

**CITY OF FANNING SPRINGS, FLORIDA**

**ANNUAL FINANCIAL REPORT**

**September 30, 2018**

**CITY OF FANNING SPRINGS, FLORIDA**

**ANNUAL FINANCIAL REPORT**

**September 30, 2018**

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## **INTRODUCTORY SECTION**

**CITY OF FANNING SPRINGS, FLORIDA**

**LIST OF PRINCIPAL OFFICIALS**

**September 30, 2018**

**MAYOR**

**Howell E. Lancaster, III**

**CITY CLERK**

**Sheila Watson**

**CITY COUNCIL**

**Tommy Darus**

**Ginger Russell**

**Jane Jones-Redd**

**Ray Tremblay**

**John T. McDonald**

**CITY ATTORNEY**

**Michael O'Steen of O'Steen Law**

## **FINANCIAL STATEMENTS**



**Powell & Jones**  
Certified Public Accountants

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Marian Jones Powell, CPA

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## **INDEPENDENT AUDITOR'S REPORT**

To the City Council  
City of Fanning Springs, Florida

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fanning 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.

#### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinion.

#### ***Opinion***

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 Fanning Springs, Florida, as of September 30, 2018, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Florida Institute of Certified Public Accountants • American Institute of Certified Public Accountants

## **Other Matters**

### **Required Supplementary Information**

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

### **Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Fanning Springs, Florida's basic financial statements. The schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis, and is not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2019, on our consideration of the City of Fanning Springs, Florida'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 of Fanning Springs, Florida's internal control over financial reporting and compliance.



**POWELL & JONES**  
Certified Public Accountants  
May 24, 2019



## **CITY OF FANNING SPRINGS, FLORIDA Management's Discussion and Analysis**

This discussion and analysis is intended to be an easily readable analysis of the City of Fanning Springs (City) financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements that follow.

### **Report Layout**

The City has implemented Governmental Accounting Standards Board (GASB) Statement 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. This statement requires governmental entities to report finances in accordance with specific guidelines. Among those guidelines are the components of this section dealing with management's discussion and analysis. Besides this Management's Discussion and Analysis (MD&A), the report consists of government-wide statements, fund financial statements, notes to the financial statements, and supplementary information. The first two statements are condensed and present a government-wide view of the City's finances. Within this view, all City operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as fire control, public works, parks and recreation, community development and general governmental administration. The City's water and sewer services are reported as business-type activities. These government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the City.

### *Basic Financial Statements*

- The Statement of Net Position focuses on resources available for future operations. In simple terms, this statement presents a snap-shot view of the assets the City owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts. For the first time, governmental activities reflect capital assets including infrastructure and long-term liabilities. Business-type activities have long been reported capital assets and long-term liabilities. Also, governmental activities are reported on the accrual basis of accounting.
- The Statement of Activities focuses gross and net costs of the City's programs and the extent to which such programs rely upon general tax and other revenues. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.
- Fund financial statements focus separately on governmental and proprietary funds. Governmental fund statements follow the more traditional presentation of financial statements. The City has one major governmental fund which is the general fund. A budgetary comparison is presented for the general fund. Statements for the City's proprietary fund follow the governmental funds and include net position, revenue, expenses and changes in net position, and cash flows.
- The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.

- The MD&A is intended to serve as an introduction to the City's basic financial statements and to explain the significant changes in financial position and differences in operations between the current and prior years.

## City as a Whole

### Government-wide Financial Statements

#### Net Position at September 30, 2018 and 2017

	Governmental Activities		Business-type Activities		Total	
	2017	2018	2017	2018	2017	2018
<b>Assets</b>						
Non-capital assets	\$ 588,391	\$ 485,345	\$ 478,024	\$ 675,807	\$ 1,066,415	\$ 1,161,152
Capital assets	1,205,216	1,130,937	9,392,941	9,332,014	10,598,157	10,462,951
Total assets	<u>1,793,607</u>	<u>1,616,282</u>	<u>9,870,965</u>	<u>10,007,821</u>	<u>11,664,572</u>	<u>11,624,103</u>
Deferred outflows	130,214	143,246	26,263	28,745	156,477	171,991
<b>Liabilities</b>						
Current liabilities	52,025	140,156	177,500	148,343	229,525	288,499
Long term liabilities	278,056	276,142	2,834,039	2,787,724	3,112,095	3,063,866
Total liabilities	<u>330,081</u>	<u>416,298</u>	<u>3,011,539</u>	<u>2,936,067</u>	<u>3,341,620</u>	<u>3,352,365</u>
Deferred inflows	32,157	43,316	3,483	5,609	35,640	48,925
<b>Net position</b>						
Invested in capital assets, net of related debt	1,199,010	1,130,937	6,571,941	6,555,014	7,770,951	7,685,951
Restricted	4,758	4,758	38,857	38,857	43,615	43,615
Unrestricted	357,815	164,219	271,408	501,019	629,223	665,238
Total net position	<u>\$ 1,561,583</u>	<u>\$ 1,299,914</u>	<u>\$ 6,882,206</u>	<u>\$ 7,094,890</u>	<u>\$ 8,443,789</u>	<u>\$ 8,394,804</u>

The majority all of the City's net position reflect its investment in capital assets (land, buildings, infrastructure, and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The City's net position decreased \$48,985 over the year. This decrease is primarily due to a decrease in grant revenues and an increase in expenditures related to the Fanning Springs Water Quality Improvement Project.

The following schedule provides a summary of the changes in net position. The decrease in Governmental Activities net position is due primarily to depreciation of capital assets. The increase during the year through Business-type Activities net position is primarily due to increased sewer revenue and the grant funds for Fanning Springs Water Quality Improvement Project.

A condensed version of the Statement of Activities follows:

**Change in Net Position**  
For the Fiscal Years Ended September 30, 2018 and 2017

	Governmental Activities		Business-type Activities		Total	
	2017	2018	2017	2018	2017	2018
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 135,851	\$ 128,882	\$ 417,879	\$ 451,680	\$ 553,730	\$ 580,562
Operating grants and contributions	-	4,500	-	-	-	4,500
Capital grants and contributions	-	-	559,222	198,782	559,222	198,782
General revenues						
Property taxes	109,428	115,427	-	-	109,428	115,427
Other taxes and shared revenues	275,951	284,845	-	-	275,951	284,845
Miscellaneous	2,154	2,303	-	-	2,154	2,303
Investment earnings	5,298	4	-	-	5,298	4
Total revenues	<u>528,682</u>	<u>535,961</u>	<u>977,101</u>	<u>650,462</u>	<u>1,505,783</u>	<u>1,186,423</u>
<b>Expenses</b>						
General government	327,572	268,091	-	-	327,572	268,091
Public safety	176,477	238,164	-	-	176,477	238,164
Transportation	60,621	43,130	-	-	60,621	43,130
Culture and recreation	74,155	70,392	-	-	74,155	70,392
Interest on long-term debt	-	-	80,000	76,444	80,000	76,444
Water	-	-	193,295	207,234	193,295	207,234
Sewer	-	-	278,218	331,299	278,218	331,299
Total expenses	<u>638,825</u>	<u>619,777</u>	<u>551,513</u>	<u>614,977</u>	<u>1,190,338</u>	<u>1,234,754</u>
Loss on investments	-	(654)	-	-	-	(654)
Interfund transfers	215,054	(177,199)	(215,054)	177,199	-	-
Change in net position	104,911	(261,669)	210,534	212,684	315,445	(48,985)
Beginning net position	1,456,672	1,561,583	6,671,672	6,882,206	8,128,344	8,443,789
Ending net position	<u>\$ 1,561,583</u>	<u>\$ 1,299,914</u>	<u>\$ 6,882,206</u>	<u>\$ 7,094,890</u>	<u>\$ 8,443,789</u>	<u>\$ 8,394,804</u>

**Governmental activities:**

Property taxes provide 20.7% of the revenues for Governmental Activities, while franchise fees provide 10.0%. Most of the Governmental Activities resources are spent for General Government (51.3%), Public Safety (27.6%), and Culture/Recreation (11.6%).

**Business-type activities:**

Business-type activities increased the City's net position by \$212,684. This increase is primarily due to the Fanning Springs Water Quality Improvement Project grant funds.

**Budgetary Highlights**

The City operated substantially within its budgetary appropriations during the current year.

**Capital Assets and Debt Administration**

**Capital Assets**

At September 30, 2018, the City had \$10.5 million invested in capital assets, including fire equipment, park and recreation facilities, buildings, roads, bridges and water and sewer facilities. This amount represents a net decrease (additions, deductions, and depreciation) of \$(135,206) or 1.3% less than last year. This decrease was primarily attributable to the new sewer system annual

depreciation net with the building of subsequent phases of the Fanning Springs Water Quality Improvement Project.

### Capital Assets at September 30, 2018 and 2017

	Governmental Activities		Business-type Activities		Totals	
	2017	2018	2017	2018	2017	2018
Land	\$ 715,283	\$ 715,283	\$ 340,191	\$ 340,191	\$ 1,055,474	\$ 1,055,474
CIP	-	-	1,845,600	2,036,100	1,845,600	2,036,100
Buildings and improvements	987,814	993,785	504,938	504,938	1,492,752	1,498,723
Water plant	-	-	2,416,989	2,416,989	2,416,989	2,416,989
Sewer system	-	-	6,600,450	6,600,450	6,600,450	6,600,450
Streets	38,883	38,883	-	-	38,883	38,883
Equipment	788,180	784,151	54,187	66,329	842,367	850,480
Subtotal	2,530,160	2,532,102	11,762,355	11,964,997	14,292,515	14,497,099
Accumulated depreciation	(1,324,944)	(1,401,165)	(2,369,414)	(2,632,983)	(3,694,358)	(4,034,148)
Capital assets, net	<u>\$ 1,205,216</u>	<u>\$ 1,130,937</u>	<u>\$ 9,392,941</u>	<u>\$ 9,332,014</u>	<u>\$ 10,598,157</u>	<u>\$ 10,462,951</u>

### Debt Outstanding

At year-end, the City had \$3,168,607 in debt outstanding versus \$3,205,018 last year, a decrease of \$36,411. The decrease is due to the recognition of the net pension liability of the City in the financial statements.

### Debt Outstanding at September 30, 2018 and 2017

	Governmental Activities		Business-type Activities		Totals	
	2017	2018	2017	2018	2017	2018
Revenue bonds	\$ -	\$ -	\$ 2,821,000	\$ 2,777,000	\$ 2,821,000	\$ 2,777,000
Loan payable	10,983	-	-	-	10,983	-
	10,983	-	2,821,000	2,777,000	2,831,983	2,777,000
Net pension liability	284,371	311,385	57,566	62,712	341,937	374,097
Compensated absences	20,751	13,488	10,347	4,022	31,098	17,510
Total	<u>\$ 316,105</u>	<u>\$ 324,873</u>	<u>\$ 2,888,913</u>	<u>\$ 2,843,734</u>	<u>\$ 3,205,018</u>	<u>\$ 3,168,607</u>

More detailed information on the City long-term liabilities is presented in the notes to the financial statements.

### OTHER FINANCIAL INFORMATION

#### Economic Factors and Rates

- The current unemployment rate for Gilchrist County is 3.4% and the current unemployment rate for Levy County is 3.6%. These rates represent a net decrease from prior years' rates of 4.0% and 4.4% respectively.
- The official population for the City in 2018 was 1,009 and is estimated to be approximately the same in 2019.
- The ad valorem tax rate for the City was 3.000 mills in 2018.

**Financial Contact**

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City Clerk at City Hall, 17651 NW 90<sup>th</sup> Street, Fanning Springs, Florida 32693.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF FANNING SPRINGS, FLORIDA**  
**STATEMENT OF NET POSITION**  
September 30, 2018

	Governmental Activities	Business - type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash	\$ 212,722	\$ 344,127	\$ 556,849
Investments	63,659	-	63,659
Accounts receivable, net	9,918	45,404	55,322
Due from other governmental units	110,592	8,282	118,874
Prepaid expenses	-	-	-
Internal balances	88,454	(88,454)	-
Inventory	-	13,292	13,292
<b>Total current assets</b>	<b>485,345</b>	<b>322,651</b>	<b>807,996</b>
Restricted assets:			
Bond interest and sinking	-	123,004	123,004
Renewal and replacement	-	145,688	145,688
Customer deposits	-	84,464	84,464
<b>Total restricted assets</b>	<b>-</b>	<b>353,156</b>	<b>353,156</b>
Fixed assets:			
Capital assets, net	1,130,937	9,332,014	10,462,951
<b>Total fixed assets</b>	<b>1,130,937</b>	<b>9,332,014</b>	<b>10,462,951</b>
<b>Total assets</b>	<b>1,616,282</b>	<b>10,007,821</b>	<b>11,624,103</b>
<b>DEFERRED OUTFLOWS</b>	<b>143,246</b>	<b>28,745</b>	<b>171,991</b>
<b>LIABILITIES</b>			
Current liabilities (payable from current assets):			
Accounts payable	77,090	321	77,411
Accrued liabilities	14,335	1,432	15,767
Accrued compensated absences	2,023	603	2,626
Net pension liability	46,708	9,407	56,115
<b>Total current liabilities (payable from current assets)</b>	<b>140,156</b>	<b>11,763</b>	<b>151,919</b>
Current liabilities (payable from restricted assets):			
Accrued interest payable	-	6,364	6,364
Customer deposits	-	84,216	84,216
Bond payable, current	-	46,000	46,000
<b>Total current liabilities (payable from restricted assets)</b>	<b>-</b>	<b>136,580</b>	<b>136,580</b>
<b>Total current liabilities</b>	<b>140,156</b>	<b>148,343</b>	<b>288,499</b>
Long-term liabilities			
Accrued compensated absences	11,465	3,419	14,884
Bond payable, less current portion	-	2,731,000	2,731,000
Net pension liability	264,677	53,305	317,982
<b>Total long-term liabilities</b>	<b>276,142</b>	<b>2,787,724</b>	<b>3,063,866</b>
<b>Total liabilities</b>	<b>416,298</b>	<b>2,936,067</b>	<b>3,352,365</b>

(continued)

**CITY OF FANNING SPRINGS, FLORIDA**  
**STATEMENT OF NET POSITION**  
September 30, 2018

	<u>Governmental Activities</u>	<u>Business - type Activities</u>	<u>Total</u>
<b>DEFERRED INFLOWS</b>	<b>\$ 43,316</b>	<b>\$ 5,609</b>	<b>\$ 48,925</b>
<b>NET POSITION</b>			
Invested in long-term assets, net of related debt	1,130,937	6,555,014	7,685,951
Restricted for:			
Debt service	-	14,334	14,334
Renewal and replacement	-	24,523	24,523
Historical Park	1,826	-	1,826
Fire protection	2,932	-	2,932
Unrestricted	164,219	501,019	665,238
<b>Total net position</b>	<b>\$ 1,299,914</b>	<b>\$ 7,094,890</b>	<b>\$ 8,394,804</b>



**CITY OF FANNING SPRINGS, FLORIDA**  
**STATEMENT OF ACTIVITIES**  
For the Fiscal Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental activities</b>							
General government	\$ 268,091	\$ 14,748	\$ -	\$ -	\$ (253,343)	\$ -	\$ (253,343)
Public safety	238,164	113,434	4,500	-	(120,230)	-	(120,230)
Transportation	43,130	-	-	-	(43,130)	-	(43,130)
Culture and recreation	70,392	700	-	-	(69,692)	-	(69,692)
<b>Total governmental activities</b>	<b>619,777</b>	<b>128,882</b>	<b>4,500</b>	<b>-</b>	<b>(486,395)</b>	<b>-</b>	<b>(486,395)</b>
<b>Business-type activities</b>							
Water and sewer services	538,533	451,680	-	198,782	-	111,929	111,929
Interest expense	76,444	-	-	-	-	(76,444)	(76,444)
<b>Total business-type activities</b>	<b>614,977</b>	<b>451,680</b>	<b>-</b>	<b>198,782</b>	<b>-</b>	<b>35,485</b>	<b>35,485</b>
<b>Total government</b>	<b>\$ 1,234,754</b>	<b>\$ 580,562</b>	<b>\$ 4,500</b>	<b>\$ 198,782</b>	<b>(486,395)</b>	<b>35,485</b>	<b>(450,910)</b>
			<b>General revenues</b>				
			Property taxes		115,427	-	115,427
			Other taxes		193,617	-	193,617
			Intergovernmental		24,016	-	24,016
			Franchise fees		53,752	-	53,752
			Licenses and permits		11,529	-	11,529
			Fines and forfeitures		1,931	-	1,931
			Interest		4	-	4
			Other fees and miscellaneous		2,303	-	2,303
			Capital loss on investments		(654)	-	(654)
			<b>Total general revenues</b>		<b>401,925</b>	<b>-</b>	<b>401,925</b>
			Interfund transfers		(177,199)	177,199	-
			Change in net position		(261,669)	212,684	(48,985)
			Net position - beginning		1,561,583	6,882,206	8,443,789
			Net position - ending		<b>\$ 1,299,914</b>	<b>\$ 7,094,890</b>	<b>\$ 8,394,804</b>

See notes to financial statements.

**CITY OF FANNING SPRINGS, FLORIDA**

**GOVERNMENTAL FUND**

**BALANCE SHEET**  
September 30, 2018

	General Fund
<b>ASSETS</b>	
Cash	\$ 212,722
Investments	63,659
Due from state	9,918
Due from other governmental units	110,592
Due from other funds	88,454
<b>Total assets</b>	<b>485,345</b>
<b>LIABILITIES</b>	
Accounts payable	77,090
Accrued liabilities	14,335
<b>Total liabilities</b>	<b>91,425</b>
<b>FUND BALANCES</b>	
Restricted for:	
Historical Park	1,826
Assigned for:	
Fire protection	2,932
Future expenses	76,606
Unassigned	312,556
<b>Total fund balances</b>	<b>393,920</b>

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	1,130,937
Deferred outflows of resources represent a consumption of fund equity that will be reported as an outflow of resources in a future period and therefore are not reported in the governmental funds	143,246
Deferred inflows of resources represent an acquisition of fund equity that will be recognized as an inflow of resources in a future period and therefore are not reported in the governmental funds	(43,316)
Long-term liabilities are not due in the current period and, therefore, are not reported in governmental funds	(324,873)
<b>Net position of governmental activities</b>	<b>\$ 1,299,914</b>

**CITY OF FANNING SPRINGS, FLORIDA**

**GOVERNMENTAL FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**

For the Fiscal Year Ended September 30, 2018

	<u>General Fund</u>	
<b>REVENUES</b>		
Property taxes, levied for general purposes	\$	115,427
Other taxes		193,617
Intergovernmental		24,016
Franchise fees		53,752
Licenses and permits		11,529
Charges for service		128,882
Fines and forfeitures		1,931
Donations		4,500
Interest		4
Other fees and miscellaneous		2,303
<b>Total revenues</b>		<u>535,961</u>
<b>EXPENDITURES</b>		
Current		
General government		245,616
Public safety		197,494
Transportation		42,158
Culture and recreation		36,125
Capital outlay		
Public safety		3,415
Culture and recreation		2,556
Debt service		
Principal		10,983
Interest		256
<b>Total expenditures</b>		<u>538,603</u>
Excess of expenditures over revenues		(2,642)
<b>OTHER FINANCING USES</b>		
Net Interfund transfers		(177,199)
Loss on investments		(654)
<b>Total other financing uses</b>		<u>(177,853)</u>
Net change in fund balance		(180,495)
Fund balance at beginning of year		574,415
Fund balance at end of year	\$	<u>393,920</u>

**CITY OF FANNING SPRINGS, FLORIDA**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended September 30, 2018

Net change in fund balance - total governmental funds		\$ (180,495)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Expenditures for capital assets	\$ 5,971	
Less current year depreciation	<u>(80,250)</u>	(74,279)
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. In addition, recognition of certain obligations related to prior and subsequent periods are not recognized in the statement of activities.		
Compensated absences	7,263	
Net change in pension liability	(27,014)	
Loan principal payments	<u>10,983</u>	(8,768)
Recognition of certain obligations related to prior and future periods are not recognized in governmental funds.		
Net increase in deferred outflows	13,032	
Net decrease in deferred inflows	<u>(11,159)</u>	<u>1,873</u>
Change in net position of governmental activities		<u><u>\$ (261,669)</u></u>

**CITY OF FANNING SPRINGS, FLORIDA**  
**PROPRIETARY FUND**  
**STATEMENT OF NET POSITION**  
September 30, 2018

	Enterprise Fund
<b>ASSETS</b>	
Current assets	
Cash	\$ 344,127
Accounts receivable, net	45,404
Due from other governments	8,282
Inventory	13,292
Total current assets	411,105
Restricted cash and cash equivalents	
Bond interest and sinking	123,004
Renewal and replacement	145,688
Customer deposits	84,464
Total restricted cash and cash equivalents	353,156
Fixed assets	
Land	340,191
Construction in progress	2,036,100
Property, plant and equipment	9,588,706
Allowance for depreciation	(2,632,983)
Total fixed assets	9,332,014
Total assets	10,096,275
<b>DEFERRED OUTFLOWS</b>	28,745
<b>LIABILITIES AND NET POSITION</b>	
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	321
Accrued liabilities	1,432
Due to other funds	88,454
Accrued interest payable	6,364
Customer deposits	84,216
Bond payable, current	46,000
Accrued compensated absences	603
Net pension liability	9,407
Total current liabilities	236,797
Long-term liabilities	
Bond payable, less current portion	2,731,000
Accrued compensated absences	3,419
Net pension liability	53,305
Total long-term liabilities	2,787,724
Total liabilities	3,024,521

**CITY OF FANNING SPRINGS, FLORIDA**  
**PROPRIETARY FUND**  
**STATEMENT OF NET POSITION**  
September 30, 2018

	Enterprise Fund
<b>DEFERRED INFLOWS</b>	<b>\$ 5,609</b>
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	6,555,014
Restricted for:	
Debt service	14,334
Renewal and replacement	24,523
Unrestricted	501,019
<b>Total net position</b>	<b>\$ 7,094,890</b>

**CITY OF FANNING SPRINGS, FLORIDA**  
**PROPRIETARY FUND**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
For the Fiscal Year Ended September 30, 2018

	Enterprise Fund
<b>OPERATING REVENUES</b>	
Water sales	\$ 248,089
Sewer fees	159,882
Other utility charges	40,209
Miscellaneous income	3,500
<b>Total operating revenues</b>	451,680
<b>OPERATING EXPENSES</b>	
Water utility	
Personnel services	68,929
Operating expenses	60,710
Sewer utility	
Personnel services	56,889
Operating expenses	88,436
Depreciation expense	
Water utility	77,595
Sewer utility	185,974
<b>Total operating expenses</b>	538,533
<b>Operating loss</b>	(86,853)
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Grant revenue	198,782
Interest expense	(76,444)
Interfund transfers in	177,199
<b>Total nonoperating revenues (expenses)</b>	299,537
<b>Change in net position</b>	212,684
<b>Net position, beginning of year</b>	6,882,206
<b>Net position, end of year</b>	\$ 7,094,890

**CITY OF FANNING SPRINGS, FLORIDA**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS**

For the Fiscal Year Ended September 30, 2018

	<u>Enterprise Fund</u>
Cash flows from operating activities:	
Cash received from customers, including cash deposits	\$ 464,037
Cash paid to suppliers	(178,211)
Cash paid to employees	(128,619)
Net cash provided by operating activities	<u>157,207</u>
Cash flows from non-capital related financing activities:	
Transfers to other funds	(211,661)
Transfers from other funds	189,699
Net cash used in non-capital related financing activities	<u>(21,962)</u>
Cash flows from capital and related financing activities:	
Grant receipts	225,250
Principal payments	(44,000)
Interest payments	(77,578)
Acquisition and construction of capital assets	(202,641)
Net cash provided by capital and related financing activities	<u>(98,969)</u>
Net increase in cash	36,276
Cash, at beginning of year	<u>661,007</u>
Cash, at end of year	\$ <u><u>697,283</u></u>
Shown in financial statements as:	
Current assets	
Cash	\$ 344,127
Restricted cash and cash equivalents	
Bond interest and sinking	123,004
Renewal and replacement	145,688
Customer deposits	84,464
Total cash as shown in financial statements	\$ <u><u>697,283</u></u>

See notes to financial statements.



**CITY OF FANNING SPRINGS, FLORIDA  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS**

**RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES  
 For the Fiscal Year Ended September 30, 2018**

	Enterprise Fund
Operating loss	\$ (86,853)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	263,569
Changes in assets decrease (increase) and liabilities (decrease) increase:	
Accounts receivable, net	5,967
Accounts payable	(34,284)
Deferred outflows	(2,482)
Prepaid expenses	5,219
Accrued liabilities	(1,266)
Compensated absences	(6,325)
Customer deposits	6,390
Deferred inflows	2,126
Net pension liability	5,146
Total adjustments	244,060
Net cash provided by operating activities	\$ 157,207

## CITY OF FANNING SPRINGS, FLORIDA

### NOTES TO FINANCIAL STATEMENTS

September 30, 2018

#### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Fanning Springs (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting principles. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, are not applied in the preparation of the financial statements of the proprietary fund type in accordance with GASB Statement 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

In June, 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement 34-Basic Financial Statement and Management's Discussion and Analysis - for State and Local Governments. As provided by GASB 34, the City has elected not to report retroactive infrastructure improvements in its financial statements due to the fact that its annual revenues are less than ten million. The City has implemented all other applicable provisions of this Statement.

**A. Reporting Entity** - The City of Fanning Springs, Florida is a municipality created under Chapter 5507, *Laws of Florida*, 1905, and is governed by a Mayor and five member City Council, all of whom are individually elected.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, management determined that the following component unit existed which should be included within the reporting entity.

**B. Measurement Focus and Basis of Accounting** - The basic financial statements of the City are comprised of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

## **1. Government-wide Financial Statements**

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from any legally separate component unit for which the primary government is financially accountable.

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and agency fund financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement 33 - Accounting and Financial Reporting for Nonexchange Transactions.

Program revenues include charges for services, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. As applicable, the City also chooses to eliminate the indirect costs between governmental activities to avoid the "doubling up" effect.

## **2. Fund Financial Statements**

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the City's governmental and proprietary funds are presented after the government-wide financial statements. These statements display information about major funds individually, and nonmajor funds in the aggregate for governmental and enterprise funds.

**Governmental Funds** - 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 collected 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Franchise fees, licenses, sales taxes, gas taxes, operating and capital grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the City.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be measure of "available spendable resources." Governmental funds operating statements present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Any non-current portions of long-term receivables (special assessments) due to governmental funds are reported on their balance sheets in spite of their spending measurement focus.

Non-current portions of other long-term receivables are offset by fund balance reserve accounts. Because of their spending measurement focus, expenditure recognition for governmental fund types exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an other financing source rather than as a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**Proprietary Funds** - The City's Enterprise Fund is a proprietary fund. In the fund financial statements, proprietary funds are presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods and services are delivered. In the fund financial statements, proprietary funds are presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position. The City applies all GASB pronouncements as well as all FASB Statements and Interpretations, APB Opinions and Accounting Research Bulletins, issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements.

Proprietary fund operation revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies, taxes, and investment earnings, result from nonexchange transactions or ancillary activities.

Amounts paid to acquire capital assets are capitalized as assets in the fund financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the fund financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness are reported as a reduction of the related liabilities, rather than as an expense.

**C. Basis of Accounting** - GASB Statement 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures, expenses of either fund category and the governmental and enterprise combined) for the determination of major funds. The City has used GASB 34 minimum criteria for major fund determination. The City has five major funds and four nonmajor funds.

**1. Governmental Major Fund:**

**General Fund** - The General Fund is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

**2. Proprietary Major Fund:**

**Enterprise Fund** - The Enterprise Fund accounts for the revenues, expenses, assets, and liabilities associated with the City operated water, sewer, and solid waste disposal services.

**3. Non-current Governmental Assets/Liabilities:**

GASB Statement 34 requires non-current governmental assets, such as land and building, and non-current governmental liabilities, such as general obligation bonds and capital leases, be reported in the governmental activities column in the government-wide statement of net position.

**D. Assets, Liabilities, Deferred Outflows/Inflows and Net Position or Equity**

**1. Cash and Investments** - Cash includes amounts in demand deposits as well as short-term money market investment accounts. Investments, consisting of certificates of deposit and corporate bonds, are stated at cost which approximates market value or stated market value. All such deposits and investments are insured and collateralized as required by state law except for the corporate bonds which are not collateralized.

**2. Cash Equivalents** - For purposes of the statement of cash flows, the City considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents. As of September 30, 2018, the City's cash consisted solely of checking accounts and money market accounts; it has no other cash equivalents.

**3. Allowance for Doubtful Accounts** - The City provides an allowance for Enterprise Fund accounts receivable that may become uncollectible. At September 30, 2018, this allowance account totaled \$9,304 based upon prior collection history. No other allowances for doubtful accounts are maintained since other fund accounts receivable are considered to be fully collectible as reported at September 30, 2018.

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

**5. Inventories** - The costs of governmental inventories are recorded as expenditures when purchased rather than when consumed. The actual amounts of any such inventory type goods on hand at year end would not be material.

**6. Restricted Assets** - As applicable, year to year, certain proceeds of enterprise fund debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

7. **Encumbrances** - Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not utilized by the City.
8. **Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., streets, bridges, right-of-ways, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$500 or more and an estimated useful life in excess of one year. Except for roads and bridges constructed prior to October 1, 1981, assets are recorded at historical cost. Roads and bridges constructed prior to October 1, 1981 are generally not reported. Donated capital assets are recorded at estimated fair market value at the date of donations.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

Assets	Years
Building and improvements	40
Machinery and equipment	5 - 10
Street and related infrastructure	25 - 40

9. **Capitalization of Interest** - Interest related to borrowings are capitalized during the construction period. These costs are netted against applicable interest earnings on construction fund investments. During the current period, the City did not have any capitalized interest.
10. **Unearned Revenues** - Unearned revenues reported in government-wide financial statements represent unearned revenues. The unearned revenues will be recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting. Unearned revenues reported in governmental fund financial statements represent unearned revenues which are measurable but not available and, in accordance with the modified accrual basis of accounting, are reported as unearned revenues. During the current period, the City did not have any unearned revenues.
11. **Accrued Compensated Absences** - The City accrues accumulated unpaid vacation and sick leave when earned by the employee. The current portion is the amount estimated to be used in the following year. The non-current portion is the amount estimated to be used in subsequent fiscal years. Both the current and non-current estimated accrued compensated absences amounts for governmental funds are maintained separately and represent a reconciling item between the fund and government-wide presentation.
12. **Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred charge on pensions in the government-wide statement of net position. Deferred outflows on pensions are recorded when actual earnings on pension plan investments exceed projected earnings and are amortized to pension expense using a systematic and rational method over a closed five-

year period. Deferred outflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the City's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan. Contributions to pension plans made subsequent to the measurement date are also deferred and reduce net pension liability in the subsequent year.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows or resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which is related to pensions. Deferred inflows on pension plan investments exceed actual earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred inflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the City's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan.

**13. Fund Balances -**

**A. Governmental Funds**

As of September 30, 2018, fund balances of the governmental funds are classified as follows:

Non-spendable – amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the Council. The Council is the highest level of decision making authority for the Council. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Council.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the City's adopted policy, only the Council may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

As of September 30, 2018, fund balances are composed of the following:

	<u>General Fund</u>
Restricted, Historical park	\$ 1,826
Assigned, fire protection	2,932
Assigned, future expenses	76,606
Unassigned	312,556
	<u>\$ 393,920</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spend first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Council has provided otherwise in its commitment or assignment actions.

**B. Proprietary Funds**

Restrictions of equity show amounts that are not appropriated for expenditure or are legally restricted for specific uses.

As of September 30, 2018, net position balances are composed of the following:

	<u>Amount</u>
Invested in capital assets, net of related debt	\$ 6,555,014
Restricted, Debt service	14,334
Restricted, Renewal and replacement	24,523
Unrestricted	<u>501,019</u>
	<u>\$ 7,094,890</u>

**NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. Explanation of Differences Between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Position.**

“Total fund balances” of the City’s governmental funds \$393,920 differs from “net position” of governmental activities \$1,299,914 reported in the statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental funds balance sheet.

Capital related items

When capital assets (property, plant, equipment) that are to be used in governmental activities are purchased or constructed, the cost of these assets are reported as expenditures in governmental funds. However, the statement of net position included those capital assets among the assets of the City as a whole.

Cost of capital assets	\$ 2,532,102
Accumulated depreciation	<u>(1,401,165)</u>
Total	<u>\$ 1,130,937</u>

Long-term debt transactions

Long-term liabilities applicable to the City’s governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net position. Balances at September 30, 2018, were:

Compensated absences	\$ (13,488)
Net pension liability	(311,385)
Deferred inflows	143,246
Deferred outflows	<u>(43,316)</u>
	<u>\$ (224,943)</u>



**CITY OF FANNING SPRINGS, FLORIDA**

**NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

	Total Governmental Funds	Capital Related Items	Deferred Inflows/Outflows	Long - Term Debt Transactions	Statement of Net Position
<b>ASSETS</b>					
Cash	\$ 212,722	\$ -	\$ -	\$ -	\$ 212,722
Investments	63,659	-	-	-	63,659
Accounts receivable	9,918	-	-	-	9,918
Due from other governmental units	110,592	-	-	-	110,592
Due from other funds	88,454	-	-	-	88,454
Capital asset - net	-	1,130,937	-	-	1,130,937
<b>Total assets</b>	<b>485,345</b>	<b>1,130,937</b>	<b>-</b>	<b>-</b>	<b>1,616,282</b>
<b>DEFERRED OUTFLOWS</b>	<b>-</b>	<b>-</b>	<b>143,246</b>	<b>-</b>	<b>143,246</b>
<b>LIABILITIES AND FUND BALANCE/NET POSITION</b>					
<b>LIABILITIES</b>					
Accounts payable	77,090	-	-	-	77,090
Accrued liabilities	14,335	-	-	-	14,335
Compensated absences	-	-	-	13,488	13,488
Net pension liability	-	-	-	311,385	311,385
<b>Total liabilities</b>	<b>91,425</b>	<b>-</b>	<b>-</b>	<b>324,873</b>	<b>416,298</b>
<b>DEFERRED INFLOWS</b>	<b>-</b>	<b>-</b>	<b>43,316</b>	<b>-</b>	<b>43,316</b>
<b>Fund balance/net position</b>	<b>\$ 393,920</b>	<b>\$ 1,130,937</b>	<b>\$ 99,930</b>	<b>\$ (324,873)</b>	<b>\$ 1,299,914</b>

**B. Explanation of Differences Between Governmental Fund Operating Statements and the Statement of Activities**

The “net change in fund balances” for governmental funds \$(180,495) differs from the “change in net position” for governmental activities \$(261,669) reported in the statement of activities. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of the differences is illustrated below.

**Capital related items**

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balances decrease by the amount of financial resources expended, whereas net position decrease by the amount of depreciation expense charges for the year.

Capital outlay	\$ 5,971
Depreciation expense	(80,250)
Difference	<u>\$ (74,279)</u>

**Long-term debt related items**

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

Net decrease in compensated absences	\$ 7,263
Net increase in net pension liability expense	(27,014)
Loan principal payments	10,983
	<u>\$ (8,768)</u>

**Deferred outflows/inflows of resources**

Recognition of certain obligations related to prior and subsequent periods are not recognized in governmental funds.

Net increase in deferred outflows	\$ 13,032
Net decrease in deferred inflows	(11,159)
	<u>\$ 1,873</u>

**CITY OF FANNING SPRINGS, FLORIDA**

**NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**B. Explanation of Differences Between Government Fund Operating Statements and the Statement of Activities**

	Total Governmental Funds	Capital Related Items	Deferred Inflows/Outflows	Long-Term Debt Transactions	Statement of Activities
<b>REVENUES</b>					
Property taxes, levied for general purposes	\$ 115,427	\$ -	\$ -	\$ -	\$ 115,427
Other taxes	193,617	-	-	-	193,617
Intergovernmental	24,016	-	-	-	24,016
Franchise fees	53,752	-	-	-	53,752
Donations	4,500	-	-	-	4,500
Licenses and permits	11,529	-	-	-	11,529
Charges for service	128,882	-	-	-	128,882
Fines and forfeiture	1,931	-	-	-	1,931
Interest	4	-	-	-	4
Other fees and miscellaneous	2,303	-	-	-	2,303
<b>Total revenues</b>	<b>535,961</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>535,961</b>
<b>EXPENDITURES</b>					
<b>Current expenditures</b>					
General government	245,616	11,182	(1,383)	12,676	268,091
Public safety	197,494	33,829	(490)	7,075	237,908
Transportation	42,158	972	-	-	43,130
Culture and recreation	36,125	34,267	-	-	70,392
<b>Capital outlay</b>					
Public safety	3,415	(3,415)	-	-	-
Culture and recreation	2,556	(2,556)	-	-	-
<b>Debt Service</b>					
Principal	10,983	-	-	(10,983)	-
Interest	256	-	-	-	256
<b>Total expenditures</b>	<b>538,603</b>	<b>74,279</b>	<b>(1,873)</b>	<b>8,768</b>	<b>619,777</b>
<b>Excess of revenues over expenditures</b>	<b>(2,642)</b>	<b>(74,279)</b>	<b>1,873</b>	<b>(8,768)</b>	<b>(83,816)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Capital loss on investments	(654)	-	-	-	(654)
Interfund transfers	(177,199)	-	-	-	(177,199)
<b>Total other financing sources (uses)</b>	<b>(177,853)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(177,853)</b>
<b>Net change in fund balance</b>	<b>(180,495)</b>	<b>(74,279)</b>	<b>1,873</b>	<b>(8,768)</b>	<b>(261,669)</b>
<b>Fund balance at beginning of year</b>	<b>574,415</b>	<b>1,205,216</b>	<b>98,057</b>	<b>(316,105)</b>	<b>1,561,583</b>
<b>Fund balance at end of year</b>	<b>\$ 393,920</b>	<b>\$ 1,130,937</b>	<b>\$ 99,930</b>	<b>\$ (324,873)</b>	<b>\$ 1,299,914</b>

### **NOTE 3. LEGAL COMPLIANCE–BUDGETS**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the City Clerk develops a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to September 30, the budget is legally enacted by the City Officers through passage of an ordinance.
4. Any revision that alters the total expenditures of any fund or transfers budgeted amounts between departments within any fund must be approved by the City Officers.
5. Budgets for all City funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Officers. Individual amendments were not material in relation to the original appropriations which were amended.

### **NOTE 4. DEPOSITS AND INVESTMENTS**

Deposits. The bank balances of the City deposits totaling \$918,317 were insured by federal depository insurance or pledged collateral under state law.

At year end the City also had a portfolio of investments which totaled \$63,659 stated at fair market value. Fair value is based on quoted prices. These investments are not authorized by state law, but rather by a City ordinance. These investments are uncollateralized and are classified as Category 1 in accordance with GASB Standard No. 3.

### **NOTE 5. PROPERTY TAX REVENUES**

All real and tangible personal property taxes are due and payable on November 1 of each year or as soon thereafter as the assessment roll is certified by the County Property Appraiser. The County Tax Collector mails to each property owner on the assessment roll a notice of taxes levied by the City and other governmental entities in the County. Taxes may be paid upon receipt of such notice with discounts at the rate of four percent (4%) if paid in the month of November, three percent (3%) if paid in the month of December, two percent (2%) if paid in the month of January, and one percent (1%) if paid in the month of February. Taxes paid during the month of March are without discount. All unpaid taxes on real and tangible personal property become delinquent taxes, including applicable tax certificate sales, tax deed sales, and tangible personal property seizure and sales are provided for by the laws of Florida. Due to those collection procedures, no material amounts of delinquent taxes were due the City at year end. Collections of City taxes and remittances are accounted for in the County Tax Collector's office.

## NOTE 6. CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Nondepreciable				
Land	\$ 715,283	\$ -	\$ -	\$ 715,283
Depreciable				
Streets	38,883	-	-	38,883
Buildings and improvements	987,814	5,971	-	993,785
Equipment and vehicles	788,180	-	(4,029)	784,151
Total depreciable capital assets	<u>1,814,877</u>	<u>5,971</u>	<u>(4,029)</u>	<u>1,816,819</u>
Less accumulated depreciation	(1,324,944)	(80,250)	4,029	(1,401,165)
Total depreciable capital assets, net	<u>489,933</u>	<u>(74,279)</u>	<u>-</u>	<u>415,654</u>
Total capital assets, net	<u>\$ 1,205,216</u>	<u>\$ 74,279</u>	<u>\$ 4,029</u>	<u>\$ 1,130,937</u>
<b>Business-type activities:</b>				
Nondepreciable				
Land	\$ 340,191	\$ -	\$ -	\$ 340,191
Construction in progress	1,845,600	190,500	-	2,036,100
Total nondepreciable capital assets	<u>2,185,791</u>	<u>190,500</u>	<u>-</u>	<u>2,376,291</u>
Depreciable				
Water plant	2,416,989	-	-	2,416,989
Sewer system	6,600,450	-	-	6,600,450
Water/sewer improvements	504,938	-	-	504,938
Equipment	54,187	12,142	-	66,329
Total depreciable capital assets	<u>9,576,564</u>	<u>12,142</u>	<u>-</u>	<u>9,588,706</u>
Less accumulated depreciation	(2,369,414)	(263,569)	-	(2,632,983)
Total capital assets being depreciated,	<u>7,207,150</u>	<u>(251,427)</u>	<u>-</u>	<u>6,955,723</u>
Total capital assets, net	<u>\$ 9,392,941</u>	<u>\$ (60,927)</u>	<u>\$ -</u>	<u>\$ 9,332,014</u>

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

<b>Governmental activities:</b>	
General Government	11,182
Public Safety	\$ 33,829
Transportation	972
Parks and recreation	34,267
Total depreciation expense - governmental entities	<u>\$ 80,250</u>
<b>Business-type activities:</b>	
Water	\$ 77,594
Sewer	185,975
	<u>\$ 263,569</u>

**NOTE 7. INTERFUND RECEIVABLES/PAYABLES**

The following is a schedule of interfund receivables and payables at September 30, 2018.

Fund	Receivable	Payable
General	\$ 88,454	\$ -
Enterprise	-	88,454
	<u>\$ 88,454</u>	<u>\$ 88,454</u>

**NOTE 8. RECEIVABLE AND PAYABLE BALANCES**

**Receivables**

Receivables at September 30, 2018, were as follows:

	Account	Due from Others/ Governmental Units	Total Receivables
Governmental activities:	\$ -	\$ 120,510	\$ 120,510
Business-type activities:	54,708	8,282	62,990
	<u>\$ 54,708</u>	<u>\$ 128,792</u>	<u>\$ 183,500</u>

Based upon collection history, the City has included a reserve for doubtful accounts for its Enterprise Fund accounts receivable of \$9,304.

**Payables**

Payables at September 30, 2018, were as follows:

	Vendors
Governmental activities:	\$ 77,090
Business-type activities:	321
	<u>\$ 77,411</u>

**NOTE 9. LONG-TERM LIABILITIES**

**Governmental Activities**

**Summary of changes in governmental activities long-term liabilities**

As a part of purchasing a pumper truck for the fire department the City took out a two-year note with an interest rate of 2.80% that was to be paid off in June, 2019. On September 4, 2018 the City decided to pay the remaining balance on the loan of \$5,309. The following summarizes the changes in the City's governmental long-term liabilities during the year ended September 30, 2018:

	Balance October 1, 2017	Increases	Decreases	Balance September 30, 2018	Due Within One Year
Compensated absences	\$ 20,751	\$ 6,376	\$ (13,639)	\$ 13,488	\$ 2,023
Net pension liability	284,371	27,014	-	311,385	46,708
Capital City note	10,983	-	(10,983)	-	-
	<u>\$ 316,105</u>	<u>\$ 33,390</u>	<u>\$ (24,622)</u>	<u>\$ 324,873</u>	<u>\$ 48,731</u>

### Business-type Activities

A summary of proprietary fund debt as of September 30, 2018, follows:

**USDA Water and Sewer Revenue Bonds 2012** - Gross revenues of the water and sewer system primarily, and secondarily the City's proceeds of its utility services taxes are pledged to service this debt. The outstanding balance at September 30, 2018, is \$2,777,000.

**Reserve Funds** - The following reserves are required to be maintained for the revenue bonds:

USDA Water and Sewer Revenue Bonds 2012 - A reserve is required by the bond ordinance to accumulate sufficient funds to be used for: (a) bond and interest sinking fund to accumulate a sum equal to 1/12 of the principal and interest of the bond payment due on the next succeeding September 1, (b) to be included in the bond and interest sinking fund, a sum equal to 1/120 of the maximum bond service requirement over the period of the bond, (c) operation and maintenance fund to pay operating expenses pursuant to the annual budget, and (d) payment of any principal and interest if the funds of the Sinking Fund are insufficient. The reserve is maintained by transferring monthly from the revenue account \$1,130, until a maximum amount of \$135,630 is attained. This reserve was fully funded at September 30, 2018.

Revenue bond debt service requirements to maturity, including \$1,567,393 of interest, are as follows:

Fiscal Year Ending September 30	Principal	Interest	Total
2019	\$ 46,000	\$ 76,368	\$ 122,368
2020	47,000	75,103	122,103
2021	49,000	73,810	122,810
2022	51,000	72,463	123,463
2023	52,000	71,060	123,060
2024-2028	287,000	332,833	619,833
2029-2033	337,000	290,785	627,785
2034-2038	395,000	241,340	636,340
2039-2043	465,000	183,288	648,288
2044-2048	544,000	115,143	659,143
2049-2052	504,000	35,200	539,200
	<u>\$ 2,777,000</u>	<u>\$ 1,567,393</u>	<u>\$ 4,344,393</u>

Loan Payable - On September 18, 2013, the City closed on a loan agreement with Capital City Bank in the amount of \$9,416. The proceeds of this loan were used to purchase a vehicle to use in the water and sewer operations. The City is paying off 48 equal monthly principal and interest payments of \$206, including interest at 2.45%. The balance of the loan was paid off as of September 30, 2018.

A schedule of changes in proprietary fund debt follows:

	Balance October 1 2017	Increases	Decreases	Balance September 30 2018	Due Within One Year
Bonds payable	\$ 2,821,000	\$ -	\$ (44,000)	\$ 2,777,000	\$ 46,000
Compensated absences	10,347	5,711	(12,036)	4,022	603
Net pension liability	57,566	5,146	-	62,712	9,407
	<u>\$ 2,888,913</u>	<u>\$ 10,857</u>	<u>\$ (56,036)</u>	<u>\$ 2,843,734</u>	<u>\$ 56,010</u>

**NOTE 10. COST-SHARING MULTIPLE EMPLOYER DEFINED BENEFIT PENSION PLANS - FLORIDA RETIREMENT SYSTEM PENSION PLAN AND THE RETIREMENT HEALTH INSURANCE SUBSIDY PROGRAM**

**Florida Retirement System**

General Information - All of the City's employees 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, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or from the Web site: [www.dms.myflorida.com/workforce\\_operations/retirement/publications](http://www.dms.myflorida.com/workforce_operations/retirement/publications).



## **Pension Plan**

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

**Benefits Provided** - Benefits under the Pension Plan are computed on the basis of age, average final compensation, and service credit. For Pension Plan members enrolled before July 1, 2011, Regular class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service. Vested members with less than 30 years of service may retire before age 62 and receive reduced retirement benefits. Special Risk Administrative Support class members who retire at or after age 55 with at least six years of credited service or 25 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service. Special Risk class members (sworn law enforcement officers, firefighters, and correctional officers) who retire at or after age 55 with at least six years of credited service, or with 25 years of service regardless of age, are entitled to a retirement benefit payable monthly for life, equal to 3.0% of their final average compensation based on the five highest years of salary for each year of credited service. Senior Management Service class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 2.0% of their final average compensation based on the five highest years of salary for each year of credited service. Elected Officers’ class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 3.0% (3.33% for judges and justices) of their final average compensation based on the five highest years of salary for each year of credited service.

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

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

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

**Contributions** - Effective July 1, 2011, all enrolled members of the FRS, other than DROP participants, are required to contribute three percent of their salary to the FRS. In addition to member contributions, governmental employers are required to make contributions to the FRS based on state-wide contribution rates established by the Florida Legislature. These rates are updated as of July 1 of each year. The employer contribution rates by job class for the periods from October 1, 2017 through June 30, 2018 and from July 1, 2018 through September 30, 2019, respectively, were as follows: Regular—7.92% and 8.26%; Special Risk Administrative Support—34.63% and 34.98%; Special Risk—23.27% and 24.50%; Senior Management Service—22.71% and 24.06%; Elected Officers—45.50% and 48.70%; and DROP participants—13.26% and 14.03%. These employer contribution rates include 1.66% and 1.66% HIS Plan subsidy for the periods October 1, 2017 through June 30, 2018 and from July 1, 2018 through September 30, 2018, respectively.

The City’s contributions, including employee contributions, to the Pension Plan totaled \$38,147 for the fiscal year ended September 30, 2018.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - At September 30, 2018, the City reported a liability of \$290,969 for its proportionate share of the Pension Plan’s net pension liability. 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. The City’s proportionate share of the net pension liability was based on the City’s 2017-18 fiscal year contributions relative to the 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the City’s proportionate share was 0.0009660142 percent, which was an increase of 9.00 percent from its proportionate share measured as of June 30, 2017.

For the fiscal year ended September 30, 2018, the City recognized pension expense of \$26,223. In addition the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 24,649	\$ 895
Changes in assumptions	95,074	-
Net difference between projected and actual earnings on Pension Plan investments	-	22,481
Changes in proportion and differences between City Pension Plan contributions and proportionate share of contributions	24,454	14,794
City Pension Plan contributions subsequent to the measurement date	7,853	-
<b>Total</b>	<b>\$ 152,030</b>	<b>\$ 38,170</b>

The deferred outflows of resources related to the Pension Plan, totaling \$7,853 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, 2018. Other amounts reported

as deferred outflows of resources and deferred inflows of resources related to the Pension Plan will be recognized in pension expense as follows:

Fiscal Year Ending September 30	Amount
2019	\$ 41,072
2020	28,030
2021	3,908
2022	18,664
2023	12,480
Thereafter	1,853
	<u>\$ 106,007</u>

**Actuarial Assumptions** – The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumption, applied to all period included in the measurement:

Inflation	2.60%
Salary increases	3.25%, average, including inflation
Investment rate of return	7.00%, 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 an actuarial experience study for the period July 1, 2008 through June 30, 2013.

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

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.00%	2.96%	2.90%	1.80%
Fixed income	18.00%	4.40%	4.30%	4.00%
Global equity	54.00%	7.60%	6.30%	1.00%
Real estate (property)	11.00%	6.60%	6.00%	11.30%
Private equity	10.00%	10.70%	7.80%	26.50%
Strategic investments	6.00%	6.00%	5.70%	8.60%
Total	<u>100.00%</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 calculation the total pension liability is equal to the long-term expected rate of return.

**Sensitivity of the City's Proportionate Share of the Net Position Liability to Changes in the Discount Rate** - The following represents the City's proportionate share of the net pension liability calculated using the discount rate of 7.00%, 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 (6.00%) or one percentage point higher (8.00%) than the current rate:

	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
City's proportionate share of the net pension liability	<u>\$ 526,635</u>	<u>\$ 290,969</u>	<u>\$ 95,311</u>

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

**Payables to the Pension Plan** - At September 30, 2018, the City had \$3,397 payable for outstanding contributions to the Pension Plan required for the fiscal year ended September 30, 2018.

**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 period October 1, 2017 through June 30, 2018 and from July 1, 2018 through September 30, 2018 was 1.66% and 1.66%, respectively. The City contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

The City's contributions including employee contributions to the HIS Plan totaled \$5,901 for the fiscal year ended September 30, 2018.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** – At September 30, 2018, the City reported a liability of \$83,128 for its proportionate share of the HIS Plan's net pension liability. 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. The City's proportionate share of the net pension liability was based on the City's 2017-18 fiscal year contributions relative to the 2016-17 fiscal year contributions of all participating members. At June 30, 2018, the City's proportionate share was 0.0007854050 percent, which was an increase of 5.26 percent from its proportionate share measured as of June 30, 2018.

For the fiscal year ended September 30, 2018, the City recognized pension expense of \$3,708. In addition the City reported deferred outflows of resources and deferred in flows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,273	\$ 141
Changes in assumptions	9,245	8,789
Net difference between projected and actual earnings on HIS Plan investments	50	-
Changes in proportion and differences between City HIS Plan contributions and proportionate share of contributions	8,402	1,825
City HIS Plan contributions subsequent to the measurement date	991	-
<b>Total</b>	<b><u>\$ 19,961</u></b>	<b><u>\$ 10,755</u></b>

The deferred outflows of resources related to the HIS Plan, totaling \$991 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan will be recognized in pension expense as follows:

Fiscal Year Ending September 30	Amount
2019	\$ 5,738
2020	5,716
2021	4,005
2022	899
2023	(5,583)
Thereafter	(2,560)
	<b><u>\$ 8,215</u></b>

**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
Municipal bond rate	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 an actuarial experience study for the period July 1, 2008 through June 30, 2013.

**Discount Rate** - The discount rate used to measure the total pension liability was 3.87%. 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 City’s Proportionate Share of the Net Position Liability to Changes in the Discount Rate** - The following represents the City’s proportionate share of the net pension liability calculated using the discount rate of 3.87%, 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 (2.87%) or one percentage point higher (4.87%) than the current rate:

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
City's proportionate share of the net pension liability	\$ 94,860	\$ 83,128	\$ 75,356

**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.

**Payables to the Pension Plan** - At September 30, 2018, the City had \$525 payable for outstanding contributions to the HIS Plan required for the fiscal year ended September 30, 2018.

**Investment Plan**

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

As provided in Section 121.4501, *Florida Statutes*, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. City employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit

terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected City Officers, etc.), as the Pension Plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of plan members. Allocations to the investment member's accounts during the 2017-18 fiscal year, as established by Section 121.72, *Florida Statutes*, are based on a percentage of gross compensation, by class, as follows: Regular class 3.30%, Special Risk Administrative Support class 4.95%, Special Risk class 11.00%, Senior Management Service class 4.67% and City Elected Officers class 8.34%.

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the Pension Plan is transferred to the Investment Plan, the member must have the years of service required for Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to five years. If the employee returns to FRS-covered employment within the five-year period, the employee will regain control over their account. If the employee does not return within the five-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended September 30, 2018, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the City.

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

The City did not have any participants in the Investment Plan for the fiscal year ended September 30, 2018.

#### **NOTE 11. OTHER POST-EMPLOYMENT BENEFITS PLAN (OPEB)**

The City is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees, whether the premiums are paid by the City or the retiree. Participating retirees are considered to receive a secondary benefit known as an "implicit rate subsidy." This benefit relates to the assumption that the retirees are receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the City's younger and statistically healthier active employees. GASB Statement 45 requires governments to report this cost and related liability in its financial statements.

Due to the fact that there were no retirees participating in the plan during the year and it is anticipated that this situation will continue in the future due to the fact that most employees work until they are eligible for Medicare benefits, management had determined that the City's OPEB obligation at year end would be of a de minimis amount. Management will monitor this situation in the future and take appropriate steps to properly comply with this GASB Statement.

#### **NOTE 12. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. Insurance against losses are provided for the following types of risk:

- Workers' Compensation and Employer's Liability
- General and Automobile Liability
- Real and Personal Property Damage
- Public Officials' Liability
- Employee Dishonesty Bond

#### **NOTE 13. CONTINGENT LIABILITIES**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the State and Federal governments. 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 amounts, if any, to be immaterial.



**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF FANNING SPRINGS, FLORIDA**  
**GOVERNMENTAL FUND**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
For the Fiscal Year Ended September 30, 2018

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes, levied for general purposes	\$ 107,315	\$ 107,315	\$ 115,427	\$ 8,112
Other taxes	188,002	188,002	193,617	5,615
Intergovernmental	23,762	23,762	24,016	254
Franchise fees	60,500	60,500	53,752	(6,748)
Licenses and permits	1,500	1,500	11,529	10,029
Charges for service	143,132	143,132	128,882	(14,250)
Fines and forfeitures	600	600	1,931	1,331
Donations	-	-	4,500	4,500
Interest	-	-	4	4
Other fees and miscellaneous	700	700	2,303	1,603
<b>Total revenues</b>	<b>525,511</b>	<b>525,511</b>	<b>535,961</b>	<b>10,450</b>
<b>EXPENDITURES</b>				
Current				
General government				
Personnel	171,192	171,192	173,801	(2,609)
Operating	49,500	49,500	36,815	12,685
Legal council	35,000	35,000	35,000	-
Public safety				
Personnel	110,389	110,389	111,623	(1,234)
Operating	72,263	72,263	85,871	(13,608)
Transportation				
Operating	75,500	75,500	42,158	33,342
Culture and recreation				
Operating	38,029	38,029	36,125	1,904
Capital outlay				
Public safety	31,000	31,000	3,415	27,585
Culture and recreation	8,158,170	3,000	2,556	444
Debt service				
Principal	-	-	10,983	(10,983)
Interest	-	-	256	(256)
<b>Total expenditures</b>	<b>8,741,043</b>	<b>585,873</b>	<b>538,603</b>	<b>47,270</b>
Excess of revenues over (under) expenditures	(8,215,532)	(60,362)	(2,642)	57,720
<b>OTHER FINANCING SOURCES/(USES)</b>				
Grant revenues	8,215,532	60,362	-	(60,362)
Capital loss on investments	-	-	(654)	(654)
Net Interfund transfers	-	-	(177,199)	(177,199)
<b>Total other financing sources/(uses)</b>	<b>8,215,532</b>	<b>60,362</b>	<b>(177,853)</b>	<b>(654)</b>
Net change in fund balance	-	-	(180,495)	(180,495)
Fund balance at beginning of year	574,415	574,415	574,415	-
<b>Fund balance at end of year</b>	<b>\$ 574,415</b>	<b>\$ 574,415</b>	<b>\$ 393,920</b>	<b>\$ (180,495)</b>

**CITY OF FANNING SPRINGS, FLORIDA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2018**

**I. Stewardship, Compliance, and Accountability**

- A. Budgetary information.** The City, in establishing its budgetary data reflected in the financial statements follows the procedures set out in Chapters 166 and 200, *Florida Statutes*. The City prepares a tentative budget, which is used by the City at a public workshop to prepare the budgets for the coming year. Public hearings are conducted to obtain taxpayer comments. Subsequently, these budgets are legally adopted through the passage of a resolution at an advertised public session. Such actions are recorded in the City's minutes.

The budget is adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America (GAAP). The only exception to the GAAP basis is the Enterprise Fund, where depreciation is not budgeted for capital assets, while capital outlay expenditures are budgeted and are reclassified into fixed assets. These are then eliminated from the results of operations for financial reporting purposes in the Enterprise Fund. Estimated beginning fund balances are considered in the budgetary process, but are not included in the financial statements as budgeted revenues.

The annual budget serves as the legal authorization for expenditures. All budget amendments, which change the legally adopted total appropriation for a fund, are approved by the City Council.

If during the fiscal year, additional revenue becomes available for appropriations in excess of those estimated in the budget, the City Council, by resolution, may make supplemental appropriations for the year up to the amount of such excess.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted in August and September to obtain taxpayer comments.
3. Prior to November 1, the budget is legally enacted through passage of an ordinance.
4. The legal level of budgetary control is the department level; however, the City Council may, by formal motion, transfer appropriations between departments and may use surplus revenues not appropriated in the budget for any municipal purpose.
5. Budgets are prepared in accordance with accounting principles generally accepted in the United States of America for governmental fund types.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE CITY OF FANNING SPRINGS' PROPORTIONATE SHARE OF NET PENSION LIABILITY**  
**FLORIDA RETIREMENT SYSTEM AND HEALTH INSURANCE SUBSIDY PROGRAM**  
**LAST 10 FISCAL YEARS\***

	2018	2017	2016	2015	2014
City's proportion of the FRS net pension liability (asset)	0.000966014%	0.088628000%	0.000983871%	0.001042617%	0.000903152%
City's proportionate share of the FRS net pension liability (asset)	\$ 290,968	\$ 262,156	\$ 248,427	\$ 134,668	\$ 55,106
City's proportion of the HIS net pension liability (asset)	0.000785405%	0.000746129%	0.000771794%	0.000728194%	0.000705333%
City's proportionate share of the HIS net pension liability (asset)	83,128	79,780	89,949	74,264	65,950
City's proportionate share of the total net pension liability (asset)	<u>\$ 374,096</u>	<u>\$ 341,936</u>	<u>\$ 338,376</u>	<u>\$ 208,932</u>	<u>\$ 121,056</u>
City's covered-employee payroll	\$ 263,747	\$ 291,647	\$ 244,952	\$ 225,725	\$ 207,502
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	141.84%	117.24%	138.14%	92.56%	58.34%
Plan fiduciary net position as a percentage of the total pension liability	79.86%	79.30%	85.85%	92.00%	96.09%

Note 1) The amounts presented for each year were determined as of the June 30 year end of the Florida Retirement System

\*GASB 68 requires information for 10 years. However, until a full 10-year trend is compiled, only those years for which information is available is presented.

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE CITY OF FANNING SPRINGS' CONTRIBUTIONS  
FLORIDA RETIREMENT SYSTEM AND HEALTH INSURANCE SUBSIDY PROGRAM  
LAST 10 FISCAL YEARS\***

	2018	2017	2016	2015	2014
Contractually required FRS contribution	\$ 38,147	\$ 31,333	\$ 32,803	\$ 26,156	\$ 21,575
Contractually required HIS contribution	5,901	5,363	5,340	3,908	3,224
<b>Total Contractually Required Contributions</b>	<b>44,048</b>	<b>36,696</b>	<b>38,143</b>	<b>30,064</b>	<b>24,799</b>
Contributions in relation to the contractually required contribution	(44,048)	(36,696)	(38,143)	(30,064)	(24,799)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 263,747	\$ 291,647	\$ 244,952	\$ 225,725	\$ 207,502
Contributions as a percentage of covered-employee payroll	16.70%	12.58%	15.57%	13.32%	11.95%

\*GASB 68 requires information for 10 years. However, until a full 10-year trend is compiled, only those years for which information is available is presented.

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
THE CITY OF FANNING SPRINGS' PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND  
REQUIRED CONTRIBUTIONS  
FLORIDA RETIREMENT SYSTEM AND HEALTH INSURANCE SUBSIDY PROGRAM  
For the Fiscal Year End September 30, 2018**

**Net Pension Liability**

The components of the collective net pension liability of the participating employers for each defined benefit plan for the measurement date of September 30, 2018, are shown below (in thousands):

	FRS	HIS
Total pension liability	\$ 191,317,399	\$ 10,816,576
Plan fiduciary net position	(161,196,881)	(232,463)
	\$ 30,120,518	\$ 10,584,113
Plan fiduciary net position as a percentage of the total pension liability	84.26%	2.15%

The total pension liability for each plan was determined by the plans' actuary and reported in the plans' valuations dated July 1, 2018. The fiduciary net position used by the actuary to determine the net pension liability (as shown above) was determined on the same basis used by the plan. The fiduciary net position is reported in the financial statements and the net pension liability is disclosed in the notes to the financial statements. Update procedures were not used.

The HIS actuarial valuation was prepared as of July 1, 2018. The fiduciary net position used by the actuary to determine the net pension liability (as shown above) was determined on the same basis used by the Plan. The fiduciary net position is reported in the financial statements and the net pension liability is disclosed in the notes to the financial statements.

**Basis for Allocation**

The employer's proportionate share reported in the pension allocation schedules was calculated using accrued retirement contributions related to the reporting periods included in the System's fiscal years ending June 30, 2014, 2015, 2016, 2017 and 2018, respectively, for employers that were members of the FRS and HIS during those fiscal years. For fiscal year 2018, in addition to contributions from employers the required accrued contributions for the Division (paid on behalf of the Division's employees who administer the Plans) were allocated to each employer on a proportionate basis. The Division administers the Plans, and therefore, cannot allocate a portion of the liability to itself. Although GASB 68 encourages the use of the employers' projected long-term contribution effort to the retirement plan, allocating on the basis of historical employer contributions is acceptable. The aggregate employer contribution amounts for each fiscal year agree to the employer contribution amounts reported in the system's CAFR for that fiscal year.

The proportion calculated based on contributions for each of the fiscal years presented in the pension allocation schedules was applied to the net pension liability and other pension amounts applicable for that fiscal year to determine each employer's proportionate share of the liability, deferred outflows of resources, deferred inflow of resources and associated pension expense.

For the purposes of the pension allocation schedules, pension amounts are allocated to reporting employers. The pension amounts of participating employers whose payrolls are reported and contributions are remitted by another entity are included in the reporting employer's amounts and will be allocated to the participating employer by the reporting employer.

### **Actuarial Methods and Assumptions**

Actuarial assumptions for both cost-sharing defined benefit plans are reviewed annually by the Florida Retirement System Actuarial Assumptions Conference. The FRS Pension Plan has a valuation performed annually. The HIS Program has a valuation performed biennially that is updated for GASB reporting in the year a valuation is not performed. The most recent experience study for the FRS Pension Plan was completed in 2014 for the period July 1, 2008 through June 30, 2013. Because the HIS Program is funded on a pay-as-you-go basis, no experience study has been completed for that program. The actuarial assumptions that determined the total pension liability for the HIS Program were based on certain results of the most recent experience study for the FRS Pension Plan.

The total pension liability for each cost-sharing defined benefit plan was determined using the individual entry age actuarial cost method. Inflation increases for both Plans is assumed at 2.60%. Payroll growth, including inflation, for both Plans is assumed at 3.25%. Both the discount rate and the long-term expected rate of return used for FRS Pension Plan investments is 7.00%. The 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 calculating the total pension liability is equal to the long-term expected rate of return.

Because the HIS Program uses a pay-as-you-go funding structure, a municipal bond rate of 3.87% was used to determine the total pension liability for the program (Bond Buyer General Obligation 20-Bond Municipal Bond Index). Mortality assumptions for both Plans were based on the Generational RP-2000 with Projection Scale BB tables (refer to the valuation reports for more information – See Additional Financial and Actuarial Information).

The following changes in actuarial assumptions occurred in 2018:

- **FRS:** The long-term expected rate of return was decreased from 7.10% to 7.00%, and the active mortality assumption was updated.
- **HIS:** The municipal rate used to determine total pension liability was decreased from 3.58% to 3.87%.

**COMPLIANCE SECTION**



**CITY OF FANNING SPRINGS, FLORIDA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**  
For the Fiscal Year Ended September 30, 2018

GRANTOR/PROGRAM TITLE	CFDA #/ CFSA #	Contract Number	Award Amount	Reported in Prior Years	Expenditure Recognized in Current Year	Accrual / (Deferral)
Federal Financial Assistance						
Major Programs						
<i>Federal Emergency Management Agency</i>						
FEMA public assistance	97.036	8402S & 8402F	\$ 8,282	\$ -	\$ 8,282	\$ 8,282
Total federal awards			<u>8,282</u>	<u>-</u>	<u>8,282</u>	<u>8,282</u>
State Financial Assistance						
Major Programs						
<i>Florida Department of Environmental Protection Agency</i>						
Passed through Suwannee River Water Management District						
Florida Springs Initiative Grant Program	37.052	LP61030	\$ 2,000,000	\$ 186,100	\$ -	\$ -
Florida Springs Initiative Grant Program	37.052	LP61036	3,355,100	89,100	190,500	67,200
			<u>5,355,100</u>	<u>275,200</u>	<u>190,500</u>	<u>67,200</u>
Total state financial assistance			<u>5,355,100</u>	<u>275,200</u>	<u>190,500</u>	<u>67,200</u>
Other Governmental Agencies Assistance						
<i>Suwannee River Water Management District</i>						
Fanning Spings Water Quality Improvement Project	N/A	14/15-080	\$ 241,440	\$ 121,440	\$ -	\$ -
Total Other Governmental Agencies Assistance			<u>241,440</u>	<u>121,440</u>	<u>-</u>	<u>-</u>
Total federal awards, state financial assistance, and other governmental agencies assistance			<u>\$ 5,604,822</u>	<u>\$ 396,640</u>	<u>\$ 198,782</u>	<u>\$ 75,482</u>

See notes to the schedule of federal awards and state financial assistance.

## CITY OF FANNING SPRINGS, FLORIDA

### Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance

For the Fiscal Year Ended September 30, 2018

#### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance include the federal and state award activity of the City of Fanning Springs, Florida (the "City"). The accounting policies and presentation of the Schedule of Expenditures of Federal Awards and State Financial Assistance of the City have been designed to conform to generally accepted accounting principles as applicable to governmental units, including the reporting and compliance requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("OMB Uniform Guidance") and Chapter 10.550, Rules of the State of Florida, Office of the Auditor General. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

##### **A. Reporting Entity**

This reporting entity consists of the City of Fanning Springs, Florida, and each of its component units. The City includes a Schedule of Expenditures of Federal Awards and State Financial Assistance in the Compliance Section for the purpose of additional analysis.

##### **B. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus.

The modified accrual basis of accounting is followed in the Schedule of Expenditures of Federal Awards and State Financial Assistance. Under the modified accrual basis, revenues are recognized when they become 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 after the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

##### **C. Grant Awards**

As required by *OMB Uniform Guidance*, federal grant awards drawn and expended during the year are included in the Schedule of Expenditures of Federal Awards and State Financial Assistance.

##### **D. Sub-recipients**

Schedule of Expenditures of Federal Awards and State Financial Assistance is required to identify amounts passed through to sub-recipients of grant funding. The City did not have any sub-recipients of grant funding in the current year.

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

To the Mayor and Members  
Of the City Council  
City of Fanning Springs, Florida

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the business-type activities and the major funds of the City of Fanning Springs, Florida, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Fanning Springs, Florida's basic financial statements and have issued our report thereof dated May 24, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Fanning Springs, Florida's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Fanning Springs, Florida'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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify the following deficiency in internal control that we consider to be a significant deficiency.

**2013-1 (Excess of second consecutive year)  
Financial Statement Preparation**

A system of internal control over financial reporting includes controls over financial statement preparation, including footnote disclosures. While your auditor can assist with the preparation of your financial statements and related footnotes, the financial statements are the responsibility of management. A deficiency in internal control exists when the City does not have the expertise necessary to prevent, detect, and correct misstatements. A deficiency in internal control exists in instances where the City is not capable of drafting the financial statements and all required footnote disclosures in accordance with generally accepted accounting principles. Possessing suitable skill, knowledge, or experience to oversee services an auditor provides in assisting with financial statement presentation requires a lower level of technical knowledge than the competence required to prepare the financial statements and disclosures.

**MANAGEMENT'S RESPONSE**

***We agree with this finding. We are a very small government and have used our available resources to employ competent bookkeepers who maintains excellent accounting records and provides accurate monthly financial reports prepared generally on the cash basis. We likewise have confidence in our audit firm to utilize these records and prepare annual financial statements in the required formats and with all associated note disclosures. Both staff and the City Council review the annual financial reports and have the opportunity to ask the auditor any questions regarding the report prior to its formal presentation. The report is formally presented by the auditor at a scheduled meeting of the City Council.***

***At this time, we do not believe it would be a justifiable expense to employ another accountant on either a part-time or full-time basis to prepare the annual financial statements. We thus accept this required disclosure finding and will continue to monitor this situation in the future.***

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Fanning Springs, Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to management of the City of Fanning Springs, Florida, in a separate "Management Letter Required by Chapter 10.550, Rules of the State of Florida, Office of the Auditor General" dated May 24, 2019.

### **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 Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A rectangular box containing a handwritten signature in cursive script that reads "Powell & Jones".

**POWELL & JONES**

Certified Public Accountants

May 24, 2019

## MANAGEMENT LETTER

To the Mayor and  
Members of the City Council  
City of Fanning Springs, Florida

In planning and performing our audit of the financial statements of the City of Fanning Springs, Florida, for the year ended September 30, 2018, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiencies. In addition to furnishing information required by Chapter 10.550, *Rules of the Auditor General*, and other compliance matters, the remaining sections of this report letter discuss these findings.

### PRIOR YEAR FINDINGS

There were no reportable findings in the prior year.

### CURRENT YEAR FINDINGS

There were no reportable findings in the current year.

### AUDITOR GENERAL AND OTHER COMPLIANCE MATTERS

Annual Local Government Financial Report - The Financial Report filed with the Department of Financial Services pursuant to Section 218.32(1)(a), *Florida Statutes*, is in agreement with the accompanying financial statements of the City of Fanning Springs, for the fiscal year ended September 30, 2018.

Financial Emergency Status - We have determined that the City did not meet any of the conditions described in Section 218.503(1), *Florida Statutes*, that might result in a financial emergency.

Financial Condition Assessment - As required by the *Rules of the Auditor General* (Sections 10.554(1)(i)5.a and 10.556(7)), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information they provided.

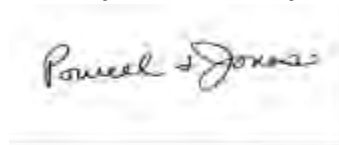
Our audit did not disclose any further items that would be required to be reported under the *Rules of the Auditor General*, Chapter 10.550.

Rural Economic and Community Development Requirements - We are providing the following additional information relative to our examination of the financial statements of the City of Fanning Springs, Florida, for the year ended September 30, 2018, as provided in the audit requirements for USDA-Rural Development borrowers.

1. Generally accepted auditing procedures were performed in this audit.
2. Internal control was evaluated and is discussed in the prior sections of this audit report.
3. Accounting records and physical control over assets were adequate.
4. The accounting records of the City have been adjusted to agree with the audited financial statements.
5. The City's funds are in institutions insured by the Federal government and are authorized depositories of Florida public funds.
6. A summary of the City's insurance coverage is shown in the annual report to USDA-Rural Development.
7. The City is exempt from Federal Income Tax.
8. We found nothing to indicate that financial compliance with the loan agreements had not occurred.

## CONCLUSION

We have reviewed each of our specific findings with appropriate officials or employees and have provided them with documentation as requested. We very much enjoyed the challenges and experiences associated with this year's audit of the City. We appreciate the helpful assistance and courtesy afforded us by all City employees and look forward to working with you in the future.



**POWELL & JONES**  
Certified Public Accountants  
May 24, 2019

## INDEPENDENT ACCOUNTANT'S REPORT

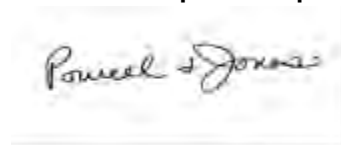
To the Mayor and  
Members of the City Council  
City of Fanning Springs, Florida

We have examined the City of Fanning Springs' compliance with Section 218.415, *Florida Statutes*, regarding the investment of public funds during 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 and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2018.

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



**POWELL & JONES**  
Certified Public Accountants  
May 24, 2019



## COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Mayor and  
Members of the City Council  
City of Fanning Springs, Florida

We have audited the financial statements of the City of Fanning Springs, Florida for the year ended September 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Fanning Springs, Florida are described Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There are no sensitive estimates affecting the City of Fanning Springs, Florida's financial statements.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There are no sensitive disclosures affecting the financial statements.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no such misstatements identified during our audit.

#### *Disagreements with Management*

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

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated May 24, 2019.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

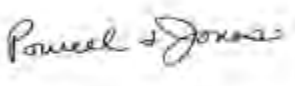
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the City Council and management of the City of Fanning Springs, Florida, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



**POWELL & JONES**  
Certified Public Accountants  
May 24, 2019