



CITY OF FROSTPROOF, FLORIDA
FINANCIAL STATEMENTS

September 30, 2018

City of Frostproof, Florida
Annual Financial Report
For the year ended September 30, 2018

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City of Frostproof
The Friendly City

INTRODUCTORY SECTION



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City of Frostproof, Florida
LIST OF PRINCIPAL OFFICIALS
September 30, 2018

City Council

Mayor

Martin Sullivan

Council Members

Jonathan Albert
Austin Gravely
Leslie Brewer
Vacant

City Manager

Lee Evett

City Attorney

Chuck Galloway

City Clerk

Nicole McDowell

City Planner

Jennifer Codo-Salisbury

Finance Director

Melody Sauerhafer

Library Director

Melissa D. Hadden

Fire Chief

Clifford O. Cofer

Building Official

Robert Lane

Utility Manager

Sharon A. Bass

Public Service Director

James R. Keene



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City of Frostproof
The Friendly City

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of Frostproof, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-types activities, and each major fund of the City of Frostproof, Florida, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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



Honorable Mayor and
Members of the City Council
City of Frostproof, Florida

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information on pages 4-14 and 63-72 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.



Honorable Mayor and
Members of the City Council
City of Frostproof, Florida

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 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, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or 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.

Other Reporting Required by *Chapter 10.550, Rules of the Auditor General*

We have also issued our report dated May 22, 2019 on our examination of compliance with requirements of Chapter 10.550, Rules of the Auditor General. The purpose of that report is to describe the scope of our examination of compliance over compliance with Chapter 10.550, Rules of the Auditor General and issue an opinion on compliance with Chapter 10.550, Rules of the Auditor General.

Baylis & Company PA

Baylis & Company PA

Lakeland, Florida
May 22, 2019



As management of the City of Frostproof, Florida (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2018. We encourage readers to consider the information presented here in conjunction with the basic financial statements, which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities at the close of the most recent fiscal year by \$18,968,617 (net position). Of this amount, \$2,996,588 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position decreased by \$373,223.
- The City's governmental activities reported ending net position of \$7,167,577 a decrease of \$303,736.
- The City's business-type activities reporting ending net position of \$11,801,040, a decrease of \$69,487.

Overview of the Financial Statements

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

Government-wide financial statements

The government-wide financial statements consist of two financial statements that address the financial position and result of operations of the City taken as a whole. These two financial statements are the Statement of Net Position and Statement of Activities. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the full accrual basis of accounting, which is like the accounting used by most private-sector companies. All the current year's revenues and expenses are recorded regardless of when cash is received or paid.

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

The ***Statement of Activities*** presents total revenues and total expenses of the City with the difference between the two equaling the increase or decrease in net position during the year.

Overview of the Financial Statements (cont...)

The information in each of these two statements presents the activity of the City as governmental activities or business-type activities.

- **Governmental activities** – This category of the government-wide financial statements represents those activities provided by the City, not financed by the imposition of a user fee assessed directly and exclusively against the users of those activities. The governmental activities of the City include general government, public safety, transportation (streets), culture (library, City Hall auditorium, etc.), and community affairs (recreations and parks).
- **Business-type activities** – This category of the government-wide financial statements include those activities which the City charges a fee to customers to cover all or most of the cost of the services the City provides. The business-type activities of the City consist of water, wastewater treatment, sanitation and stormwater services.

The government-wide financial statements can be found by referencing the table of contents of this report and include only the City of Frostproof. There are no component units.

Reporting the City's Most Significant Funds

Fund financial statements

This is the second section of the basic financial statements. These statements present information that centers on individual funds. A fund is a grouping of related accounts that provides control over the resources that are segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

The reason for this different accounting approach is that the activities in these funds are not financed from a direct user fee. As a result, there is no emphasis placed on measuring annual net profit or loss resulting from these operations. Instead, the account for these funds focuses on whether there will be enough cash flow available in a given year to finance the costs of providing services. The emphasis is more focused on activities occurring within a one-year budget period rather than the long-term.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

Overview of the Financial Statements (cont...)

By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains one major governmental fund referred to as the general fund. The general fund accounts for the activities of a variety of different programs that are not financed from direct user charges. As a major fund, the general fund is accounted for as a separate column on the governmental fund financial statements. All of the other governmental funds of the City are reported collectively as non-major governmental funds and consolidate into a single column of information titled "other governmental funds". This column represents the activity of the City's special revenue funds, which are segregated from the general fund due to legal requirements, regulatory provisions or administrative action.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison schedule is provided as required supplementary information to demonstrate compliance with the budget.

The governmental fund financial statements are immediately following the government-wide financial statements. The budgetary comparison schedule for the general fund is outside the basic financial statements in a section of this report titled "required supplementary information".

Proprietary funds - Proprietary funds are those funds classified as business-type activities in the government-wide financial statements. The basis of accounting used within these statements is the same full accrual method used in the private sector, where the intent is that the costs of providing goods and services are financed primarily through user charges. There is no difference between the basis of accounting used in the government-wide statements and the proprietary fund financial statements.

The City has one proprietary fund, the enterprise fund. This fund appears in the only column in the proprietary funds financial statements.

Fiduciary funds – Fiduciary funds account for the activities of the City's pension trust funds. These activities benefit parties outside the City, such as retired City employees. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs. The accounting basis used for fiduciary funds is similar to that used for proprietary funds.

Notes to the financial statements

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

Other information

In addition to the three components included in the basic financial statements, this annual financial report also includes supplementary information described as follows:

Overview of the Financial Statements (cont...)

Required supplementary information – This section of the report includes the following additional information: 1) schedules that compare the annual operating budgets adopted by the City for the major governmental funds to the actual revenues and expenditures reported for the year; and 2) trend information regarding the performance of the City's pension trust funds.

Other supplementary information – This section of the report includes detailed combining financial information for each of the various funds of the City that were aggregated into consolidated columns within the fund financial statements.

Government-wide Financial Analysis

The following is a summary of the information presented in the **Statement of Net Position** as referenced in the table of contents of this report.

Statement of Net Position (Summary)
as of September 30,

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 2,874,753	\$3,224,939	\$ 1,723,768	\$ 1,755,179	\$ 4,598,521	\$ 4,980,118
Capital assets	4,686,231	4,432,295	13,390,954	13,590,202	18,077,185	18,022,497
Total assets	7,560,984	7,657,234	15,114,722	15,345,381	22,675,706	23,002,615
Deferred outflows	469,828	708,123	89,645	112,491	559,473	820,614
Current liabilities	87,329	110,612	446,832	393,141	534,161	503,753
Non-current liabilities	592,855	508,667	2,893,086	3,122,592	3,485,941	3,631,259
Total liabilities	680,184	619,279	3,339,918	3,515,733	4,020,102	4,135,012
Deferred inflows	183,051	274,765	63,409	71,612	246,460	346,377
Net position:						
Net investment in capital assets	4,686,231	4,432,295	10,295,430	10,261,156	14,981,661	14,693,451
Restricted	727,183	820,222	263,185	221,179	990,368	1,041,401
Unrestricted	1,754,163	2,218,796	1,242,425	1,388,192	2,996,588	3,606,988
Total net position	\$ 7,167,577	\$7,471,313	\$11,801,040	\$11,870,527	\$18,968,617	\$19,341,840

Government-wide Financial Analysis (cont...)

Net position – Investment in Capital Assets – The largest portion of the City's net position, (79%) reflects its investment in capital assets (e.g., land, buildings, sewer and water system, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net position – Restricted – Restricted net position, representing 5% of the City's total net position, are subject to external restrictions on how they may be used.

Net position – Unrestricted - Unrestricted net position comprises 16% of total net position and may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2018, the City is able to report positive balances in all three categories of net position for the City as a whole.

Government-wide Financial Analysis (cont...)

The following is a summary of the information presented in the **Statement of Activities** as referenced in the table of contents of this report.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Revenues:						
<i>Program Revenues:</i>						
Charges for services	\$ 407,379	\$ 389,260	\$ 1,781,252	\$ 1,839,125	\$ 2,188,631	\$ 2,228,385
Operating grants/contrib.	578,145	299,776	-	-	578,145	299,776
Capital grants/contrib.	187,717	140,331	321,877	22,983	509,594	163,314
<i>General revenues:</i>						
Taxes	1,484,198	1,467,839	-	-	1,484,198	1,467,839
Intergovernmental	314,945	313,332	-	-	314,945	313,332
Other	71,126	29,390	14,578	3,178	85,704	32,568
Total revenues	3,043,510	2,639,928	2,117,707	1,865,286	5,161,217	4,505,214
Expenses:						
General government	722,573	640,433	-	-	722,573	640,433
Law enforcement	1,327,087	1,044,716	-	-	1,327,087	1,044,716
Fire control	178,395	163,290	-	-	178,395	163,290
Building enforcement	48,613	40,999	-	-	48,613	40,999
Transportation	408,869	472,603	-	-	408,869	472,603
Culture	264,822	256,849	-	-	264,822	256,849
Community affairs	396,887	109,696	-	-	396,887	109,696
Water and wastewater	-	-	1,699,908	1,568,207	1,699,908	1,568,207
Sanitation	-	-	414,607	352,268	414,607	352,268
Stormwater	-	-	72,679	111,017	72,679	111,017
Total expenses	3,347,246	2,728,586	2,187,194	2,031,492	5,534,440	4,760,078
Change in Net Position	(303,736)	(88,658)	(69,487)	(166,206)	(373,223)	(254,864)
Net position - Beginning	7,471,313	7,559,971	11,870,527	12,036,733	19,341,840	19,596,704
Net position - Ending	<u>\$7,167,577</u>	<u>\$7,471,313</u>	<u>\$11,801,040</u>	<u>\$11,870,527</u>	<u>\$18,968,617</u>	<u>\$19,341,840</u>

Governmental activities - Governmental activities decreased the City's net position by \$303,736 as compared to a decrease of \$88,658 for the prior year. The main reasons for the current year changes are as follows:

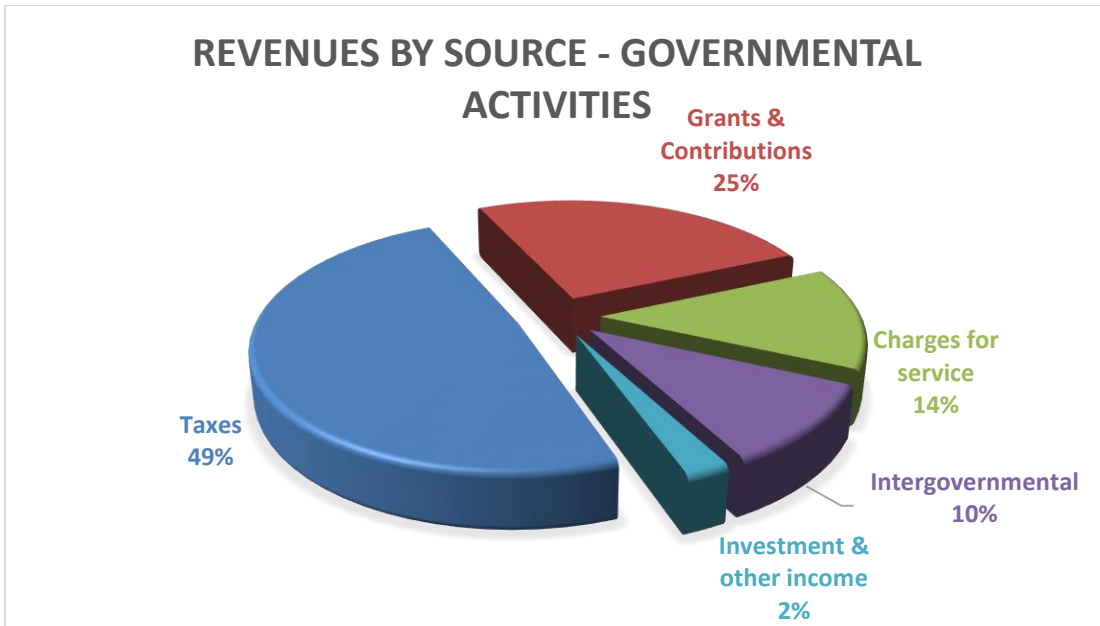
- Total revenue increased by \$403,582 or 15% and total expenses increased by \$618,660 or 23%.

Business-type activities - Business-type activities decreased the City's net position by \$69,487 as compared to a decrease of \$166,206 for the prior year. The main reasons for the current year changes are as follows:

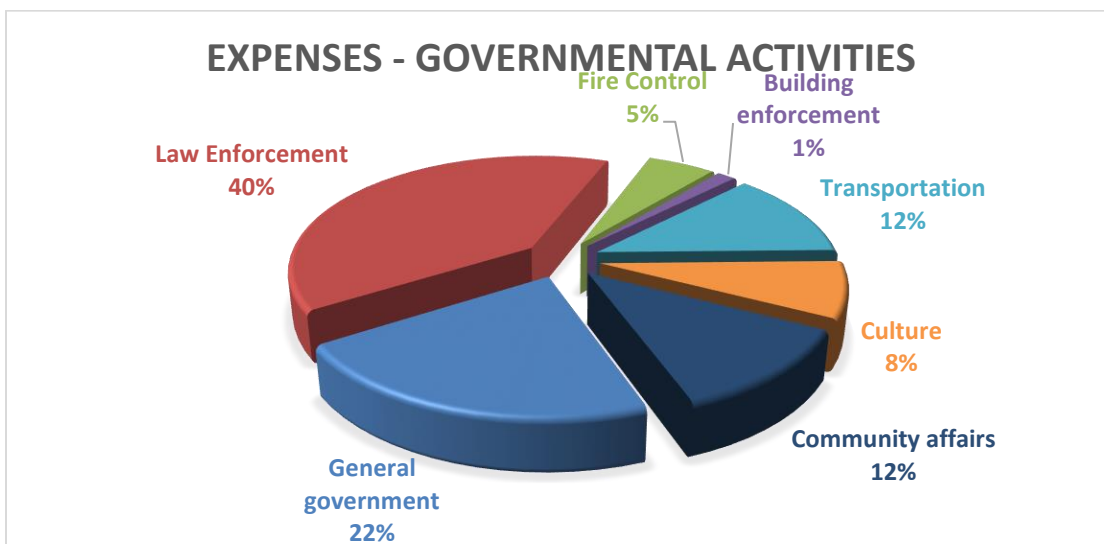
- Total revenue increased by \$252,421 or 14% caused by mainly by a \$298,894 increase in capital grants and contributions.
- Total expenses increased by \$155,702 or 8%.

Government-wide Financial Analysis (cont...)

The following pie chart illustrates revenues of governmental activity by source for the year ended September 30, 2018. Taxes, which include property, franchise and utility taxes, comprise 49% of the revenue in the City's governmental activities. Taxes increased \$16,359 from the prior year.

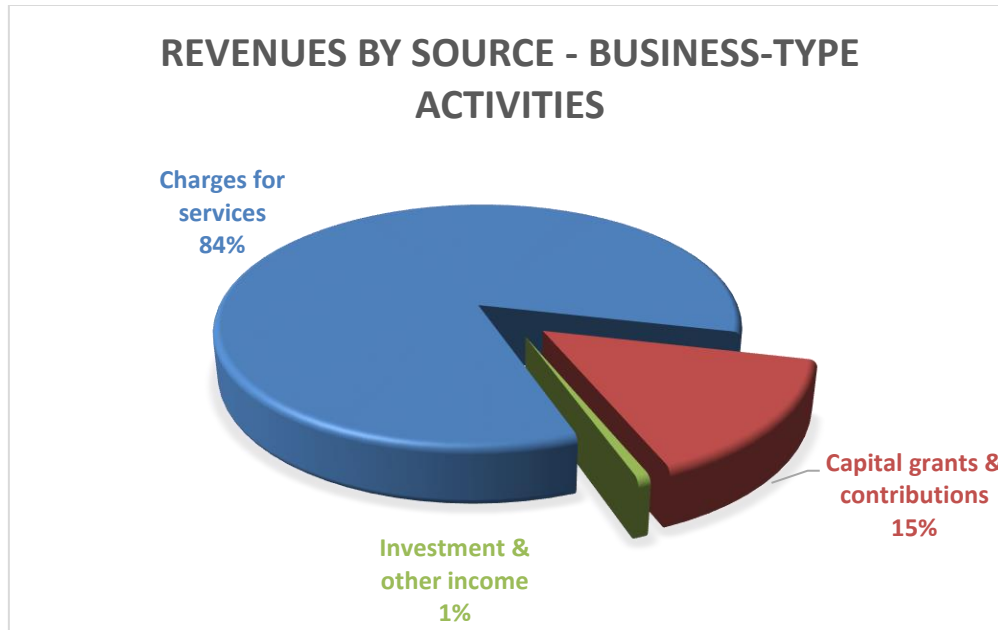


The following pie chart illustrates expenses of governmental activities for the year ended September 30, 2018. Law enforcement is the largest expense and comprises 40% of the expenses in the City's governmental activities.

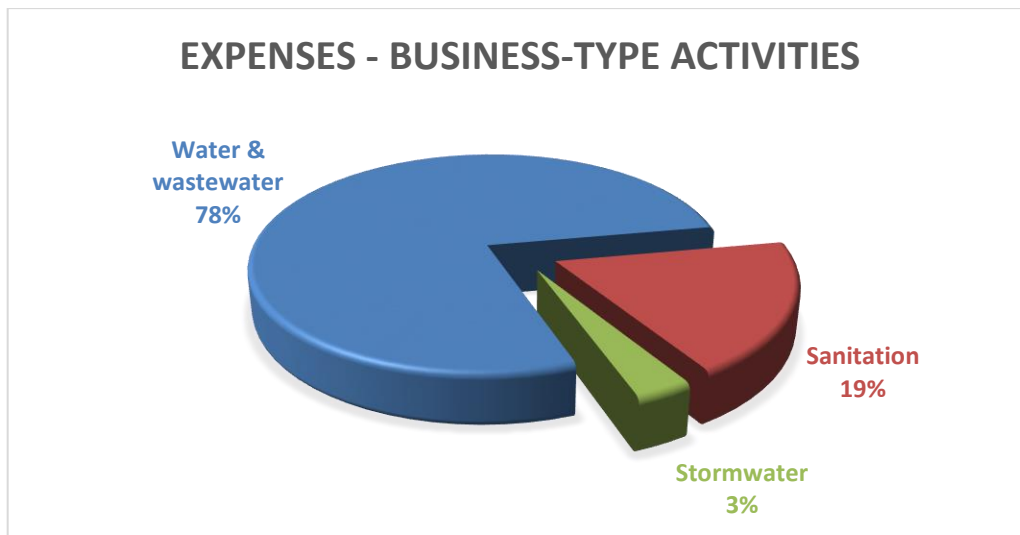


Government-wide Financial Analysis (concluded)

The following pie chart illustrates revenues of business-type activities by source for the year ended September 30, 2018. Charges for services comprise 84% of the revenues in the City's business-type activities. Charges for services decreased by \$57,873 from the prior year.



The following pie chart illustrates expenses of business-type activities for the year ended September 30, 2018. The water and wastewater system accounts for 78% of the expenses of the City's business-type activities. Water and wastewater system expenses increased by \$131,701 from the prior year.



Financial Analysis of the Government's Funds

As noted earlier, the City of Frostproof uses fund accounting to segregate the transactions of the City into specific types of operations.

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

As of the end of the current fiscal year, the City's only major governmental fund, the general fund, reported ending fund balances of \$2,307,901, a decrease of \$538,548 in comparison with the previously reported balance in the prior year. Of this total, \$1,574,673 for the general fund constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance, \$733,228 is nonspendable, restricted or assigned as indicated. Total fund balance in the prior year was \$2,846,449, of which \$2,018,858 represented unassigned fund balance.

Activity during the current fiscal year included the following key components:

- Total general fund revenues increased by \$185,651 or 7% mainly due to a \$74,690 increase in intergovernmental revenue and an increase of \$66,435 of other revenues which were mainly caused by activity related to the City's centennial celebration that took place during the year.
- Total general fund expenditures increased by approximately \$860,069 or 34% mainly caused mainly by increased capital outlay expenditures of \$503,761 which included approximately \$270,000 of costs associated with repaving City roads.
 - The expenses of the community affairs function increased by approximately \$200,000 partially due to outsourcing of City lawncare (\$58,000) and increase repair and maintenance costs (\$58,000).
 - The expense of the culture function increased by approximately \$95,000 mainly due to the activities related to the City's centennial celebration that took place during the year (\$78,000).
- The City reported a year-end receivable of \$216,000 for Federal Emergency Management Agency (FEMA) grant reimbursements for costs incurred due to Hurricane Irma, an event that took place in September 2017. Because the funds were not received within sixty days of year-end, the City will not report the \$216,000 as a revenue for the year ended September 30, 2018 but rather will recognize this revenue when it is received which is expected to be during the year ended September 30, 2019.

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

Financial Analysis of the Government's Funds (concluded)

Fiduciary funds: The City uses fiduciary funds to report assets held in a trustee or agency capacity that are, therefore, not available to support City programs. General and Police Pension Trust Funds are presented in the fiduciary fund financial statements.

General Fund Budgetary Highlights

The general fund's budgetary comparison schedule is presented in this report as required supplementary information. The City revised its original budget to reflect changes in expenditures and revenues.

Actual revenue on a budgetary basis were less than budgeted resources by \$30,225 and actual expenditures on a budgetary basis were \$166,239 less than budgeted resulting in an overall favorable budget variance of \$141,782.

Capital Assets and Debt Administration

Capital assets - The City's investment in capital assets for its governmental and business-type activities as of September 30, 2018, amounts to \$18,077,185 (net of accumulated depreciation). This investment includes land, buildings, vehicles, equipment, furnishings, water and wastewater treatment system and stormwater system. This amount represents a net increase of \$54,688 or .3% over last year which is the result of current year additions in excess of current year depreciation expense. Information on the City's capital assets is summarized in the following table.

Capital Assets Activity (net of accumulated depreciation) as of September 30,						
	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Land	\$ 167,836	\$ 167,836	\$ 80,318	\$ 80,318	\$ 248,154	\$ 248,154
Buildings	2,176,761	2,293,490	-	-	2,176,761	2,293,490
Intangible assets	-	-	105,300	105,300	105,300	105,300
Idle assets	-	-	216,537	216,537	216,537	216,537
Improvements other than buildings	780,911	678,933	-	-	780,911	678,933
Machinery and equipment	514,314	475,370	233,336	259,449	747,650	734,819
Infrastructure	1,046,409	816,666	-	-	1,046,409	816,666
Water and wastewater system	-	-	10,671,592	11,316,020	10,671,592	11,316,020
Stormwater system	-	-	537,694	561,038	537,694	561,038
Construction in progress	-	-	1,546,177	1,051,540	1,546,177	1,051,540
Total	<u>\$4,686,231</u>	<u>\$4,432,295</u>	<u>\$13,390,954</u>	<u>\$13,590,202</u>	<u>\$18,077,185</u>	<u>\$18,022,497</u>

Major capital asset events during the current fiscal year included water and wastewater system improvements, street repaving and equipment purchases.

Additional information on the City's capital assets can be found in note 5 of the notes to the financial statements in this report.

Capital Assets and Debt Administration (concluded)

Long-Term Debt - At the end of the current fiscal year, the City had total debt outstanding in the amount of \$3,095,524 in bonds and loans payable. The following table provides a comparative summary of the City's outstanding debt.

	Outstanding Debt					
	as of September 30,					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Revenue bonds payable	\$ -	\$ -	\$ 2,136,261	\$ 2,273,860	\$ 2,136,261	\$ 2,273,860
Loans payable	-	-	959,263	1,055,186	959,263	1,055,186
Total	\$ -	\$ -	\$ 3,095,524	\$ 3,329,046	\$ 3,095,524	\$ 3,329,046

Additional information on the City's long-term debt can be found in note 6 of the notes to the financial statements of this report.

Economic Factors and Next Year's Budgets and Rates

It is anticipated that the following significant items will affect the 2019 fiscal year:

- In November of 2018 the City contracted with Peebles Smith and Matthews, an executive and legislative Lobbying firm who is working to get the State Revolving Fund Loan forgiven.
- The City has advertised for proposals for continuing contracts from engineering firms in accordance with the Consultants' Competitive Negotiation Act. Seven firms submitted and four were selected by a staff committee for presentations. Negotiations are still pending at this time.
- The City reduced the garbage administration fee from \$5.00 per month to \$4.00 per month which will result in a decrease in fees of approximately \$15,600. Resolution 2018-11 was adopted on July 1, 2018.
- In February of 2019 the City entered into an agreement with Kimley Horn for monitoring industrial user Lemon-X/Bevolution. This analysis provided revised limits to Bevolution's daily discharge flow, pollutant loading, and a recommended surcharge rate structure for violations to the limits set in the agreement.

Requests for information

This financial report is designed to provide a general overview of the City of Frostproof, Florida, finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City's Finance Manager at the Frostproof City Hall, 111 West First Street, Frostproof, Florida 33843.

CITY OF FROSTPROOF, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,175,164	\$ 1,085,505	\$ 2,260,669
Investments	351,121	-	351,121
Receivables, current:			
Customer accounts, net	-	148,942	148,942
Franchise and utility service taxes	49,881	-	49,881
Intergovernmental	311,299	53,679	364,978
Notes receivable	750	-	750
Net pension asset	259,355	107,201	366,556
Restricted assets:			
Cash and cash equivalents	727,183	328,441	1,055,624
Capital Assets:			
Non-depreciable	167,836	1,948,332	2,116,168
Depreciable, net	4,518,395	11,442,622	15,961,017
TOTAL ASSETS	7,560,984	15,114,722	22,675,706
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	469,828	89,645	559,473
LIABILITIES			
Accounts payable	60,387	136,174	196,561
Accrued payroll	10,192	6,116	16,308
Due to other governments	1,126	-	1,126
Unearned revenue	15,424	-	15,424
Accrued interest payable	-	10,621	10,621
Customer deposits	200	54,635	54,835
Long-term obligations:			
Due within one year	-	239,286	239,286
Due in more than one year	592,855	2,893,086	3,485,941
TOTAL LIABILITIES	680,184	3,339,918	4,020,102
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	183,051	63,409	246,460
NET POSITION			
Net investment in capital assets	4,686,231	10,295,430	14,981,661
Restricted for:			
Debt service	-	45,011	45,011
Cultural activities	10,401	-	10,401
Capital improvement	96,347	218,174	314,521
Public safety operations	2,587	-	2,587
Transportation expenses	460,529	-	460,529
Fire protection services	157,319	-	157,319
Unrestricted	1,754,163	1,242,425	2,996,588
TOTAL NET POSITION	\$ 7,167,577	\$ 11,801,040	\$ 18,968,617

The accompanying notes are an integral part of these financial statements

CITY OF FROSTPROOF, FLORIDA
STATEMENT OF ACTIVITIES
For the year ended September 30, 2018

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grant and Contributions	Capital Grant and Contributions	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT							
Governmental activities:							
General government	\$ 722,573	\$ 66,604	\$ 255,249	\$ -	\$ (400,720)	\$ -	\$ (400,720)
Law enforcement	1,327,087	6,181	42,091	43,553	(1,235,262)	-	(1,235,262)
Fire control	178,395	256,324	-	-	77,929	-	77,929
Building enforcement	48,613	43,312	-	-	(5,301)	-	(5,301)
Transportation	408,869	26,152	187,355	137,464	(57,898)	-	(57,898)
Culture/recreation	264,822	8,806	45,560	-	(210,456)	-	(210,456)
Community affairs	396,887	-	47,890	6,700	(342,297)	-	(342,297)
Total governmental activities	3,347,246	407,379	578,145	187,717	(2,174,005)	-	(2,174,005)
Business-type activities							
Water and wastewater utility	1,699,908	1,343,114	-	277,642	-	(79,152)	(79,152)
Sanitation utility	414,607	387,465	-	-	-	(27,142)	(27,142)
Stormwater utility	72,679	50,673	-	44,235	-	22,229	22,229
Total business-type activities	2,187,194	1,781,252	-	321,877	-	(84,065)	(84,065)
TOTAL PRIMARY GOVERNMENT	\$ 5,534,440	\$ 2,188,631	\$ 578,145	509,594	(2,174,005)	(84,065)	(2,258,070)
GENERAL REVENUES							
Taxes:							
Property taxes, levied for general purposes					905,748	-	905,748
Franchise and public service taxes					578,450	-	578,450
State shared revenue					314,945	-	314,945
Investment earnings					35,455	14,578	50,033
Other revenues					35,671	-	35,671
Total general revenues and transfers					1,870,269	14,578	1,884,847
Change in net position					(303,736)	(69,487)	(373,223)
NET POSITION, beginning of year					7,471,313	11,870,527	19,341,840
NET POSITION, end of year					\$ 7,167,577	\$ 11,801,040	\$ 18,968,617

The accompanying notes are an integral part of these financial statements

CITY OF FROSTPROOF, FLORIDA
BALANCE SHEET – GOVERNMENTAL FUNDS
September 30, 2018

	General Fund	Non-major Governmental Funds	Total
ASSETS			
Cash and cash equivalents	\$ 1,175,164	\$ 10,401	\$ 1,185,565
Investments	351,121	-	351,121
Receivables, current:			
Franchise and utility service taxes	49,881	-	49,881
Intergovernmental	311,299	-	311,299
Notes receivable	750	-	750
Advances to other funds	6,446	-	6,446
Restricted assets:			-
Cash and cash equivalents	716,782	-	716,782
Total assets	<u>2,611,443</u>	<u>10,401</u>	<u>2,621,844</u>
LIABILITIES			
Accounts payable	60,387	-	60,387
Accrued wages	10,192	-	10,192
Due to other governments	1,126	-	1,126
Advances from other funds	-	6,446	6,446
Deposits	200	-	200
Unearned revenue	15,424	-	15,424
Total liabilities	<u>87,329</u>	<u>6,446</u>	<u>93,775</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	<u>216,213</u>	-	<u>216,213</u>
FUND BALANCE			
Nonspendable:			
Advances to other funds	6,446	-	6,446
Restricted for:			
Cultural activities	-	10,401	10,401
Public safety	2,587	-	2,587
Capital improvements	96,347	-	96,347
Transportation improvements	460,529	-	460,529
Fire protection services	157,319	-	157,319
Assigned to:			
Cultural activities	10,000	-	10,000
Unassigned	<u>1,574,673</u>	<u>(6,446)</u>	<u>1,568,227</u>
Total fund balances (deficit)	<u>2,307,901</u>	<u>3,955</u>	<u>2,311,856</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 2,611,443</u>	<u>\$ 10,401</u>	<u>\$ 2,621,844</u>

The accompanying notes are an integral part of these financial statements

CITY OF FROSTPROOF, FLORIDA

**RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION**

September 30, 2018

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

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 2,311,856
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,686,231
The net pension asset is not an available resource and, therefore is not reported in the governmental funds.	259,355
Revenues not received within the "availability" period are deferred at the fund level and recognized in the statement of activities.	216,213
Deferred outflows of resources represent an decrease in net position or fund balance that applies to a future period(s) and, therefore, are not reported in the governmental funds.	469,828
Deferred inflows of resources represent an increase in net position or fund balance that applies to a future period(s) and, therefore, are not reported in the governmental funds.	(183,051)
Long-term liabilities, including bonds and notes payable, compensated absences and net pension liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(592,855)
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 7,167,577</u></u>

The accompanying notes are an integral part of these financial statements

CITY OF FROSTPROOF, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
For the year ended September 30, 2018

	General Fund	Non-major Governmental Funds	Total
REVENUES:			
Taxes:			
Property	\$ 905,748	\$ -	\$ 905,748
Franchise and utility taxes	631,581	-	631,581
Licenses and permits	44,612	-	44,612
Intergovernmental revenue	747,098	-	747,098
Charges for services	345,088	1,707	346,795
Fines and forfeitures	7,553	-	7,553
Investment income	35,345	12	35,357
Other	100,190	524	100,714
Total revenues	<u>2,817,215</u>	<u>2,243</u>	<u>2,819,458</u>
EXPENDITURES:			
Current:			
General government	638,744	-	638,744
Public safety	1,301,162	-	1,301,162
Transportation	340,268	-	340,268
Culture	284,263	518	284,781
Community affairs	257,785	-	257,785
Capital outlay	547,109	-	547,109
Total expenditures	<u>3,369,331</u>	<u>518</u>	<u>3,369,849</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(552,116)	1,725	(550,391)
OTHER FINANCING SOURCES (USES)			
Transfers in	5,729	-	5,729
Transfers out	-	(5,729)	(5,729)
Insurance proceeds	7,839	-	7,839
NET CHANGE IN FUND BALANCE	(538,548)	(4,004)	(542,552)
FUND BALANCE, beginning of year	<u>2,846,449</u>	<u>7,959</u>	<u>2,854,408</u>
FUND BALANCE, end of year	<u><u>\$ 2,307,901</u></u>	<u><u>\$ 3,955</u></u>	<u><u>\$ 2,311,856</u></u>

The accompanying notes are an integral part of these financial statements

CITY OF FROSTPROOF, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
For the year ended September 30, 2018

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	(542,552)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
This is the amount of capital assets recorded in the current period.		547,336
This is the amount of depreciation recorded in the current period.		(290,473)
This is the book value of dispositions recorded in the current period.		(2,927)
Revenues recognized in the statement of activities but reported as a deferred inflow of resources in the governmental funds because the revenue was not considered available.		216,213
<p>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 the governmental funds.</p>		
This is the change in accrued compensated absences during the year.		(6,072)
<p>Pension expense is reported in the statement of activities which differs from pension expenditures as reported in the governmental funds:</p>		
This amount represents the change in deferred inflows related to pensions.		91,714
This amount represents the change in deferred outflows related to pensions.		(238,295)
This amount represents the change in the net pension asset.		(564)
This amount represents the change in the net pension liability.		(78,116)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	(303,736)

The accompanying notes are an integral part of these financial statements

CITY OF FROSTPROOF, FLORIDA
STATEMENT OF NET POSITION – PROPRIETARY FUND
September 30, 2018

	Enterprise Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,085,505
Receivables:	
Customers, net	148,942
Intergovernmental	53,679
Total current assets	<u>1,288,126</u>
Noncurrent assets:	
Restricted cash and cash equivalents	328,441
Net pension asset	107,201
Capital assets:	
Non-depreciable	1,948,332
Depreciable, net	11,442,622
Total noncurrent assets	<u>13,826,596</u>
Total assets	<u>15,114,722</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	<u>89,645</u>
LIABILITIES	
Current liabilities:	
Accounts payable	136,174
Accrued wages	6,116
Bonds and notes payable, current	239,286
Total current liabilities	<u>381,576</u>
Noncurrent liabilities:	
Liabilities payable from restricted assets:	
Customer deposits	54,635
Interest payable	10,621
Compensated absences	36,848
Bonds and notes payable, noncurrent portion	2,856,238
Total noncurrent liabilities	<u>2,958,342</u>
Total liabilities	<u>3,339,918</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>63,409</u>
NET POSITION	
Net investment in capital assets	10,295,430
Restricted for:	
Debt service	45,011
Capital improvements	218,174
Unrestricted	1,242,425
Total net position	<u>\$ 11,801,040</u>

The accompanying notes are an integral part of these financial statements

CITY OF FROSTPROOF, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION – PROPRIETARY FUND
For the year ended September 30, 2018

	Enterprise Fund
OPERATING REVENUES:	
Charges for services	
Water and wastewater (pledged as security for revenue bonds)	\$ 1,343,114
Stormwater	50,673
Assessment and franchise fees - Sanitation	387,465
Total operating revenues	<u>1,781,252</u>
OPERATING EXPENSES:	
Personnel services	424,029
Contract services	120,265
Insurance	36,663
Materials and supplies	88,145
Repair and maintenance	118,370
Sanitation fees	374,375
Utilities	95,604
Miscellaneous	12,704
Depreciation	821,226
Total operating expenses	<u>2,091,381</u>
OPERATING LOSS	<u>(310,129)</u>
NONOPERATING REVENUE (EXPENSE)	
Interest expense	(80,725)
Loss on disposal of property	(15,088)
Investment revenue	14,578
Total nonoperating revenues (expense)	<u>(81,235)</u>
INCOME BEFORE CONTRIBUTIONS AND GRANTS	<u>(391,364)</u>
CAPITAL CONTRIBUTIONS	
Grants	321,877
Total capital contributions	<u>321,877</u>
CHANGE IN NET POSITION	<u>(69,487)</u>
NET POSITION, beginning of year	<u>11,870,527</u>
NET POSITION, end of year	<u>\$ 11,801,040</u>

The accompanying notes are an integral part of these financial statements

CITY OF FROSTPROOF, FLORIDA
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
For the year ended September 30, 2018

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 1,798,572
Payments to suppliers	(800,642)
Payments for salaries and benefits	(415,279)
Net cash flows from operating activities	<u>582,651</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets, net of related payables	(636,978)
Principal paid on long-term debt	(233,522)
Interest paid on borrowings	(81,620)
Payments made to dispose of assets	(88)
Capital grants received, net of change in related receivable	278,088
Net cash flows from capital and related financing activities	<u>(674,120)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on invested funds	<u>14,578</u>
Net cash flows from investing activities	<u>14,578</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(76,891)
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,490,837</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 1,413,946</u></u>
As shown in the Accompanying Financial Statements	
Cash and cash equivalents	\$ 1,085,505
Restricted cash and cash equivalents	<u>328,441</u>
Total cash and cash equivalents	<u><u>\$ 1,413,946</u></u>

Continued...

The accompanying notes are an integral part of these financial statements

CITY OF FROSTPROOF, FLORIDA
STATEMENT OF CASH FLOWS – PROPRIETARY FUND (concluded)
For the year ended September 30, 2018

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating income (loss)	\$ (310,129)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	821,226
(Increase) decrease in accounts receivable	16,090
Increase (decrease) in customer deposits	1,230
Increase (decrease) in accounts payable	45,484
Increase (decrease) in accrued wages and comp absences	11,888
Increase (decrease) in pension elements	(3,138)
Net cash flows from operating activities	<u>\$ 582,651</u>

Noncash financing and investing activities:

None	<u>\$ -</u>
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The accompanying notes are an integral part of these financial statements

CITY OF FROSTPROOF, FLORIDA
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS
September 30, 2018

	Pension Trust Funds
ASSETS	
Investments	\$ 5,788,498
Receivables:	
Due from other governments	52,118
Due from broker	650
Accrued interest and dividends	12,171
Prepaid items	20,484
Total assets	<u>5,873,921</u>
LIABILITIES	
Accounts payable:	
Due to broker	<u>1,059</u>
Total liabilities	<u>1,059</u>
NET POSITION	
Restricted for pension benefits	<u><u>\$ 5,872,862</u></u>

The accompanying notes are an integral part of these financial statements

CITY OF FROSTPROOF, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS
For the year ended September 30, 2018

	Pension Trust Funds
ADDITIONS	
Contributions:	
Employer:	
City	\$ 147,713
Other	16,000
Employee	5,775
On-behalf payments - State of Florida	25,010
Total contributions	<u>194,498</u>
Investment earnings:	
Interest	21,311
Dividends	76,407
Net increase in the fair value of investments	376,855
Total investment earnings	<u>474,573</u>
Less investment expense	36,474
Net investment earnings	<u>438,099</u>
Total additions	<u>632,597</u>
DEDUCTIONS	
Benefits	295,905
Administrative expenses	26,751
Total deductions	<u>322,656</u>
CHANGE IN NET POSITION	309,941
NET POSITION, beginning of year	<u>5,562,921</u>
NET POSITION, end of year	<u><u>\$ 5,872,862</u></u>

The accompanying notes are an integral part of these financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing U.S. GAAP for state and local governments through its statements (GASBS) and Interpretations (GASBI). The more significant accounting policies established by GAAP and used by the City are discussed below.

A. REPORTING ENTITY

The City of Frostproof, Florida (the "City") is a political subdivision of the State of Florida created by a Home Rule Charter adopted by Ordinance 342 on May 9, 1977 and approved by referendum on May 17, 1977, under the municipal home rule powers act, Florida Statutes Chapter 166. The Charter was amended most recently by referendum on April 3, 2007. The City operates under a council-city manager form of government. These financial statements include all of the funds, organizations, agencies, and departments of the City (the "primary government") and any "legally separate entities ("component units") required by U.S. GAAP to be included in the reporting entity.

The accompanying financial statements present the City's primary government and component units over which the City exercises significant influence. Criteria for determining if other entities are potential component units of the City which should be reported with the City's basic financial statements are identified and described in the GASB *Codification of Governmental Accounting and Financial Reporting Standards*. The application of these criteria provides for identification of any entities for which the City is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete. A blended component unit, although legally separate, is in substance part of the City's operations and presented in the financial statements as "blended" components. Blending refers to the fact that the component unit's funds are combined with those of the primary government for financial reporting purposes.

Based on these criteria, the financial reporting entity does not include or exclude any component units.

The financial reporting entity does not include the assets of the employee defined contribution pension plan, which were determined not to be assets of the City.

B. BASIS OF PRESENTATION

The basic financial statements consist of the government-wide financial statements and fund financial statements.

Government-wide Financial Statements - The required government-wide financial statements are the Statement of Net Position and the Statement of Activities, which report information on all of the nonfiduciary activities of the City. The effects of interfund activity have been removed from these statements. The City's fiduciary funds are also excluded from the government-wide financial statements since by definition these assets are being held for the benefit of a third party and cannot be used to fund activities or obligations of the government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *Business-type activities*, which rely to a significant extent on fees and charges for support.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment, including depreciation. The City does not allocate the interest expense of governmental fund debt or indirect costs such as finance, personnel, legal, etc. *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*.

Fund Financial Statements - The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, deferred inflows and outflows of resources, fund equity, revenues and expenditures/expenses. The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASB Cod. Sec 2200 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. Each major fund is presented in a separate column and all non-major funds are aggregated and presented in a single column. The City's fiduciary funds are presented in the fund financial statements by type (pension trust funds only) but as noted above are not included in the government-wide statements.

Funds are classified into three categories: governmental, proprietary and fiduciary. The funds used by the City are as follows:

The City reports the following major governmental fund:

- **General Fund** – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. Most of the essential governmental services such as public safety, public works, street construction and maintenance, culture and recreation, and general administration are provided by the general fund.

The City reports the following major proprietary fund:

- **Enterprise Fund** – The Enterprise Fund is used to account for operations that are financed and operated in a manner like private business enterprises where the costs of providing services, including capital costs, are to be recovered with fees and charges for providing sanitation, potable water, stormwater management and, wastewater collection, treatment and disposal to area residents.

In addition, the City reports the following fund types:

- **Special Revenue Funds** – Special Revenue Funds are a type of governmental fund used to account for revenue sources that are usually restricted by law, regulation, or administrative action. The City has two non-major special revenue funds.
- **Pension Trust Funds** – Pension Trust Funds are a type of fiduciary fund used to account for the activities of the general employees' pension and the police officers' pension plans, which accumulate resources for defined benefit payments to qualified employees.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, franchise and public service taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual as revenue of the current period. Grant revenues are considered earned and are accrued simultaneously with the grant expenditure. In applying the susceptibility-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and substantially irrevocable; i.e. revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if they meet the availability criteria. All other revenue items are considered to be measurable and available only when cash is received by the government.

Imposed nonexchange resources (property taxes, fines) are reported as deferred inflows if received before the tax is levied or before the date when use is first permitted. Government mandated nonexchange transactions and voluntary nonexchange transactions are reported as liabilities until the eligibility requirements (excluding time requirements) are met and as deferred inflows if received before time requirements are met and all other eligibility requirements have been satisfied.

The proprietary fund is reported using the *economic measurement focus* and the *accrual basis of accounting*. Proprietary fund operating revenues generally result from producing and providing sanitation, potable water, stormwater management and, wastewater collection, treatment and disposal services to area residents. Operating expenses for these operations include all costs related to providing the service or product. These costs include billing and collection, personnel and purchased services, repairs and maintenance, depreciation, materials and supplies, and other expenses directly related to costs of services. All other revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE

CASH AND INVESTMENTS

- **Cash and Cash Equivalents** – For purposes of the statement of cash flows for the proprietary fund types, cash and equivalents includes cash on hand, bank demand deposits, certificates of deposit, money-market and savings accounts and equity in pooled cash and investments. Equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and have an original maturity of three months or less.
- **Pooled Cash and Investments** – The City maintains an accounting system which centralizes the investment function of all funds. Each fund's "share" of these pooled cash and investments is included in cash and cash equivalents on the accompanying balance sheets/statements of net position. Investment earnings are distributed monthly in accordance with the participating fund's relative percentage of investments.
- **Restricted Cash and Investments** – Represent equity in pooled cash and investments and separately identified investments that are legally restricted to specific uses by external parties or enabling legislation. The City generally uses restricted resources first when an expenditure/expense is incurred for which both restricted and unrestricted resources are available.
- **Investments** – All investments, including those of the pension trust funds, are stated at fair value, which is either a quoted price or the best available estimate.

RECEIVABLES – In the government-wide financial statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include grants, sales, utility and franchise taxes. Receivables for business-type activities represent grants and unpaid bills for utility services. Allowances for uncollectible accounts receivable are based upon historical trends. Receivables are reported net of allowances for uncollectible accounts receivable where applicable. No allowance was recorded as all receivables were deemed collectible.

INTERFUND BALANCES – Transactions between funds that result in amounts owed are referred to as either "due from/to other funds" for current interfund loans or "advances from/to other funds" for noncurrent interfund loans. Amounts receivable from, or payable to, other funds are reflected in the account of the fund until liquidated. Any remaining balances are reported in the government-wide statements as "internal balances". Advances to and advances from between government funds in the amount of \$6,446 were eliminated in the presentation of the government-wide statements.

INVENTORY – Inventories of expendable supplies are recorded at year-end, if material. These inventories are reported at cost on a first-in, first-out basis. They are recorded as expenditures at the time individual inventory items are used.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

CAPITAL ASSETS - In the government-wide financial statements capital assets include land, buildings, improvements, utility plant, infrastructure, and furniture and equipment. Governmental fund infrastructure assets (e.g., roads, bridges, sidewalks, streets, drainage systems and lighting system) acquired prior to October 1, 2003, have not been reported. Capital assets are defined by City policy as personal or real property or improvements with an individual cost of \$1,000 or more (\$5,000 for infrastructure assets) and an estimated useful life more than one year. Such assets are recorded at historical cost, if purchased and at acquisition value at date of gift, if donated. Major additions are capitalized while maintenance and repairs which do not improve or extend the life of the respective assets are charged to expense.

In the government-wide statements, capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Depreciation expense is recorded as an expense of each applicable governmental function in the statement of activities, with accumulated depreciation netted with capital assets in the statement of net position. Capital asset depreciation is recognized using the straight-line method over the estimated useful lives as follows:

<u>Assets</u>	<u>Years</u>
Land improvements	15-25
Buildings	25-40
Utility system	20-50
Machinery, equipment and furniture	5-15
Vehicles	7-15
Infrastructure	25-50

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

INTEREST COSTS - Interest costs are capitalized when incurred on debt the proceeds of which were used to finance the construction of enterprise fund capital assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. No interest cost was capitalized for the year ended September 30, 2018.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and will *not* be recognized as an outflow of resources (expense/expenditure) until that time.

The City has one item that qualifies for reporting as deferred outflows of resources. This item is the deferred outflows related to pensions. The deferred outflows related to pensions are an aggregate of items related to pensions as calculated in accordance with GASB Cod. Sec. P20 and will be recognized as either pension expense or a reduction in the net pension liability in future reporting years.

In addition to liabilities, the statement of net position will sometimes report a section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

The City has two items that qualify for reporting as deferred inflows of resources. The first item of deferred inflows of resources is in the governmental funds balance sheet and represents unavailable revenues that were not received within 30 days of year-end. The second item is deferred inflows related to pensions. The deferred inflows related to pensions are an aggregate of items related to pensions as calculated in accordance with GASB Cod. Sec. P20 and will be recognized as a reduction to pension expense in future reporting years.

LONG-TERM OBLIGATIONS - In the government-wide financial statements and proprietary 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 bonds outstanding method. Debt issuance costs are reported as an expense in the period incurred. Bond premiums and discounts are reported, net of amortization, in the related debt balances shown in the financial statements. For current refundings and advance refundings resulting in defeasance of debt reported by governmental activities, business-type activities, and proprietary funds, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is the shorter. Long-term debt for governmental funds is not reported as liabilities in the fund financial statements; rather the debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

COMPENSATED ABSENCES – The City personnel policy provides for the payment of accrued vacation and sick pay upon separation of its employees. The liability for these compensated absences is recorded as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured because of employee resignations, terminations or retirements.

INTERFUND TRANSFERS – Permanent reallocation of resources between the funds of the City is classified as interfund transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statement presentation.

CONNECTION FEES AND CAPACITY FEES – Water connection fees represent reimbursement of the costs incurred to perform the connection of the respective utilities and are recorded as operating revenue when received. Capacity fees, which are not considered connection fees since they substantially exceed the cost of connection, are recorded as capital contributions when received. Prepaid impact fees received, which reserve capacity in the City's future water facilities, are reported as capital contributions when the requirements of the Developer agreements are met by the City.

EQUITY CLASSIFICATIONS -

Government-wide Statements - The difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources is classified as net position and displayed in three components:

- a) Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net position – This component consists of net position whose use is subject to external constraints (such as through debt covenants) by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- c) Unrestricted net position - Consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Fund Statements - The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor the constraints on the specific purposes for which amounts in those funds can be spent. Spendable resources are to be shown as restricted, committed, assigned and unassigned as considered appropriate in the City's circumstances. The following classifications describe the relative strength of the spending constraints:

- a) *Nonspendable* — amounts that cannot be spent either because they are in nonspendable form (such as inventory) or because they are legally or contractually required to be maintained intact.
- b) *Restricted* — amounts that can be spent only for specific purposes stipulated by (a) external resource providers such as creditors (by debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- c) *Committed* — amounts constrained to specific purposes by formal action (ordinance) of the City using its highest level of decision-making authority (the City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City Council takes the same highest-level action (ordinance) to remove or change the constraint.
- d) *Assigned* — amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Commission or through the City Commission delegating this responsibility to the City Manager through the budgetary process. The City Commission has not established a formal policy regarding authorization to assign fund balance amounts for a specific purpose.
- e) *Unassigned* — all other spendable amounts.

The City uses restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

USE OF ESTIMATES – The preparation of the basic financial statements in conformity with generally accepted accounting principles, as applicable to government entities, requires management to make use of estimates that affect the reported amounts in the basic financial statements. Actual results could differ from estimates.

NOTE 2 - PROPERTY TAX CALENDAR

Under Florida Law, the assessment of all properties and the collection of all county, municipal, special districts and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The tax levy of the City is established by the City Council prior to October 1 of each year and the Polk County Property Appraiser incorporates the millages into the total tax levy, which includes the municipalities, the County, independent districts and the Polk County School Board tax requirements. State statutes permit cities to levy property taxes at a rate of up to 10 mills. The City's millage rate in effect for the fiscal year ended September 30, 2018 was 7.4978.

All taxes are due and payable on November 1 of each year and unpaid taxes become delinquent on April 1 following the year in which they are assessed. Discounts are allowed for early payment as follows: 4% in of November, 3% in December, 2% in January, 1% in February. The taxes paid in March are without discount. Delinquent taxes on real and personal property bear interest of 18% per year. On or prior to June 1 following the tax year, certificates are sold for all delinquent taxes on real property.

NOTE 3 - BUDGETARY LAW AND PRACTICE

The City charter establishes the fiscal year as the twelve-month period beginning October 1st. The departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year after which they City Manager subsequently submits a proposed budget of estimated expenditures and revenues to the City Council.

Upon receipt of the budget estimates, the City Council holds public hearings on the proposed budget. Information about the budget ordinance is then published in the official newspaper of the City.

On or before September 30th, the budget is legally enacted for the General and Enterprise Funds through the passage of an ordinance. The City manager is authorized to transfer budgeted amounts between line items and departments; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Expenditures for the General Fund may not exceed legal appropriations at the department level.

Budgetary information is presented as Required Supplementary Information. The budgetary comparison schedule for the General Fund, the only major governmental fund, can be found by referencing the table of contents of this report.

NOTE 4 – CASH AND INVESTMENTS

Custodial Credit Risk-Deposits

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's cash deposits may not be returned to the City.

The City's deposits (cash and certificates of deposit) are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution. All deposits are held in *qualified public* depositories. These depositories participate in a shared risk collateral pool overseen by the State of Florida and established by Florida Statute. The State of Florida collateral pool is a multiple financial institution pool which provides for additional amounts to be assessed to the members of the pool if the value of the pool's collateral is inadequate to cover a loss. The amounts covered by the pool are considered *insured* for financial reporting disclosure requirements. Because of this arrangement, management believes the City's deposits are not exposed to custodial credit risk.

At September 30, 2018, the carrying amount of the City's deposits and investments (excluding pension trust funds) is summarized below:

Cash and cash equivalents:	
Cash on hand	\$ 860
Deposits in financial institutions:	
Insured or fully collateralized bank deposits	<u>3,315,433</u>
Total cash and cash equivalents	<u><u>\$3,316,293</u></u>

NOTE 4 – CASH AND INVESTMENTS (cont...)

Restricted Cash

Certain cash and cash equivalents are legally restricted in the statement of net position at September 30, 2018 as follows:

	Governmental Activities	Business-type Activities
Capital improvements - transportation	\$ 460,529	\$ -
Building permits	2,587	-
Cultural services	10,401	-
Fire protection services	157,319	-
Impact fees:		
Water	-	2,250
Sewer	-	3,000
Stormwater	-	600
Fire protection	20,192	-
General government	17,106	-
Library	10,818	-
Police	11,748	-
Parks and recreation	21,593	-
Transportation	14,890	-
Stormwater management	-	212,324
Customer deposits	-	54,635
Debt service	-	55,632
Total restricted cash	<u>\$ 727,183</u>	<u>\$ 328,441</u>

Investments

The City does not have a formal investment policy for dealing with investment risks and therefore follows the guidance in the Florida Statutes. The types of investments in which the City may invest are governed by section 218.415, Florida Statutes. According to State Statutes, the City is authorized to invest in the following instruments: Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized through the Florida Interlocal Cooperation Act; S.E.C. registered money market funds with the highest credit quality rating from a nationally recognized rating company; interest-bearing time deposits and savings accounts in qualified public depositories; direct obligations of the U.S. Treasury. The pension trust funds have individual investment policies which set forth the allowable mix and type of investments allowed including corporate or other bonds and common stock with certain limitations.

NOTE 4 – CASH AND INVESTMENTS (cont...)

Investments (cont...)

As of September 30, 2018, the City had the following investments at fair value:

	Governmental Activities	Fiduciary Funds	Total	Portfolio
Investment Type:				
Money market funds	\$ 41,240	\$ 80,245	\$ 121,485	1.98%
Certificates of deposit	24,981	-	24,981	0.41%
U.S. treasuries	284,900	494,208	779,108	12.69%
U.S. Gov't agencies	-	108,647	108,647	1.77%
FMPTF (a)	-	1,607,695	1,607,695	26.19%
Corporate bonds	-	339,096	339,096	5.52%
Corporate stocks	-	2,934,633	2,934,633	47.80%
Fixed income exchange traded fund	-	188,054	188,054	3.06%
Real estate investment trusts	-	35,920	35,920	0.59%
Total investments	<u>\$ 351,121</u>	<u>\$ 5,788,498</u>	<u>\$ 6,139,619</u>	<u>100.00%</u>

(a) The Florida Municipal Pension Trust Fund (FMPTF) is an external investment pool administered by the Florida League of Cities, Inc. The City has a beneficial interest in the portfolio, not in the individual securities held within each portfolio. This fund's investments are targeted for a 60% allocation in equity securities and the remaining 40% in bonds and real estate investments. Separately issued financial statements may be obtained by contacting the administrator for the FMPTF at 301 Bronough Street, Suite 300, Tallahassee, Florida 32301.

Investments – Fair Value

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

The City (excluding pension trust fund investments) has the following recurring fair value measurements as of September 30, 2018:

- U.S. Treasury securities of \$284,900 are valued using quoted market prices (Level 1 inputs).
- Money market funds of \$41,240 and certificates of deposit of \$24,981 are valued using amortized cost.

NOTE 4 – CASH AND INVESTMENTS (cont...)

The City’s Pension Trust Funds have the following recurring fair value measurements as of September 30, 2018:

General Employees’ Pension Trust Fund:

The General Employees’ Pension Trust Fund is a participating member of the FMPTF. All assets with the FMPTF are invested through the Florida Municipal Investment Trust (FMIvT) for the benefit of the participating members. The FMIvT, administered by the Florida League of Cities, Inc., is an interlocal governmental entity created under the laws of the State of Florida as a local government investment pool and is considered an external investment pool for GASB purposes and therefore, the City is not required to categorize the positions in the pool within the fair value hierarchy as established by U.S. GAAP. Redemptions from the FMIvT are permitted monthly upon advance written notification.

As of September 30, 2018, the carrying amount of the General Employees’ Pension Trust Fund’s investments with the FMIvT were as follows:

General Employees' Pension Trust Fund	
FMIVT Cash Fund	\$ 7,735
FMIVT Broad Market High Quality Bond Fund	232,926
FMIVT Core Plus Fund	276,298
FMIVT Diversified Large Cap	525,288
FMIVT Diversified Small to Mid Cap Fund	192,766
FMIVT International Equity	228,107
FMIVT Core Real Estate	144,575
Total	<u>\$ 1,607,695</u>

NOTE 4 – CASH AND INVESTMENTS (cont...)

Police Officers' Pension Trust Fund:

	September 30, 2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment by fair value level				
Debt securities				
U.S. Treasury securities	\$ 494,208	\$ -	\$ 494,208	\$ -
U.S. Agencies	108,647	-	108,647	-
Corporate bonds	339,096	-	339,096	-
Fixed income exchange traded fund	188,054	188,054	-	-
Total debt securities	<u>1,130,005</u>	<u>188,054</u>	<u>941,951</u>	<u>-</u>
Equity securities				
Domestic	2,243,085	2,226,835	-	16,250
Foreign	691,548	691,548	-	-
Real estate	35,920	35,920	-	-
Total equity securities	<u>2,970,553</u>	<u>2,954,303</u>	<u>-</u>	<u>16,250</u>
Total investments by fair value level	<u>4,100,558</u>	<u>\$ 3,142,357</u>	<u>\$ 941,951</u>	<u>\$ 16,250</u>
Investments measured at amortized cost				
Money market mutual funds	80,245			
Total investments	<u>\$ 4,180,803</u>			

Debt and equity securities classified in level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The domestic equity security that is classified in level 3 represents the investment in a limited partnership that is valued using significant unobservable inputs and assumptions.

NOTE 4 – CASH AND INVESTMENTS (concluded)

Interest Rate Risk and Credit Risk

Interest rate risk is the risk that change in interest rates could adversely affect an investment's fair value. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City has no formal policy regarding interest rate risk, credit risk or foreign currency risk.

The schedule below summarizes the fixed income investments by credit rating and maturity (a measure of credit risk and interest rate risk).

Investment Type	Credit Rating (a)	Fair Value	Weighted Average Maturity
Governmental activities:			
U.S. Treasury securities	Aaa	\$ 284,900	1.24
General Employees Pension Trust Fund:			
FMI/T Broad Market High Quality Bond Fund	AAf/S4	232,926	6.40
FMI/T Core Plus Fund	Not Rated	276,298	7.00
		<u>\$ 509,224</u>	
Police Officers' Pension Trust Fund:			
U.S. Treasury securities	Aaa	494,208	4.35
U.S. Agencies	Aaa	108,647	2.67
Corporate bonds	Aa1 to A2	339,096	2.64
Barclays TIPS bond fund ETF	Not Rated	188,054	7.91
		<u>\$ 1,130,005</u>	

(a) The credit rating service listed above is Moody's except for the FMI/T investments which is rated by Fitch

Concentration of Credit Risk

Concentration of credit risk is defined as when five percent or more of the total investments are invested with one issuer. Investments issued or explicitly guaranteed by the United States government and investments in mutual funds or pools are excluded. There were no concentrations to disclose for the year ended September 30, 2018.

CITY OF FROSTPROOF, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 5 - CAPITAL ASSETS

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

	Balance October 1, 2017	Transfers	Increases	Decreases	Balance September 30, 2018
<u>Governmental Activities:</u>					
Capital assets, not being depreciated:					
Land	\$ 167,836	\$ -	\$ -	\$ -	\$ 167,836
Total capital assets, not being depreciated	167,836	-	-	\$ -	167,836
Capital assets, being depreciated:					
Buildings	4,363,029	-	-	-	4,363,029
Capitalized building lease	97,154	-	-	-	97,154
Improvements, other than buildings	1,572,653	-	144,083	-	1,716,736
Equipment	2,379,595	-	133,574	(46,831)	2,466,338
Infrastructure	1,002,972	-	269,679	-	1,272,651
Total capital assets, being depreciated	9,415,403	-	547,336	(46,831)	9,915,908
Less accumulated depreciation for:					
Buildings	(2,137,547)	2,429	(114,300)	-	(2,249,418)
Capitalized building lease	(29,146)	(2,429)	(2,429)	-	(34,004)
Improvements, other than buildings	(893,720)	-	(42,105)	-	(935,825)
Equipment	(1,904,225)	-	(91,703)	43,904	(1,952,024)
Infrastructure	(186,306)	-	(39,936)	-	(226,242)
Total accumulated depreciation	(5,150,944)	-	(290,473)	43,904	(5,397,513)
Total capital assets being depreciated, net	4,264,459	-	256,863	(2,927)	4,518,395
Governmental activities capital assets, net	\$ 4,432,295	\$ -	\$ 256,863	\$ (2,927)	\$ 4,686,231
<u>Business-type activities:</u>					
Capital assets, not being depreciated:					
Land	\$ 80,318	\$ -	\$ -	\$ -	\$ 80,318
Construction-in-progress	1,051,540	-	494,637	-	1,546,177
Intangible assets	105,300	-	-	-	105,300
Idle assets	216,537	-	-	-	216,537
Total capital assets, not being depreciated	1,453,695	-	494,637	-	1,948,332
Capital assets, being depreciated:					
Water and wastewater system	18,340,268	-	107,406	(22,256)	18,425,418
Stormwater system	849,919	-	-	-	849,919
Machinery and equipment	749,671	-	34,935	(22,782)	761,824
Total capital assets, being depreciated	19,939,858	-	142,341	(45,038)	20,037,161
Less accumulated depreciation for:					
Water and wastewater system	(7,024,248)	-	(741,113)	11,535	(7,753,826)
Stormwater system	(288,881)	-	(23,344)	-	(312,225)
Machinery and equipment	(490,222)	-	(56,769)	18,503	(528,488)
Total accumulated depreciation	(7,803,351)	-	(821,226)	30,038	(8,594,539)
Total capital assets being depreciated, net	12,136,507	-	(678,885)	(15,000)	11,442,622
Business-type activities capital assets, net	\$ 13,590,202	\$ -	\$ (184,248)	\$ (15,000)	\$ 13,390,954

NOTE 5 - CAPITAL ASSETS (concluded)

Depreciation expense was charged to the following programs and functions:

<u>Governmental Activities:</u>	
General government	\$ 59,544
Public safety	57,332
Transportation	64,821
Culture	59,904
Community affairs	48,872
Total depreciation expense - governmental activities	<u>\$ 290,473</u>

<u>Business-type Activities:</u>	
Water and wastewater system	\$ 797,855
Stormwater system	23,371
Total depreciation expense - business-type activities	<u>\$ 821,226</u>

NOTE 6 - LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended September 30, 2018:

	Balance October 1, 2017	Increases	Decreases	Balance September 30, 2018	Amounts Due within One Year
Governmental Activities:					
Long-term liabilities:					
<i>Other liabilities:</i>					
Net pension liability	\$ 442,702	\$ 78,116	\$ -	\$ 520,818	\$ -
Compensated absences	65,965	35,299	(29,227)	72,037	-
Total long-term liabilities	<u>\$ 508,667</u>	<u>\$ 113,415</u>	<u>\$ (29,227)</u>	592,855	<u>\$ -</u>
Less amounts due in one year				-	
Net long-term liabilities in excess of one year				<u>\$ 592,855</u>	
Business-type Activities:					
Long-term liabilities:					
<i>Revenue bonds payable</i>					
Water and sewer system refunding revenue bond, series 2012	\$ 1,227,423	\$ -	\$ (78,184)	\$ 1,149,239	\$ 80,595
Water and sewer system refunding revenue bond, series 2017	1,046,437	-	(59,415)	987,022	60,753
<i>Loans payable</i>					
Florida Department of Environmental Protection loan	1,055,186	-	(95,923)	959,263	97,938
Total revenue and loans payable	<u>3,329,046</u>	<u>-</u>	<u>(233,522)</u>	3,095,524	239,286
<i>Other liabilities:</i>					
Compensated absences	27,068	27,758	(17,978)	36,848	-
Total long-term liabilities	<u>\$ 3,356,114</u>	<u>\$ 27,758</u>	<u>\$ (251,500)</u>	3,132,372	<u>\$ 239,286</u>
Less amounts due in one year				(239,286)	
Net long-term liabilities in excess of one year				<u>\$ 2,893,086</u>	

Notes to Long-Term Obligations Table

Long term liabilities, including accumulated compensated absences, are typically liquidated by the individual fund to which the liability is directly associated.

Business-Type Activities:

Revenue Bonds Payable:

- The **2012 Series Water and Sewer Refunding Revenue Bond** was issued on August 21, 2012 in the amount of \$1,583,306 (par value) and is secured by the net revenues of the water and wastewater systems and any legally available non-ad valorem revenues of the City. The bond bears interest at 3.06% and payments are due in annual installments, including principal and interest, in the amount of \$115,150 with the final payment due in September 2030. The bond issue requires that funds be deposited into a sinking fund monthly at amounts which will fully fund the next succeeding principal and interest payments when due. The City is also required to provide net water and wastewater revenues sufficient to maintain minimum debt service coverage of 120%.

NOTE 6 - LONG-TERM OBLIGATIONS (cont...)

Notes to Long-Term Obligations Table (cont...)

Loans Payable:

- The **State of Florida Department of Environmental Protection Loan** was issued in the amount of \$2,000,000 and provided funds for the collection, transmission and treatment of the wastewater system in the northwest and southeast quadrants of the City and for the planning and design of new collector sewers. The loan bears interest at 2.09% and payments are due in semiannual installments, including principal and interest installments of \$58,739 with the final payment due in June 2027.
- The **2017 Water and Sewer Refunding Revenue Bond** was issued June 23, 2017 to refund the United States Department of Agriculture, Rural Utilities Service Loan in the amount of \$1,050,937. The bond bears interest at 2.24% and payments are due semiannually on each March 1 and September 1, including principal and interest, with a final maturity on September 1, 2032. The bond requires the maintenance of a sinking fund. The 2017 Water and Sewer Refunding Bond is on parity with the 2012 Series Water and Sewer Revenue Refunding Bond.
- The **State of Florida Department of Environmental Protection Loan** is secured by the net revenues of the water and wastewater system. This loan is subordinate to the **2012 and 2017 Water and Sewer Refunding Revenue Bonds** which are secured by the same revenue. These loans require the maintenance of sinking and reserve funds at various specified amounts and require a minimum debt service coverage of 115% and 120%, respectively.

NOTE 6 - LONG-TERM OBLIGATIONS (concluded)

Maturities: Annual requirements to repay all long-term bonds and notes payable for business-type activities as of September 30, 2018, are as follows:

Fiscal Year Ending	Business-type Activities		
	Principal	Interest	Total
2019	\$ 239,286	\$ 75,865	\$ 315,151
2020	245,197	69,954	315,151
2021	251,259	63,892	315,151
2022	257,475	57,676	315,151
2023	263,850	51,301	315,151
2024-2028	1,302,643	155,635	1,458,278
2029-2032	535,814	24,581	560,395
Total	<u>\$ 3,095,524</u>	<u>\$ 498,904</u>	<u>\$ 3,594,428</u>

NOTE 7 – PLEDGED REVENUES

Debt service Coverage – The City is required by the loan covenants of the water and wastewater revenue bonds to provide debt service coverage for bond payments of 120% for the year. The Florida Department of Environmental Protection (FDEP) also requires coverage of 115% for its loan payments for the year. The City is in compliance with these debt service coverage requirements as follows:

Gross revenues (a)	\$ 1,357,692
Less:	
Operating expenses (b)	<u>(806,240)</u>
Net available revenue - Revenue bonds	<u>\$ 551,452</u>
Debt service requirements - Revenue bonds	<u>\$ 200,674</u>
Coverage - Revenue bonds	<u>275%</u>
Net available revenue - Revenue bonds	\$ 551,452
Required net revenues for Revenue bonds	<u>(240,809)</u>
Net available revenue - FDEP	<u>\$ 310,643</u>
Debt service requirements - FDEP	<u>\$ 135,100</u>
Coverage - FDEP	<u>230%</u>

(a) Includes operating revenues for water and wastewater treatment and investment revenue

(b) Excludes sanitation expenses (\$355,223), stormwater expenses (\$28,689), and water and wastewater depreciation expense (\$797,885).

NOTE 7 – PLEDGED REVENUES (concluded)

The City has pledged various future revenue sources for various debt issues. For the water and sewer system, the City has pledged future revenues, net of certain operating expenses. The following table provides a summary of the pledged revenues for the City's outstanding debt issues.

	Revenue Pledged Through	Total Principal and Interest Outstanding	Current Year Principal and Interest Paid	Current Year Revenue	% of Revenues to Principal and Interest Paid
Water and wastewater net revenues	9/15/2043	\$ 3,594,428	\$ 315,142	\$551,452	174.99%

NOTE 8 – PENSION PLANS

The City maintains two separate single-employer defined benefit pension plans for its employees. Each provides retirement, disability, and death benefits to plan members and beneficiaries. Both plans were established by City ordinance and are governed by separate board of trustees. The pension plans do not issue stand-alone financial reports. These plans are subject to review by independent actuaries to determine annual required contributions.

It is the policy of the City to fund pension costs for defined benefit plans on an actuarial basis, which includes amortization of prior service costs, and to fund defined contribution plans as pension costs accrue.

In the government-wide and proprietary statement of net position, liabilities are recognized for the City's share of each defined benefit pension plan's net pension asset or liability. For purposes of measuring the net pension asset, liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's sponsored single employer plans and additions to/deductions from the City's sponsored single employer plans have been determined on the same basis as they are reported by the City's sponsored single employer plans. For this purpose, defined benefit payments (including refund of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Employees' Pension Trust Fund

Plan Description – All employees working at least 20 hours each week, excluding police officers, are required to participate in the City's general employees' pension plan after one year of service.

As of October 1, 2017 (the latest available actuarial report date), the members of the plan were as follows:

Inactive plan members and beneficiaries receiving benefits	8
Inactive employees entitled to but not receiving benefits or refund of contributions	12
Active plan members	16
Total	36

NOTE 8 – PENSION PLANS (cont...)

General Employees’ Pension Trust Fund (cont...)

Benefits Provided – The plan provides retirement, disability, and pre-retirement death benefits to all current members. Normal retirement age is 65 with at least 10 years of credited service. Upon normal retirement, members are entitled to a benefit at 1.5% of their average final compensation for each year of credited service (up to 30 years). Early retirement age is 55 with at least 10 years of credited service. Upon early retirement, the benefit is reduced actuarially for each year by which the participant’s early retirement age precedes the normal retirement age. The plan also provides disability benefits for participants who are disabled on a continuous and permanent basis.

Employees are 100% vested after 10 years of service. The average compensation is equal to the average of the highest consecutive five years of pensionable earnings out of the last 10 years of service. Disability and pre-retirement death benefit amounts are the actuarial equivalent of the normal retirement benefit.

Contributions – The City Council establishes and may amend by ordinance the contribution requirements of plan members. The City is required by City ordinance and Florida Statutes to make additional contributions to fund the pension plan at an actuarially determined amount. Plan members contribute 1% of pensionable earnings. The City’s actuarially required contribution for the year ended September 30, 2018 was \$34,117. Actual contributions for the year equaled \$30,815, or 90% of the required contribution. The City had prepaid contributions that were able to fund the difference.

Net Pension Liability – The City’s September 30, 2018 net pension liability was measured as of September 30, 2018.

Actuarial assumptions – The total pension liability was determined by an actuarial valuation as of October 1, 2017, that was updated to September 30, 2018 (City’s measurement date) using the following actuarial assumptions applied to all measurement periods:

Liability measurement date	September 30, 2018
Valuation date	October 1, 2017
Discount rate	7.00% per year (2.92% per year is attributable to long term inflation); this rate was used to discount all future benefit payments.
Salary increases	5.50% per year, plus average earnings are loaded by 2.50% for accumulated leave payments upon termination of employment
Cost of living increases	None is assumed

NOTE 8 – PENSION PLANS (cont...)

General Employees’ Pension Trust Fund (cont...)

The mortality table used was the sex distinct rates set forth in the RP-2000 Mortality Table, as published by the Internal Revenue Service for IRC Section 430, with full generational improvements in mortality using Scale BB.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of September 30, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Core bonds	16.00%	0.50%
Multi-sector	24.00%	1.00%
U.S. large cap equity	39.00%	6.00%
U.S. small cap equity	11.00%	6.75%
Non-U.S. equity	10.00%	6.75%
Total or weighted arithmetic average	100.00%	4.08%

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. This discount rate was based on the expected rate of return on pension plan investments of 4.08% and a 2.92% per year attributable to long term inflation. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 8 – PENSION PLANS (cont...)

General Employees’ Pension Trust Fund (cont...)

The components of the net pension liability (asset) for the Plan as of September 30, 2018, were as follows:

Total pension liability	\$ 1,241,139
Plan fiduciary net position	<u>(1,607,695)</u>
Net pension liability (asset)	<u>\$ (366,556)</u>
Plan fiduciary net position as a percentage of the total pension liability	130%

Changes in City’s Net Pension (Asset) Liability – Changes in the City’s net pension (asset) liability for the year ending September 30, 2018 are as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a)-(b)
Balances at September 30, 2017	\$ 1,174,526	\$ 1,523,865	\$ (349,339)
Changes for the year:			
Service cost	58,564	-	58,564
Interest	84,198	-	84,198
Difference between actual and expected experience	(24,915)	-	(24,915)
Change in assumptions	-	-	-
Change in benefit terms	3,238	-	3,238
Contributions - City	-	30,815	(30,815)
Contributions - employee	-	5,119	(5,119)
Net investment income	-	110,343	(110,343)
Benefit payments, including refunds of employee contributions	(54,472)	(54,472)	-
Administrative expense	-	(7,975)	7,975
Net changes	<u>66,613</u>	<u>83,830</u>	<u>(17,217)</u>
Balances at September 30, 2018	<u>\$ 1,241,139</u>	<u>\$ 1,607,695</u>	<u>\$ (366,556)</u>

Sensitivity of the Net Pension (Asset) Liability to Changes in the Discount Rate – The following presents the plan’s net pension (asset) liability, calculated using the current discount rate of 7%, as well as what the plan’s net pension (asset) liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6%) or 1-percentage-point higher (8%) than the current discount rate:

As of September, 9/30/2018	Current Discount Rate 7.00%	1% Decrease	Current Rate	1% Increase
		\$ (180,357)	\$ (366,556)	\$ (520,406)

NOTE 8 – PENSION PLANS (cont...)

General Employees’ Pension Trust Fund (concluded)

Pension Expense, Deferred Outflows and Inflows of Resources Related to Plan – For the year ended September 30, 2018, the City recognized pension expense of \$61,801. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 79,209	\$ 209,372
Change in assumptions	256,939	-
Net difference between projected and actual earnings on Plan investments	-	37,088
Total	<u>\$ 336,148</u>	<u>\$ 246,460</u>

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

<u>Year ending September 30,</u>	<u>Amount</u>
2019	\$ 15,502
2020	(9,785)
2021	(7,685)
2022	9,624
2023	11,186
Thereafter	70,846
Total	<u>\$ 89,688</u>

Payables to Pension Plan – At September 30, 2018, the City reported no payables for outstanding contributions.

Money-weighted Rate of Return – For the year ended September 30, 2018, the money-weighted rate of return, net of investment expenses and adjusted for the changing amounts invested for the plan was 7.5%.

NOTE 8 – PENSION PLANS (cont...)

Police Officers’ Pension Trust

Plan Description – All Police Officers as of January 1, 2007, who elected to remain members of the system shall remain members of the system. There shall be no new members. All members shall be employed as a deputy sheriff by the Polk County Sheriff’s Department because of the merger of the City Police Department and the Polk County Sheriff’s Department.

The Plan is a single-employer defined benefit pension plan administered by the Plan’s Board of Trustees comprised of: two City residents appointed by the City Council, two Police Officers elected by a majority of Police Officers, and a fifth member that is elected by the Board and appointed (as a ministerial duty) by the City Council.

As of October 1, 2017 (the latest available actuarial report date), the members of the plan were as follows:

Inactive plan members and beneficiaries receiving benefits	9
Inactive employees entitled to but not receiving benefits	3
Active plan members	<u>1</u>
Total	<u><u>13</u></u>

Benefits Provided – The plan provides retirement, termination, disability and death benefits to all current members. Normal retirement age is 50 or the completion of 20 years of credited service. Upon normal retirement, members are entitled to a benefit at 3.55% of their average final compensation for each year of credited service. Early retirement age is 45 with at least 10 years of credited service. Upon early retirement, the accrued benefit reduces by 1/15th for each of the first 5 years and 1/30th for each of the next 5 years that early retirement precedes normal retirement.

Employees that are vested (upon termination of employment) with less than 5 years of contributions will receive a refund of accumulated contributions. Employees with 5 years or more will obtain a percentage of accrued pension that is payable at normal retirement or on a reduced basis at early retirement, per the following schedule:

<u>Years of Service</u>	<u>Percent</u>
5	50%
6	60%
7	70%
8	80%
9	90%
10 or more	100%

Disability benefits include the amount of benefit accrued to date of disability but not less than 50% of Average Final Compensation on date of disability for service connected members. For non-service connected members, the disability benefit is the greater of the benefit accrued at date of disability using 2% benefit rate, or 25% of their average final compensation.

Pre-retirement death benefits include 50% of average final compensation continued to spouse until death or 15% to each unmarried child until age 18 (22 if student) with a maximum total to all children of 50% for service connected members.

NOTE 8 – PENSION PLANS (cont...)

Police Officers’ Pension Trust (cont...)

The pre-retirement death benefits for non- service connected members is the same as for service connected except the benefit for spouse or maximum benefit for children is 25% of average final compensation. The minimum death benefit is the actuarial equivalent of Member’s accrued benefit payable to beneficiary for life. The death benefit after retirement is payable in accordance with the optional form of pension selected at time of retirement. The cost - of - living adjustment for retirees is up to 3% per year beginning on the October 1 following normal retirement age.

Contributions – The Police Officers’ Pension Trust Fund receives proceeds from an excise tax on casualty insurance premiums to fund its annual required contribution. While the City no longer has its own police department, some of the City police officers who transferred to the Polk County Sheriff’s Office elected to remain with the City retirement plan. If the excise tax proceeds on property insurance premiums are not adequate to maintain the actuarial soundness of the City plan, the Polk County Sheriff’s Office (“PCSO”) will contribute to the plan but is not required to contribute more than the Florida Retirement System percentage. The City will contribute any remaining shortfall.

For the year ended September 30, 2018, the excise tax totaled \$25,010 and the contribution from the PCSO totaled \$16,000. Both are treated as on-behalf payments with the proceeds recorded as operating grants and public safety expenses/expenditures in the government-wide and general fund financial statements. Plan members are required to contribute 1% of their salary. The City’s actuarially required contribution for the year ended September 30, 2018 was \$149,988. Actual contributions for the year from the City, including the excise tax amount, and Sherriff’s Office equaled \$157,908, or 105% of the required contributions.

Net Pension Liability – The City’s September 30, 2018 net pension liability was measured as of September 30, 2017.

Actuarial assumptions – The total pension liability was determined by an actuarial valuation as of October 1, 2016, that was updated to September 30, 2017 (City’s measurement date) using the following actuarial assumptions applied to all measurement periods:

Liability measurement date	September 30, 2017	September 30, 2018
Valuation date	October 1, 2016	October 1, 2017
Inflation	2.50%	2.50%
Salary increases	4.00%	4.00%
Discount rate	7.40%	7.20%
Investment rate of return	7.40%	7.20%

The mortality table used was the RP-2000 Generational Mortality Table for males and females with mortality improvement projected to future years using Scale BB.

NOTE 8 – PENSION PLANS (cont...)

Police Officers’ Pension Trust (cont...)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of September 30, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	45.00%	6.90%
International equity	12.50%	6.33%
Emerging markets	2.50%	8.90%
Fixed income	30.00%	2.47%
Master limited partnerships	10.00%	5.60%
Total or weighted arithmetic average	100.00%	5.42%

Discount Rate - A single discount rate of 7.4% was used to measure the total pension liability as of the City’s measurement date. This single discount rate was based on the expected rate of return on pension plan investments of 7.4%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the total actuarially determined contribution rates and the member rate.

Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments (7.4%) was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 8 – PENSION PLANS (cont...)

Police Officers’ Pension Trust (cont...)

Net Pension Liability as of the Plan’s Financial Reporting Date - The components of the net pension liability as of the Plan’s financial reporting date of September 30, 2018, which differs from the City’s measurement date of September 30, 2017, was as follows:

Total pension liability	\$ 4,721,584
Plan fiduciary net position	<u>(4,265,167)</u>
Net pension liability (asset)	<u>\$ 456,417</u>
 Plan fiduciary net position as a percentage of the total pension liability	 90%

Changes in City’s Net Pension Liability – Changes in the City’s net pension (asset) liability for the year ending September 30, 2018 are as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension (Asset) Liability
	(a)	(b)	(a)-(b)
Balances at September 30, 2016	\$ 4,245,683	\$ 3,802,981	\$ 442,702
Changes for the year:			
Service cost	10,689	-	10,689
Interest	310,266	-	310,266
Difference between actual and expected experience	100,093	-	100,093
Changes of assumptions	132,130	-	132,130
Changes in the excess State money	-	-	-
Contributions - City	-	112,042	(112,042)
Contributions - State	-	23,803	(23,803)
Contributions - employee	-	646	(646)
Contributions - other	-	14,692	(14,692)
Net investment income	-	345,650	(345,650)
Benefit payments, including refunds of employee contributions	(238,987)	(238,987)	-
Administrative expense	-	(21,771)	21,771
Net changes	<u>314,191</u>	<u>236,075</u>	<u>78,116</u>
Balances at September 30, 2017	<u>\$ 4,559,874</u>	<u>\$ 4,039,056</u>	<u>\$ 520,818</u>

NOTE 8 – PENSION PLANS (cont...)

Police Officers’ Pension Trust (cont...)

Sensitivity of the Net Pension (Asset) Liability to Changes in the Discount Rate – The following presents the net pension liability of the City as of the measurement date (September 30, 2017), and as of the Plan’s financial reporting date (September 30, 2018) , calculated using the current discount rate for each of the calculations as well as what the plan’s net pension (asset) liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

As of September,	Current Discount Rate	1% Decrease	Current Rate	1% Increase
9/30/2017	7.40%	1,143,742	520,818	17,265
9/30/2018	7.20%	1,100,072	456,417	(63,831)

Pension Expense, Deferred Outflows and Inflows of Resources Related to Plan – For the year ended September 30, 2018, the City recognized pension expense of \$349,031. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on Plan investments	\$ 65,417	\$ -
City contributions subsequent to the measurement date	157,908	-
Total	<u>\$ 223,325</u>	<u>\$ -</u>

Deferred outflows of resources related to City contributions subsequent to the measurement date of September 30, 2017 will be recognized as a reduction of the net pension liability in the year ended September 30, 2019. Remaining amounts reported as deferred inflows and outflows of resources will be recognized in pension expense in the years and amounts shown below.

Year ending September 30,	Amount
2019	\$ 55,843
2020	49,351
2021	(26,870)
2022	(12,907)
Total	<u>\$ 65,417</u>

NOTE 8 – PENSION PLANS (concluded)

Police Officers’ Pension Trust (concluded)

Payables to Pension Plan – At September 30, 2018, the City reported no payables for outstanding contributions.

Money-weighted Rate of Return – For the year ended September 30, 2018, the money-weighted rate of return, net of investment expenses and adjusted for the changing amounts actually invested for the plan was 8.32%.

Net Pension Liability as of the Plan’s Financial Reporting Date - The components of the net pension liability as of the Plan’s financial reporting date of September 30, 2018, which differs from the City’s measurement date of September 30, 2017, was as follows:

Total pension liability	\$ 4,588,686
Plan fiduciary net position	(4,265,167)
Net pension liability (asset)	<u>\$ 323,519</u>
Plan fiduciary net position as a percentage of the total pension liability	93%

NOTE 9 – OTHER EMPLOYEE BENEFIT PLANS

The City contributes 6% of the City Manager’s salary to a deferred compensation plan established for the benefit of the City Manager. The City Manager is required to contribute a minimum of 1% of his salary. All contributions are 100% vested. The City’s contributions to this plan for the year ended September 30, 2018 were \$3,800.

The City also offers employees who have completed one year of continuous service an optional non-contributory deferred compensation plan created pursuant to Internal Revenue Code Section 457. Both plans are administered by third party custodians and the plans’ assets are not considered part of the reporting entity and are not included in these financial statements.

NOTE 10 - OTHER POST EMPLOYMENT BENEFIT (OPEB) OBLIGATIONS

The City follows GASB Cod. Sec. P50 for certain post-employment health care and dental benefits provided by the City.

Plan Description – The Other Postemployment Benefits Plan (OPEB Plan) is a single employer defined benefit plan administered by the City. The OPEB Plan allows employees who retire and meet retirement eligibility requirements under one of the City’s retirement plans, to continue medical insurance coverage as a participant in the City’s health insurance plan.

Benefits Provided – Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the City are eligible to participate in the City’s healthcare and life insurance benefits. The City subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees.

Spouses and dependents of eligible retirees are also eligible for medical coverage. All retiree, spouse and dependent coverage is at the expense of the retiree.

The City does not offer any explicit subsidies for retiree coverage. The City doesn’t issue a stand-alone report for the OPEB Plan, and the OPEB Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy – The City has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis.

Total OPEB Liability – The City’s total OPEB liability as of September 30, 2018 was determined by an actuarial valuation as of October 1, 2017. The actuarial assumptions used in the October 1, 2017 valuation were as follows:

Salary Increases	3.00%
Discount Rate	3.64%
Initial Trend Rate	8.00%
Ultimate Trend Rate	5.00%
Year to Ultimate Trend Rate	6

Mortality rates for general employees were determined using the RP-2000 Combined Mortality Table and mortality rates for firefighters were determined using the RP-2000 Blue Collar Mortality Table, both with full generational improvements in mortality using Scale BB.

For eligible general employees, 20% were assumed to retire at age 62, 10% were assumed to retire at each of ages 63 and 64, and 100% were assumed to retire at age 65; for firefighters, retirement was assumed to occur at age 52 with 25 years of service or at age 55 with 10 years of service.

NOTE 10 - OTHER POST EMPLOYMENT BENEFIT (OPEB) OBLIGATIONS (concluded)

Twenty-five percent of eligible employees were assumed to elect medical coverage upon retirement or disability, with 80% of electing males and 60% of electing females also covering their spouse.

Discount Rate – The discount rate was based on a high-quality municipal bond rate of 3.64%. This rate was based on the return of the S&P Municipal Bond 20-Year High Grade Index as of the measurement date.

The results of the October 1, 2017 actuarial valuation produced an estimated actuarial determined OPEB obligation and OPEB expense that was immaterial to the City's financial statements and accordingly, there is no OPEB liability recorded in the financial statements.

NOTE 11 – SEGMENT INFORMATION FOR ENTERPRISE FUND

The City has outstanding debt secured by its water and sewer revenues. The water and sewer operations are accounted for in a single enterprise fund along with sanitation and stormwater. Because many of the assets and liabilities of the enterprise fund are not separately identifiable with any one operating segment (e.g. cash, accounts receivables, accounts payable, etc.), it is not possible to present segment information disclosures for cash flows and some components of net position. Segment financial information that can be separately identified for the enterprise fund as of and for the year ended September 30, 2018, is presented below:

	<u>Water System</u>	<u>Sewer System</u>	<u>Total Water and Sewer System</u>
Condensed statement			
of revenue, expenses and			
changes in net position:			
Operating revenues	\$ 558,943	\$ 784,171	\$ 1,343,114
Operating expenses			
Personnel services	(148,124)	(212,009)	(360,133)
Contract services	(54,153)	(54,284)	(108,437)
Insurance	(11,319)	(19,688)	(31,007)
Materials and supplies	(37,011)	(46,741)	(83,752)
Repair and maintenance	(47,000)	(68,699)	(115,699)
Utilities	(38,208)	(57,396)	(95,604)
Miscellaneous	(11,549)	(59)	(11,608)
Depreciation	(216,530)	(581,325)	(797,855)
Nonoperating revenues / (expenses)			
Interest expense	-	(80,725)	(80,725)
Grants	277,642	-	277,642
Investment revenue	14,578	-	14,578
Loss on disposal of property	(15,088)	-	(15,088)
Change in net position	<u>\$ 272,181</u>	<u>\$ (336,755)</u>	<u>\$ (64,574)</u>
Summary information			
from statement of net position:			
Capital assets, net			<u>\$ 13,390,954</u>
Long-term debt, including current portion			<u>\$ 3,095,524</u>

NOTE 12 - RISK MANAGEMENT AND LITIGATION

During the ordinary course of its operations, the City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees, and natural disasters. The City maintains commercial insurance coverage in amounts management feels is adequate to protect and safeguard the assets of the City. In the opinion of the City’s management and legal counsel, legal claims and litigation are not anticipated to have material impact on the financial position of the City.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The City participates in several programs that are fully or partially funded by grants received from Federal, state, or county agency sources. Expenditures financed by grants are subject to audit by the appropriate grantor government/agency. If expenditures are disallowed due to non-compliance with grant program regulations, the City may be required to reimburse the grantor government/agency. As of September 30, 2018, the City believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.

The City is under contract with the Polk County Sheriff’s Office to provide law enforcement services to the City through the year ended September 30, 2021. The City is required to provide the Sheriff with adequate office space at the City’s expense and the contract can be terminated by either party upon 365 days written notice. The City paid \$816,490 for the year ended September 30, 2018. The contract calls for the following minimum costs going forward:

Fiscal Year Ending September 30,	Annual Cost
2019	\$ 815,907
2020	\$ 832,225
2021	\$ 848,870

NOTE 14 – JOINT VENTURE

Background - The Polk Regional Water Cooperative (PRWC) was created on April 1, 2016 by an interlocal agreement between the City of Frostproof, City of Auburndale, City of Bartow, City of Davenport, Town of Dundee, City of Eagle Lake, City of Fort Meade, City of Haines City, City of Lake Alfred, City of Lakeland, City of Lake Wales, City of Mulberry, Polk City, City of Winter Haven, Town of Lake Hamilton and Polk County in accordance with Chapters 163 and 373 of the Florida Statutes.

These local government units are collectively considered the Member Governments. The PRWC is a separate legal entity organized under the laws of the State of Florida, and the Member Governments have no equity ownership in the PRWC.

The PRWC is devoted to encouraging the development of fully integrated, robust public water supply systems comprised of diverse sources managed in a manner that takes full advantage of Florida’s intense climatic cycles to ensure reliable, sustainable and drought resistant systems which maximize the use of alternative water supplies to the greatest extent practicable. The PRWC will evaluate, plan and implement water projects and coordinate partnerships with other water users.

NOTE 14 – JOINT VENTURE (concluded)

Membership fees - The terms of the interlocal agreement require each Member Government to contribute their proportionate share of the PRWC's annual working capital needs which are established annually by a resolution of the PRWC's Board of Directors. For the year ended September 30, 2018, the total annual working capital needs of the PRWC was \$195,000 of which the City's proportionate share was \$1,104.

Combined projects background - The Member Governments, except for the City of Frostproof, entered into a combined projects implementation agreement on March 16, 2017. This agreement established three combined projects to be pursued by the PRWC with a total estimated cost of \$23,000,000. The South West Florida Water Management District (SWFWMD) is funding 50% of the total estimated cost and the remainder is funded by the Member Governments based upon their average water use in comparison to the total average water use by all Member Governments. As noted above, the City of Frostproof has elected not to participate in the combined projects.

Litigation - The PRWC is involved with ongoing litigation with SWFWMD and the Peace Creek Manasota Regional Water Supply Authority. These litigation costs are being funded by the Member Governments based upon their pro-rata share of water use as compared to the water use of all Member Governments. Because this litigation is connected to the combined projects and because the City of Frostproof is not participating in the combined projects, the City is not making payments to the PRWC to fund this litigation.

Contact - Complete financial statements of the PRWC may be obtained from the PRWC's Executive Director at 330 W. Church Street, P.O. Box 9005, Drawer CA01, Bartow, FL 33831-9005.



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City of Frostproof
The Friendly City

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FROSTPROOF, FLORIDA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
for the year ended September 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts (budgetary basis)</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Property	\$ 888,650	\$ 905,650	\$ 905,748	98
Franchise and utility taxes	572,560	629,060	631,581	2,521
Licenses and permits	20,500	43,800	44,612	812
Intergovernmental revenue	714,100	787,900	747,098	(40,802)
Charges for services	354,030	345,280	345,088	(192)
Fines and forfeitures	3,700	5,700	7,553	1,853
Investment income	10,000	37,200	35,345	(1,855)
Other	26,000	92,850	100,190	7,340
Total revenues	<u>2,589,540</u>	<u>2,847,440</u>	<u>2,817,215</u>	<u>(30,225)</u>
EXPENDITURES				
General government	511,450	655,440	638,744	16,696
Public safety	1,236,640	1,366,010	1,301,162	64,848
Transportation	447,380	349,330	340,268	9,062
Culture	196,800	289,520	284,263	5,257
Community affairs	91,120	268,580	257,785	10,795
Capital outlay	170,400	606,690	547,109	59,581
Total expenditures	<u>2,653,790</u>	<u>3,535,570</u>	<u>3,369,331</u>	<u>166,239</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>(64,250)</u>	<u>(688,130)</u>	<u>(552,116)</u>	<u>136,014</u>
Transfers in	-	-	5,729	5,729
Insurance proceeds	-	7,800	7,839	39
NET CHANGE IN FUND BALANCE	<u>\$ (64,250)</u>	<u>\$ (680,330)</u>	<u>\$ (538,548)</u>	<u>\$ 141,782</u>

NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND - The annual budget for the general fund is prepared in accordance with the modified accrual basis of accounting with exception of pension contributions by the Polk County Sheriff’s Office to the Police Officers’ Pension Trust Fund which are not budgeted as a revenue or expenditure as the contributions do not represent a cash flow to the City.

CITY OF FROSTPROOF, FLORIDA
GENERAL EMPLOYEES' PENSION TRUST FUND
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
REQUIRED SUPPLEMENTARY INFORMATION

Measurement date	9/30/2018	9/30/2017	9/30/2016	9/30/2015
Reporting date	9/30/2018	9/30/2017	9/30/2016	9/30/2015
Total pension liability				
Service cost	\$ 58,564	\$ 63,058	\$ 48,978	\$ 31,717
Interest	84,198	81,031	59,434	81,166
Change in assumptions	-	106,024	236,289	-
Change in benefit terms	3,238	-	-	-
Difference between expected and actual experience - demographic assumptions	(24,915)	(148,383)	106,809	(114,776)
Benefit payments, including refunds of employee contributions	(54,472)	(53,039)	(156,713)	(57,251)
Net change in total pension liability	66,613	48,691	294,797	(59,144)
Total pension liability, beginning	1,174,526	1,125,835	831,038	890,182
Total pension liability, ending (a)	<u>\$ 1,241,139</u>	<u>\$ 1,174,526</u>	<u>\$ 1,125,835</u>	<u>\$ 831,038</u>
Plan fiduciary net position				
Contributions - City	\$ 30,815	\$ 35,973	33,151	\$ 32,578
Contributions - Employee	5,119	5,981	5,521	5,394
Net investment income (loss)	110,343	178,460	100,567	(2,720)
Benefit payments, including refunds of employee contributions	(54,472)	(53,039)	(156,713)	(52,896)
Administrative expenses	(7,975)	(7,075)	(8,087)	(7,300)
Net change in plan fiduciary net position	83,830	160,300	(25,561)	(24,944)
Plan fiduciary net position, beginning	1,523,865	1,363,565	1,389,126	1,414,070
Plan fiduciary net position, ending (b)	<u>\$ 1,607,695</u>	<u>\$ 1,523,865</u>	<u>\$ 1,363,565</u>	<u>\$ 1,389,126</u>
Net pension liability (asset) (a)-(b)	<u>\$ (366,556)</u>	<u>\$ (349,339)</u>	<u>\$ (237,730)</u>	<u>\$ (558,088)</u>
Plan fiduciary net position as a percentage of total pension liability	129.53%	129.74%	121.12%	167.16%
Covered employee payroll	\$ 564,733	\$ 620,486	\$ 510,322	\$ 509,811
Net pension liability as a percentage of covered employee payroll	Not Applicable	Not Applicable	Not Applicable	Not Applicable

Additional information will be provided annually until ten years of data is presented.

CITY OF FROSTPROOF, FLORIDA
GENERAL EMPLOYEES' PENSION TRUST FUND
NOTES TO THE SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
REQUIRED SUPPLEMENTARY INFORMATION

Changes of Assumptions:

For measurement date September 30, 2017:

1. The mortality rates were changed from a 2007 projection of the RP-2000 Mortality Table for annuitants to the RP-2000 Combined Mortality Table with full generational improvements in mortality using Scale BB.

For measurement date September 30, 2016:

1. The discount rate was decreased from 9.08% to 7.00% per annum.

Changes in Benefit Terms:

For measurement date September 30, 2018:

1. The Plan was amended to add a graded vesting schedule for those participants who have earned between five and ten years of vested service.

CITY OF FROSTPROOF, FLORIDA
POLICE OFFICERS' PENSION TRUST FUND
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
REQUIRED SUPPLEMENTARY INFORMATION

Measurement date	9/30/2018	9/30/2017	9/30/2016	9/30/2015	9/30/2014
Reporting date	9/30/2019	9/30/2018	9/30/2017	9/30/2016	9/30/2015
Total pension liability					
Service cost	\$ 11,009	\$ 10,689	\$ 21,940	\$ 20,535	\$ 28,891
Interest	329,312	310,266	305,548	307,105	292,750
Change in excess State money	-	-	(9,046)	-	-
Difference between expected and actual experience - demographic assumptions	(49,778)	100,093	47,532	(202,226)	-
Change of assumptions	112,600	132,130	(95,096)	-	-
Benefit payments, including refunds of employee contributions	(241,433)	(238,987)	(172,544)	(122,614)	(121,165)
Net change in total pension liability	161,710	314,191	98,334	2,800	200,476
Total pension liability, beginning	4,559,874	4,245,683	4,147,349	4,144,549	3,944,073
Total pension liability, ending (a)	<u>\$ 4,721,584</u>	<u>\$ 4,559,874</u>	<u>\$ 4,245,683</u>	<u>\$ 4,147,349</u>	<u>\$ 4,144,549</u>
Plan fiduciary net position					
Contributions - City	\$ 116,898	\$ 112,042	\$ 124,057	\$ 182,172	\$ 159,813
Contributions - State of Florida	25,010	23,803	21,765	22,367	24,244
Contributions - Employee	656	646	1,262	1,281	3,096
Contributions - Others	16,000	14,692	-	-	-
Net investment income (loss)	327,756	345,650	331,941	(108,445)	233,629
Benefit payments, including refunds of employee contributions	(241,433)	(238,987)	(172,543)	(122,614)	(121,165)
Administrative expenses	(18,776)	(21,771)	(22,547)	(19,737)	(32,810)
Net change in plan fiduciary net position	226,111	236,075	283,935	(44,976)	266,807
Plan fiduciary net position, beginning	4,039,056	3,802,981	3,519,046	3,564,022	3,297,215
Plan fiduciary net position, ending (b)	<u>\$ 4,265,167</u>	<u>\$ 4,039,056</u>	<u>\$ 3,802,981</u>	<u>\$ 3,519,046</u>	<u>\$ 3,564,022</u>
Net pension liability (asset) (a)-(b)	<u>\$ 456,417</u>	<u>\$ 520,818</u>	<u>\$ 442,702</u>	<u>\$ 628,303</u>	<u>\$ 580,527</u>
Plan fiduciary net position as a percentage of total pension liability	90.33%	88.58%	89.57%	84.85%	85.99%
Covered employee payroll	\$ 65,605	\$ 64,601	\$ 126,208	\$ 128,143	\$ 173,421
Net pension liability as a percentage of covered employee payroll	695.70%	806.21%	350.77%	490.31%	334.75%

Additional information will be provided annually until ten years of data is presented.

CITY OF FROSTPROOF, FLORIDA
POLICE OFFICERS' PENSION TRUST FUND
NOTES TO THE SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
REQUIRED SUPPLEMENTARY INFORMATION

Changes of Assumptions:

For measurement date September 30, 2018:

1. The investment rate of return was lowered from 7.4% to 7.2%.

For measurement date September 30, 2017:

1. The investment rate of return was lowered from 7.5% to 7.4%.
2. The inflation assumption was increased from 2.3% to 2.5%, matching the long-term inflation assumption utilized by the Plan's investment consultant.
3. The assumed rates of mortality were changed to match those used in the July 1, 2016 FRS valuation report.

For measurement date September 30, 2016:

1. The inflation assumption was lowered from 3.0% to 2.3%, matching the long-term inflation assumption utilized by the Plan's investment consultant.
2. The assumed rates of mortality were changed to match those used in the July 1, 2015 FRS valuation report.

CITY OF FROSTPROOF, FLORIDA
GENERAL EMPLOYEES' PENSION TRUST FUND
SCHEDULE OF CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION

Fiscal year end	(1) Actuarially Determined Contribution	(2) Contributions Recognized by the Plan	(3) Difference between (1) and (2)	Covered Payroll	Column (2) as a % of Covered Payroll
September 30, 2018	34,117	30,815	(3,302)	564,733	5.46%
September 30, 2017	40,788	35,973	(4,815)	620,486	5.80%
September 30, 2016	27,165	33,151	5,986	510,322	6.50%
September 30, 2015	8,576	32,578	24,002	509,811	6.39%
September 30, 2014	31,112	161,111	129,999	Not Available	Not Available
September 30, 2013	35,033	35,033	-	550,447	6.36%
September 30, 2012	34,473	34,473	-	Not Available	Not Available
September 30, 2011	34,882	34,882	-	447,774	7.79%
September 30, 2010	31,081	31,081	-	Not Available	Not Available
September 30, 2009	29,721	29,721	-	353,115	8.42%

CITY OF FROSTPROOF, FLORIDA
GENERAL EMPLOYEES' PENSION TRUST FUND
NOTES TO SCHEDULE OF CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION

Valuation date October 1, 2017

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

Methods and assumptions used to determine contribution amounts:

Discount rate	7.00% per annum (2.92% per annum is attributable to long-term inflation); this rate was used to discount all future benefit payments
Salary increases:	5.50% per annum, plus average earnings are loaded by 2.50% to account for accumulated leave payments upon termination of employment
Cost-of-living assumption:	None assumed
Mortality basis:	Sex-distinct rates set forth in the RP-2000 Mortality Table, with full generational improvements in mortality using Scale BB.
Retirement:	20% of eligible participants are assumed to retire at age 62, 10% of eligible participants are assumed to retire at each of ages 63 and 64, and 100% of eligible participants are assumed to retire at 65.
Other decrements:	With respect to participants with less than seven years of service, termination rates are service-based and range from 8.70% with less than one year of service to 6.00% with between six and seven years of service; with respect to all other participants, termination rates are age-based and range from 5.40% at age 20 to 0.00% at age 60.
Non-investment expenses:	Projected benefit liability is loaded by 4.50% to account for anticipated administrative expenses.
Future contributions:	Contributions from the employer and employees are assumed to be made as legally required.
Changes:	No assumption changes were made since the prior measurement date.

CITY OF FROSTPROOF, FLORIDA
POLICE OFFICERS' PENSION TRUST FUND
SCHEDULE OF CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION

Fiscal year end	(1) Actuarially Determined Contribution	(2) Contributions Recognized by the Plan	(3) Difference between (1) and (2)	Covered Payroll	Column (2) as a % of Covered Payroll
September 30, 2018	149,988	157,908	(7,920)	65,605	240.70%
September 30, 2017	150,536	150,536	-	64,601	233.02%
September 30, 2016	154,869	154,869	-	126,208	122.71%
September 30, 2015	204,539	204,539	-	128,143	159.62%
September 30, 2014	190,052	190,052	-	173,421	109.59%

Additional information will be provided annually until ten years of data is presented.

CITY OF FROSTPROOF, FLORIDA
POLICE OFFICERS' PENSION TRUST FUND
NOTES TO SCHEDULE OF CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION

Valuation date October 1, 2016

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

Methods and assumptions used to determine contribution amounts:

- Funding method: Entry age normal actuarial cost method. The following loads are applied:
Interest - a half year, based on the current 7.5% assumption. Salary - a half
year, based on the current 4.0% assumption.
- Amortization method: Level percentage of pay over the number of years of participation, determined
as of the entry age.
- Salary increases: 4.0% per year up to the assumed retirement age. Also the projected salary at
retirement is increased 10% to account for non-regular compensation.
- Cost-of-living assumption: 2.3% per year.
- Mortality basis: Mortality rates are based on the RP-2000 mortality tables for active, inactive
and disabled males or females, as appropriate, with adjustments for mortality
improvements based on Scale BB.
- Retirement age: Earlier of age 50 or the completion of 20 years of service. Also, any Member
who has reached Normal Retirement is assumed to continue employment for
on additional year.
- Early retirement: Commencing with the earliest Early Retirement Age (45), Members are
assumed to retire with an immediate subsidized benefit at the rate of 5% per
year.
- Disability and Termination: See table below. It is assumed that 75% of disablements and active Member
deaths are service related.
- Payroll growth: 0.00%
- Changes: The cost-of-living assumption was changed from 3.0% in the October 1, 2015
valuation to 2.3% in the October 1, 2016 valuation.

Termination and disability rate table

<u>Age</u>	<u>% Terminating during the year</u>	<u>% Becoming disabled during the year</u>
20	17.20%	0.03%
30	15.00%	0.04%
40	8.20%	0.07%
50	1.70%	0.18%

CITY OF FROSTPROOF, FLORIDA
GENERAL EMPLOYEES' PENSION TRUST FUND AND
POLICE OFFICERS' PENSION TRUST FUND
SCHEDULE OF INVESTMENT RETURNS
REQUIRED SUPPLEMENTARY INFORMATION

General Employees' Pension Trust Fund:

<u>Fiscal year ended</u>	Annual money-weighted rate of return net of investment expenses
September 30, 2018	7.52%
September 30, 2017	13.40%
September 30, 2016	7.80%
September 30, 2015	0.60%
September 30, 2014	8.57%
September 30, 2013	12.00%
September 30, 2012	17.81%
September 30, 2011	1.87%
September 30, 2010	9.08%
September 30, 2009	1.45%

Police Officers' Pension Trust Fund:

<u>Fiscal year ended</u>	Annual money-weighted rate of return net of investment expenses
September 30, 2018	8.32%
September 30, 2017	9.35%
September 30, 2016	9.48%
September 30, 2015	-3.19%
September 30, 2014	6.74%

Additional information will be provided annually until ten years of data is presented.



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City of Frostproof
The Friendly City

SUPPLEMENTARY INFORMATION

NON-MAJOR FUNDS

OTHER GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds account for proceeds from certain specific revenue sources. These funds are recorded separately as directed by legal requirements, regulatory provisions, or administrative action. As with the General Fund, the primary accounting focus is on the sources and uses of available funds and the financial activity is reported using the modified accrual basis of accounting.

City Hall Restoration Expendable Trust Fund

This fund was created originally to account for contributions received to be used for the restoration of City Hall, formerly the old Frostproof High School. The City has in prior years received and may be eligible to receive future grant funds from the State of Florida, Department of State, Division of Historical Resources, to be used for this purpose.

Latt Maxcy Memorial Library Expendable Trust Fund

This fund was created for use by the library. Financing is provided by donations from the public and is used for expenditures not normally covered in the City budget process.

CITY OF FROSTPROOF, FLORIDA
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
September 30, 2018

	City Hall Restoration Expendable Trust Fund	Latt Maxcy Memorial Library Expendable Trust Fund	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 10,401	\$ 10,401
Total assets	<u>-</u>	<u>10,401</u>	<u>10,401</u>
LIABILITIES			
Advances from other funds	<u>6,446</u>	<u>-</u>	<u>6,446</u>
Total liabilities	<u>6,446</u>	<u>-</u>	<u>6,446</u>
FUND BALANCES			
Restricted for:			
Cultural activities	-	10,401	10,401
Unassigned	<u>(6,446)</u>	<u>-</u>	<u>(6,446)</u>
Total fund balances (deficit)	<u>(6,446)</u>	<u>10,401</u>	<u>3,955</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 10,401</u>	<u>\$ 10,401</u>

CITY OF FROSTPROOF, FLORIDA**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
– NON-MAJOR GOVERNMENTAL FUNDS**

For the year ended September 30, 2018

	City Hall Restoration Expendable Trust Fund	Latt Maxcy Memorial Library Expendable Trust Fund	Total
REVENUES:			
Charges for services	\$ 1,707	\$ -	\$ 1,707
Investment income	12	-	12
Other	-	524	524
Total revenues	<u>1,719</u>	<u>524</u>	<u>2,243</u>
EXPENDITURES:			
Current:			
Culture / Recreation	68	450	518
Total expenditures	<u>68</u>	<u>450</u>	<u>518</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,651</u>	<u>74</u>	<u>1,725</u>
OTHER FINANCING SOURCES (USES)			
Transfer out	(5,729)	-	(5,729)
NET CHANGE IN FUND BALANCE	<u>(4,078)</u>	<u>74</u>	<u>(4,004)</u>
FUND BALANCE, beginning of year	<u>(2,368)</u>	<u>10,327</u>	<u>7,959</u>
FUND BALANCE, end of year	<u>\$ (6,446)</u>	<u>\$ 10,401</u>	<u>\$ 3,955</u>

FIDUCIARY FUNDS

PENSION TRUST FUNDS

General Employees' Pension Trust Fund

This plan was created October 1, 1985 to provide retirement benefits for City employees with more than one year of service.

Police Officers' Pension Trust Fund

This fund was created May 28, 1985, to provide a retirement fund for police officers. The plan currently covers the police officers who elected to remain with the plan when they transferred to the Polk County Sheriff's Office in January 2007.

CITY OF FROSTPROOF, FLORIDA
COMBINING STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS
September 30, 2018

	General Employees' Pension Trust Fund	Police Officers' Pension Trust Fund	Total
ASSETS			
Investments	\$ 1,607,695	\$ 4,180,803	\$ 5,788,498
Receivables:			
Due from other governments	-	52,118	52,118
Due from broker	-	650	650
Accrued interest and dividends	-	12,171	12,171
Prepaid items	-	20,484	20,484
Total assets	<u>1,607,695</u>	<u>4,266,226</u>	<u>5,873,921</u>
LIABILITIES			
Accounts payable:			
Due to broker	-	1,059	1,059
Total liabilities	<u>-</u>	<u>1,059</u>	<u>1,059</u>
NET POSITION			
Restricted for pension benefits	<u>\$ 1,607,695</u>	<u>\$ 4,265,167</u>	<u>\$ 5,872,862</u>

CITY OF FROSTPROOF, FLORIDA**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS**

For the year ended September 30, 2018

	General Employees' Pension Trust Fund	Police Officers' Pension Trust Fund	Total
ADDITIONS			
Contributions:			
Employer:			
City	\$ 30,815	\$ 116,898	\$ 147,713
Other	-	16,000	16,000
Employee	5,119	656	5,775
On-behalf payments - State of Florida	-	25,010	25,010
Total contributions	<u>35,934</u>	<u>158,564</u>	<u>194,498</u>
Investment earnings:			
Interest	-	21,311	21,311
Dividends	-	76,407	76,407
Net increase in the fair value of investments	113,453	263,402	376,855
Total investment earnings	<u>113,453</u>	<u>361,120</u>	<u>474,573</u>
Less investment expense	<u>3,110</u>	<u>33,364</u>	<u>36,474</u>
Net investment earnings	<u>110,343</u>	<u>327,756</u>	<u>438,099</u>
Total additions	<u>146,277</u>	<u>486,320</u>	<u>632,597</u>
DEDUCTIONS			
Benefits	54,472	241,433	295,905
Administrative expenses	<u>7,975</u>	<u>18,776</u>	<u>26,751</u>
Total deductions	<u>62,447</u>	<u>260,209</u>	<u>322,656</u>
CHANGE IN NET POSITION	83,830	226,111	309,941
NET POSITION, beginning of year	<u>1,523,865</u>	<u>4,039,056</u>	<u>5,562,921</u>
NET POSITION, end of year	<u>\$ 1,607,695</u>	<u>\$ 4,265,167</u>	<u>\$ 5,872,862</u>



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City of Frostproof
The Friendly City

OTHER REPORTS

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

Honorable Mayor and
Members of the City Council
City of Frostproof, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, and each major fund of the City of Frostproof, Florida, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Frostproof, Florida's basic financial statements and have issued our report thereon dated May 22, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Frostproof, Florida'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 of Frostproof, Florida's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Frostproof, Florida's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonable possible.* The change of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

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



Honorable Mayor and
Members of the City Council
City of Frostproof, Florida

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

Baylis & Company PA

Baylis & Company PA

Lakeland, Florida
May 22, 2019



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

Honorable Mayor and
Members of the City Council
City of Frostproof, Florida

We have examined the City of Frostproof, Florida's compliance with the requirements of Section 218.415, *Florida Statutes*, concerning the investment of public funds during the year ended September 30, 2018. Management is responsible for the City of Frostproof's compliance with those requirements. Our responsibility is to express an opinion on the City of Frostproof's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City of Frostproof, Florida complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City compliance with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the City of Frostproof's compliance with specified requirements.

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

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

Baylis & Company PA

Baylis & Company PA

Lakeland, Florida
May 22, 2019



MANAGEMENT LETTER

Honorable Mayor and
Members of the City Council
City of Frostproof, Florida

Report on the Financial Statements

We have audited the financial statements of the City of Frostproof, Florida as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated May 22, 2019.

Auditors' Responsibility

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

Other Reporting Requirements

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; and Independent Accountants' Report on an examination conducted in accordance with AICPA Professional Standards, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated May 22, 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 audit report. There were no such findings 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. For the legal authority of the City of Frostproof, Florida, see footnote A of the summary of significant accounting policies in the notes to the financial statements.



Honorable Mayor and
Members of the City Council
City of Frostproof, Florida

Financial Condition and Management

Sections 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether or not the City of Frostproof, Florida has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific condition(s) met. In connection with our audit, we determined that the City of Frostproof, Florida 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. It is management's responsibility to monitor the City of Frostproof, Florida'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.

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Additional Matters

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

Purpose of this Letter

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

Baylis & Company PA

Baylis & Company PA

Lakeland, Florida
May 22, 2019

