFUNIAK SPRINGS, FLORIDA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2018**



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FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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## **II. FINANCIAL SECTION**

- INDEPENDENT AUDITORS' REPORT
- MANAGEMENT'S DISCUSSION AND ANALYSIS
- BASIC FINANCIAL STATEMENTS
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  - Notes to the Financial Statements
- REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)





## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council

### **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 DeFuniak Springs, Florida (the City), as of and for the year ended September 30, 2018, 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of DeFuniak Springs, Florida, as of September 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison information for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-11 and the pension plan schedules on pages 60-64 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 Supplementary 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 schedules as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Title 2 *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 Auditor General*, and is not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules, 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 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 and schedules, the schedule of expenditures of federal awards and state financial assistance are fairly stated in all material respect. In relation to the financial statements as whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Warren Averett, LLC*

Destin, Florida

June 28, 2019

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2018**

The City of DeFuniak Springs, Florida's (the City) discussion and analysis provides an objective overview of the City's financial activities for the fiscal year ended September 30, 2018. The analysis provides summary financial information for the City and should be read in conjunction with the City's financial statements.

**FINANCIAL HIGHLIGHTS**

- ❖ Total assets and deferred outflows of the City exceeded total liabilities and deferred inflows by \$28,629,056 (net position). Of this amount, a deficit of \$2,157,279 is unrestricted for governmental activities and \$1,839,818 is unrestricted for business-type activities. Total net position includes \$13,765,920 of net investment in capital assets in the governmental activities and \$13,058,708 in the business-type activities.
- ❖ Total net position of the City increased by \$2,017,919. Of this amount, \$73,066 is attributable to governmental activities and \$1,944,853 is attributable to business-type activities.
- ❖ Revenues for governmental activities increased by \$781,055, or 9.7%, and expenses decreased by \$62,871 or 0.9%.
- ❖ Revenues for business-type activities increased by \$603,855, or 6.9%, and expenses increased by \$326,828, or 4%. The reduction in grant revenues and related expenses more than account for these reductions.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

The focus of financial statements prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement 30 is on both the City as a whole (government-wide) and on major individual funds. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison (year-to-year or government-to-government), and enhance the City's accountability.

**BASIC FINANCIAL STATEMENTS**

The basic financial statements of the City, under GASB 34, consist of (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. A brief description of these different reporting sections follows.

### *Government-Wide Financial Statements*

Designed to be corporate-like, the government-wide financial statements consolidate governmental and business-type activities into two columns, which sum to a total for Primary Government. This provides readers with a broad overview of the City of DeFuniak Springs's finances in a manner similar to a private-sector business. Two statements, the statement of net position and the statement of activities, are utilized to provide information on a government-wide basis.

The statement of net position presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between them reported as net position. This statement combines and consolidates the governmental funds' current financial resources (short-term available resources) with capital assets and long-term obligations. Over time, increases or decreases in net position may serve as a useful indicator of the financial position of the City of DeFuniak Springs.

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

Both 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 (city council, city manager, administration, public works, and billing), public safety (planning, police, and fire), physical environment (cemetery), transportation (streets, airport, and fleet maintenance), culture and recreation (parks and recreation, grounds maintenance, facilities maintenance, cultural services, and Christmas reflections), and debt service interest. The business-type activities of the City include the utilities (water, sewer, gas and sanitation).

### *Fund Financial Statements*

The fund financial statements provide more detailed information than the government-wide financial statements. Governmental fund financial statements provide information on the assets and liabilities of the general fund, changes in current financial resources (revenue and expenditures) and current available resources. The proprietary fund financial statements provide information on all assets and liabilities of the fund, changes in the economic resources (revenues and expenses) and total economic resources available. In the case of governmental funds, outlays for long-lived assets are reported as expenditures and long-term liabilities, such as revenue bonds, are not included in the fund financial statements. A reconciliation is provided to facilitate a comparison between the fund financial statements and the government-wide financial statements.

The fund financial statements for all governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balance. The City's general fund includes a statement of revenues, expenditures and changes in fund balance – budget and actual. For the proprietary fund, a statement of net position, statement of revenues, expenses and changes in net position as well as a statement of cash flows are provided.

## Notes to Financial Statements

The financial notes provide additional detail concerning the financial activities and financial balances of the City. Additional information concerning the City's significant accounting policies, investments of the City, as well as capital assets and long-term obligations are just a few of the items included in the financial notes.

### FINANCIAL ANALYSIS OF THE CITY

The following table reflects the condensed statement of net position:

	Governmental Activities		Business-type Activities		Total	
	(as restated)		(as restated)		(as restated)	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 4,280,096	\$ 4,202,548	\$ 4,830,120	\$ 4,141,981	\$ 9,110,216	\$ 8,344,529
Capital assets	14,039,996	14,084,898	27,376,839	26,771,221	41,416,835	40,856,119
<b>Total assets</b>	<b>18,320,092</b>	<b>18,287,446</b>	<b>32,206,959</b>	<b>30,913,202</b>	<b>50,527,051</b>	<b>49,200,648</b>
<b>Total deferred outflows of resources</b>	<b>2,295,583</b>	<b>2,527,492</b>	<b>263,078</b>	<b>299,652</b>	<b>2,558,661</b>	<b>2,827,144</b>
Long-term liabilities	6,254,035	6,751,810	14,451,357	14,791,269	20,705,392	21,543,079
Other liabilities	1,382,239	1,641,877	1,436,728	1,869,252	2,818,967	3,511,129
<b>Total liabilities</b>	<b>7,636,274</b>	<b>8,393,687</b>	<b>15,888,085</b>	<b>16,660,521</b>	<b>23,524,359</b>	<b>25,054,208</b>
<b>Total deferred inflows of resources</b>	<b>751,918</b>	<b>266,834</b>	<b>180,379</b>	<b>95,613</b>	<b>932,297</b>	<b>362,447</b>
Net position						
Net investment in capital assets	13,765,920	13,642,365	13,058,708	11,803,763	26,824,628	25,446,128
Restricted	618,842	-	1,503,047	725,699	2,121,889	725,699
Unrestricted (deficit)	(2,157,279)	(1,487,948)	1,839,818	1,927,258	(317,461)	439,310
<b>Total net position</b>	<b>\$ 12,227,483</b>	<b>\$ 12,154,417</b>	<b>\$ 16,401,573</b>	<b>\$ 14,456,720</b>	<b>\$ 28,629,056</b>	<b>\$ 26,611,137</b>

The City is able to report positive balances in all three categories of net position for the business-type activities. However, for the governmental activities, the unrestricted net position reflects a deficit balance. Capital assets (i.e. land, buildings and equipment) are utilized to provide services to citizens and therefore are not available for future spending. This investment in capital assets, net of related debt is the largest portion of the City's total net position. This comprises 94% and 96% of the City's total net position in 2018 and 2017, respectively. The restricted net position is comprised funds required to be used for the retirement of the City's debt obligations as well as impact fees that can only be used for the expansion of the City's systems.

## FINANCIAL ANALYSIS OF THE CITY – CONTINUED

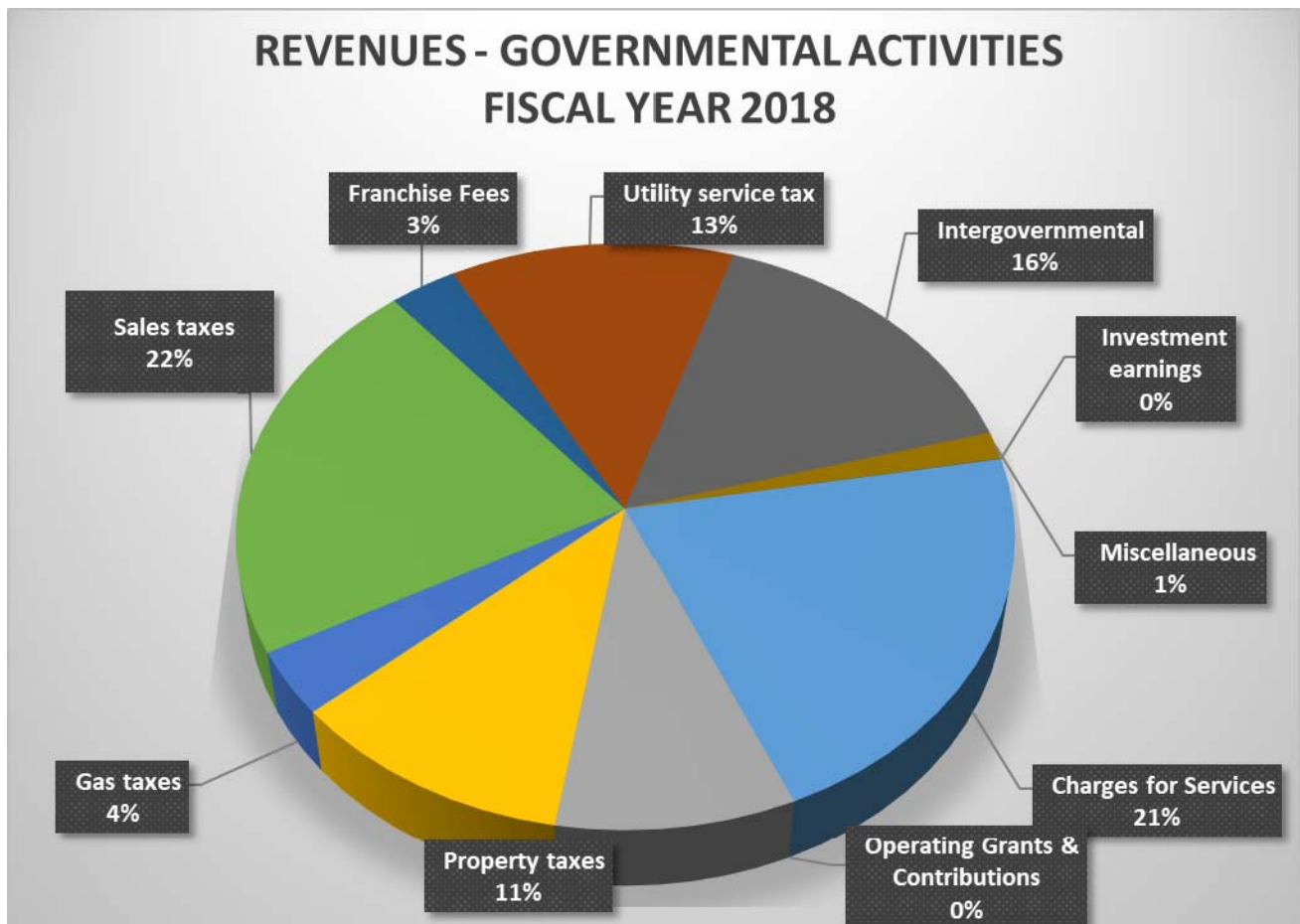
The following table provides a summary of the changes in net position:

	Governmental Activities		Business-type Activities		Total	
	(as restated)		(as restated)		(as restated)	
	2018	2017	2018	2017	2018	2017
<b>REVENUES</b>						
Program revenues						
Charges for services	\$ 1,880,802	\$ 1,798,068	\$ 8,385,703	\$ 8,124,618	\$ 10,266,505	\$ 9,922,686
Operating grants and contributions	-	-	-	-	-	-
Capital grants and contributions	803,764	325,409	901,833	172,500	1,705,597	497,909
General revenues						
Property taxes	970,483	944,262	-	-	970,483	944,262
Gas taxes	311,937	458,921	-	-	311,937	458,921
Sales taxes	1,924,698	1,856,368	-	-	1,924,698	1,856,368
Franchise fees	271,019	257,485	-	-	271,019	257,485
Utility service taxes	1,135,940	1,096,134	-	-	1,135,940	1,096,134
Intergovernmental	1,395,684	1,194,938	-	-	1,395,684	1,194,938
Miscellaneous	134,289	109,138	-	-	134,289	109,138
Investment earnings	1,826	8,664	4,310	390,873	6,136	399,537
<b>TOTAL REVENUES</b>	<b>8,830,442</b>	<b>8,049,387</b>	<b>9,291,846</b>	<b>8,687,991</b>	<b>18,122,288</b>	<b>16,737,378</b>
<b>EXPENSES</b>						
Primary government						
General government	1,943,572	2,125,560	-	-	1,943,572	2,125,560
Public safety	3,578,390	3,809,181	-	-	3,578,390	3,809,181
Physical environment	41,764	-	-	-	41,764	-
Transportation	2,308,579	1,964,445	-	-	2,308,579	1,964,445
Culture and Recreation	854,600	772,270	-	-	854,600	772,270
Interest on long-term debt	7,422	-	-	-	7,422	-
Business-type activities						
Utilities	-	-	7,370,042	7,696,880	7,370,042	7,696,880
<b>TOTAL EXPENSES</b>	<b>8,734,327</b>	<b>8,671,456</b>	<b>7,370,042</b>	<b>7,696,880</b>	<b>16,104,369</b>	<b>16,368,336</b>
Change in net position before transfers	96,115	(622,069)	1,921,804	991,111	2,017,919	369,042
Transfers	(23,049)	586,799	23,049	(586,799)	-	-
Change in net position	73,066	(35,270)	1,944,853	404,312	2,017,919	369,042
Net position at beginning of year	12,154,417	12,189,687	14,456,720	14,052,408	26,611,137	26,242,095
Net position at end of year	\$ 12,227,483	\$ 12,154,417	\$ 16,401,573	\$ 14,456,720	\$ 28,629,056	\$ 26,611,137

For the year ending September 30, 2018, revenues for governmental activities exceeded expenses by \$73,066, and revenues for business-type activities exceeded expense by \$ 1,944,853. Total revenues increased by \$1,384,910 and expenses decreased by \$263,967.

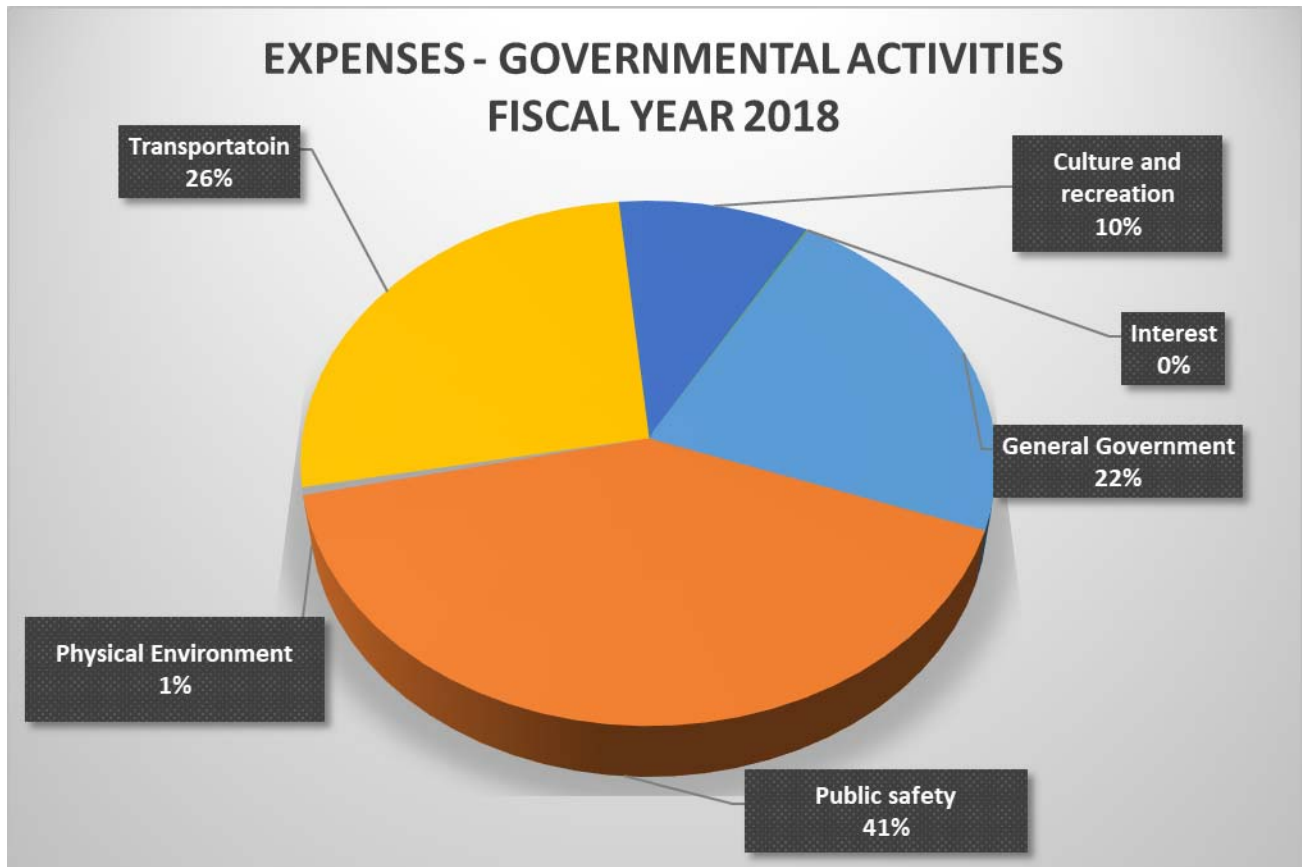
The following pie charts give a breakdown of the revenues and expenses of the governmental-type activities as well as the business-type activities. Some of the more interesting information contained in these pie charts are:

- ❖ Property taxes account for 11% of the City's revenues from governmental activities and sales taxes account for 22%.
- ❖ Public safety accounts for 41% of the total expenses for governmental activities, while General government and Transportation expenses account for 48% of total expenses for governmental activities.
- ❖ 94% of revenues for business-type activities (i.e. water, sewer, gas, and sanitation) are derived from charges for services.
- ❖ Revenues from user charges for business-type activities exceeded expenses by \$1,015,661, or 26%.





## FINANCIAL ANALYSIS OF THE CITY – CONTINUED



## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

### Governmental Funds

#### ***General Fund***

The main operating fund of the City is the General Fund. As of September 30, 2018, total assets for the General Fund were \$4,066,009 and the total liabilities were \$1,207,639. Unassigned fund balance was (\$109,711) which represents (3.8%) of the total fund balance of \$2,858,370.

#### ***Other Governmental Funds***

The City has two other governmental funds that are considered "non-major" funds under GASB 34. They are the Cemetery Fund and the Christmas Reflections Fund. As of September 30, 2018, the total assets for the Other Governmental Funds were \$332,322 and the total liabilities were \$131,345. Committed fund balance was \$200,977 which represents 100% of the total fund balance.

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS – CONTINUED

### Proprietary Funds

The City's Proprietary Fund is the business-type fund reported in the government-wide financial statements. The City has combined the four services water, sewer, natural gas, and sanitation into a Utility Fund. The same type of information is presented in both financial statements concerning this City fund.

The asset makeup is very capital intensive with capital assets, net of accumulated depreciation, representing 82.8% of the fund's total assets. The depreciation expense for this fund was \$1,166,214 for the fiscal year ending September 30, 2018.

During fiscal year 2018, the Utility Fund had an increase in net position of \$1,944,853. The total net position of this fund as of September 30, 2018, was \$16,401,573. Of this amount, \$1,839,818, or 11%, was unrestricted.

### CAPITAL ASSET ACTIVITY

The City's total investment in capital assets for both its governmental and business-type activities as of September 30, 2018 was \$41,416,835 (net of accumulated depreciation). This investment in capital assets include land, construction in progress, building, improvements as well as machinery and equipment.

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 2,759,946	\$ 2,759,346	\$ 589,488	\$ 589,488	\$ 3,349,434	\$ 3,348,834
Construction in progress	584,719	139,367	1,876,441	2,531,959	2,461,160	2,671,326
Buildings	4,391,281	4,391,281	41,054,898	38,631,591	45,446,179	43,022,872
Improvements other than buildings	11,321,524	11,138,049	-	-	11,321,524	11,138,049
Machinery and equipment	5,186,273	5,158,952	2,995,964	2,991,921	8,182,237	8,150,873
Accumulated depreciation	(10,203,747)	(9,502,097)	(19,139,952)	(17,973,738)	(29,343,699)	(27,475,835)
<b>Total</b>	<b>\$ 14,039,996</b>	<b>\$ 14,084,898</b>	<b>\$ 27,376,839</b>	<b>\$ 26,771,221</b>	<b>\$ 41,416,835</b>	<b>\$ 40,856,119</b>

Major capital asset transactions during fiscal year 2018 included the following:

- Sewer lift station - \$275,000
- Lift station rehab - \$1,744,049
- Pump by-pass - \$272,103
- Restoration of Hall of Brotherhood(Phase I) - \$584,719

## DEBT MANAGEMENT

At the end of the current fiscal year, the City had total bond debt, notes payable, and capital leases outstanding in the amount of \$14,592,207. This debt amount represents bonds secured solely by specified revenue sources (i.e. revenue bonds payable) and notes payable. Principal repayments during the year on the revenue bonds totaled \$391,048, repayments on notes payable totaled \$98,708 and repayment of capital leases totaled \$326,028.

The outstanding debt balance of the City is reflected in the following schedule:

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Capital leases	\$ 274,076	\$ 442,533	\$ 334,290	\$ 493,871	\$ 608,366	\$ 936,404
Notes payable	-	-	1,970,205	1,689,169	1,970,205	1,689,169
Revenue bonds payable	-	-	12,013,636	12,404,684	12,013,636	12,404,684
<b>Total</b>	<b>\$ 274,076</b>	<b>\$ 442,533</b>	<b>\$ 14,318,131</b>	<b>\$ 14,587,724</b>	<b>\$ 14,592,207</b>	<b>\$ 15,030,257</b>

## OTHER FINANCIAL INFORMATION

The State of Florida, by constitution, does not allow a state personal income tax and therefore the state operates primarily using sales, gasoline and corporate income taxes. Local governments, such as this city, primarily rely on property and limited array of permitted other taxes such as gasoline and utility service taxes along with fees such as franchise and occupational license fees for its governmental activities. There are also a limited number of state-shared revenues and grants from both the state and federal governments. The city's business-type, and to a much lesser degree certain governmental activities, such as recreation, obtain funding by charging fees for the services.

## REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest. Questions concerning this report or request for additional information should be addressed to:

Finance Director  
P.O. Box 685  
DeFuniak Springs, FL 32435

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2018**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,440,045	\$ 898,488	\$ 2,338,533
Investments	662,320	2,117,794	2,780,114
Receivables, net	76,935	1,059,816	1,136,751
Due from other governments	623,956	-	623,956
Internal balances	844,988	(844,988)	-
Inventory	-	5,935	5,935
Restricted assets			
Cash and cash equivalents	403,961	1,080,955	1,484,916
Investments	227,891	512,120	740,011
Capital assets			
Non-depreciable	3,344,665	2,465,929	5,810,594
Depreciable, net	10,695,331	24,910,910	35,606,241
<b>TOTAL ASSETS</b>	<b>18,320,092</b>	<b>32,206,959</b>	<b>50,527,051</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>2,295,583</b>	<b>263,078</b>	<b>2,558,661</b>
<b>LIABILITIES</b>			
Accounts payable	821,269	60,438	881,707
Accrued liabilities	241,470	27,729	269,199
Due to other governments	145,000	328,448	473,448
Payable from restricted assets			
Accrued interest	3,402	47,770	51,172
Customer deposits	13,010	166,097	179,107
Non-current liabilities			
Due within one year			
Compensated absences	17,106	4,628	21,734
Capital leases	140,982	150,531	291,513
Notes payable	-	266,087	266,087
Revenue bonds payable	-	385,000	385,000
Due in more than one year			
Compensated absences	325,020	51,134	376,154
Capital leases	133,094	183,759	316,853
Notes payable	-	1,704,118	1,704,118
Revenue bonds payable	-	11,628,636	11,628,636
Other post-employment benefits	171,229	43,131	214,360
Net pension liability	5,624,692	840,579	6,465,271
<b>TOTAL LIABILITIES</b>	<b>7,636,274</b>	<b>15,888,085</b>	<b>23,524,359</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>751,918</b>	<b>180,379</b>	<b>932,297</b>
<b>NET POSITION</b>			
Net investment in capital assets	13,765,920	13,058,708	26,824,628
Restricted			
Debt service	618,842	1,379,208	1,998,050
System improvements	-	123,839	123,839
Unrestricted (deficit)	(2,157,279)	1,839,818	(317,461)
<b>TOTAL NET POSITION</b>	<b>\$ 12,227,483</b>	<b>\$ 16,401,573</b>	<b>\$ 28,629,056</b>

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Function/program activities	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government	\$ 1,943,572	\$ 1,659,165	\$ -	\$ -	\$ (284,407)	\$ -	\$ (284,407)
Public safety	3,578,390	47,174	-	66,769	(3,464,447)	-	(3,464,447)
Physical environment	41,764	4,050	-	-	(37,714)	-	(37,714)
Transportation	2,308,579	62,141	-	189,882	(2,056,556)	-	(2,056,556)
Culture and recreation	854,600	108,272	-	547,113	(199,215)	-	(199,215)
Debt service interest	7,422	-	-	-	(7,422)	-	(7,422)
Total governmental activities	<u>8,734,327</u>	<u>1,880,802</u>	<u>-</u>	<u>803,764</u>	<u>(6,049,761)</u>	<u>-</u>	<u>(6,049,761)</u>
Business-type activities							
Utilities	<u>7,370,042</u>	<u>8,385,703</u>	<u>-</u>	<u>901,833</u>	<u>-</u>	<u>1,917,494</u>	<u>1,917,494</u>
Total business-type activities	<u>7,370,042</u>	<u>8,385,703</u>	<u>-</u>	<u>901,833</u>	<u>-</u>	<u>1,917,494</u>	<u>1,917,494</u>
<b>Total primary government</b>	<u>\$ 16,104,369</u>	<u>\$ 10,266,505</u>	<u>\$ -</u>	<u>\$ 1,705,597</u>	<u>(6,049,761)</u>	<u>1,917,494</u>	<u>(4,132,267)</u>
General revenues							
Taxes							
Ad valorem taxes					970,483	-	970,483
Local option gas tax					311,937	-	311,937
Local sales taxes					1,924,698	-	1,924,698
Franchise fees					271,019	-	271,019
Utility service tax					1,135,940	-	1,135,940
State shared revenues					1,395,684	-	1,395,684
Miscellaneous					134,289	(42)	134,247
Investment earnings					1,826	4,352	6,178
Transfers					(23,049)	23,049	-
Total general revenues and transfers					<u>6,122,827</u>	<u>27,359</u>	<u>6,150,186</u>
<b>CHANGE IN NET POSITION</b>					<u>73,066</u>	<u>1,944,853</u>	<u>2,017,919</u>
<b>NET POSITION AT BEGINNING OF YEAR</b>					<u>11,212,337</u>	<u>14,678,617</u>	<u>25,890,954</u>
<b>PRIOR PERIOD ADJUSTMENT</b>					<u>942,080</u>	<u>(221,897)</u>	<u>720,183</u>
<b>NET POSITION AT BEGINNING OF YEAR AS RESTATED</b>					<u>12,154,417</u>	<u>14,456,720</u>	<u>26,611,137</u>
<b>NET POSITION AT END OF YEAR</b>					<u>\$ 12,227,483</u>	<u>\$ 16,401,573</u>	<u>\$ 28,629,056</u>

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
SEPTEMBER 30, 2018**

	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,345,036	\$ 95,009	\$ 1,440,045
Investments	537,438	124,882	662,320
Receivables	72,978	3,957	76,935
Due from other governments	623,956	-	623,956
Due from other funds	867,759	95,464	963,223
Restricted assets			
Cash and cash equivalents	403,961	-	403,961
Investments	214,881	13,010	227,891
<b>TOTAL ASSETS</b>	<b>\$ 4,066,009</b>	<b>\$ 332,322</b>	<b>\$ 4,398,331</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 821,169	\$ 100	\$ 821,269
Accrued liabilities	241,470	-	241,470
Due to other governments	145,000	-	145,000
Due to other funds	-	118,235	118,235
Payable from restricted assets			
Customer deposits	-	13,010	13,010
Total liabilities	1,207,639	131,345	1,338,984
<b>FUND BALANCE</b>			
Restricted	618,842	-	618,842
Committed - utility service taxes	2,349,239	-	2,349,239
Committed - special revenue	-	200,977	200,977
Unassigned	(109,711)	-	(109,711)
Total fund balances	2,858,370	200,977	3,059,347
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 4,066,009</b>	<b>\$ 332,322</b>	<b>\$ 4,398,331</b>

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2018**

Fund balance, total governmental funds (page 14)	\$	3,059,347
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental non-depreciable/amortizable assets	3,344,665	
Governmental depreciable/amortizable assets	20,899,078	
Less accumulated depreciation/amortization	<u>(10,203,747)</u>	
		14,039,996
Deferred inflows of resources and deferred outflows of resources are not available/receivable or due/payable, respectively, in the current period and therefore are not reported in the governmental funds.		
Deferred outflows of resources related to pension plans	2,292,891	
Deferred outflows of resources related to other post employment benefits	2,692	
Deferred inflows of resources related to pension plans	(668,800)	
Deferred inflows of resources related to other post employment benefits	<u>(83,118)</u>	
		1,543,665
Long-term liabilities are not due and payable in the current period		
Compensated absences	(342,126)	
Compensated absences	(3,402)	
Capital leases	(274,076)	
Other post-employment benefits	(171,229)	
Net pension liability	<u>(5,624,692)</u>	
		<u>(6,415,525)</u>
Net position of governmental activities (page 12)	\$	<u><u>12,227,483</u></u>

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes	\$ 4,614,077	\$ -	\$ 4,614,077
Licenses and permits	50,083	-	50,083
Intergovernmental	2,199,448	-	2,199,448
Charges for services	1,767,646	63,073	1,830,719
Interest	1,047	777	1,824
Miscellaneous	106,479	27,812	134,291
Total revenues	<u>8,738,780</u>	<u>91,662</u>	<u>8,830,442</u>
<b>EXPENDITURES</b>			
Current			
General government	1,832,190	-	1,832,190
Public safety	3,158,581	-	3,158,581
Physical environment	-	41,015	41,015
Transportation	1,866,878	-	1,866,878
Culture and recreation	690,049	31,965	722,014
Capital outlay	700,280	-	700,280
Debt service	175,879	-	175,879
Total expenditures	<u>8,423,857</u>	<u>72,980</u>	<u>8,496,837</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>314,923</u>	<u>18,682</u>	<u>333,605</u>
<b>OTHER FINANCING USES</b>			
Transfers out	<u>(23,049)</u>	<u>-</u>	<u>(23,049)</u>
Total other financing sources	<u>(23,049)</u>	<u>-</u>	<u>(23,049)</u>
<b>NET CHANGE IN FUND BALANCE</b>	291,874	18,682	310,556
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	1,569,832	82,603	1,652,435
Prior period adjustment	996,664	99,692	1,096,356
<b>FUND BALANCE AT BEGINNING OF YEAR RESTATE</b>	<u>2,566,496</u>	<u>182,295</u>	<u>2,748,791</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 2,858,370</u>	<u>\$ 200,977</u>	<u>\$ 3,059,347</u>

See notes to the financial statements.



**CITY OF DEFUNIAK SPRINGS, FLORIDA  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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Net change in fund balance – governmental funds (page 16)	\$	310,556
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not report capital assets on the balance sheet; however, they are reported in the government-wide financial statements. Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is depreciated/amortized over the estimated useful lives of the assets.

Expenditures for capital assets	700,280	
Less current year depreciation/amortization	<u>(743,267)</u>	
		(42,987)

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

Capital lease repayments	<u>168,457</u>	
		168,457

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

Change in compensated absences	(22,955)	
Change in net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions	(346,519)	
Change in other post employment benefits liability, deferred outflows of resources and deferred inflows of resources related to other post employment benefits	<u>6,514</u>	
		<u>(362,960)</u>

Change in net position of governmental activities (page 13)	\$	<u><u>73,066</u></u>
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See notes to the financial statements.

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**CITY OF DEFUNIAK SPRINGS, FLORIDA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 4,502,733	\$ 4,502,733	\$ 4,614,077	\$ 111,344
Licenses and permits	30,700	30,700	50,083	19,383
Intergovernmental	3,687,165	3,989,235	2,199,448	(1,789,787)
Charges for services	1,003,100	1,003,100	1,767,646	764,546
Interest	-	-	1,047	1,047
Miscellaneous	151,400	151,400	106,479	(44,921)
Total revenues	<u>9,375,098</u>	<u>9,677,168</u>	<u>8,738,780</u>	<u>(938,388)</u>
<b>EXPENDITURES</b>				
Current				
General government	2,801,340	2,801,340	1,832,190	969,150
Public safety	3,051,974	3,061,974	3,158,581	(96,607)
Transportation	3,025,186	3,317,256	1,866,878	1,450,378
Culture and recreation	655,120	655,120	690,049	(34,929)
Capital outlay	-	-	700,280	(700,280)
Debt service	174,700	174,700	175,879	(1,179)
Total expenditures	<u>9,708,320</u>	<u>10,010,390</u>	<u>8,423,857</u>	<u>1,586,533</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>(333,222)</u>	<u>(333,222)</u>	<u>314,923</u>	<u>648,145</u>
<b>OTHER FINANCING USES</b>				
Capital contributions	-	-	-	-
Transfers in	3,223,347	3,223,347	-	(3,223,347)
Transfers out	(2,896,524)	(2,896,524)	(23,049)	2,873,475
Total other financing uses	<u>326,823</u>	<u>326,823</u>	<u>(23,049)</u>	<u>(349,872)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(6,399)</u>	<u>(6,399)</u>	<u>291,874</u>	<u>298,273</u>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>6,399</u>	<u>6,399</u>	<u>1,569,832</u>	<u>1,563,433</u>
Prior period adjustment	-	-	996,664	996,664
<b>FUND BALANCE - BEGINNING OF YEAR, RESTATE</b>	<u>6,399</u>	<u>6,399</u>	<u>2,566,496</u>	<u>2,560,097</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,858,370</u>	<u>\$ 2,858,370</u>

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
 PROPRIETARY FUND  
 STATEMENT OF NET POSITION  
 SEPTEMBER 30, 2018**

	<b>Utilities Fund</b>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 898,488
Investments	2,117,794
Accounts receivable, net	1,059,816
Inventory	5,935
Restricted assets:	
Cash and cash equivalents	1,080,955
Investments	512,120
Total current assets	5,675,108
Non-current assets	
Capital assets	
Non-depreciable	2,465,929
Depreciable, net	24,910,910
Total non-current assets	27,376,839
<b>TOTAL ASSETS</b>	<b>33,051,947</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Related to pensions	262,399
Related to other post employment benefits	679
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>263,078</b>

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
 PROPRIETARY FUND  
 STATEMENT OF NET POSITION – CONTINUED  
 SEPTEMBER 30, 2018**

	<b>Utilities Fund</b>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 60,438
Accrued liabilities	27,729
Due to other governments	328,448
Due to other funds	844,988
Compensated absences	4,628
Capital leases	150,531
Notes payable	266,087
Revenue bonds payable	385,000
Payable from restricted assets	
Accrued interest	47,770
Customer deposits	166,097
Total current liabilities	2,281,716
Non-current liabilities	
Compensated absences	51,134
Capital leases	183,759
Notes payable	1,704,118
Revenue bonds payable	11,628,636
Other post-employment benefits	43,131
Net pension liability	840,579
Total non-current liabilities	14,451,357
<b>TOTAL LIABILITIES</b>	<b>16,733,073</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Related to pensions	159,443
Related to other post employment benefits	20,936
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>180,379</b>
<b>NET POSITION</b>	
Net investment in capital assets	13,058,708
Restricted for system improvements	123,839
Restricted for debt service	1,379,208
Unrestricted (deficit)	1,839,818
<b>TOTAL NET POSITION</b>	<b>\$ 16,401,573</b>

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
 PROPRIETARY FUND  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION  
 FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	<b>Utilities Fund</b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 7,407,422
Interlocal agreement	237,745
Other operating income	740,536
Total operating revenues	8,385,703
<b>OPERATING EXPENSES</b>	
Personal services	978,666
Administration	2,780
Materials and Supplies	806,064
Repairs and Maintenance	585,057
Office and Utilities	203,606
Insurance Expense	37,959
Contractual Services	1,953,091
Billing Fees	1,078,643
Depreciation	1,166,214
Total operating expenses	6,812,080
<b>OPERATING INCOME (LOSS)</b>	<b>1,573,623</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest expense	(557,962)
Interest	4,352
Miscellaneous	(42)
Total non-operating revenues (expenses)	(553,652)
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<b>1,019,971</b>
Capital contributions	901,833
Transfers in	23,049
Transfers out	-
Total capital contributions and transfers	924,882
<b>CHANGE IN NET POSITION</b>	1,944,853
<b>NET POSITION AT BEGINNING OF YEAR</b>	14,678,617
<b>PRIOR PERIOD ADJUSTMENT</b>	(221,897)
<b>NET POSITION AT BEGINNING OF YEAR AS RESTATED</b>	14,456,720
<b>NET POSITION AT END OF YEAR</b>	\$ 16,401,573

See notes to the financial statements.

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**CITY OF DEFUNIAK SPRINGS, FLORIDA  
 PROPRIETARY FUND  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	<b>Utility Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 8,479,757
Payments to employees for services	(931,241)
Payments to suppliers for goods and services	(5,131,282)
Internal activities	(388,478)
Net cash provided by operating activities	2,028,756
<b>CASH FLOWS FROM NON-CAPITAL FINANCING    ACTIVITIES</b>	
Transfers out	23,049
Net cash provided by non-capital financing activities	23,049
<b>CASH FLOWS FROM CAPITAL AND RELATED    FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(1,771,832)
Interest paid	(560,497)
Proceeds from grants	494,688
Principal payment of notes payable	(258,510)
Principal payment on capital leases	(159,571)
Proceeds from notes payable	929,363
Principal payment on bonds payable	(391,048)
Net cash used in capital and related financing activities	(1,717,407)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of investments	(500,000)
Sales of investments	500,000
Interest income	169
Net cash provided by investment activities	169
<b>NET INCREASE (DECREASE) IN CASH    AND CASH EQUIVALENTS</b>	334,567
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	1,644,876
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 1,979,443
<b>CASH AND CASH EQUIVALENTS AT    END OF YEAR CONSIST OF</b>	
Current	\$ 898,488
Restricted	1,080,955
Total cash and cash equivalents	\$ 1,979,443

See notes to the financial statements.



**CITY OF DEFUNIAK SPRINGS, FLORIDA  
 PROPRIETARY FUND  
 STATEMENT OF CASH FLOWS – CONTINUED  
 FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	<b>Utility Fund</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO            NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income (loss)	\$ 1,573,623
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	1,166,214
Decrease (increase) in assets:	
Accounts receivable, net	45,024
Inventory	(5,935)
Inventory	(388,478)
Deferred outflows of resources	36,574
Increase (decrease) in liabilities:	
Accounts payable	(460,927)
Accrued liabilities	2,287
Compensated absences	(5,541)
Customer deposits	49,030
Net pension liability	(46,057)
Other post-employment benefits	(21,824)
Deferred inflows of resources	84,766
Net cash provided by operating activities	\$ 2,028,756

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of City**

The City of DeFuniak Springs, Florida, (the City) is a political subdivision of the State and was legally created by Laws of Florida, Chapter 5341 (1903) on July 30, 1901. The City provides police and fire protection, general government, parks and recreation and public works services to its residents. In addition, the City operates water, sewer, gas and sanitation enterprises.

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

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

**The Reporting Entity**

As required by accounting principles generally accepted in the United States of America, these financial statements present the City as the primary government. In evaluating the City as a reporting entity, management has considered all potential component units for which the City may or may not be financially accountable and, as such, be included within the City's financial statements. Management utilized criteria set forth in GASB standards for determining financial accountability of potential component units in evaluating all potential component units. In accordance with these standards, the City is financially accountable if it appoints a voting majority of the potential component unit's governing board, and it is able to impose its will on the organization, or there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. In addition, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

As of September 30, 2018, the City had no component units, with a significant operational or financial relationship with the City. On September 28, 2018, the City Council approved City Ordinance No. 895 which providing for the establishment of a redevelopment trust fund (the CRA), providing funding within the community redevelopment area via tax increments. The governing body of the CRA will be the member's the City Council and it will be considered component unit of the City as of October 1, 2018.

**Government-Wide and Fund Financial Statements**

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which significantly rely on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Government-Wide and Fund Financial Statements – Continued**

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

Separate fund financial statements are provided for governmental funds and proprietary funds.

**Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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 60 days of the end of the current fiscal period, except for grant revenues, for which the period is one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are recorded as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and are recognized as revenues of the current fiscal period. Sales taxes, gasoline taxes, and other intergovernmental revenues collected and held by the state at year-end on behalf of the City, are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Measurement Focus and Basis of Accounting – Continued**

The following is the current property tax calendar:

Lien Date	January 1, 2018
Levy Date	October 1, 2018
Due Date	November 1, 2018
Delinquent Date	April 1, 2019

Discounts of 1% are granted for each month taxes are paid prior to March 2019.

Revenue recognition criteria for property taxes under the GASB requires that property taxes expected to be collected within 60 days of the current period be accrued. No accrual has been made for 2018 ad valorem taxes because property taxes are not legally due until subsequent to the end of the fiscal year.

Current year taxes, which are uncollected as of the end of the fiscal year, are generally immaterial in amount and highly susceptible to uncollectibility and, therefore, are not recorded as a receivable on the balance sheet date.

**Basis of Presentation**

The financial transactions of the City are recorded in individual funds. Each fund is a separate accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's utility function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish operating revenues and expenses from non-operating 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 utility services. The City considers all impact fee revenue as capital contributions for the water and sewer system; therefore, no amount from the impact fees are included in operating revenue. Operating expenses for enterprise funds include the cost of service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Basis of Presentation – Continued**

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

*Governmental*

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

General Fund – This is the City's primary operating fund and is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

*Proprietary*

Proprietary funds focus on the determination of net position, changes in net position, and cash flows. All of the City's proprietary funds are enterprise funds, as fees are charged to external users for services. The City has one proprietary fund:

Utilities Fund – this fund accounts for the operations and activities of the City's utilities systems, which comprise the City's water system, sewer system, gas system and sanitation system.

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, Net Position or Fund Balance**

*Cash and Cash Equivalents*

The City defines cash and cash equivalents as cash on hand, demand deposits, certificates of deposit with maturities of two years or less when purchased, and all highly liquid debt instruments with maturities of three months or less when purchased. The City's cash deposits are held by banks that qualify as public depositories under the Florida Security for Public Deposits Act as required by Chapter 280, Florida Statutes. The City's cash deposits are fully insured by the Public Deposits Trust Fund.

*Receivables and Payables*

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

All receivables in governmental funds are shown net of an allowance for uncollectibles. At September 30, 2018, the City considers all governmental fund receivables collectible and accordingly does not have an allowance.

Services provided, deemed to be at market, or near market rates, are treated as revenues and expenditures/expenses. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, Net Position or Fund Balance – Continued**

*Receivables and Payables – Continued*

All proprietary fund receivables are shown net of an allowance for uncollectibles. The City's estimate is based on historical collection experience and a review of the current status of accounts receivable. When the collectability of a receivable becomes questionable, an allowance for doubtful accounts is established.

*Inventory*

Inventory in the proprietary funds consists of expendable supplies held for consumption. The City values inventory at the lower of cost or net realizable value. Cost is determined on a first-in, first-out basis, and the City uses the consumption method to account for inventory. Under the consumption method, inventory items are recorded as expenditures during the period the inventory is used.

*Restricted Assets*

Certain resources of the City are restricted for specific purposes and are not available to be used for general operations. The City's restricted assets consist of cash held for customer deposits, impact fees, and debt service.

*Capital Assets*

Capital assets, which include construction in process, property, plant, equipment, and infrastructure assets (roads, bridges, curbs and sidewalks, drainage systems, lighting systems and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial cost of more than \$1,000 and an estimated useful life of more than one year.

In the case of the initial capitalization of general infrastructure assets (i.e. those reported by governmental activities) the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through various allowable estimating techniques. As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. Donated capital assets are recorded at their acquisition value on the date of donation.

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

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, Net Position or Fund Balance – Continued**

*Capital Assets – Continued*

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

<u>Assets</u>	<u>Years</u>
Buildings and utility systems	35-75 years
Public domain infrastructure	50 years
Furniture and fixtures	10 years
Vehicles	5 years
Office equipment	5 years
Computer equipment	5 years

*Deferred Inflows/Outflows of Resources*

In addition to assets, the statement of financial position will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City's deferred outflows of resources are comprised of pension related and other post-employment benefit related items.

In addition to liabilities, the statement of financial position will report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City's deferred inflows of resources are comprised of pension related and other post-employment benefit related items.

*Compensated Absences*

The City accrues accumulated unpaid vacation and sick leave when earned (or estimated to be earned) by the employee. For proprietary funds and the government-wide statements, the current portion is the amount estimated to be used in the following year. In the fund financial statements, all of the governmental related compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, Net Position or Fund Balance – Continued**

*Unearned Revenue*

Unearned revenues are reported in connection with resources that have been received but not yet earned. At September 30, 2018, unearned revenue in the Utility Fund is composed of prepayments for regular utility services and payments received for water and wastewater system connection fees from developers.

*Long-Term Obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective and straight-line interest methods. Bond issuance costs are expensed as they are incurred. 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 issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

*Other Postemployment Benefits (OPEB) Liability*

For the purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Retirees' Health Insurance OPEB Plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, the plan recognizes benefit payments when due and payable in accordance with the benefit terms.



**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, Net Position or Fund Balance – Continued**

*Other Postemployment Benefits (OPEB) Liability – Continued*

The City has implemented GASB Statement No. 75, *Accounting and Reporting for Postemployment Benefits Other Than Pensions*, and reported a total OPEB liability of \$214,360 as of September 30, 2018. This amount is recognized in the government-wide financial statements and in the proprietary funds financial statements.

*Net Pension Liability*

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Florida Retirement System (FRS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by FRS. For this purpose, benefit payments (including refunds of employee contributions, if any) are recognized when due and payable in accordance with the benefit terms. The Plans report their investments at fair value. The City reported a total net pension liability of \$6,465,271 as of September 30, 2018. This amount is recognized in the government-wide financial statements and in the proprietary funds financial statements.

GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. See Note 6 for defined timeframes on the Florida Retirement System/Health Insurance Subsidy Plan.

*Classification of Fund Balance*

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, under GASB No. 54, are comprised of the following:

- Nonspendable – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, deposits, prepaid items, and advances to other funds.
- Restricted – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- Committed – includes amounts that can only be used for the specific purposes determined by a formal action (an Ordinance) of the City's highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action (an Ordinance) that imposed the constraint originally.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, Net Position or Fund Balance – Continued**

*Classification of Fund Balance – Continued*

- Assigned – includes spendable fund balance amounts that are intended to be used by the City for specific purposes that are neither restricted nor committed. *Intent* is expressed by the City Council to assign amounts to be used for specific purposes. The City’s fund balance policy does not explicitly specify who is authorized to establish fund balance assignments. Only the City Council has the authority to establish fund balance assignments.
- Unassigned – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of restraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

*Net Position*

Net position in the government-wide financial statements are categorized as net investment in capital assets, restricted or unrestricted. Net investment in capital assets represents net position related to property, plant and equipment, net of any related debt. Restricted net position represents the net position restricted by enabling legislation. The City considers restricted amounts to be spent first when both restricted and unrestricted resources are available.

**Estimates**

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

**Subsequent Events**

Subsequent events were evaluated through June 28, 2019, which is the date the financial statements were available to be issued.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

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**2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgets**

Budgets are adopted on a basis consistent with U.S. GAAP. Annual appropriated budgets are adopted by resolution for all governmental and proprietary funds. However, budgets for proprietary funds are not legally required to be reported on and are not included in these financial statements. All appropriations lapse at fiscal year-end except for appropriations related to multi-year capital projects. Budgetary data reflected in the financial statements are established by the following procedures: Prior to September 1 of each year, proposed budgets are received by the City Council from the City Finance Director. These proposed expenditures, along with all estimated receipts, taxes to be levied, and balances expected to be brought forward are considered by the City Council. The City Council requires such changes as deemed necessary, sets proposed millage, and establishes dates for tentative and final public budget hearings as prescribed by Florida Statutes.

Proposed budgets are advertised in a newspaper of general circulation in the City. Public hearings are conducted for the purposes of receiving input, responding to complaints, and providing reasons and explanations for intended actions to all citizens participating.

Prior to October 1, the budget for all governmental and proprietary funds of the City is legally enacted through passage of a resolution. Budget amendments are periodically passed via resolutions throughout the fiscal year. Budgeted beginning fund balance in the accompanying financial statements reflects planned utilization of prior years' unassigned fund balance to the level required to accomplish current year objectives.

**3. DEPOSITS AND INVESTMENTS**

**Deposits**

The City manages its custodial credit risk by maintaining its deposits with "Qualified Public Depositories" as defined in Chapter 280, Florida Statutes. The provisions of this statute allow qualified public depositories to participate in a multiple financial institution collateral pool to ensure the security for public deposits. All qualified public depositories must place with (or in the name of) the Chief Financial Officer of the State of Florida, collateral in the amount of the average daily balance of public deposits multiplied by the average monthly balance of public deposits or 125 percent of the average daily balance of public deposits greater than capital. In the event of default by a qualified public depository, excess losses over insurance and collateral will be recovered through assessments to all qualified public depositories of the same type as the depository in default. Under this method, all City deposits, including certificates of deposit, are considered fully insured.

As of September 30, 2018, the value of the City's deposits was \$4,413,492, all of which was held by qualified public depositories under Chapter 280, Florida Statutes.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

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**3. DEPOSITS AND INVESTMENTS – CONTINUED**

**Certificates of Deposit**

The City invests surplus funds into interest-bearing certificates of deposit at qualified public depositories in accordance with Section 218.415, Florida Statutes. Certificates of deposit are recorded at cost plus accrued interest, which approximates fair value. As of September 30, 2018, the total carrying value of certificates of deposit was \$1,539,323.

**Investments**

The City does not have a written investment policy but has adopted the policy provided by Florida Statutes, Section 218.15, which authorizes the City to invest surplus funds in the following:

1. The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act.
2. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
3. Interest-bearing time deposits or savings accounts in qualified public depositories.
4. Direct obligations of the U.S. Treasury.

The Florida Municipal Investment Trust (FMIvT) is an authorized investment under Section 218.415, Florida Statutes. It was created to offer diversified and professionally managed portfolios for the investment of the assets of participating municipalities. The Trustees of the Trust are designated as having official custody of the funds, which are invested by the purchase of shares of beneficial interest in the Trust. The Trust operates as a fiduciary trust fund under governmental accounting rules that require the Trust to prepare a series of financial statements. The FMIvT is a Local government Investment Pool (LGIP), and therefore considered an external investment pool for GASB reporting purposes. The city's investment is the FMIvT portfolio, not the individual securities held within each portfolio. A copy of the FMIvT financial statements can be obtained from Florida Municipal Investment Trust, 301 S. Bronough Street, Suite 300, Tallahassee, Florida 32301.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**3. DEPOSITS AND INVESTMENTS – CONTINUED**

**Investments – Continued**

As of September 30, 2018, the City held the following investments:

<u>Investment Type</u>	<u>Weighted Average Maturity</u>	<u>Rating</u>	<u>Fair Value</u>
Florida Municipal Investment Trust			
1-3 Year High Quality Bond Fund	1.5	AAAf/S2	\$ 974,428
Intermediate High Quality Bond Fund	4.3	AAAf/S3	1,006,251
			<u>\$ 1,980,679</u>

*Credit Risk*

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to meet its obligations. GASB 40 requires disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed-income securities. Investments may be aggregated by rating categories within the disclosure. Ratings are set by nationally recognized statistical rating organizations (Fitch, S&P).

*Custodial Credit Risk*

GASB 40 modifies the existing GASB 3 custodial credit risk reporting requirements. Under GASB 3, governments had to categorize their investments into one of three custodial credit risk categories. This is no longer required. Under GASB 40, disclosure is only required if investments are uninsured, unregistered and held by either the counterparty or the counterparty's trust department or agent but not in the government's name. (This was "Category 3" in GASB Statement 3.)

Participants' investments in the FMLvT are evidenced by shares of the pool. Investments in pools should be disclosed, but not categorized, because they are not evidenced by securities that exist in physical or book-entry form. The City's investment is with the pool, not the securities that make up the pool; therefore, no disclosure is required. The City may make redemptions of its investment in the FMLvT twice a month with a five business day notice.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

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**3. DEPOSITS AND INVESTMENTS – CONTINUED**

**Investments – Continued**

*Concentration Risk*

GASB Statement No. 40 requires disclosure of the concentration of credit risk when five or more percent of the total assets of the portfolio are invested with a single issuer. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are excluded from the concentration of credit risk disclosure requirements. The City has no limit on the amount it may invest in any one issuer. The FMIvT is a pooled investment; therefore no additional disclosure is required.

*Interest Rate Risk*

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk disclosures are required for all debt instruments as well as investment in mutual funds, external investment pools and other pooled investments that do not meet the definition of a "2a-7 like" pool.

Additionally, GASB 40 requires that interest rate risk be disclosed using one of the five approved methods. The five methods are: Segmented time distribution, specific identification, weighted average maturity (WAM), duration, and simulation model. Different methods may be presented for different types of investments. The City's investment policy is limited to complying with the State's investment statutes. The State law has not addressed an interest rate risk and therefore the City has not adopted an investment policy on that point. It is the city's intention to make investments to provide sufficient liquidity to pay obligations as they become due. The City uses the WAM for its two investments with the FMIvT as previously presented.

**Fair Value Measurements**

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The City's two investment funds in the Florida Municipal Investment Trust invest mainly in US government and agency securities and asset-backed securities. The underlying securities have observable level 1 quoted pricing inputs or observable level 2 significant other observable pricing inputs. Most of the security prices were obtained from a pricing service, Interactive Data Corporation (IDC). While the underlying asset values are based on quoted prices or market corroborated inputs, the net asset value of the portfolio is not publicly quoted. The City considers their shares in these funds as level 2, since the value is based on market-corroborated data.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

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**4. RECEIVABLES**

Receivables and amounts due from other governments at September 30, 2018, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
	<u>General Fund</u>	<u>Utilities Fund</u>	<u>Total</u>
Accounts receivable	\$ 72,978	\$ 1,155,852	\$ 1,228,830
Less allowance for doubtful accounts	-	(96,036)	(96,036)
Total receivables, net	<u>\$ 72,978</u>	<u>\$ 1,059,816</u>	<u>\$ 1,132,794</u>
Taxes receivable	\$ 292,664	\$ -	\$ 292,664
Grants receivable	331,292	-	331,292
Due from other governments	<u>\$ 623,956</u>	<u>\$ -</u>	<u>\$ 623,956</u>

**Due from Other Governments**

Amounts due from other governments relate to state and federal grants, half-cent sales taxes, local option fuel taxes, and telecommunications service tax.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**5. CHANGES IN CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 2,759,346	\$ 600	\$ -	\$ 2,759,946
Construction in progress	139,367	584,719	(139,367)	584,719
Total capital assets not being depreciated	<u>2,898,713</u>	<u>585,319</u>	<u>(139,367)</u>	<u>3,344,665</u>
Capital assets being depreciated				
Buildings	4,391,281	-	-	4,391,281
Improvements other than buildings	11,138,049	183,475	-	11,321,524
Furniture and equipment	5,158,952	68,938	(41,617)	5,186,273
Total capital assets being depreciated	<u>20,688,282</u>	<u>252,413</u>	<u>(41,617)</u>	<u>20,899,078</u>
Less accumulated depreciation				
Buildings	(2,109,885)	(120,674)	-	(2,230,559)
Improvements other than buildings	(3,568,936)	(246,787)	-	(3,815,723)
Furniture and equipment	(3,823,276)	(375,806)	41,617	(4,157,465)
Total accumulated depreciation	<u>(9,502,097)</u>	<u>(743,267)</u>	<u>41,617</u>	<u>(10,203,747)</u>
Total capital assets being depreciated, net	<u>11,186,185</u>	<u>(490,854)</u>	<u>-</u>	<u>10,695,331</u>
<b>Governmental activities, net</b>	<u>\$ 14,084,898</u>	<u>\$ 94,465</u>	<u>\$ (139,367)</u>	<u>\$ 14,039,996</u>



**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**5. CHANGES IN CAPITAL ASSETS – CONTINUED**

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 589,488	\$ -	\$ -	\$ 589,488
Construction in progress	2,531,959	977,502	(1,633,020)	1,876,441
Total capital assets not being depreciated	<u>3,121,447</u>	<u>977,502</u>	<u>(1,633,020)</u>	<u>2,465,929</u>
Capital assets being depreciated				
Buildings	38,631,591	2,423,307	-	41,054,898
Furniture and equipment	2,991,921	4,043	-	2,995,964
Total capital assets being depreciated	<u>41,623,512</u>	<u>2,427,350</u>	<u>-</u>	<u>44,050,862</u>
Less accumulated depreciation				
Buildings	(15,452,956)	(997,173)	-	(16,450,129)
Furniture and equipment	(2,520,782)	(169,041)	-	(2,689,823)
Total accumulated depreciation	<u>(17,973,738)</u>	<u>(1,166,214)</u>	<u>-</u>	<u>(19,139,952)</u>
Total capital assets being depreciated, net	<u>23,649,774</u>	<u>1,261,136</u>	<u>-</u>	<u>24,910,910</u>
<b>Business-type activities, net</b>	<u>\$ 26,771,221</u>	<u>\$ 2,238,638</u>	<u>\$ (1,633,020)</u>	<u>\$ 27,376,839</u>

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

<b>Governmental activities</b>	
General government	\$ 55,084
Public safety	157,175
Transportation	414,314
Culture and recreation	116,694
Total depreciation expense - governmental activities	<u>\$ 743,267</u>
<b>Business-type activities</b>	
Utilities	1,166,214
Total depreciation expense - business-type activities	<u>\$ 1,166,214</u>

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
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**6. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM**

All of the City's employees can participate in the Florida Retirement System (FRS). As provided by Chapters 121 and 112, Florida Statutes, the FRS provides two cost sharing, multiple employer defined benefit plans administered by the Florida Department of Management Services, Division of Retirement, including the FRS Pension Plan ("Pension Plan") and the Retiree Health Insurance Subsidy ("HIS Plan").

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

The State of Florida annually issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. The latest available report may be obtained by writing to the State of Florida Division of Retirement, Research and Education Section, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or from the website: [www.dms.myflorida.com/workforce\\_operations/retirement/publications](http://www.dms.myflorida.com/workforce_operations/retirement/publications).

**Pension Plan**

*Plan Description*

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

*Benefits Provided*

Benefits under the Pension Plan are computed on the basis of age, average final compensation, and service credit. *Regular Class* members enrolled before July 1, 2011, who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.60% of their final average compensation based on the five highest years of salary, for each year of credited service. Vested members with less than 30 years of service may retire before age 62 and receive reduced retirement benefits.

*Special Risk Class* members (police and firefighters) enrolled before July 1, 2011, who retire at or after age 55 with at least six years of credited service, or with 25 years of service regardless of age, are entitled to a retirement benefit payable monthly for life, equal to 3.00% of their final average compensation based on the five highest years of salary for each year of credited service.

*Senior Management Service Class* members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 2.00% of their final average compensation based on the five highest years of salary for each year of credited service.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
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**6. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM – CONTINUED**

**Pension Plan – Continued**

*Elected Officers' Class* members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 3.00% (3.33% for judges and justices) of their final average compensation based on the five highest years of salary for each year of credited service.

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

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

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

*Contributions*

Effective July 1, 2011, all enrolled members of the FRS, other than DROP participants, are required to contribute 3.00% of their salary to the FRS. In addition to member contributions, governmental employers are required to make contributions to the FRS based on state-wide contribution rates established by the Florida Legislature. These rates are updated as of July 1 of each year. The employer contribution rates by job class for each of the prior three years are as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Regular Class:	8.26%	7.92%	7.52%
Special Risk:	24.50%	23.27%	22.57%
Senior Management Class:	24.06%	22.71%	21.77%
DROP:	14.03%	13.26%	12.99%

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
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**6. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM – CONTINUED**

**Pension Plan – Continued**

These employer contribution rates include 1.66% for HIS Plan subsidies for the periods October 1, 2016 through September 30, 2018. The City’s contributions, including employee contributions, to the pension plan totaled \$487,357, \$460,073 and \$428,850 for the fiscal years ended September 30, 2018, 2017, and 2016, respectively.

*Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources*

At September 30, 2018, the City reported a liability of \$5,150,823 for its proportionate share of the pension plan’s net pension liability. The City’s proportionate share of the net pension liability was based on the City’s share of contributions to the FRS relative to the contributions of all participating governments. At June 30, 2018, the City’s proportionate share was 0.017100713%.

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018.

*Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources – Continued*

For the fiscal year ended September 30, 2018, the City recognized pension expense of \$371,506. In addition the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 436,352	\$ 15,838
Change of assumptions	1,683,039	-
Net difference between projected and actual earnings on pension plan investments	-	397,964
Changes in proportion and differences between City pension plan contributions and proportionate share of contributions	88,119	220,316
City pension plan contributions subsequent to the measurement date	113,310	-
	<u>\$ 2,320,820</u>	<u>\$ 634,118</u>

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
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**6. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM – CONTINUED**

**Pension Plan – Continued**

A component of deferred outflows of resources related to the pension plan of \$113,310 resulting from City contributions to the plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2019. Other components reported as deferred outflows of resources and deferred inflows of resources related to the pension plan, except for changes in proportion and related differences in the share of contributions, will be recognized in pension expense (income) as follows:

<b>Fiscal year ending</b>	<b>Amount</b>
<b><u>September 30:</u></b>	
2019	\$ 636,336
2020	426,499
2021	38,399
2022	275,813
2023	176,313
Thereafter	<u>20,032</u>
	<u><u>\$ 1,573,392</u></u>

*Actuarial Assumptions*

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumption, applied to all periods included in the measurement:

Inflation	2.60%
Salary increases	3.25%, average, including inflation
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the July 1, 2018, valuation were based on the results of a 2014 actuarial experience study for the period July 1, 2008 through June 30, 2013.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
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**6. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM – CONTINUED**

**Pension Plan – Continued**

*Actuarial Assumptions – Continued*

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:

<b>Asset Class</b>	<b>Target Allocation (1)</b>	<b>Annual Arithmetic Return</b>	<b>Compound Annual (Geometric) Return</b>	<b>Standard Deviation</b>
Cash	1.00%	2.90%	2.90%	1.80%
Fixed income	18.00%	4.40%	4.30%	4.00%
Global equity	54.00%	7.60%	6.30%	17.00%
Private equity	10.00%	10.70%	7.80%	26.50%
Strategic investments	6.00%	6.00%	5.70%	8.60%
Real estate (property)	<u>11.00%</u>	6.60%	6.00%	11.30%
Total	<u><u>100.00%</u></u>			
Assumed inflation – mean			2.60%	1.90%

(1) As outlined in the pension plan's investment policy

*Discount Rate*

The discount rate used to measure the total pension liability was 7.00%. The Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for the calculation of the total pension liability is equal to the long-term expected rate of return.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
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**6. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM – CONTINUED**

**Pension Plan – Continued**

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

The following represents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<b>1% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
City’s proportionate share of the net pension liability (asset)	\$ 9,400,469	\$ 5,150,823	\$ 1,621,242

*Pension Plan Fiduciary Net Position*

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

**HIS Plan**

*Plan Description*

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

*Benefits Provided*

For the fiscal year ended September 30, 2018, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month. To be eligible to receive these benefits, a retiree under a state-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

*Contributions*

The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2018, the HIS contribution for the plan was 1.66%. The City contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
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**6. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM – CONTINUED**

**HIS Plan – Continued**

*Contributions – Continued*

The City's contributions to the HIS Plan totaled \$67,349, \$128,364 and 125,628 for the fiscal years ended September 30, 2018, 2017, and 2016, respectively.

*Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources*

At September 30, 2018, the City reported a liability of \$1,314,447 for its proportionate share of the HIS Plan's net pension liability. At June 30, 2018, the City's proportionate share was 0.012419062%.

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018.

For the fiscal year ended September 30, 2018, the City recognized pension expense of \$34,821. In addition the City reported deferred outflows of resources and deferred in flows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 20,124	\$ 2,233
Change of assumptions	146,183	138,974
Net difference between projected and actual earnings on pension plan investments	793	-
Changes in proportion and differences between City pension plan contributions and proportionate share of contributions	52,559	52,917
City pension plan contributions subsequent to the measurement date	14,811	-
	\$ 234,470	\$ 194,124



**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**6. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM – CONTINUED**

**HIS Plan – Continued**

*Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources – Continued*

A component of deferred outflows of resources related to the HIS Plan, totaling \$14,811 resulting from City contributions to the HIS Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2019. Other components reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan, except for changes in the proportion and related differences in the share of contributions will be recognized in pension expense as follows:

<b>Fiscal year ending</b>	<b>Amount</b>
<b><u>September 30:</u></b>	
2018	\$ 18,026
2019	17,959
2020	12,564
2021	2,777
2022	(17,655)
Thereafter	(8,136)
	<u>\$ 25,535</u>

*Actuarial Assumptions*

The total pension liability in the July 1, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60%
Salary increases	3.25%, average, including inflation
Investment rate of return	3.87%

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

The actuarial assumptions used in the July 1, 2018, valuation were based on the results of a 2014 actuarial experience study for the period July 1, 2008 through June 30, 2013.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
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**6. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM – CONTINUED**

**HIS Plan – Continued**

*Discount Rate*

The discount rate used to measure the total pension liability was 3.87%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

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

The following represents the City's proportionate share of the net pension liability calculated using the discount rate 3.87%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower one percentage point higher than the current rate:

	<b>1% Decrease (2.87%)</b>	<b>Current Discount Rate (3.87%)</b>	<b>1% Increase (4.87%)</b>
City's proportionate share of the net pension liability (asset)	\$ 1,497,079	\$ 1,314,447	\$ 1,162,214

*Pension Plan Fiduciary Net Position*

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

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
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**7. LONG-TERM DEBT**

**Changes in Long-Term Debt Liabilities**

Long-term debt activity for the year ended September 30, 2018, is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Compensated absences	\$ 319,171	\$ 22,955	\$ -	\$ 342,126	\$ 17,106
Capital leases	442,533	-	(168,457)	274,076	140,982
Total governmental activities	<u>\$ 761,704</u>	<u>\$ 22,955</u>	<u>\$ (168,457)</u>	<u>\$ 616,202</u>	<u>\$ 158,088</u>
Business-type activities					
Compensated absences	\$ 61,303	\$ -	\$ (5,541)	\$ 55,762	4,628
Capital leases	493,871	-	(159,581)	334,290	150,531
Notes and loans payable	1,689,169	929,363	(648,327)	1,970,205	266,087
Revenue bonds	12,404,684	-	(391,048)	12,013,636	385,000
Total business-type activities	<u>\$ 14,649,027</u>	<u>\$ 929,363</u>	<u>\$ (1,204,497)</u>	<u>\$ 14,373,893</u>	<u>\$ 806,246</u>

**Description of Long-Term Debt Outstanding**

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<b>GOVERNMENTAL ACTIVITIES</b>			
<b>Capital Leases</b>			
Capital lease with Santander Bank for various equipment with an original cost of \$313,697; due in annual installments of \$69,061; payments through January 2019; bearing interest rate of 1.94%; secured by the various equipment.	\$ 54,231	\$ -	\$ 54,231
Capital lease with U.S. Bancorp for vehicles and various equipment with an original cost of \$430,000; due in annual installments of \$22,534; payments through March 2021; bearing interest rate of 1.80%.	86,751	133,094	219,845
Total capital leases	<u>140,982</u>	<u>133,094</u>	<u>274,076</u>
<b>Compensated Absences</b>			
Total long-term portion of accumulated, vested annual and sick leave for governmental funds.	17,106	325,020	342,126
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>\$ 158,088</u>	<u>\$ 458,114</u>	<u>\$ 616,202</u>

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
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**7. LONG-TERM DEBT – CONTINUED**

**Description of Long-Term Debt Outstanding – Continued**

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<b>BUSINESS-TYPE ACTIVITIES</b>			
<b><i>Notes and loans payable</i></b>			
State revolving loan payable (SRF#1) of \$3,883,675, due in semi-annual payments of \$86,384, through September 15, 2020, bearing an interest rate of 2.56%, secured by anticipated net sewer system revenues.	\$ 165,249	\$ 169,507	\$ 334,756
State revolving loan payable (SRF#2) of \$328,411, due in semi-annual payments of \$10,240, through December 15, 2022, bearing an interest rate of 1.535%, secured by anticipated net sewer system revenues.	19,334	60,094	79,428
State revolving loan payable (SRF#3) of \$1,216,117 due in semi-annual payments of \$27,334, through May 15, 2038, bearing no interest, secured by anticipated net sewer system revenues.	17,556	986,770	1,004,326
Note payable with the State of Florida, Department of Transportation for the relocation of water and sewer utilities with an original cost of \$625,925; annual payments of \$41,728; payments through March 2028; bearing no interest rate.	41,986	377,873	419,859
Note payable with the State of Florida, Department of Transportation for the drain replacement at Juniper Creek with an original cost of \$212,000; annual payments of \$21,200; payments through March 2024; bearing no interest rate.	21,962	109,874	131,836
Total notes and loans payable	63,948	487,747	551,695
<b><i>Capital leases</i></b>			
Capital lease with SunTrust Equipment Finance & Leasing Corp. for the purchase of meter registers with an original cost of \$685,000; due in quarterly payments of \$26,978; payments through April 2021; bearing an interest rate of 2.75%; secured by the meter registers.	101,126	183,759	284,885
Capital lease with Santander Bank for various equipment with an original cost of \$287,198; due in annual installments of \$63,227; payments through January 2019; bearing an interest rate of 1.94%; secured by the various equipment.	49,405	-	49,405
Total capital leases	150,531	183,759	334,290

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**7. LONG-TERM DEBT – CONTINUED**

**Description of Long-Term Debt Outstanding – Continued**

	Current	Long-Term	Total
<b><i>Revenue bonds payable</i></b>			
<u>Sewer System Revenue Bonds - Series 1997</u>			
Authorized \$5,105,000 issued \$2,826,300 at 4.5%, per annum, principal and interest payable annually on September 1. Payments shall be made from and collateralized by a lien on taxes (utilities service taxes) on the sale of natural and bottled gas. Bonds are also collateralized by a lien on and pledge of net revenues derived from operations of the sewer and gas systems, junior, inferior and subordinate to the lien thereon of the prior obligations, the public service taxes collected on electric, water and telephone service, and the guaranteed entitlement revenue received from the State of Florida.	\$ 71,000	\$ 1,808,100	\$ 1,879,100
	45,000	750,000	795,000
 <u>Water System Junior Lien Revenue Bonds - Series 1996</u>			
Authorized and issued \$663,100 at 5.125% per annum principal and interest payable annually on September 1. Payments shall be made from and secured equally and ratably by a pledge of and a lien on the net revenues derived from the operation of the Water System, junior, inferior and subordinate to the lien thereon of the prior obligations.	16,000	439,100	455,100
	16,000	439,100	455,100

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**7. LONG-TERM DEBT – CONTINUED**

**Description of Long-Term Debt Outstanding – Continued**

	Current	Long-Term	Total
<i>Revenue bonds payable - continued</i>			
<p><u>Water System Junior Lien Revenue Bonds - Series 2004</u>            Authorized and issued \$2,178,000 at 4.50% per annum principal and interest payable annually on September 1. Payments shall be made from and secured equally and ratably by a pledge of and a lien on the net revenues derived from the operation of the Water System, junior, inferior and subordinate to the lien thereon of the prior obligations.</p>	\$ 38,000	\$ 1,773,000	\$ 1,811,000
<p><u>Water System Junior Lien Revenue Bonds - Series 2006</u>            Authorized and issued \$3,000,000 at 4.25% per annum principal and interest payable annually on September 1. Payments shall be made from and secured equally and ratably by a pledge of and a lien on the net revenues derived from the operation of the Water System, junior, inferior and subordinate to the lien thereon of the prior obligations.</p>	49,000	2,497,000	2,546,000
<p><u>Water System Junior Lien Revenue Bonds - Series 2012</u>            Authorized and issued \$4,454,000 at 2.75% per annum principal and interest payable annually on September 1. Payments shall be made from and secured equally and ratably by a pledge of and a lien on the net revenues derived from the operation of the Water System, junior, inferior and subordinate to the lien thereon of the prior obligations.</p>	76,000	4,094,000	4,170,000

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**7. LONG-TERM DEBT – CONTINUED**

**Description of Long-Term Debt Outstanding – Continued**

	<b>Current</b>	<b>Long-Term</b>	<b>Total</b>
<i>Revenue bonds payable - continued</i>			
 <u>Gas System Refunding Revenue Bonds - Series 2012</u> Authorized and issued \$885,000 at 2.30% per annum, principal payable annual on May 1, interest payable semi-annually on November 1 and May 1. Bonds are collateralized by a pledge of the local government half-cent sales tax pursuant to Florida Statutes.	\$ 90,000	\$ 267,436	\$ 357,436
Total revenue bonds payable	385,000	11,628,636	12,013,636
	<b>Current</b>	<b>Long-Term</b>	<b>Total</b>
<b>Accrued Compensated Absences</b> Accumulated, vested annual compensation for Enterprise Funds.	\$ 4,628	\$ 51,134	\$ 55,762
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	\$ 591,767	\$ 12,896,141	14,373,893
<b>GRAND TOTAL LONG-TERM DEBT</b>			\$ 14,990,095

**Requirement to Amortize all Long-Term Debt**

The annual requirements to amortize all debt outstanding except accrued and annual leave as of September 30, 2018, follows:

<u>Year Ending September 30,</u>	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2019	\$ 140,982	\$ 5,486	\$ 810,874	\$ 490,413
2020	88,329	1,809	797,774	463,698
2021	44,765	304	627,136	439,036
2022	-	-	553,609	419,200
2023	-	-	463,052	400,322
2024-2028	-	-	2,453,987	1,773,801
2029-2033	-	-	2,491,046	1,333,386
2034-2038	-	-	2,269,653	822,217
2039-2043	-	-	1,805,000	532,043
2044-2048	-	-	1,337,000	206,295
2049-2053	-	-	709,000	49,253
Total	\$ 274,076	\$ 7,599	\$ 14,318,131	\$ 6,929,664

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**8. OTHER POST-EMPLOYMENT BENEFITS**

**OPEB Plan**

*Plan Description*

The City provides certain continuing health care and life insurance benefits for its retired employees. The plan is a single employer defined benefit OPEB plan administered by the City. The authority to establish and/or amend the obligation of the City, employees, and retirees rests with the City Council in accordance with requirements of Florida State Statutes, Section 112.0801. The plan does not issue a separate report.

*Benefits Provided*

Medical benefits are provided through comprehensive plans and are made available to employees upon actual retirement. For employees participating in the FRS pension plan, eligibility is the same as that of the pension plan. For non-FRS pension plan participants, employees are eligible to receive full benefits after 30 years.

Plan Membership as of September 30, 2018:

Inactive Plan Members or Beneficiaries Current Receiving Benefits	2
Inactive Plan Members Entitled to But Not Yet Receiving Benefits	-
Active Plan Members	88
	90

**Net OPEB Liability**

*Actuarial Assumptions*

The total OPEB liability was determined by an actuarial valuation as of October 1, 2017, using the following actuarial assumptions:

Measurement date	September 30, 2018
Valuation date	October 1, 2017
Actuarial cost method	Entry Age Normal (AMM)
Inflation	2.5% annually
Salary increase	3% annually
Prior discount rate	3.35%
Discount rate	3.64% annually which is the S&P Municipal bond 20 Year High-Grade Rate Index as of September 30, 2018.
Retirement age	Eligibility is the same as the Florida Retirement System (FRS) pension plan.
Mortality	RP-2014 Combined Annuitant Mortality Table for males and females. The Mortality Table reflects recent rates developed by the Society of Actuaries.
Turnover	Table T-5 from the Pension Actuary's Handbook



**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**8. OTHER POST-EMPLOYMENT BENEFITS – CONTINUED**

**Net OPEB Liability – Continued**

*Changes in Net OPEB Liability*

	<b>Increase (Decrease)</b>		
	<b>Total OPEB Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net OPEB Liability (a) – (b)</b>
Balances at September 30, 2017	\$ 323,124	\$ -	\$ 323,124
Changes for the year:			
Service cost	17,091	-	17,091
Interest	10,397	-	10,397
Changes of assumptions	(110,695)	-	(110,695)
Benefit payments	(25,556)	-	(25,556)
Net changes	(108,763)	-	(108,763)
Reporting period ending September 30, 2018	<u>\$ 214,361</u>	<u>\$ -</u>	<u>\$ 214,361</u>

*Sensitivity of Net OPEB Liability to Changes in the Discount Rate:*

	<b>1% Decrease 2.64%</b>	<b>Current Discount Rate 3.64%</b>	<b>1% Increase 4.64%</b>
Net OPEB liability	\$ 197,952	\$ 214,361	\$ 2,329,447

*Sensitivity of Net OPEB Liability to Changes in the Healthcare Trend Rate:*

	<b>1% Decrease 4.00%</b>	<b>Healthcare Cost Trend Rates 5.00%</b>	<b>1% Increase 6.00%</b>
Net OPEB liability	\$ 239,239	\$ 214,361	\$ 193,511

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**8. OTHER POST-EMPLOYMENT BENEFITS – CONTINUED**

**Net OPEB Liability – Continued**

*OPEB Liabilities, OPEB Expense, and Deferred Inflows/Outflows of Resources*

For the fiscal year ended September 30, 2018, the City recognized OPEB expense of \$17,476. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between Expected and Actual experience	\$ -	\$ 40,082
Changes of assumptions	3,371	63,973
Total	\$ 3,371	\$ 104,055

Components of deferred outflows of resources and deferred inflows of resources related to the OPEB plan will be recognized in OPEB expense (income) as follows:

Year ended September 30:

2019	\$ (10,012)
2020	(10,012)
2121	(10,012)
2022	(10,012)
2023	(10,012)
Thereafter	(50,624)
	\$ (100,684)

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**9. INTERFUND BALANCES AND TRANSFERS**

The following is a summary of interfund balances at September 30, 2018:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>
General	Cemetery	\$ 118,235
	Utilities	749,524
		<u>867,759</u>
Christmas Reflections	Utilities	21,941
Cemetery	Utilities	73,523
Total		<u>\$ 963,223</u>

The following is a summary of interfund transfers for the year ended September 30, 2018:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
General	Utilities	\$ 23,049

The City's transfers are routine transfers for debt service, subsidies of various city operations and special revenue requirements.

**10. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the Florida Municipal Insurance Trust and other commercial insurance purchased from independent third parties. There has been no significant change in insurance coverage from the previous fiscal year. The amount of settlements have not exceeded the insurance coverage in each of the past three years.

**11. COMMITMENTS AND CONTINGENCIES**

**Grants**

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

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

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**11. COMMITMENTS AND CONTINGENCIES – CONTINUED**

**Interlocal Landfill Agreement**

The City entered into an interlocal agreement with Walton County in 1995. This agreement stipulates the City will turn over to the County the County imposed 1-cent sales tax proceeds generated within the city limits of DeFuniak Springs. In turn the County will not assess a tipping fee to the City on any solid waste except construction and demolition debris and tires. The County further agreed to pay the City a monthly fee of \$8.50 per residential unit. It was also agreed that any funds remaining from the 1-cent sales tax collection would be distributed pursuant to the Department of Revenue's sales tax distribution formula in effect at the time of distribution. Included in this agreement is the stipulation that the County would spend the funds from this sales tax prior to disbursement of the escrowed funds for solid waste purposes only.

**Legal Matters**

The City is involved in pending and threatened litigation. In the opinion of City Management, after consulting with legal counsel, the range of potential loss from all claims and actions should not materially affect the financial condition of the City.

**12. CHANGE IN ACCOUNTING PRINCIPLES / RESTATEMENT**

**Correction of errors**

The City's beginning net position for governmental activities, business-type activities and the utility fund and the City's beginning fund balance for the general fund were restated for errors identified relating to year-end close out of the City's books and records. In addition, all of the City's beginning net positions and fund balances were restated due to errors relating to the interfund activities involving pooled cash. Lastly, the City's beginning net position for business-type activities and utility fund were restated for forgiveness of debt on a loan with the State of Florida which had occurred prior to October 1, 2017.

**Change in an accounting principle**

The GASB issued Statement No. 75, Accounting and Reporting for Postemployment Benefits Other Than Pensions, effective for fiscal years beginning after June 15, 2017. The scope of the statement addresses accounting and financial reporting for Other Postemployment Benefits (OPEB) that are provided by the employees of state and local government employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The impact of the City's adoption of GASB 75 during the current fiscal year requires it to restate beginning net position for the governmental activities in the City's government-wide financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**12. CHANGE IN ACCOUNTING PRINCIPLES / RESTATEMENT – CONTINUED**

The table below summarizes the components of the restatement of net position as of October 1, 2017:

	<b>Governmental Funds</b>				<b>Utility Fund</b>		
	<b>General Fund</b>	<b>Christmas Reflections Fund</b>	<b>Cemetery Fund</b>	<b>Total</b>	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Primary Government</b>
Net position, as previously reported	\$ 1,569,832	\$ 53,654	\$ 28,949	\$ 1,652,435	\$ 11,212,337	\$ 14,678,617	\$ 25,890,954
Correction of errors related to							
(a) cutoff and timing	57,486			57,486	57,486	43,763	101,249
(b) interfund activities	939,178	34,282	65,410	1,038,870	1,038,870	(607,068)	431,802
(c) forgiveness of debt	-	-	-	-	-	379,742	379,742
Implementation of GASB 75	-	-	-	-	(154,276)	(38,334)	(192,610)
Net position, restated	<u>\$ 2,566,496</u>	<u>\$ 87,936</u>	<u>\$ 94,359</u>	<u>\$ 2,748,791</u>	<u>\$ 12,154,417</u>	<u>\$ 14,456,720</u>	<u>\$ 26,611,137</u>

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**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (UNAUDITED)  
FLORIDA RETIREMENT SYSTEM  
LAST TEN YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	0.017100713%	0.018309200%	0.018313000%	0.017258610%	0.017096780%
City's proportionate share of the net pension liability (asset)	\$ 5,150,823	\$ 5,415,735	\$ 4,624,047	\$ 2,229,181	\$ 1,043,155
City's covered-employee payroll	\$ 3,976,920	\$ 4,009,182	\$ 3,916,251	\$ 3,756,488	\$ 3,705,926
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	129.52%	135.08%	118.07%	59.34%	28.15%
Plan fiduciary net position as a percentage of the total pension liability	84.26%	83.89%	84.88%	92.00%	96.09%

\* The amounts presented for each fiscal year were determined as of 6/30. Information prior to 2014 is not available.

\*\* This schedule is intended to show information for ten years. Additional years will be displayed as it becomes available.



**CITY OF DEFUNIAK SPRINGS, FLORIDA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (UNAUDITED)  
HEALTH INSURANCE SUBSIDY  
LAST TEN YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	0.012419062%	0.012959050%	0.012515520%	0.012221600%	0.012366680%
City's proportionate share of the net pension liability (asset)	\$ 1,314,447	\$ 1,385,641	\$ 1,458,631	\$ 1,246,411	\$ 1,156,314
City's covered-employee payroll	\$ 3,976,920	\$ 4,009,182	\$ 3,916,251	\$ 3,756,488	\$ 3,705,926
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	33.05%	34.56%	37.25%	33.18%	31.20%
Plan fiduciary net position as a percentage of the total pension liability	2.15%	1.64%	0.97%	0.50%	0.99%

\* The amounts presented for each fiscal year were determined as of 6/30. Information prior to 2014 is not available.

\*\* This schedule is intended to show information for ten years. Additional years will be displayed as it becomes available.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS (UNAUDITED)  
FLORIDA RETIREMENT SYSTEM  
LAST TEN YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 487,357	\$ 460,073	\$ 428,850	\$ 408,301	\$ 381,863
Contributions in relation to the contractually required contribution	<u>(487,357)</u>	<u>(460,073)</u>	<u>(428,850)</u>	<u>(408,301)</u>	<u>(381,863)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 3,976,920	\$ 4,009,182	\$ 3,916,251	\$ 3,756,488	\$ 3,705,926
Contributions as a percentage of covered-employee payroll	12.25%	11.48%	10.95%	10.87%	10.30%

\* The amounts presented for each fiscal year were determined as of 6/30. Information prior to 2014 is not available.

\*\* This schedule is intended to show information for ten years. Additional years will be displayed as it becomes available.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS (UNAUDITED)  
HEALTH INSURANCE SUBSIDY  
LAST TEN YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 67,349	\$ 128,363	\$ 125,628	\$ 90,563	\$ 79,693
Contributions in relation to the contractually required contribution	<u>(67,349)</u>	<u>(128,363)</u>	<u>(125,628)</u>	<u>(90,563)</u>	<u>(79,693)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 3,976,920	\$ 4,009,182	\$ 3,916,251	\$ 3,756,488	\$ 3,705,926
Contributions as a percentage of covered-employee payroll	1.69%	3.20%	3.21%	2.41%	2.15%

\* The amounts presented for each fiscal year were determined as of 6/30. Information prior to 2014 is not available.

\*\* This schedule is intended to show information for ten years. Additional years will be displayed as it becomes available.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS  
LAST TEN YEARS**

	<b>2018</b>
Reporting date	
<b>Total OPEB Liability</b>	
Service cost	\$ 17,091
Interest	10,397
Changes of benefit terms	-
Differences between Expected and Actual experience	(44,068)
Changes of assumptions <sup>1</sup>	(66,627)
Benefit payments	(25,556)
Net change in total OPEB liability	(108,763)
Total OPEB liability - beginning	323,124
Total OPEB liability - ending (a)	\$ 214,361
Covered employee payroll	\$ 3,528,523
City's net OPEB liability as a percentage of covered employee payroll	6.08%

Notes to schedule:

<sup>1</sup> As a result of Chapter 2015-157, Laws of Florida, the assumed rates of mortality were changed to the assumptions used by the Florida Retirement System to match the pension plan assumptions.

\* This schedule is not available for earlier years.

## **SUPPLEMENTARY INFORMATION**

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**CITY OF DEFUNIAK SPRINGS, FLORIDA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2018**

	<b>Special Revenue</b>		
	<b>Christmas Reflections</b>	<b>Cemetery</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 93,255	\$ 1,754	\$ 95,009
Investments	-	124,882	124,882
Receivables	-	3,957	3,957
Due from other funds	21,941	73,523	95,464
Restricted assets			
Investments	-	13,010	13,010
<b>TOTAL ASSETS</b>	<b>\$ 115,196</b>	<b>\$ 217,126</b>	<b>\$ 332,322</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 100	\$ -	\$ 100
Due to other funds	-	118,235	118,235
Customer deposits	-	13,010	13,010
Total liabilities	100	131,245	131,345
<b>FUND BALANCE</b>			
Committed - special revenue	115,096	85,881	200,977
Total fund balances	115,096	85,881	200,977
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 115,196</b>	<b>\$ 217,126</b>	<b>\$ 332,322</b>

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
 COMBINING STATEMENT OF REVNEUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2018**

	<b>Special Revenue</b>		
	<b>Christmas Reflections</b>	<b>Cemetery</b>	<b>Total</b>
<b>REVENUES</b>			
Charges for services	\$ 59,023	\$ 4,050	\$ 63,073
Interest	-	777	777
Miscellaneous	102	27,710	27,812
Total revenues	<u>59,125</u>	<u>32,537</u>	<u>91,662</u>
<b>EXPENDITURES</b>			
Current			
Physical environment	-	41,015	41,015
Culture and recreation	31,965	-	31,965
Total expenditures	<u>31,965</u>	<u>41,015</u>	<u>72,980</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>27,160</u>	<u>(8,478)</u>	<u>18,682</u>
<b>NET CHANGE IN FUND BALANCE</b>	27,160	(8,478)	18,682
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	53,654	28,949	82,603
Prior period adjustment	34,282	65,410	99,692
<b>FUND BALANCE AT BEGINNING OF YEAR RESTATED</b>	<u>87,936</u>	<u>94,359</u>	<u>182,295</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 115,096</u>	<u>\$ 85,881</u>	<u>\$ 200,977</u>



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**CITY OF DEFUNIAK SPRINGS, FLORIDA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Federal/State Agency Pass-through Entity Federal Program / State Project	CFDA / CSFA Number	Contract/Grant Number	Expenditures
<b><u>FEDERAL AWARDS</u></b>			
<b><u>U.S. Department of Transportation</u></b>			
<b>Direct Award</b>			
<b><u>Federal Aviation Administration</u></b>			
Airport Improvement Program	20.106	3-12-0018-009-2015	\$ 7,494
Total U.S. Department of Transportation			<u>7,494</u>
<b><u>Environmental Protection Agency</u></b>			
<b>Indirect Award</b>			
<b><u>Florida Department of Environmental Protection</u></b>			
Capitalization Grants for Clean Water State Revolving Funds	66.458	WW660230	877,286
Total Environmental Protection Agency			<u>877,286</u>
<b><u>U.S. Department of Homeland Security</u></b>			
<b>Indirect Award</b>			
<b><u>Florida Division of Emergency Management</u></b>			
Hazard Mitigation Grant	97.039	15HM-9J-01-76-02-358	40,667
Total U.S. Department of Homeland Security			<u>40,667</u>
<b>TOTAL FEDERAL AWARDS</b>			<u><u>\$ 925,447</u></u>
<b><u>STATE FINANCIAL ASSISTANCE</u></b>			
<b><u>Florida Department of Environmental Protection</u></b>			
Florida Recreation Development Assistance Program	37.017	A6104	\$ 1,571
Florida Recreation Development Assistance Program	37.017	A7127	600
Total Florida Department of Environmental Protection			<u>2,171</u>
<b><u>Florida Department of Financial Services</u></b>			
Volunteer Firefighter Grant Assistance Program	43.006	FM407	55,190
Total Florida Department of Financial Services			<u>55,190</u>
<b><u>Florida Department of Historical Resources</u></b>			
Acquisition, Restoration of Historic Properties	45.032	SC703	498,578
Total Florida Department of Historical Resources			<u>498,578</u>
<b><u>Florida Department of Transportation</u></b>			
Aviation Grant Programs	55.004	G0334	12,185
Aviation Grant Programs	55.004	G0G55	130,250
Local Transportation Projects	55.039	G0T48	37,000
Total Florida Department of Transportation			<u>179,435</u>
<b>TOTAL STATE FINANCIAL ASSISTANCE</b>			<u><u>\$ 735,374</u></u>

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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**NOTE 1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance (the Schedule) presents the activity of all federal funded programs and state funded projects of the City of DeFuniak Springs, Florida (the City) for the year ended September 30, 2018. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule. Funds received and expended as state financial assistance reported on the schedule include only those state funds provided from state resources to carry out state projects. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and Chapter 10.550, Rules of the Auditor General. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to, and does not, present the financial position, changes in net position, or cash flows of the City.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance is presented using the modified accrual basis of accounting for all governmental fund grants and the accrual basis of accounting for all proprietary fund grants. The basis of accounting is described in Note 1 to the City's financial statements. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain type of expenditures are not allowable or are limited as to reimbursement.

**NOTE 3. INDIRECT COST RATE**

The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

#### **IV. COMPLIANCE SECTION**

- COMPLIANCE MATTERS
- MANAGEMENT LETTER
- RESPONSES TO MANAGEMENT LETTER

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**INDEPENDENT ACCOUNTANTS' REPORT ON AN EXAMINATION OF  
COMPLIANCE REQUIREMENTS IN ACCORDANCE WITH CHAPTER  
10.550, RULES OF THE AUDITOR GENERAL**

To the Honorable Mayor and  
Members of the City Council

We have examined the City of DeFuniak Springs, Florida's (the City) compliance with Section 218.415, Florida Statutes, in regards to investments for the year ended September 30, 2018.

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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing and extent of the procedures selected depend on our judgment, including the assessment of the risks of material noncompliance, whether due to fraud or error. We believe the evidence we obtained is sufficient and appropriate to provide a 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 of DeFuniak Springs, Florida complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2018.

*Warren Averett, LLC*

Destin, Florida  
June 28, 2019

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

To the Honorable Mayor and  
Members of the City Council

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of DeFuniak Springs, Florida (the City), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 28, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit, 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal controls described in the accompanying schedule of findings and responses that we consider to be a significant deficiency (2018-001).



**Compliance and Other Matters**

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

**City of DeFuniak Springs's Response to Finding**

The City of DeFuniak Springs's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

*Warren Averett, LLC*

Destin, Florida

June 28, 2019

**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**

To the Honorable Mayor and  
Members of the City Council

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

We have audited the compliance of the City of DeFuniak Springs, Florida (hereinafter referred to as "City"), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* and the requirements described in the Florida 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, 2018. The City's major federal programs and state projects are identified in the summary of auditor results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal programs, state projects and passenger facility charge program.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs and state projects based on 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, 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 a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### ***Opinion on Each Major Federal Program and State Project***

In our opinion, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs and state projects for the fiscal year ended September 30, 2018.

### **Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with requirements that could have a direct and material effect on each major federal program, or state project, 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, or state project and to test and report on internal control over compliance in accordance with the Uniform Guidance and Florida Department of Financial Services *State Projects Compliance Supplement*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program 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 for 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.

### **Purpose of this Report**

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

*Warren Averett, LLC*

Destin, Florida  
June 28, 2019

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
SEPTEMBER 30, 2018**

**I. SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- |  |                      |     |                      |                        |
|--|----------------------|-----|----------------------|------------------------|
| • Material weakness(es) identified?  | _____                | Yes | _____ <u>X</u> _____ | No<br>None<br>Reported |
| • Significant deficiency(ies) identified that is/are not considered to be material weaknesses? | _____ <u>X</u> _____ | Yes | _____                | Reported               |
| Noncompliance material to financial statements noted?  | _____                | Yes | _____ <u>X</u> _____ | No                     |

***State Financial Assistance***

Internal control over major programs:

- |  |       |     |                      |                        |
|--|-------|-----|----------------------|------------------------|
| • Material weakness(es) identified?  | _____ | Yes | _____ <u>X</u> _____ | No<br>None<br>Reported |
| • Significant deficiency(ies) identified that is/are not considered to be material weaknesses? | _____ | Yes | _____ <u>X</u> _____ | Reported               |

Type of auditors' report issued on compliance for major programs: Unmodified

- |   |       |     |                      |    |
|---|-------|-----|----------------------|----|
| • Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance and Chapter 10.550, <i>Rules of the Auditor General</i> ? | _____ | Yes | _____ <u>X</u> _____ | No |
|---|-------|-----|----------------------|----|

Identification of major programs/projects:

<b>CFDA Number</b>	<b>Name of State Project</b>
66.458	Capitalization Grants for Clean Water State Revolving Funds
<b>CSFA Number</b>	<b>Name of State Project</b>
45.032	Acquisition, Restoration of Historic Properties

Dollar threshold used to distinguish between type A and type B federal programs:	\$ 750,000
--	------------

Dollar threshold used to distinguish between type A and type B state projects:	\$ 300,000
--	------------

- |  |       |     |                      |    |
|--|-------|-----|----------------------|----|
| Auditee qualified as low-risk auditee? | _____ | Yes | _____ <u>X</u> _____ | No |
|--|-------|-----|----------------------|----|

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED  
SEPTEMBER 30, 2018**

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**II. FINDINGS AND QUESTIONED COSTS – FINANCIAL STATEMENTS**

***FINDING 2018-001 INTERNAL CONTROL OVER FINANCIAL REPORTING***

***Criteria***

Under *Governmental Auditing Standards*, the auditor is required to obtain an understanding of the entity's internal control relevant to the audit. *Internal control* is defined as a process effected by those charged with governance, management, and other personnel that is designed to provide reasonable assurance about the achievement of the entity's objectives with regards to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

***Condition***

Accounting processes and personnel were changed throughout and subsequent to the fiscal year. Material audit adjustments were proposed by the auditors and accepted by management for the financial statements to be prepared in accordance with U.S. GAAP. In addition multiple material entries recorded in the general ledger system were recorded with little or no support retained by the City's management. Additional contributing factors to the condition were lack of corrective action regarding prior audit findings relating to timely filing of reports with the State of Florida's Auditor General and Division of Unclaimed Properties.

***Cause***

The City's management experienced higher than usual and sudden turnover, causing the City to hire an external accountant who did not always provide the City with adequate supporting documentation.

***Effect***

Beginning net position for the primary government had to be restated by approximately \$530,000. Untimely filing of Federal tax returns could result in the taxing authority to levy penalties and interest.

***Recommendation***

The City's management should obtain support for all of the City's external accountant's work performed to provide for adequate support for journal entries. Management should also review these entries to ensure proper knowledge and understanding of the business rationale for the entries.

***Views of responsible officials***

Management agrees with the recommendation and will ensure that all entries are properly recorded and supported in subsequent fiscal years.

**III. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS**

There were no findings which were required to be reported in accordance with the Uniform Guidance.

**IV. FINDINGS AND QUESTIONED COSTS – MAJOR STATE PROJECTS**

There were no findings which were required to be reported in accordance with Chapter 10.550, *Rules of the Auditor General*.

## MANAGEMENT LETTER

To the Honorable Mayor and  
Members of the City Council

### Report on the Financial Statements

We have audited the financial statements of the City of DeFuniak Springs, Florida (the City), as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated June 28, 2019.

### Auditors' Responsibility

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

### Other Reporting Requirements

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements in Accordance with *Government Auditing Standards* and our Independent Accountants' Report on an Examination of Compliance Requirements in Accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports, which are dated June 28, 2019, 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 report. Below is a tabulation of whether corrective actions were taken to address the findings and recommendations made in the preceding financial audit report:

FY 2016-17 Finding #	FY 2017-2018 Status	FY 2017-18 Finding #
2013-004	Corrected	n/a
2014-002	Corrected	n/a
2014-006	Uncorrected	2018-001
2015-001	Corrected	n/a
2017-001	Corrected	n/a
2017-003	Uncorrected	2018-001
2017-004	Corrected	n/a
2017-005	Corrected	n/a

**Official Title and Legal Authority**

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The official title and legal authority has been disclosed in Note 1 to the financial statements, and there were no component units related to the entity.

**Financial Condition and Management**

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 condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.b., and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures for the City. 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. Our assessment was performed as of September 30, 2018.

Section 10.554(1)(i)2., *Rules of Auditor General*, requires that we communicate any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations other than those described in the *Schedule of Findings and Questioned Costs* related to our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

**Additional Matters**

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

**Purpose of this Letter**

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

We greatly appreciate the assistance and cooperation extended to us during our audit.

*Warren Averett, LLC*

Destin, Florida  
June 28, 2019

City of DeFuniak Springs

71 US Hwy 90 West  
P.O. Box 685  
DeFuniak Springs, FL 32433



Phone: 850/892-8500  
Fax: 850/892-8506

**CORRECTIVE ACTION PLAN**  
**For the year ended September 30, 2018**

Section II – Findings and Questioned Costs – Financial Statements

**Finding 2018-001 – Internal Control over Financial Reporting**

***Condition***

Accounting processes and personnel were changed throughout and subsequent to the fiscal year end. Material adjustments were proposed by the auditors and accepted by management for the financial statements to be prepared in accordance with U.S. GAAP. In addition, multiple material entries recorded in the general ledger system had little or no support retained by the City's management. Additional contributing factors to the condition were lack of corrective action regarding prior year findings related to timely filing of reports with the State of Florida's Auditor General and the State of Florida's Division of Unclaimed Property.

***Planned Corrective Action***

During fiscal year 2019, the City hired a new finance director who will be responsible for ensure journal entries recorded in the City's general ledger system is adequately supported and contains sound business rationale. The new finance director will also be tasked with overseeing the timely filing of reports with the appropriate authorities.

***Name of Contract Person***

Debra Gibson, Finance Director  
71 US Hwy 90 West  
DeFuniak Springs, FL 32435  
850-892-8500  
finance@defuniaksprings.net

***Anticipated Completion Date***

September 30, 2019

Section III – Findings and Questioned Costs – Major Federal Programs

There were no current year audit findings over major federal programs.

Section IV – Findings and Questioned Costs – Major State Projects

There were no current year audit findings over major state projects.



City of DeFuniak Springs

71 US Hwy 90 West  
P.O. Box 685  
DeFuniak Springs, FL 32433



Phone: 850/892-8500  
Fax: 850/892-8506

**SUMMARY SCHEDULE OF  
PRIOR AUDIT FINDINGS  
For the year ended September 30, 2018**

Section II – Findings and Questioned Costs – Financial Statements

**Finding 2013-004 – Reserve Funds Not Maintained**

*Condition*

As of September 30, 2017, the City of DeFuniak Springs, Florida (the City) had not maintained reserve funds per City Ordinance #664 for the Water fund.

*Current Status*

Corrective action was taken.

**Finding 2014-002 – Fraud Prevention and Detection Program**

*Condition*

We noted that the City has not developed a formal fraud risk assessment and monitoring program that is appropriate for the size and complexity of the city with the aim to identify specific fraud risks and to take appropriate action to reduce or eliminate the risks. Although management has established a system of internal controls, there is no preliminary assessment of fraud risks and those controls do not constitute a formal fraud prevention and detection program in our opinion.

*Current Status*

Corrective action was taken.

**Finding 2014-006 – Timely Reporting**

*Condition*

Our audit procedures revealed that there were instances where reports required to be filed with the State of Florida were filed after the due date. With the late filing of the required reports, there is a potential that the City will forfeit half-cent sales tax dollars.

*Current Status*

Corrective action was not taken. See current year finding 2018-001.

**SUMMARY SCHEDULE OF  
PRIOR AUDIT FINDINGS - CONTINUED  
For the year ended September 30, 2018**

Section II - Findings and Questioned Costs - Financial Statements - CONTINUED

**Finding 2015-001 - Reserve Funds Not Maintained**

*Condition*

As of September 30, 2017, the City had not maintained replace funds per City Ordinance #663 for the Sanitation Fund's Deprecated Property Replacement Account.

*Current Status*

Corrective action was taken.

**Finding 2017-001 - Budget - Fund Transfers**

*Condition*

During our testing of fund transfers, we noted the City did not budget for a \$1,180,269 transfer from the General Fund to the Sanitation Fund. Subsequently, the transfer was not approved by the City Council pursuant to Florida Statute 166.241(4)(c).

*Current Status*

Corrective action was taken.

**Finding 2017-002 - Accounts Receivable - Collection Procedures**

*Condition*

During testing of accounts receivable and utility billing, we noted the City does not have formal collection procedures for delinquent accounts. As delinquent accounts are determined to be uncollectible, they should be written off and removed from the books.

*Current Status*

Corrective action was taken.

**Finding 2017-003 - Outstanding Checks**

*Condition*

During testing of cash balances, we noted several outstanding checks dating back to 2012.

*Current Status*

Corrective action was not taken. See current year finding 2018-001.

**SUMMARY SCHEDULE OF  
PRIOR AUDIT FINDINGS - CONTINUED  
For the year ended September 30, 2018**

Section II - Findings and Questioned Costs - Financial Statements - CONTINUED

**Finding 2017-004 - Debt Compliance Issues**

*Condition*

Pursuant to bond and state revolving loan agreements, the City has covenants that require certain amounts to be maintained in reserve accounts and sinking fund accounts. During our testing of reserve requirements, we noted required reserve amounts were not maintained for certain bonds and loans.

*Current Status*

Corrective action was taken.

**Finding 2017-005 - Quarterly Federal Tax Returns**

*Condition*

During our testing of laws and regulations, we noted the City was late in filing Form 941's for the 2<sup>nd</sup> and 3<sup>rd</sup> quarters.

*Current Status*

Corrective action was taken.

Section III - Findings and Questioned Costs - Major Federal Programs

There were no prior year audit findings over major federal programs.

Section IV- Findings and Questioned Costs - Major State Projects

There were no prior year audit findings over major state projects.