

CITY OF FREEPORT, FLORIDA

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

SEPTEMBER 30, 2018

**CITY OF FREEPORT, FLORIDA
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FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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II. FINANCIAL SECTION

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

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Freeport, Florida (the City), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-13 and the pension plan schedules on pages 54-57 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Warren Averett, LLC
Destin, Florida
May 21, 2019

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

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

FINANCIAL HIGHLIGHTS

- ❖ Total assets and deferred outflows of the City exceeded total liabilities and deferred inflows by \$50,845,244 (net position). Of this amount, \$4,987,033 is unrestricted for governmental activities and a deficit of \$428,270 is unrestricted for business-type activities, while \$360,280 is restricted net position for governmental activities and \$2,831,793 is restricted for business-type activities. Total net position includes \$18,617,833 of net investment in capital assets in the governmental activities and \$24,476,575 in the business-type activities.
- ❖ Total net position of the City increased by \$1,945,018. Of this amount, \$496,634 is attributable to governmental activities and \$1,448,384 is attributable to business-type activities.
- ❖ As of September 30, 2018, the General Fund's unassigned fund balance was \$5,170,555, which is 2.3 times more than the General Fund's total expenditures for fiscal year 2018.
- ❖ Revenues for governmental activities decreased by \$89,178, or 2.4%, and expenses decreased by \$201,419, or 6.9%.
- ❖ Revenues for business-type activities decreased by \$341,123, or 6.9%, and expenses also decreased by \$293,231, or 7.6%. The reduction in grant revenues and related expenses more than account for these reductions.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector business. The fund financial statements present financial information for the City's funds. The notes to basic financial statements provide additional information concerning the City's finances that are not otherwise disclosed in the government-wide or fund financial statements.

BASIC FINANCIAL STATEMENTS

The basic financial statements of the City, under GASB Statement No. 34, consist of (1) government-wide financial statements, (2) fund financial statements and (3) notes to financial statements. A brief description of these different reporting sections follows:

Government-Wide Financial Statements

GASB Statement No. 34 provides for a statement of net position and statement of activities on the City as a whole. These statements are designed to provide the user of the financial statements a combined overview of the City's financial position and results of operations in a manner similar to private-sector companies by utilizing the economic resources measurement focus and accrual basis of accounting. This method better matches revenues and expenses to the period in which the revenue is earned and the expense attributed.

The focus of the statement of net position is designed to be similar to a bottom line for the City's governmental and business-type activities. This is accomplished by presenting the governmental financial activity information in one column and the business-type financial activity information in another column with a third column representing a combination of the two columns or in other words the City as a whole. The net position of the City (total assets less total liabilities) are segregated into (1) net investment in capital assets, (2) restricted and (3) unrestricted. This segregation further assists the user of the financial statements to know the portion of the net position (i.e. unrestricted) available to cover the daily operations of the City. All the City's assets, including land, buildings and infrastructure are reported in the statement of net position as well as all liabilities including outstanding principal on bonds and future employee benefits obligated but not yet paid by the City.

The statement of activities is focused on both the gross and net cost of the various governmental and business-type activities of the City. This statement is intended to summarize the user's analysis of the cost of the various governmental and business-type activities and the local taxing effort as well as user fees and charges required to sustain each of these activities. The depreciation on all the long-lived assets of the City are included in this statement. The expenses of the governmental activities include general government services, transportation, economic environment, and culture/recreation. The business-type activities include water and sewer services.

Fund Financial Statements

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

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

Notes to Financial Statements

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

FINANCIAL ANALYSIS OF THE CITY

The following table reflects the condensed statement of net position:

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 6,357,350	\$ 5,415,436	\$ 7,288,726	\$ 7,041,979	\$ 13,646,076	\$ 12,457,415
Capital assets	19,479,145	19,866,333	31,474,507	31,099,112	50,953,652	50,965,445
Total assets	25,836,495	25,281,769	38,763,233	38,141,091	64,599,728	63,422,860
Total deferred outflows of resources	304,864	148,449	427,419	242,206	732,283	390,655
Long-term liabilities	1,403,736	1,202,232	10,966,410	11,502,278	12,370,146	12,704,510
Other liabilities	635,493	610,067	1,115,085	1,205,536	1,750,578	1,815,603
Total liabilities	2,039,229	1,812,299	12,081,495	12,707,814	14,120,724	14,520,113
Total deferred inflows of resources	136,984	149,407	229,059	243,769	366,043	393,176
Net position						
Net investment in capital assets	18,617,833	18,989,714	24,476,575	23,579,559	43,094,408	42,569,273
Restricted	360,280	370,668	2,831,793	3,075,724	3,192,073	3,446,392
Unrestricted (deficit)	4,987,033	4,108,130	(428,270)	(1,223,569)	4,558,763	2,884,561
Total net position	\$ 23,965,146	\$ 23,468,512	\$ 26,880,098	\$ 25,431,714	\$ 50,845,244	\$ 48,900,226

The City is able to report positive balances in all three categories of net position for the governmental activities as well as the city as a whole, however for the business-type activities the unrestricted net position reflects a deficit balance. The reduction in the deficit net position is attributable to an increase in sewer service rates and a decrease in water operating expenses.

Capital assets (i.e. land, buildings, infrastructure and equipment) are utilized to provide services to citizens and therefore are not available for future spending. This investment in capital assets, net of related debt is the largest portion of the City's total net position. This comprises 84.8% and 87.1% of the City's total net position as of September 30, 2018 and 2017, respectively. The restricted net position is comprised funds required to be used for the retirement of the City's debt obligations as well as impact fees that can only be used for expansion of the City's systems.

FINANCIAL ANALYSIS OF THE CITY – CONTINUED

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

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
REVENUES						
Program revenues						
Charges for services	\$ 174,078	\$ 1,055,202	\$ 3,404,133	\$ 2,886,727	\$ 3,578,211	\$ 3,941,929
Operating grants and contributions	172,603	-	-	-	172,603	-
Capital grants and contributions	-	354,705	1,137,446	1,968,340	1,137,446	2,323,045
General revenues						
Property taxes	1,170,346	995,355	-	-	1,170,346	995,355
Other taxes	1,824,116	611,269	-	-	1,824,116	611,269
Other revenues	255,788	669,578	89,923	117,558	345,711	787,136
TOTAL REVENUES	3,596,931	3,686,109	4,631,502	4,972,625	8,228,433	8,658,734
EXPENSES						
Primary government						
General government	1,032,077	1,551,566	-	-	1,032,077	1,551,566
Physical Environment	574,887	925,242	-	-	574,887	925,242
Transportation	199,733	52,507	-	-	199,733	52,507
Economic Environment	133,632	-	-	-	133,632	-
Culture and Recreation	720,585	329,303	-	-	720,585	329,303
Interest on long-term debt	35,963	39,678	-	-	35,963	39,678
Business-type activities						
Water	-	-	1,905,347	2,387,207	1,905,347	2,387,207
Sewer	-	-	1,681,191	1,492,562	1,681,191	1,492,562
TOTAL EXPENSES	2,696,877	2,898,296	3,586,538	3,879,769	6,283,415	6,778,065
Change in net position before transfers	900,054	787,813	1,044,964	1,092,856	1,945,018	1,880,669
Transfers	(403,420)	-	403,420	-	-	-
Change in net position	496,634	787,813	1,448,384	1,092,856	1,945,018	1,880,669
Net position at beginning of year	23,468,512	22,680,699	25,431,714	24,338,858	48,900,226	47,019,557
Net position at end of year	<u>\$ 23,965,146</u>	<u>\$ 23,468,512</u>	<u>\$ 26,880,098</u>	<u>\$ 25,431,714</u>	<u>\$ 50,845,244</u>	<u>\$ 48,900,226</u>

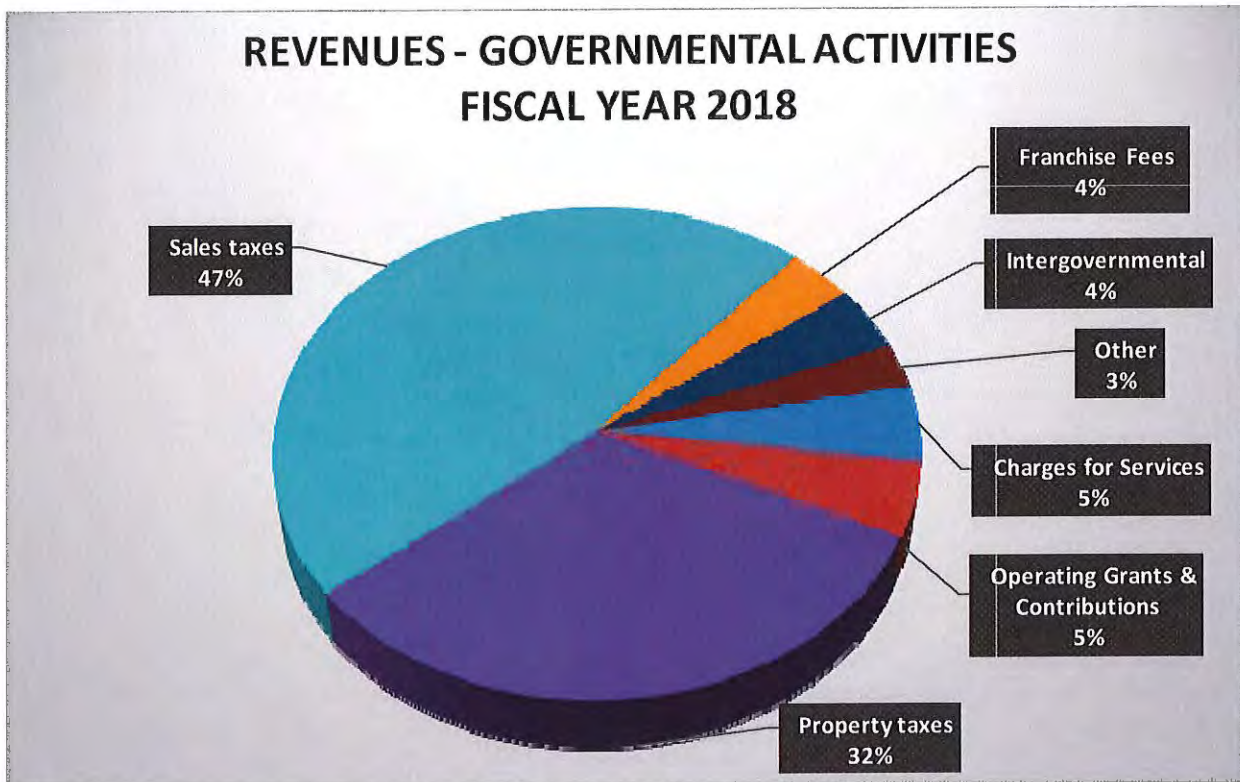
For the year ending September 30, 2018, revenues for governmental activities exceeded expenses by \$900,054, and revenues for business-type activities exceeded expenses by \$1,044,964. Total revenues decreased by \$430,301 and the expenses decreased by \$494,650. This decrease is primarily attributable to a decrease in grant revenues and related expenses.

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

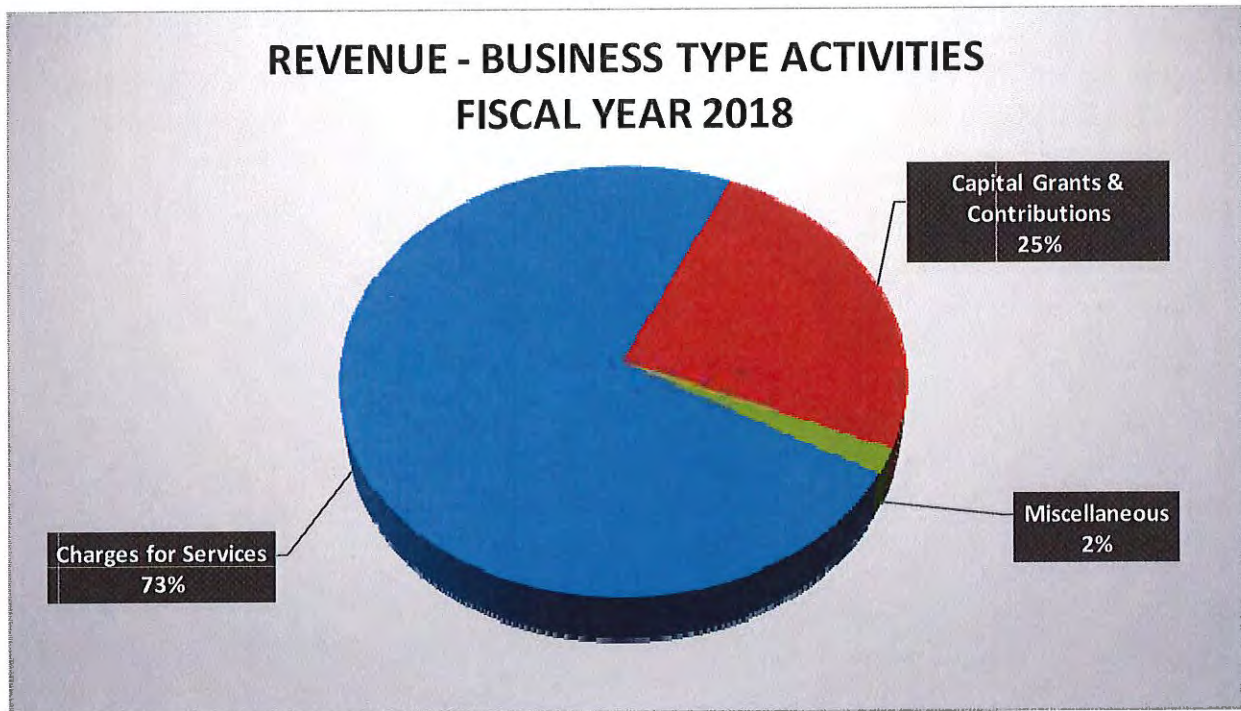
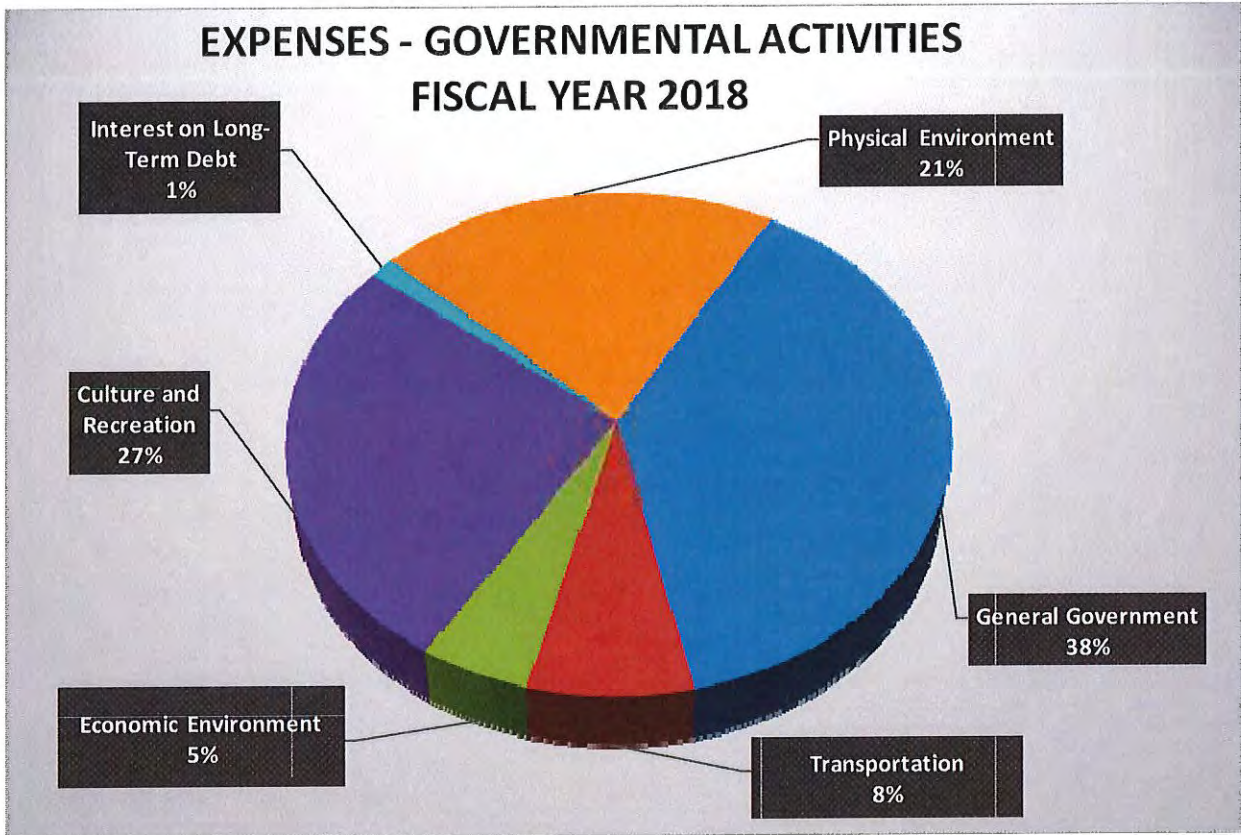
- ❖ Property taxes account for 32.5% of the City's revenues from governmental activities and sales taxes account for 47.1%.

FINANCIAL ANALYSIS OF THE CITY – CONTINUED

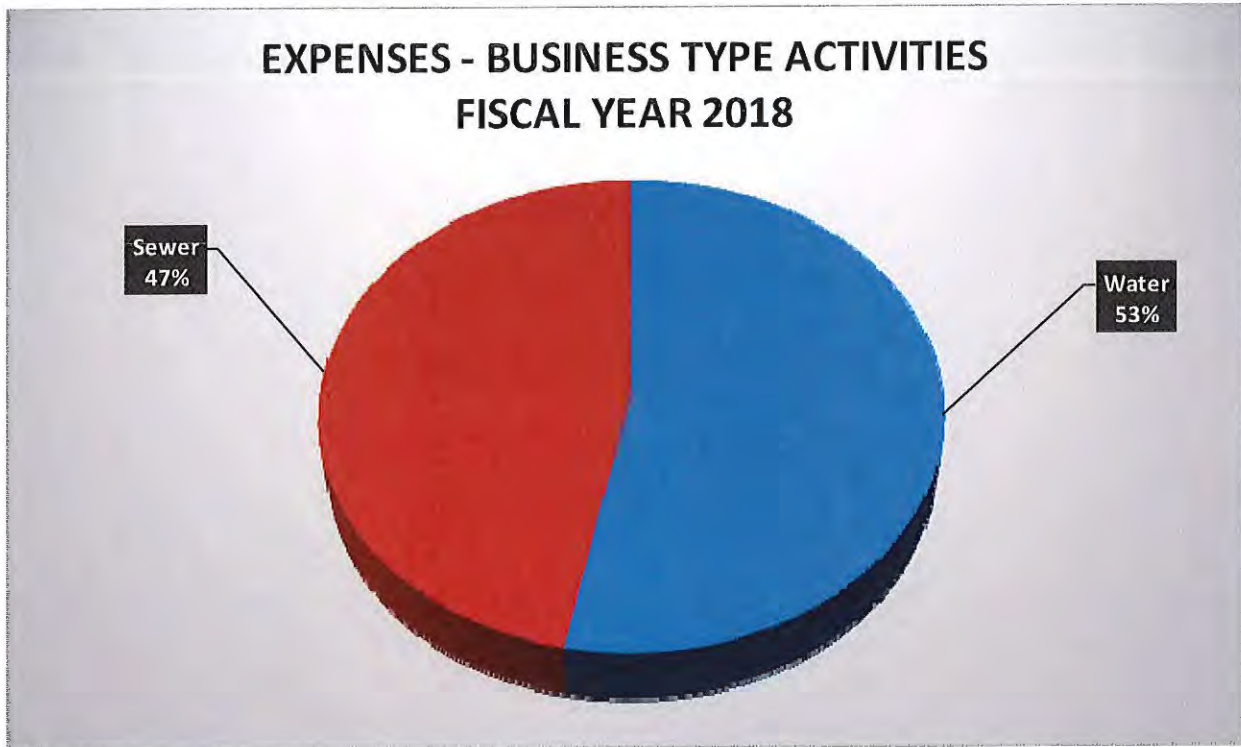
- ❖ General government and culture and recreation expenses account for 65.0% of total expenses for governmental activities.
- ❖ 73.5% of revenues for business-type activities (i.e. water and sewer) are derived from charges for services.
- ❖ Expenses for business-type activities exceeded revenues received from user charges by \$182,405, or 5.4%.



FINANCIAL ANALYSIS OF THE CITY – CONTINUED



FINANCIAL ANALYSIS OF THE CITY – CONTINUED



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

General Fund

The main operating fund of the City is the General Fund. As of September 30, 2018, total assets of the General Fund were \$6,357,350 and total liabilities were \$616,594. Unassigned fund balance was \$5,170,555, which represents 90.0% of the total fund balance of \$5,740,756.

Proprietary Funds

The City's proprietary funds are the business-type funds reported in the government-wide financial statements. The City has two such funds: water and sewer. The same type of information is presented in both financial statements concerning these funds. However, more detailed reporting of these funds is provided under the fund financial statements than under the government-wide financial statements.

Water Fund

The asset makeup of this fund is very capital intensive with capital assets, net of accumulated depreciation, representing 76.4% of the fund's total assets. The depreciation expense for this fund was \$399,926 for fiscal year ending September 30, 2018.

During fiscal year 2018, the Water Fund had an increase in net position of \$907,277. The total net position of this fund as of September 30, 2018, was \$11,808,449. Of this amount, \$1,217,661, or 10.3%, was unrestricted.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS – CONTINUED

Sewer Fund

Just like the Water Fund the asset makeup of this fund is very capital intensive with net capital assets representing 76.8% of the fund's total assets. The depreciation expense for this fund was \$464,228 for the fiscal year ending September 30, 2018.

During fiscal year 2018, the Sewer Fund had an increase in net position of \$541,107. The total net position of the Sewer Fund as of September 30, 2018 was \$15,071,649. Of this amount, \$14,717,106, or 97.6%, represents the fund's investment in capital assets, net of related debt.

CAPITAL ASSET ACTIVITY

The City's total investment in capital assets for both its governmental and business-type activities as of September 30, 2018 was \$50,953,652 (net of accumulated depreciation). This investment in capital assets include land, construction in progress, building, improvements as well as machinery and equipment.

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

- ❖ Water system expansion and tie-in project - \$695,324
- ❖ Sewer taps and removal of 54 septic tanks - \$301,197
- ❖ US 331 Corridor utility study - \$175,000

The following schedule provides a summary of the City's capital assets:

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 12,367,264	\$ 12,367,264	\$ 392,225	\$ 392,225	\$ 12,759,489	\$ 12,759,489
Construction in progress	9,125	38,250	3,832,722	5,735,639	3,841,847	5,773,889
Buildings	2,912,237	2,912,237	821,891	825,091	3,734,128	3,737,328
Improvements other than buildings	8,979,537	8,913,612	35,555,493	32,490,222	44,535,030	41,403,834
Machinery and equipment	696,413	586,169	2,031,606	1,951,211	2,728,019	2,537,380
Accumulated depreciation	(5,485,431)	(4,951,199)	(11,159,430)	(10,295,276)	(16,644,861)	(15,246,475)
Total	\$ 19,479,145	\$ 19,866,333	\$ 31,474,507	\$ 31,099,112	\$ 50,953,652	\$ 50,965,445

DEBT MANAGEMENT

At the end of the current fiscal year, the City had total bond debt and notes payable outstanding in the amount of \$7,859,244. This debt amount represents bonds secured solely by specified revenue sources (i.e. revenue bonds payable) and notes payable. Principal repayments during the year on the revenue bonds totaled \$154,307, and repayments on notes payable totaled \$497,816, less principal forgiven on long-term debt of \$308,482.

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenue Bonds payable	\$ 861,312	\$ 876,619	\$ 4,754,600	\$ 4,893,600	\$ 5,615,912	\$ 5,770,219
Notes payable	-	-	2,243,332	2,625,953	2,243,332	2,625,953
Total	\$ 861,312	\$ 876,619	\$ 6,997,932	\$ 7,519,553	\$ 7,859,244	\$ 8,396,172

OTHER FINANCIAL INFORMATION

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

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning this report or request for additional information should be addresses to the City of Freeport, Florida, Attention Finance Officer, P.O. 339, Freeport, Florida 32439. Readers may also visit the City's website: <https://www.freeportflorida.gov> or send an email to accounting@freeportflorida.gov.

**CITY OF FREEPORT, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,491,779	\$ 3,991,684	\$ 7,483,463
Receivables, net	12,977	367,398	380,375
Internal balances	1,994,005	(1,994,005)	-
Due from other governments	160,013	1,515,455	1,675,468
Inventory, at cost	-	110,588	110,588
Prepaid assets	12,148	23,434	35,582
Restricted assets			
Cash and cash equivalents	686,428	3,274,172	3,960,600
Capital assets			
Non-depreciable	12,376,389	4,224,947	16,601,336
Depreciable, net	7,102,756	27,249,560	34,352,316
TOTAL ASSETS	25,836,495	38,763,233	64,599,728
DEFERRED OUTFLOWS OF RESOURCES	304,864	427,419	732,283
LIABILITIES			
Accounts payable	175,453	237,603	413,056
Due to other governments	93,760	-	93,760
Accrued liabilities	24,194	33,093	57,287
Unearned revenue	-	43,558	43,558
Payable from restricted assets			
Accrued interest	2,961	21,448	24,409
Customer deposits	323,187	442,378	765,565
Non-current liabilities			
Due within one year			
Revenue bonds payable	15,938	143,000	158,938
Notes payable	-	194,005	194,005
Due in more than one year			
Unearned revenue	-	3,457,210	3,457,210
Compensated absences	30,095	66,463	96,558
Revenue bonds payable	845,374	4,611,600	5,456,974
Notes payable	-	2,049,327	2,049,327
Other post-employment benefits	17,863	29,657	47,520
Net pension liability	510,404	752,153	1,262,557
TOTAL LIABILITIES	2,039,229	12,081,495	14,120,724
DEFERRED INFLOWS OF RESOURCES	136,984	229,059	366,043
NET POSITION			
Net investment in capital assets	18,617,833	24,476,575	43,094,408
Restricted			
Debt service	52,797	349,712	402,509
System improvements	-	2,482,081	2,482,081
Capital infrastructure projects	307,483	-	307,483
Unrestricted (deficit)	4,987,033	(428,270)	4,558,763
TOTAL NET POSITION	\$ 23,965,146	\$ 26,880,098	\$ 50,845,244

See notes to the financial statements.

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

Function/program activities	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental activities							
General government	\$ 1,032,077	\$ 105,369	\$ 14,625	\$ -	\$ (912,083)	\$ -	\$ (912,083)
Physical environment	574,887	-	-	-	(574,887)	-	(574,887)
Transportation	199,733	-	22,399	-	(177,334)	-	(177,334)
Economic environment	133,632	-	133,632	-	-	-	-
Culture and recreation	720,585	68,709	1,947	-	(649,929)	-	(649,929)
Debt service interest	35,963	-	-	-	(35,963)	-	(35,963)
Total governmental activities	<u>2,696,877</u>	<u>174,078</u>	<u>172,603</u>	<u>-</u>	<u>(2,350,196)</u>	<u>-</u>	<u>(2,350,196)</u>
Business-type activities							
Water	1,905,347	1,869,147	-	704,855	-	668,655	668,655
Sewer	1,681,191	1,534,986	-	432,591	-	286,386	286,386
Total business-type activities	<u>3,586,538</u>	<u>3,404,133</u>	<u>-</u>	<u>1,137,446</u>	<u>-</u>	<u>955,041</u>	<u>955,041</u>
Total primary government	\$ 6,283,415	\$ 3,578,211	\$ 172,603	\$ 1,137,446	(2,350,196)	955,041	(1,395,155)
General revenues							
Taxes							
Property taxes					1,170,346	-	1,170,346
Sales taxes					1,693,264	-	1,693,264
Franchise fees					130,852	-	130,852
Intergovernmental, unrestricted					152,883	-	152,883
Miscellaneous					99,314	80,730	180,044
Investment earnings					3,591	9,193	12,784
Transfers					(403,420)	403,420	-
Total general revenues and transfers					<u>2,846,830</u>	<u>493,343</u>	<u>3,340,173</u>
CHANGE IN NET POSITION					<u>496,634</u>	<u>1,448,384</u>	<u>1,945,018</u>
NET POSITION AT BEGINNING OF YEAR					<u>23,468,512</u>	<u>25,431,714</u>	<u>48,900,226</u>
NET POSITION AT END OF YEAR					<u>\$ 23,965,146</u>	<u>\$ 26,880,098</u>	<u>\$ 50,845,244</u>

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
GOVERNMENTAL FUND
BALANCE SHEET
SEPTEMBER 30, 2018**

	General Fund
ASSETS	
Cash and cash equivalents	\$ 3,491,779
Receivables	12,977
Due from other funds	1,994,005
Due from other governments	160,013
Prepaid items	12,148
Restricted assets	
Cash and cash equivalents	686,428
TOTAL ASSETS	\$ 6,357,350
LIABILITIES	
Accounts payable	\$ 175,453
Due to other governments	93,760
Accrued liabilities	24,194
Payable from restricted assets	
Customer deposits	323,187
Total liabilities	616,594
FUND BALANCE	
Nonspendable	12,148
Restricted	363,241
Assigned	194,812
Unassigned	5,170,555
Total fund balances	5,740,756
TOTAL LIABILITIES AND FUND BALANCE	\$ 6,357,350

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
GOVERNMENTAL FUND
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2018**

Fund balance, total governmental funds (page 14)		\$ 5,740,756
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental non-depreciable/amortizable assets	12,376,389	
Governmental depreciable/amortizable assets	12,588,187	
Less accumulated depreciation/amortization	<u>(5,485,431)</u>	19,479,145
Deferred inflows of resources and deferred outflows of resources are not available/receivable or due/payable, respectively, in the current period and therefore are not reported in the governmental funds.		
Deferred outflows of resources related to pension plans	304,864	
Deferred inflows of resources related to pension plans	<u>(136,984)</u>	167,880
Long-term liabilities are not due and payable in the current period		
Revenue bonds payable	(861,312)	
Accrued interest	(2,961)	
Compensated absences	(30,095)	
Other post-employment benefits	(17,863)	
Net pension liability	<u>(510,404)</u>	(1,422,635)
Net position of governmental activities (page 12)		<u>\$ 23,965,146</u>

See notes to the financial statements.

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

	General Fund
REVENUES	
Taxes	\$ 1,346,232
Intergovernmental	1,969,544
Charges for services	174,078
Fines	2,225
Miscellaneous	104,852
Total revenues	3,596,931
EXPENDITURES	
Current	
General government	908,242
Physical environment	574,887
Transportation	108,796
Economic environment	133,632
Culture and recreation	314,271
Capital outlay	185,294
Debt service	
Principal	15,307
Interest	36,161
Total expenditures	2,276,590
EXCESS OF REVENUES OVER EXPENDITURES	1,320,341
OTHER FINANCING USES	
Transfers out	(403,420)
NET CHANGE IN FUND BALANCE	916,921
FUND BALANCE AT BEGINNING OF YEAR	4,823,835
FUND BALANCE AT END OF YEAR	\$ 5,740,756

See notes to the financial statements.

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

Net change in fund balance – governmental funds (page 16)	\$	916,921
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Amounts reported for governmental activities in the statement of activities are different because:

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

Expenditures for capital assets	185,294	
Less current year depreciation/amortization	<u>(534,232)</u>	
		(348,938)

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

Transfers and disposals of capital assets		(38,250)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. In addition, long-term debt reassignments are reported as transfers on the statement of activities.

Revenue bond principal repayments	15,307	
Change in accrued interest on long-term debt	<u>198</u>	
		15,505

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

Change in net pension liability	156,415	
Change in deferred inflows of resources related to pensions	12,423	
Change in deferred inflows of resources related to pensions	(179,653)	
Change in long-term compensated absences	(20,551)	
Change in other post-employment benefits liability	<u>(17,238)</u>	
		<u>(48,604)</u>

Change in net position of governmental activities (page 13)	\$	<u><u>496,634</u></u>
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See notes to the financial statements.

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 1,308,000	\$ 1,308,000	\$ 1,346,232	\$ 38,232
Intergovernmental	2,555,040	2,555,040	1,969,544	(585,496)
Charges for services	106,230	106,230	174,078	67,848
Fines	1,500	1,500	2,225	725
Miscellaneous	57,300	57,300	104,852	47,552
Total revenues	<u>4,028,070</u>	<u>4,028,070</u>	<u>3,596,931</u>	<u>(431,139)</u>
EXPENDITURES				
Current				
General government	1,016,420	1,019,500	908,242	111,258
Physical environment	1,083,080	1,083,080	574,887	508,193
Transportation	172,690	172,690	108,796	63,894
Economic environment	311,000	311,000	133,632	177,368
Culture and recreation	420,500	457,000	314,271	142,729
Capital outlay	385,500	349,000	185,294	163,706
Debt service				
Principal	15,310	15,310	15,307	3
Interest	36,200	36,200	36,161	39
Total expenditures	<u>3,440,700</u>	<u>3,443,780</u>	<u>2,276,590</u>	<u>1,167,190</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>587,370</u>	<u>584,290</u>	<u>1,320,341</u>	<u>736,051</u>
OTHER FINANCING USES				
Transfers out	(403,420)	(403,420)	(403,420)	-
Total other financing uses	<u>(403,420)</u>	<u>(403,420)</u>	<u>(403,420)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	183,950	180,870	916,921	736,051
FUND BALANCE - BEGINNING OF YEAR	<u>2,529,800</u>	<u>2,529,800</u>	<u>4,823,835</u>	<u>2,294,035</u>
FUND BALANCE - END OF YEAR	<u>\$ 2,713,750</u>	<u>\$ 2,710,670</u>	<u>\$ 5,740,756</u>	<u>\$ 3,030,086</u>

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2018**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,485,720	\$ 2,505,964	\$ 3,991,684
Restricted assets - cash and cash equivalents	1,273,698	2,000,474	3,274,172
Receivables, net	194,810	172,588	367,398
Due from other funds	328,290	-	328,290
Due from other governments	1,515,455	-	1,515,455
Inventory	66,661	43,927	110,588
Prepaid items	9,709	13,725	23,434
Total current assets	<u>4,874,343</u>	<u>4,736,678</u>	<u>9,611,021</u>
Non-current assets			
Capital assets			
Non-depreciable	400,247	3,824,700	4,224,947
Depreciable, net	<u>15,399,590</u>	<u>11,849,970</u>	<u>27,249,560</u>
Total non-current assets	<u>15,799,837</u>	<u>15,674,670</u>	<u>31,474,507</u>
TOTAL ASSETS	<u>20,674,180</u>	<u>20,411,348</u>	<u>41,085,528</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>226,763</u>	<u>200,656</u>	<u>427,419</u>

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION – CONTINUED
 SEPTEMBER 30, 2018**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 44,561	\$ 193,042	\$ 237,603
Accrued liabilities	18,390	14,703	33,093
Due to other funds	662,650	1,659,645	2,322,295
Unearned revenue	41,184	2,374	43,558
Revenue bonds payable	137,000	6,000	143,000
Notes payable	70,261	123,744	194,005
Payable from restricted assets			
Accrued interest	16,719	4,729	21,448
Customer deposits	442,378	-	442,378
Total current liabilities	<u>1,433,143</u>	<u>2,004,237</u>	<u>3,437,380</u>
Non-current liabilities			
Unearned revenue	1,246,529	2,210,681	3,457,210
Compensated absences	42,412	24,051	66,463
Revenue bonds payable	4,411,600	200,000	4,611,600
Notes payable	1,421,507	627,820	2,049,327
Net pension liability	399,497	352,656	752,153
Total non-current liabilities	<u>7,537,374</u>	<u>3,429,036</u>	<u>10,966,410</u>
TOTAL LIABILITIES	<u>8,970,517</u>	<u>5,433,273</u>	<u>14,403,790</u>
DEFERRED INFLOWS OF RESOURCES	<u>121,977</u>	<u>107,082</u>	<u>229,059</u>
NET POSITION			
Invested in capital assets	9,759,469	14,717,106	24,476,575
Restricted for system improvements	498,960	1,983,121	2,482,081
Restricted for debt service	332,359	17,353	349,712
Unrestricted (deficit)	1,217,661	(1,645,931)	(428,270)
TOTAL NET POSITION	<u>\$ 11,808,449</u>	<u>\$ 15,071,649</u>	<u>\$ 26,880,098</u>

See notes to the financial statements.

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

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 1,869,147	\$ 1,534,986	\$ 3,404,133
OPERATING EXPENSES			
Personal services	613,531	506,734	1,120,265
Operating	659,932	676,489	1,336,421
Depreciation	399,926	464,228	864,154
Total operating expenses	<u>1,673,389</u>	<u>1,647,451</u>	<u>3,320,840</u>
OPERATING INCOME (LOSS)	<u>195,758</u>	<u>(112,465)</u>	<u>83,293</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest expense	(231,958)	(33,740)	(265,698)
Interest	5,811	3,382	9,193
Miscellaneous	28,601	52,129	80,730
Total non-operating revenues (expenses)	<u>(197,546)</u>	<u>21,771</u>	<u>(175,775)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(1,788)</u>	<u>(90,694)</u>	<u>(92,482)</u>
Capital contributions	556,326	67,500	623,826
Impact fees	148,529	365,091	513,620
Transfers in	204,210	199,210	403,420
Total capital contributions and transfers	<u>909,065</u>	<u>631,801</u>	<u>1,540,866</u>
CHANGE IN NET POSITION	907,277	541,107	1,448,384
NET POSITION AT BEGINNING OF YEAR	<u>10,901,172</u>	<u>14,530,542</u>	<u>25,431,714</u>
NET POSITION AT END OF YEAR	<u>\$ 11,808,449</u>	<u>\$ 15,071,649</u>	<u>\$ 26,880,098</u>

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 1,694,185	\$ 1,299,434	\$ 2,993,619
Payments to suppliers/employees	(1,492,605)	(1,046,931)	(2,539,536)
Miscellaneous income	28,601	52,128	80,729
Net cash provided by operating activities	<u>230,181</u>	<u>304,631</u>	<u>534,812</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Change in interfund balances	275,560	307,456	583,016
Transfers in	204,210	199,210	403,420
Net cash provided by non-capital financing activities	<u>479,770</u>	<u>506,666</u>	<u>986,436</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from impact fees	148,529	365,091	513,620
Acquisitions of capital assets	(791,305)	(448,244)	(1,239,549)
Proceeds from capital grants and contributions	274,447	-	274,447
Proceeds from issuance of long-term debt	-	115,195	115,195
Principal repayments on long-term debt	(221,795)	(106,539)	(328,334)
Interest paid on long-term debt	(232,431)	(33,786)	(266,217)
Net cash used in capital and related financing activities	<u>(822,555)</u>	<u>(108,283)</u>	<u>(930,838)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	5,811	3,382	9,193
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(106,793)	706,396	599,603
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,866,211</u>	<u>3,800,042</u>	<u>6,666,253</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,759,418</u>	<u>\$ 4,506,438</u>	<u>\$ 7,265,856</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF			
Current	\$ 1,485,720	\$ 2,505,964	\$ 3,991,684
Restricted	1,273,698	2,000,474	3,274,172
Total cash and cash equivalents	<u>\$ 2,759,418</u>	<u>\$ 4,506,438</u>	<u>\$ 7,265,856</u>

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS – CONTINUED
 FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 195,758	\$ (112,465)	\$ 83,293
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	399,926	464,228	864,154
Miscellaneous revenue	28,601	52,128	80,729
Decrease (increase) in assets:			-
Accounts receivable, net	(103,964)	(82,426)	(186,390)
Prepaid items	(1,476)	(1,397)	(2,873)
Deferred outflows of resources	(97,847)	(87,366)	(185,213)
Increase (decrease) in liabilities:			
Customer deposits	37,536	-	37,536
Accounts payable	(272,337)	100,791	(171,546)
Accrued liabilities	5,564	3,230	8,794
Compensated absences	27,184	14,388	41,572
Unearned revenue	(108,534)	(153,126)	(261,660)
Other post-employment benefits	15,275	13,344	28,619
Net pension liability	112,266	100,241	212,507
Deferred inflows of resources	(7,771)	(6,939)	(14,710)
Net cash provided by operating activities	<u>\$ 230,181</u>	<u>\$ 304,631</u>	<u>\$ 534,812</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Principal forgiveness on long-term debt	<u>\$ 240,982</u>	<u>\$ 67,500</u>	<u>\$ 308,482</u>

See notes to the financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of City

The City of Freeport, Florida (the City) was established by legislative action under the laws of the State of Florida in 1963. The City operates under a council form of government and provides the following services: transportation (road and street facilities), culture and recreation (parks and recreation), utility (water and sewer) and general government.

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

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

The Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the City as the primary government. In evaluating the City as a reporting entity, management has considered all potential component units for which the City may or may not be financially accountable and, as such, be included within the City's financial statements. Management utilized criteria set forth in GASB Statement No. 61 for determining financial accountability of potential component units in evaluating all potential component units. In accordance with GASB Statement No. 61, the City is financially accountable if it appoints a voting majority of the potential component unit's governing board, and it is able to impose its will on the organization, or there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. In addition, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

As of September 30, 2018, the City had no component units, as defined by GASB Statement No. 61, with a significant operational or financial relationship with the City.

Government-Wide and Fund Financial Statements

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-Wide and Fund Financial Statements – Continued

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

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

Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for grant revenues, for which the period is one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus and Basis of Accounting – Continued

The following is the current property tax calendar:

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

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

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

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

Basis of Presentation

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for utility services. The City considers all impact fee revenue as capital contributions for the water and sewer system; therefore, no amount from the impact fees are included in operating revenue. Operating expenses for enterprise funds include the cost of service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

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

Governmental

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

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

Proprietary

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

Water Fund – this fund accounts for the operations and activities of the City's water system.

Sewer Fund – this fund accounts for the operations and activities of the City's wastewater system.

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

Cash and Cash Equivalents

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

Receivables and Payables

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Receivables and Payables – Continued

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

Inventory

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

Restricted Assets

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

Capital Assets

Capital assets, which include construction in process, property, plant, equipment, and infrastructure assets (roads, bridges, curbs and sidewalks, drainage systems, lighting systems and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial cost of more than \$500 and an estimated useful life of more than one year.

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Capital Assets – Continued

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	50 years
Machinery and equipment	5-10 years
Water distribution system and improvements	10-50 years
Sewer system and improvements	10-50 years

Deferred Inflows/Outflows of Resources

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

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

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused personal leave based on the length of service to the City. Vested or accumulated leave that is expected that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. All vested or accumulated leave is accrued when incurred in the government-wide financial statements and the proprietary fund types in the fund financial statements. A liability for compensated absences is reported in the governmental fund types of the fund financial statements only if they have matured, for example, as a result of employee resignations or retirements.

The policy of the City for annual leave is as follows:

<u>Years of Employment</u>	<u>Earned Leave per Year</u>
More than 0 years but less than 5 years	208 hours
5 or more years but less than 7 years	234 hours
7 or more years	260 hours

CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Compensated Absences – Continued

Employees may accumulate up to 496 hours of personal leave, which may be carried over from one fiscal year to the next. Upon proper separation (termination) of employment, employees will be paid for accumulated personal leave up to 205 hours. However, employees of less than one year who separate for any reason shall not be paid for accrued personal leave.

In the government-wide financial statements and the proprietary fund types in the fund financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are recorded as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability is reported in the governmental fund types of the fund financial statements only for the current portion of compensated absences expected to be paid using expendable available resources.

Unearned Revenue

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

Long-Term Obligations

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

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

Other Postemployment Benefits (OPEB) Liability

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Other Postemployment Benefits (OPEB) Liability – Continued

The City has implemented GASB Statement No. 75, *Accounting and Reporting for Postemployment Benefits Other Than Pensions*, and reported a total OPEB liability of \$47,520 as of September 30, 2018. This amount is recognized in the government-wide financial statements and in the proprietary funds financial statements. Due to the insignificant amounts involved, management has elected not to restate net position due to the implementation of this standard nor provide the detailed footnotes as required by GASB No. 75.

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of each plan, and additions to/deductions from the fiduciary net position of each plan have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions, if any) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. Administrative costs are financed from each respective fund's investment earnings.

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

Classification of Fund Balance

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

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

CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Classification of Fund Balance – Continued

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

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

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

Net Position

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

Estimates

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

Subsequent Events

Subsequent events were evaluated through May 21, 2019, which is the date the financial statements were available to be issued.

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

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets

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

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

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

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. As stated above, encumbrance accounting is employed in governmental funds. Any purchase order or contract outstanding at year-end does not constitute expenditures, but is reported as assignment of fund balance. Total encumbrances reported as assigned fund balance in the accompanying financial statements were \$194,812 at September 30, 2018.

3. DEPOSITS AND INVESTMENTS

Deposits

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

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

3. DEPOSITS AND INVESTMENTS – CONTINUED

Deposits – Continued

As of September 30, 2018, the value of the City's deposits was \$11,849,570, all of which was held by qualified public depositories under Chapter 280, Florida Statutes.

Certificates of Deposit

The City invests surplus funds into interest-bearing certificates of deposit at qualified public depositories in accordance with Section 218.415, Florida Statutes. Certificates of deposit are recorded at cost plus accrued interest, which approximates fair value. As of September 30, 2018, the total carrying value of certificates of deposit was \$549,456. These certificates have maturity dates ranging from May 2019 through May 2020.

4. RECEIVABLES

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>		<u>Total</u>
	<u>General Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	
Accounts	\$ 12,977	\$ 236,957	\$ 187,321	\$ 437,255
Less allowance for doubtful accounts	-	(42,147)	(14,733)	(56,880)
Total receivables, net	<u>\$ 12,977</u>	<u>\$ 194,810</u>	<u>\$ 172,588</u>	<u>\$ 380,375</u>
Taxes	\$ 147,738	\$ -	\$ -	\$ 147,738
Grants	<u>12,275</u>	<u>1,515,455</u>	<u>-</u>	<u>1,527,730</u>
Due from other governments	<u>\$ 160,013</u>	<u>\$ 1,515,455</u>	<u>\$ -</u>	<u>\$ 1,675,468</u>

Due from Other Governments

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

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

5. CHANGES IN CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 12,367,264	\$ -	\$ -	\$ 12,367,264
Construction in progress	38,250	9,125	(38,250)	9,125
Total capital assets not being depreciated	12,405,514	9,125	(38,250)	12,376,389
Capital assets being depreciated				
Buildings	2,912,237	-	-	2,912,237
Improvements other than buildings	8,913,612	57,283	8,642	8,979,537
Machinery and equipment	586,169	118,886	(8,642)	696,413
Total capital assets being depreciated	12,412,018	176,169	-	12,588,187
Less accumulated depreciation				
Buildings	(710,203)	(58,113)	-	(768,316)
Improvements other than buildings	(3,861,471)	(426,853)	3,775	(4,284,549)
Machinery and equipment	(379,525)	(49,266)	(3,775)	(432,566)
Total accumulated depreciation	(4,951,199)	(534,232)	-	(5,485,431)
Total capital assets being depreciated, net	7,460,819	(358,063)	-	7,102,756
Governmental activities, net	\$ 19,866,333	\$ (348,938)	\$ (38,250)	\$ 19,479,145

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

5. CHANGES IN CAPITAL ASSETS – CONTINUED

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 392,225	\$ -	\$ -	\$ 392,225
Construction in progress	5,735,639	476,197	(2,379,114)	3,832,722
Total capital assets not being depreciated	6,127,864	476,197	(2,379,114)	4,224,947
Capital assets being depreciated				
Buildings	825,091	-	(3,200)	821,891
Improvements other than buildings	32,490,222	3,062,071	3,200	35,555,493
Machinery and equipment	1,951,211	112,753	(32,358)	2,031,606
Total capital assets being depreciated	35,266,524	3,174,824	(32,358)	38,408,990
Less accumulated depreciation				
Buildings	(165,847)	(18,134)	-	(183,981)
Improvements other than buildings	(8,726,202)	(723,548)	-	(9,449,750)
Machinery and equipment	(1,403,227)	(122,472)	-	(1,525,699)
Total accumulated depreciation	(10,295,276)	(864,154)	-	(11,159,430)
Total capital assets being depreciated, net	24,971,248	2,310,670	(32,358)	27,249,560
Business-type activities, net	\$ 31,099,112	\$ 2,786,867	\$ (2,411,472)	\$ 31,474,507

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

Governmental activities	
General government	\$ 83,528
Transportation	52,687
Culture and recreation	398,017
Total depreciation expense - governmental activities	<u>\$ 534,232</u>
Business-type activities	
Water	\$ 399,926
Sewer	464,228
Total depreciation expense - business-type activities	<u>\$ 864,154</u>

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

6. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM

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

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

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

Pension Plan

Plan Description

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

Benefits Provided

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

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

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

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

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

Pension Plan – Continued

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

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

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

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

Contributions

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

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

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

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

Pension Plan – Continued

These employer contribution rates include 1.66% for HIS Plan subsidies for the periods October 1, 2016 through September 30, 2018. The City's contributions, including employee contributions, to the pension plan totaled \$103,662, \$49,564, and \$39,383 for the fiscal years ended September 30, 2018, 2017, and 2016, respectively.

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

At September 30, 2018, the City reported a liability of \$934,305 for its proportionate share of the pension plan's net pension liability. The City's proportionate share of the net pension liability was based on the City's share of contributions to the FRS relative to the contributions of all participating governments. At June 30, 2018, the City's proportionate share was 0.003101888%.

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

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

For the fiscal year ended September 30, 2018, the City recognized pension expense of \$126,748. In addition the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 79,150	\$ 2,873
Change of assumptions	305,285	-
Net difference between projected and actual earnings on pension plan investments	-	72,186
Changes in proportion and differences between City pension plan contributions and proportionate share of contributions	224,581	194,744
City pension plan contributions subsequent to the measurement date	27,418	-
	<u>\$ 636,434</u>	<u>\$ 269,803</u>

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

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

Pension Plan – Continued

A component of deferred outflows of resources related to the pension plan of \$27,418 resulting from City contributions to the plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2019. Other components reported as deferred outflows of resources and deferred inflows of resources related to the pension plan, except for changes in proportion and related differences in the share of contributions, will be recognized in pension expense (income) as follows:

Fiscal year ending <u>September 30:</u>	<u>Amount</u>
2019	\$ 86,379
2020	61,224
2021	13,772
2022	84,339
2023	74,339
Thereafter	19,160
	<u><u>\$ 339,213</u></u>

Actuarial Assumptions

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumption, applied to all 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 a 2014 actuarial experience study for the period July 1, 2008 through June 30, 2013.

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

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

Pension Plan – Continued

Actuarial Assumptions – Continued

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

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

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

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

Pension Plan – Continued

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

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

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability (asset)	\$ 1,705,145	\$ 934,305	\$ 294,076

Pension Plan Fiduciary Net Position

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

HIS Plan

Plan Description

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

Benefits Provided

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

Contributions

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

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

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

HIS Plan – Continued

Contributions – Continued

The City's contributions to the HIS Plan totaled \$17,765, \$15,741, and \$13,210 for the fiscal years ended September 30, 2018, 2017, and 2016, respectively.

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

At September 30, 2018, the City reported a liability of \$328,252 for its proportionate share of the HIS Plan's net pension liability. At June 30, 2018, the City's proportionate share was .003101369%.

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

For the fiscal year ended September 30, 2018, the City recognized pension expense of \$17,879. In addition the City reported deferred outflows of resources and deferred in flows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,025	\$ 558
Change of assumptions	36,506	34,706
Net difference between projected and actual earnings on pension plan investments	198	-
Changes in proportion and differences between City pension plan contributions and proportionate share of contributions	49,548	60,976
City pension plan contributions subsequent to the measurement date	4,572	-
	<u>\$ 95,849</u>	<u>\$ 96,240</u>

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

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

HIS Plan – Continued

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

A component of deferred outflows of resources related to the HIS Plan, totaling \$4,572 resulting from City contributions to the HIS Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2019. Other components reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan, except for changes in the proportion and related differences in the share of contributions will be recognized in pension expense as follows:

Fiscal year ending	Amount
<u>September 30:</u>	
2018	\$ (2,019)
2019	(2,036)
2020	(3,556)
2021	(1,603)
2022	2,635
Thereafter	1,616
	<u>\$ (4,963)</u>

Actuarial Assumptions

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

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

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

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

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

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

HIS Plan – Continued

Discount Rate

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

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

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

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
City's proportionate share of the net pension liability (asset)	\$ 373,860	\$ 328,252	\$ 290,236

Pension Plan Fiduciary Net Position

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

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

7. LONG-TERM DEBT

Changes in Long-Term Debt Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Revenue bonds payable	\$ 876,619	\$ -	\$ (15,307)	\$ 861,312	\$ 15,938
Compensated absences	9,544	36,117	(15,566)	30,095	-
Total governmental activities	<u>\$ 886,163</u>	<u>\$ 36,117</u>	<u>\$ (30,873)</u>	<u>\$ 891,407</u>	<u>\$ 15,938</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities					
Revenue bonds payable	\$ 4,893,600	\$ -	\$ (139,000)	\$ 4,754,600	\$ 143,000
Notes payable	2,625,953	115,195	(497,816)	2,243,332	194,005
Compensated absences	24,891	86,704	(45,132)	66,463	-
Total business-type activities	<u>\$ 7,544,444</u>	<u>\$ 201,899</u>	<u>\$ (681,948)</u>	<u>\$ 7,064,395</u>	<u>\$ 337,005</u>

Description of Long-Term Debt Outstanding

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
GOVERNMENTAL ACTIVITIES			
Revenue Bonds			
\$1,000,000 City of Freeport, Florida Capital Improvement Revenue Bonds, Series 2007, 4.125% interest and principal due in annual installments of \$51,467 through September 2047. Franchise fees and local communications service tax revenues are pledged for payment of the note. Proceeds were used for the construction of a new administration building.	\$ 15,938	\$ 845,374	\$ 861,312
Total revenue bonds	<u>15,938</u>	<u>845,374</u>	<u>861,312</u>
Compensated Absences			
Total long-term portion of accumulated, vested annual and sick leave for governmental funds.	-	30,095	30,095
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 15,938</u>	<u>\$ 875,469</u>	<u>\$ 891,407</u>

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

7. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding – Continued

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
BUSINESS-TYPE ACTIVITIES			
Revenue Bonds			
\$1,014,000 City of Freeport, Florida, Water System Junior Lien Revenue Bonds, Series 1996, 4.5% interest and principal due in annual installments of \$55,505 to \$61,655 through October 2036. Proceeds were used to fund improvements to the water distribution system.	\$ 25,000	\$ 654,000	\$ 679,000
\$1,606,000 City of Freeport, Florida, Water System Revenue Bonds, Series 2003, 4.5% interest and principal due in annual installments of \$59,197 to \$89,452 through October 2042. Proceeds were used to fund improvements to the water distribution system.	31,000	1,259,600	1,290,600
\$1,977,000 City of Freeport, Florida, Water System Revenue Bonds, Series 2004, 4.5% interest and principal due in annual installments of \$109,280 to \$110,770 through October 2043. Proceeds were used to fund improvements to the North Bay water distribution system.	36,000	1,588,000	1,624,000
\$1,200,000 City of Freeport, Florida, Water System Revenue Bonds, Series 2012, 2.75% interest and principal due in annual installments of \$70,898 to \$70,928 through October 2035. Proceeds were used to fund improvements to the North Bay water distribution system.	45,000	910,000	955,000
\$280,000 City of Freeport, Florida, Sewer System Revenue Bonds, Series 2000, 4.5% interest and principal due in annual installments of \$8,360 to \$15,530 through October 2039. Proceeds were used to fund improvements to the wastewater treatment plant.	6,000	200,000	206,000
Total revenue bonds	143,000	4,611,600	4,754,600
Notes Payable			
\$2,200,000 Walton County Sewer Interlocal Agreement (as modified) dated May 2006, noninterest bearing with principal payments due in annual installments of \$102,686 through December 2019. Proceeds were used to fund an extension of the Bay Area wastewater system.	102,686	102,686	205,372

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

7. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding – Continued

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Notes Payable - Continued			
\$2,380,106 Florida Department of Transportation Promissory Note dated January 2012, noninterest bearing with principal payments due in annual installments of \$36,706 to \$39,668 through October 2042. Proceeds were used to relocate and expand utility services along US Highway 331.	39,668	671,394	711,062
\$1,400,000 Commercial Promissory Note dated May 2015, of which \$872,652 was allocated to the Water Fund, 4.85% interest and principal due in monthly installments of \$5,688 through July 2035. Proceeds were used to refund two outstanding bond issuances.	<u>30,594</u>	<u>750,112</u>	<u>780,706</u>
\$1,400,000 Commercial Promissory Note dated May 2015, of which \$527,348 was allocated to the Sewer Fund, 4.85% interest and principal due in monthly installments of \$3,437 through July 2035. Proceeds were used to refund two outstanding bond issuances.	<u>18,750</u>	<u>459,747</u>	<u>478,497</u>
\$67,694 State of Florida Department of Environmental Protection Revolving Loan Fund; semi annual payments of \$2,791 including interest at 1.43% beginning June 2019 through June 2032. Proceeds were used to fund the engineering and construction of a wastewater pollution control facility.	<u>2,307</u>	<u>65,388</u>	<u>67,695</u>
Total notes payable	<u>194,005</u>	<u>2,049,327</u>	<u>2,243,332</u>
Accrued Compensated Absences			
Accumulated, vested annual compensation for Enterprise Funds.	-	66,463	66,463
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 337,005</u>	<u>\$ 6,727,390</u>	<u>\$ 7,064,395</u>
GRAND TOTAL LONG-TERM DEBT			<u><u>\$ 7,955,802</u></u>

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

7. LONG-TERM DEBT – CONTINUED

Pledged Revenue

The City has pledged certain revenues to repay certain bonds and notes outstanding as of September 30, 2018. The following table reports the revenues pledged for each debt issue, the amount of such revenues received in the current year, the current year principal and interest paid on the debt, the approximate percentage of each revenue which is pledged to meet the debt obligation, the date through which the revenue is pledged under the debt agreement, and the total pledged future revenues for each debt, which is the amount of principal and interest on the debt at year end.

		Governmental Activities				
Debt Outstanding	Pledged Revenue(s)	Current Year Total Pledged Revenue	Pledged Outstanding Principal & Interest	Estimated Revenue Percentage Pledged	2018 Principal & Interest Paid	Maturity Calendar Year
Capital Improvement Revenue Bonds, Series 2007	Franchise fees and local communications service tax	\$ 159,957	\$ 1,492,530	933%	\$ 153,531	2047
		Business-Type Activities				
Water System Junior Lien Revenue Bonds, Series 1996	Water and sewer revenues	\$ 3,404,133	\$ 1,007,050	30%	\$ 55,635	2036
Sewer System Revenue Bonds, Series 2000	Water and sewer revenues	\$ 3,404,133	\$ 319,580	9%	\$ 15,540	2039
Water System Revenue Bonds, Series 2003	Water and sewer revenues	\$ 3,404,133	\$ 2,137,473	63%	\$ 89,427	2042
Water System Revenue Bonds (North Bay Project), Series 2004	North Bay water revenues	\$ 256,967	\$ 2,738,740	1066%	\$ 109,655	2043
Water System Revenue Bonds (North Bay Project), Series 2012	North Bay water revenues	\$ 256,967	\$ 1,208,358	470%	\$ 71,473	2035

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

7. LONG-TERM DEBT – CONTINUED

Requirement to Amortize all Long-Term Debt

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

Governmental Activities

<u>Year Ending September 30</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 15,938	\$ 35,529
2020	16,595	34,872
2021	17,280	34,187
2022	17,993	33,474
2023	18,735	32,732
2024-2028	105,925	151,411
2029-2033	129,651	127,686
2034-2038	158,689	98,646
2039-2043	194,233	63,102
2044-2048	186,273	19,579
Total	<u>\$ 861,312</u>	<u>\$ 631,218</u>

Business-Type Activities

<u>Year Ending September 30</u>	<u>Revenue Bonds</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 143,000	\$ 197,245	\$ 194,005	\$ 61,294
2020	149,000	191,597	198,679	59,411
2021	155,000	185,697	98,822	56,582
2022	162,000	179,544	101,627	53,777
2023	168,000	173,112	104,571	50,833
2024-2028	944,000	759,728	572,117	204,902
2029-2033	1,150,000	554,567	664,719	105,973
2034-2038	1,073,000	310,828	308,792	9,199
2039-2043	810,600	104,283	-	-
Total	<u>\$ 4,754,600</u>	<u>\$ 2,656,601</u>	<u>\$ 2,243,332</u>	<u>\$ 601,971</u>

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

8. RISK MANAGEMENT

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

9. INTERFUND BALANCES AND TRANSFERS

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

<u>Due to Fund</u>	<u>Due from Fund</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
General Fund	\$ 662,650	\$ 1,331,355	\$ 1,994,005
Water Fund	-	328,290	328,290
	<u>\$ 662,650</u>	<u>\$ 1,659,645</u>	<u>\$ 2,322,295</u>

Interfund balances in the Water Fund and Sewer Fund represent expenses paid by the General Fund on behalf of those funds.

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

<u>Transfers Out</u>	<u>Transfers In</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
General Fund	\$ 204,210	\$ 199,210	\$ 403,420

Interfund transfers represent reimbursements for administrative expenses paid by the Water Fund and Sewer Fund.

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

10. GOVERNMENTAL FUND BALANCES

At September 30, 2018, the City's governmental fund balances were classified as follows:

	General Fund
Nonspendable	
Prepaid items	\$ 12,148
Restricted for	
Capital expansion projects	307,483
Debt service	55,758
Total restricted	363,241
Assigned to	
Splash Pad project	131,577
Parks building project	49,187
Other purposes	14,048
Total assigned	194,812
Unassigned	5,170,555
	\$ 5,740,756

11. COMMITMENTS AND CONTINGENCIES

Grants

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

Interlocal Landfill Agreement

In 1995, the City entered into an interlocal agreement with Walton County for solid waste disposal services. Under the terms of the agreement, the County provides a landfill and solid waste collection services to the City's residents. In lieu of tipping fees, the City agrees to remit its 1% small county surtax receipts to the County as payment for the solid waste disposal services. At the end of each fiscal year, any funds remaining from the aforementioned small county surtaxes remitted to the County throughout the year are redistributed to the local governments participating in the agreement pursuant to the Florida Department of Revenue's sales tax distribution formula in effect at the time of distribution. The City remitted \$1,077,293 to Walton County for solid waste collection and disposal services and received a refund of surplus operating funds from the County totaling \$502,406 for the fiscal year ended September 30, 2018.

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

11. COMMITMENTS AND CONTINGENCIES – CONTINUED

Construction Commitments

In May 2018, the City engaged a local construction contractor to perform work related to improving and extending the sewer force main at the Brandon Oaks Subdivision. The total contract price is \$469,517, which includes change orders. The construction project was still in process at September 30, 2018, and the City had incurred costs of \$263,632 through the balance sheet date.

12. SUBSEQUENT EVENTS

Construction Loan and Grant Agreement – State Revolving Fund

In January 2019, the City executed a construction loan and grant agreement with the Florida Department of Environmental Protection to extend and improve the sewer system along US Highway 331. The total amount awarded in the agreement is \$4,200,000. Of that, the estimated grant amount is \$3,360,000 based on the initial estimated project costs. The estimated principal amount of the note to be repaid is \$840,000, plus capitalized interest and loan service fees. The term of the note is 20 years, and it bears interest at 0.78%. The City is scheduled to begin making semiannual loan payments of \$25,640 in January 2021.

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	0.003101888%	0.001868061%	0.001502455%	0.003019949%	0.004024554%
City's proportionate share of the net pension liability (asset)	\$ 934,305	\$ 552,749	\$ 379,371	\$ 390,067	\$ 245,557
City's covered-employee payroll	\$ 1,202,318	\$ 969,153	\$ 803,112	\$ 862,866	\$ 1,082,584
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	77.71%	57.03%	47.24%	45.21%	22.68%
Plan fiduciary net position as a percentage of the total pension liability	84.26%	83.89%	84.88%	92.00%	96.09%

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

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

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

	2018	2017	2016	2015	2014
City's proportion of the net pension liability (asset)	0.003101369%	0.002972526%	0.002440516%	0.003229403%	0.003672819%
City's proportionate share of the net pension liability (asset)	\$ 328,252	\$ 317,836	\$ 284,432	\$ 329,348	\$ 343,418
City's covered-employee payroll	\$ 1,202,318	\$ 969,153	\$ 803,112	\$ 862,866	\$ 1,082,584
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	27.30%	32.80%	35.42%	38.17%	31.72%
Plan fiduciary net position as a percentage of the total pension liability	2.15%	1.64%	0.97%	0.50%	0.99%

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

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 111,502	\$ 56,985	\$ 57,958	\$ 71,193	\$ 106,547
Contributions in relation to the contractually required contribution	<u>(111,502)</u>	<u>(56,985)</u>	<u>(57,958)</u>	<u>(71,193)</u>	<u>(106,547)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,202,318	\$ 969,153	\$ 803,112	\$ 862,866	\$ 1,082,584
Contributions as a percentage of covered-employee payroll	9.27%	5.88%	7.22%	8.25%	9.84%

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

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 19,958	\$ 16,087	\$ 13,332	\$ 14,323	\$ 17,971
Contributions in relation to the contractually required contribution	<u>(19,958)</u>	<u>(16,087)</u>	<u>(13,332)</u>	<u>(14,323)</u>	<u>(17,971)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,202,318	\$ 969,153	\$ 803,112	\$ 862,866	\$ 1,082,584
Contributions as a percentage of covered-employee payroll	1.66%	1.66%	1.66%	1.66%	1.66%

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

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

IV. COMPLIANCE SECTION

- COMPLIANCE MATTERS
- MANAGEMENT LETTER
- RESPONSES TO MANAGEMENT LETTER



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

To the Honorable Mayor and
Members of the City Council

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

Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants 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 of Freeport, Florida complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2018.

Warren Averett, LLC
Destin, Florida
May 21, 2019

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

To the Honorable Mayor and
Members of the City Council

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of governmental activities, the business-type activities, and each major fund of the City of Freeport, Florida (the City), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 21, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 a deficiency in internal controls described in the accompanying schedule of findings and responses, that we consider to be a significant deficiency (2018-001).

Compliance and Other Matters

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

Purpose of this Report

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

Warren Averett, LLC

Destin, Florida
May 21, 2019

**CITY OF FREEPORT, FLORIDA
SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2018**

2018-001 Grant Accrual Process

Criteria

Pursuant to GASB Statement No. 33, grant recipients should recognize receivables and related revenues from government-mandated or voluntary non-exchange transactions when all of eligibility requirements are met.

Condition

One of the City's enterprise funds was the recipient of an expenditure-driven grant, a voluntary non-exchange transaction. While performing our audit procedures for grants and related programs, we noted an instance in which revenues had not been accrued for expenditure-driven grants as qualifying expenditures were incurred.

Cause

Administrative error

Effect

Unadjusted grant revenues were understated by approximately \$343,000 for the fiscal year ended September 30, 2018.

Recommendation

As the City continues to grow and obtains a higher volume of grant funding from grantor agencies, it is important for the City to establish policies and procedures over the financial reporting activities, as well as the compliance reporting activities, of any grants which the City accepts.

Management's Response

Management agrees with the recommendation and will ensure that grant revenues are properly recorded for expenditure-driven grants in subsequent fiscal years.

MANAGEMENT LETTER

To the Honorable Mayor and
Members of the City Council

Report on the Financial Statements

We have audited the financial statements of the City of Freeport, Florida (the City), as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated May 21, 2019.

Auditors' Responsibility

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

Other Reporting Requirements

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements in Accordance with *Government Auditing Standards* and our Independent Accountants' Report on an Examination of Compliance Requirements in Accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports, which are dated May 21, 2019, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial report. Corrective actions have been taken to address the findings and recommendations made in the preceding financial audit report.

Official Title and Legal Authority

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

Financial Condition and Management

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

Pursuant to Sections 10.554(1)(i)5.c., and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures for the City. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. Our assessment was performed as of September 30, 2018.

Section 10.554(1)(i)2., *Rules of Auditor General*, requires that we communicate any recommendations to improve financial management. In connection with our audit, we have the following recommendations to improve fiscal management:

- During our audit, we noted that the City does not have a formal process for approving manual adjusting journal entries. Due to the small number of employees with roles in the financial reporting process, controls that provide for segregation of key accounting duties are crucial for maintaining a sound control environment. We recommend that the City adopt a formal policy for approving manual adjusting journal entries.
- During our audit, we noted that the City has accumulated unspent fire impact fees of approximately \$307,000. The City's fire department was absorbed by Walton County in 2015, which means that spending the previously collected impact fees on capital expansion projects for the fire system could be problematic. We recommend that management review legal and regulatory requirements for holding and expending impact fees to avoid potential noncompliance that could have a material effect on the financial statements.

Additional Matters

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

Purpose of this Letter

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

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

Warren Averett, LLC

Destin, Florida
May 21, 2019

ADDENDUM TO MANAGEMENT LETTER

To the Honorable Mayor and
Members of the City Council

In response to the State of Florida's Auditor General letter to the City of Freeport, Florida (the City), we are providing the following addendum to our initially submitted Management Letter thereon dated May 21, 2019.

Recommendations to Improve Financial Management

Section 10.554(1)(i)2., *Rules of Auditor General*, requires that we communicate any recommendations to improve financial management. In connection with our audit, we have the following recommendations to improve fiscal management:

Recommendation 2018-001

During our audit, we noted that the City does not have a formal process for approving manual adjusting journal entries. Due to the small number of employees with roles in the financial reporting process, controls that provide for segregation of key accounting duties are crucial for maintaining a sound control environment. We recommend that the City adopt a formal policy for approving manual adjusting journal entries.

Management's Explanation or Rebuttal

The City has adopted a formal process for approving manual adjusting journal entries.

Recommendation 2018-002


During our audit, we noted that the City has accumulated unspent fire impact fees of approximately \$307,000. The City's fire department was absorbed by Walton County in 2015, which means that spending the previously collected impact fees on capital expansion projects for the fire system could be problematic. We recommend that management review legal and regulatory requirements for holding and expending impact fees to avoid potential noncompliance that could have a material effect on the financial statements.

Management's Explanation or Rebuttal

Management has discussed the unspent fire impact fees with the City's legal counsel and they will prepare documentation for the City to use these fees for safety related matters.

Purpose of this Addendum

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


Destin, Florida
July 17, 2019



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Destin, FL 32541
850.837.0398
warrenaverett.com

May 21, 2019

To the Mayor and City Council
City of Freeport, Florida

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Freeport, Florida (the City) 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. We have communicated such information in our letter to you dated November 7, 2018. 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 are described in 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 City 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. The most sensitive estimates affecting the City's financial statements were:

Management's estimate of the depreciation of capital assets is calculated on a straight-line basis based on the estimated useful lives of the assets. We evaluated the key factors and assumptions used to develop the calculation of depreciation of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the accrued compensated absences liability is based on the accrued hours of eligible employees and the individual wage rates. We have evaluated the key factors and assumptions used to develop the calculation of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension liability for is based upon the results of a certified actuarial valuation. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

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

The financial statement disclosures are neutral, consistent, and clear.

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 clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of audit procedures were corrected by management:

- The entry to record cancellation of debt income for two notes payable.
- The entry to accrue grant revenues for eligible expenses incurred during fiscal year 2018.
- The entry to record the net pension liability and deferred inflows and outflows related to pension plans.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 21, 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 City'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 City'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 Matters

We applied certain limited procedures to management's discussion and analysis (MD&A) and the pension-related schedules, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

City of Freeport, Florida
May 21, 2019
Page 3

Restriction on Use

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

Very truly yours,

Warren Averett, LLC
Warren Averett, LLC

Client: **36256000 - Freeport, City of**
Engagement: **AUDA-2018 - City of Freeport, Florida**
Period Ending: **9/30/2018**
Trial Balance: **400 - Government Fund Trial Balance**
Workpaper: **405 - Proposed Journal Entries Report**
Fund Level: **All**
Index: **All**

Account	Description	Debit	Credit
Proposed Journal Entries			
Proposed Journal Entries JE # 2			
To record retainage payable to H&T at 9/30/18.			
420-000-16975	CWIP - Sewer upgrades	29,292.00	
420-000-20200	Accounts Payable		29,292.00
Total		29,292.00	29,292.00
Proposed Journal Entries JE # 3			
To reclassify annual maintenance and training costs for ADG software.			
001-510-45100	Office Supplies	7,400.00	
001-510-46410	Equipment Major> 10,000		7,400.00
Total		7,400.00	7,400.00
Proposed Journal Entries JE # 11			
To correct balance of grants receivable at 09.30.18.			
001-000-10210	Grant Receivable	3,949.00	
001-000-33480	GRANT - FDOT		3,949.00
Total		3,949.00	3,949.00
Proposed Journal Entries JE # 13			
To record transfer of SRF loan proceeds and related debt from the Water Fund to Sewer Fund.			
410-000-11600	Other Accts Receivable	20,000.00	
420-581-49110	Transfer to Water	20,000.00	
410-000-38122	Received from Sewer Fnd		20,000.00
420-000-13000	A/R-Allowance for Bad Debts		20,000.00
Total		40,000.00	40,000.00
Proposed Journal Entries JE # 17			
To record beginning balance difference for capital assets in the proprietary funds.			
410-000-16421	Well 7	8,350.00	
420-000-16600	Equipment	24,008.00	
410-000-27100	Fund Balance		8,350.00
420-000-27100	Fund Balance		24,008.00
Total		32,358.00	32,358.00
Proposed Journal Entries JE # 21			
To record prior period adjustment for misstated Escrow liability.			
001-000-36000	Miscellaneous	31,849.00	

Account	Description	Debit	Credit
001-000-27100	Fund Balance		31,849.00
Total		<u>31,849.00</u>	<u>31,849.00</u>
Proposed Journal Entries JE # 25			
To record prior period OPEB adjustment related to implementation of GASB 75.			
901-000-27100	GASB 34 Balancing Account	47,204.00	
901-510-99998	Admin - OPEB Exp		47,204.00
Total		<u>47,204.00</u>	<u>47,204.00</u>
Proposed Journal Entries JE # 28			
To record unbilled receivables at 09.30.17.			
410-000-34330	Sales	41,376.00	
420-000-34350	Sales	35,507.00	
410-000-27100	Fund Balance		41,376.00
420-000-27100	Fund Balance		35,507.00
Total		<u>76,883.00</u>	<u>76,883.00</u>
	Total Proposed Journal Entries	<u>268,935.00</u>	<u>268,935.00</u>
	Total All Journal Entries	<u>268,935.00</u>	<u>268,935.00</u>