

CITY OF LAKE CITY, FLORIDA
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018



MAYOR AND CITY COUNCIL

Stephen Witt
Mayor

Jake Hill
Councilmember

Melinda Moses
Councilmember

Eugene Jefferson
Councilmember

George Ward
Councilmember

APPOINTED OFFICIALS

City Manager
Joseph Helfenberger

Finance Director
Donna Duncan

City Attorney
Fred Koberlein

City Clerk
Audrey Sikes

Table of Contents

Financial Section

Independent Auditors' Report.....	1 - 3
Management's Discussion and Analysis.....	4 - 14
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position.....	16
Statement of Activities.....	17
Fund Financial Statements	
Balance Sheet—Governmental Funds	18
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position.....	19
Statement of Revenues, Expenditures and Changes in Fund Balances—Governmental Funds.....	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	21
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	22
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Fire Department Fund	23
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Community Redevelopment Agency Fund	24
Statement of Net Position – Proprietary Funds.....	25
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	26
Statement of Cash Flows – Proprietary Funds	27
Statement of Fiduciary Net Position – Fiduciary Funds	28
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	29
Notes to Financial Statements	30 - 66
Required Supplementary Information	
Schedule of Changes in Total OPEB Liability and Related Ratios.....	68
Schedule of Changes in Net Pension Liability and Related Ratios – General Employees' Plan	69
Schedule of Changes in Net Pension Liability and Related Ratios – Police Officers' Plan	70
Schedule of Changes in Net Pension Liability and Related Ratios – Firemen's Plan.....	71
Schedule of Contributions – General Employees' Plan	72
Schedule of Contributions – Police Officers' Plan	73
Schedule of Contributions – Firemen's Plan.....	74
Schedules of Investment Returns	75
Schedules of Proportionate Share of NPL – FRS/HIS	76
Schedules of Schedule of Contributions – FRS/HIS.....	77

Supplementary Information

Combining Balance Sheet – Nonmajor Governmental Funds 79
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances –
Nonmajor Governmental Funds 80
Schedule of Net Revenues and Debt Service Coverage – Utility System Revenue
and Refunding Bonds Series 2010, Series 2013, and Series 2016 Rate Covenant..... 81

Single Audit

Schedule of Expenditures of Federal Awards and State Financial Assistance 82
Notes to the Schedule of Expenditures of Federal Awards and State Financial Assistance 83
Schedule of Findings and Questioned Costs..... 84 - 86
Independent Auditors’ Report on Compliance for Each Major Federal Program and Report
on Internal Control Over Compliance in Accordance with the Uniform Guidance and
Chapter 10.550, Rules of the Auditor General 87 - 88

Other Reports

Independent Auditors’ Report on Internal Control over Financial Reporting and On Compliance
and Other Matters Based on an Audit of Financial Statements in Accordance with
Government Auditing Standards 89 - 90
Independent Auditors’ Management Letter Required by Chapter 10.550,
Rules of the State of Florida Office of the Auditor General 91 - 92
Independent Accountants’ Examination Report..... 93
Auditee’s Response..... 94

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor, City Council, and City Manager,
City of Lake City, Florida:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake City, Florida (the City), as of and for the year ended September 30, 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

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

Auditors' Responsibility

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

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

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

121 Executive Circle
Daytona Beach, FL 32114-1180
Telephone: 386-257-4100

133 East Indiana Avenue
DeLand, FL 32724-4329
Telephone: 386-738-3300

5931 NW 1st Place
Gainesville, FL 32607-2063
Telephone: 352-378-1331

2477 Tim Gamble Place, Suite 200
Tallahassee, FL 32308-4386
Telephone: 850-386-6184

Opinions

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

Other Matters

Change in Accounting Principle

As discussed in Notes (11) and (13) to the financial statements, in 2018, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The effects of this standard have also been applied to the financial statements as of the year ended September 30, 2017. See Notes (11) and (13) for the effect of GASB 75 on beginning net position. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Other Information

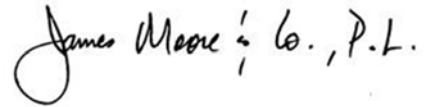
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The combining nonmajor fund financial statements, schedule of net revenues and debt service coverage, and schedule of expenditures of federal awards and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

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

Other Reporting Required by *Government Auditing Standards*

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

Gainesville, Florida
May 28, 2019

A handwritten signature in black ink that reads "James Moore & Co., P.L." The signature is written in a cursive style with a large initial 'J'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Lake City, Florida (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2018. Management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position, (d) identify any material deviations from the financial plan, and (e) identify individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

Financial Highlights

- Assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$83,572,185. Of this amount, \$10,568,123 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$4,446,112, including restatements from prior year balances. Government activities generated an increase of \$1,642,518 in net position while the business type activities increased \$2,803,594.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$13,836,482. Of this total amount \$9,301,081 is available for spending at the City's discretion (unassigned fund balance).
- During the year the City changed its accounting method under the modified accrual basis of accounting to recognize revenues collected within ninety days instead of thirty which is allowable under current standards. The decision was made due to the fact that collections of major revenue sources, primarily state revenue sharing and grant revenues, are normally received well within sixty days after year end. This change meets the definition of revenue recognition in that the cash flow is measurable and available to include in revenue instead of deferring to a future period. This change resulted in a prior period adjustment to fund balance of approximately \$339,000.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

(continued)

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

Government-Wide Financial Statements (Concluded)

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

Fund Financial Statements

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

Governmental Funds

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

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

The City maintains ten individual governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Fire Department Special Revenue Fund and the Community Redevelopment Agency Fund, which are considered to be major funds. Data included in the other governmental funds consists of governmental funds that are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements on page 79 and 80 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)

Proprietary Funds

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

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

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City utilizes fiduciary funds to account for its employees' retirement plans.

Notes to the Financial Statements

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

Other Information

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

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

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$83,572,185 at the close of the most recent fiscal year.

City of Lake City's Net Position

The largest portion of the City's net position or \$66,383,785 reflects its investment in capital assets (i.e., land, utility plant and improvements, equipment, buildings, improvements, machinery and equipment, and infrastructure). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. An additional portion of the City's net position, \$6,620,277 represents resources that are subject to external restrictions on how they may be used (restricted net position).

The unrestricted net asset balance of \$10,568,123 is intended to be a corporate-style measurement of the City's current financial standing and may be used to meet the government's ongoing obligations to citizens and creditors.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017
Current and Other Assets	\$ 16,342,197	\$ 15,859,960	\$ 13,058,477	\$ 15,637,417	\$ 29,400,674	\$ 31,497,377
Capital Assets	41,526,169	40,987,983	68,494,726	65,920,827	110,020,895	106,908,810
Total Assets	57,868,366	56,847,943	81,553,203	81,558,244	139,421,569	138,406,187
Deferred Outflow of Resources	2,340,411	1,520,432	839,044	1,403,374	3,179,455	2,923,806
Current Liabilities	2,012,486	2,542,595	4,014,353	4,448,723	6,026,839	6,991,318
Long-term liabilities	12,720,704	13,255,733	37,107,541	40,020,762	49,828,245	53,276,495
Total liabilities	14,733,190	15,798,328	41,121,894	44,469,485	55,855,084	60,267,813
Deferred Inflows of Resources						
Pension Related	2,667,644	1,404,622	506,111	531,485	3,173,755	1,936,107
Net Position						
Net Investment in Capital Assets	33,890,745	36,270,033	32,493,040	29,433,188	66,383,785	65,703,221
Restricted	4,650,672	1,061,092	1,969,605	1,069,316	6,620,277	2,130,408
Unrestricted	4,266,526	3,834,300	6,301,597	7,458,144	10,568,123	11,292,444
Total net position	\$ 42,807,943	\$ 41,165,425	\$ 40,764,242	\$ 37,960,648	\$ 83,572,185	\$ 79,126,073

MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)

City of Lake City Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	FY 18	FY 17	FY 18	FY 17	FY 18	FY 17
REVENUES						
Program Revenues:						
Charges for services	\$ 4,321,950	\$ 4,551,795	\$ 17,822,449	\$ 17,349,188	\$ 22,144,399	21,900,983
Operating grants and contributions	1,425,669	1,249,595			1,425,669	1,249,595
Capital grant and contributions	2,270,326	4,654,804	790,943	364,566	3,061,269	5,019,370
Property taxes	3,629,640	3,423,964			3,629,640	3,423,964
Sales taxes	2,587,064	2,373,243			2,587,064	2,373,243
Casualty and fire insurance premium taxes	168,569	169,695			168,569	169,695
Public service taxes	1,452,344	1,349,386			1,452,344	1,349,386
Other taxes	751,321	779,485			751,321	779,485
Franchise and utility taxes	1,412,846	1,374,575			1,412,846	1,374,575
State revenue sharing	400,353	416,004			400,353	416,004
Other governmental revenues	195,466	193,704			195,466	193,704
Investment earnings	64,309	40,240	15,329	20,823	79,638	61,063
Miscellaneous revenues	86,609	49,111	27,269	388,454	113,878	437,565
Total Revenues and transfers	18,766,466	20,625,601	18,655,990	18,123,031	37,422,456	38,748,632
EXPENSES						
General Government	3,084,728	1,870,652			3,084,728	1,870,652
Public Safety	7,976,834	7,477,287			7,976,834	7,477,287
Highway and Streets	3,409,246	3,356,887			3,409,246	3,356,887
Airport	2,291,837	2,445,320			2,291,837	2,445,320
Health and Welfare	372,650	213,446			372,650	213,446
Economic Environment	86,346	123,139			86,346	123,139
Physical Environment	442,540	442,857			442,540	442,857
Culture and Recreation	627,667	687,680			627,667	687,680
Interest on Long Term Debt	208,299	226,452			208,299	226,452
Water and Sewer Utility			10,901,716	10,325,548	10,901,716	10,325,548
Natural Gas Utility			3,579,508	3,809,133	3,579,508	3,809,133
Total Expenses	18,500,147	16,843,720	14,481,224	14,134,681	32,981,371	30,978,401
Increase (Decrease) in net assets before transfers	266,319	3,781,881	4,174,766	3,988,350	4,441,085	7,770,231
Transfers	1,120,000	1,270,000	(1,120,000)	(1,270,000)	-	-
Increase (Decrease) in net assets	1,386,319	5,051,881	3,054,766	2,718,350	4,441,085	7,770,231
Net Assets - Beginning as originally stated	41,165,425	36,113,544	37,960,648	35,242,298	79,126,073	71,355,842
Adj Beg Net Position	256,199		(251,172)		5,027	-
Net Position - Beginning as adjusted	41,421,624	36,113,544	37,709,476	35,242,298	79,131,100	71,355,842
Net Position - Ending	\$ 42,807,943	\$ 41,165,425	\$ 40,764,242	\$ 37,960,648	\$ 83,572,185	\$ 79,126,073

Governmental Activities

Governmental activities before transfers increased the City's net position by \$266,319. Revenues for the City's governmental activities decreased \$1,859,135 while total expenses increased \$1,657,427 for 2018.

Key elements of the changes in revenues and expenses include:

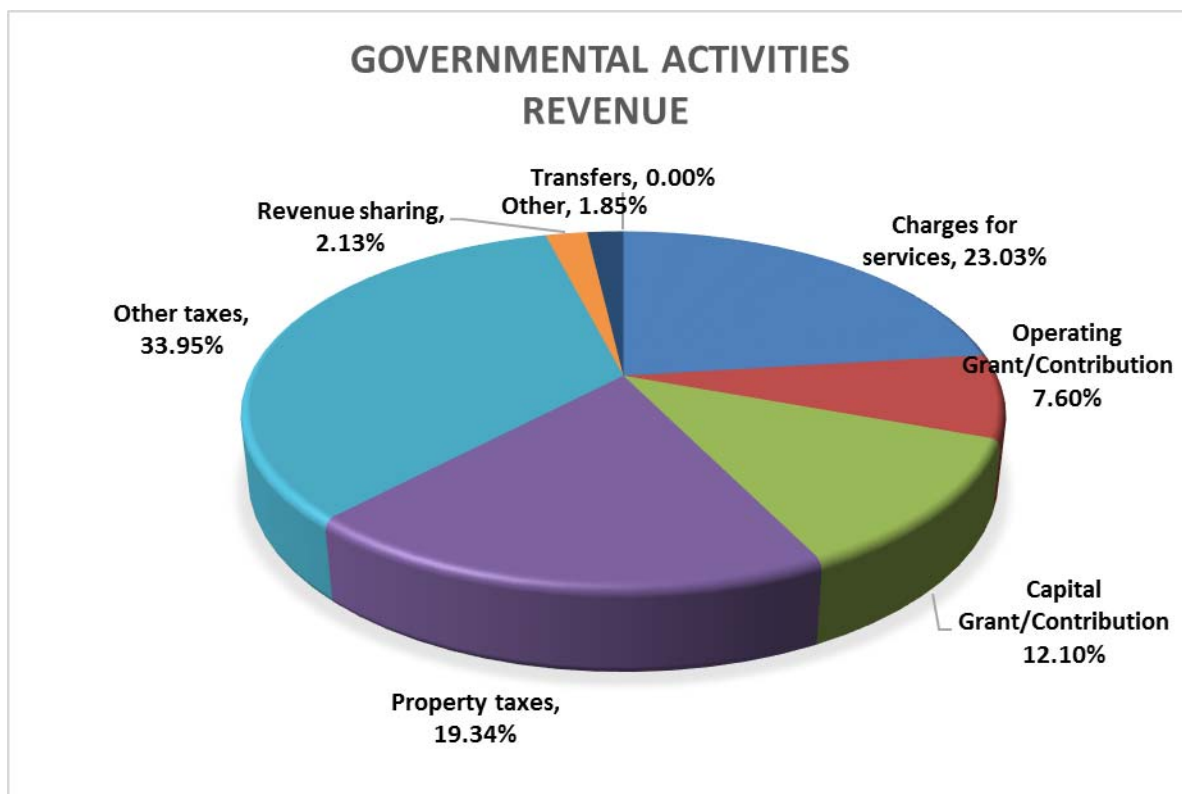
Revenue:

- Charges for services overall were down \$229,845 in 2018. Airport gas sales and other revenue decreased \$649,785 from fueling airplanes during major forest fires in North Florida and South Georgia in 2017. Fire special assessment taxes were up \$474,495 which resulted from increased growth within the City and higher valuations of assessed property.
- Operating grants and contributions revenue increased in 2018 by \$176,074 from greater collections of local option gas taxes of \$89,029 and traffic signal maintenance fees received from the FDOT of \$35,626. The City also received additional revenues from FEMA disaster funds of \$47,938 from final distributions from Hurricane Irma damage.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(continued)

- Capital grants decreased \$2,384,478. The City completed the rehabilitation of Taxiway B which resulted in a decline of grant proceeds of \$1,569,896. Additional federal and state airport grants are in progress for Runway 10-28. The City was awarded a CDBG grant from the Department of Economic Opportunity in the amount of \$750,000 for commercial revitalization in 2017 and purchased land and building to construct a public parking lot at 154 NW Veterans Street. In fiscal year 2018 the City received \$164,450 for demolition of the existing building and construction of a parking lot.
- Property taxes increased \$205,676 during 2018. The City maintained its ad valorem rate of 4.9 mils which resulted in an overall rate increase of 3.38% over the rolled back rate. In addition, property values rose approximately \$43 million from FY 2017.
- Other taxes, which include utility, sales tax, revenue sharing and discretionary sales tax, increased \$311,871, which was a 4.7% rise from the previous year. Discretionary taxes of \$213,821 and utility service taxes of \$102,958 accounted for the change.



Expenses:

- General Government spending increased \$1,656,427. The single contributing factor was due to a \$1,000,000 economic development grant given to Integrity Development Partners to revitalize the Blanche Hotel in downtown Lake City. The agreement was approved in November 2017 and construction crews are working steadily to complete the renovation. It was estimated that the project would be completed by February 2019; however, the timeline has been extended. The City agreed to pay \$58,844 for permit, impact and other fees and waive all permit, impact and other fees for subcontractors. Additionally, the contract allows for the City to pay for costs to

MANAGEMENT'S DISCUSSION AND ANALYSIS

(continued)

install fire lines, a storm drainage system and repair defects to sidewalks bordering property as well as utility work to move electric, telephone, cable and fiber optic lines. The City will be further obligated to abate all City and County ad valorem taxes in excess of \$8,327 through December 31, 2031 and pay rent for 120 months upon substantial completion of the building in the amount of \$35,417 per month, to be partially reduced once tenants occupy the building to offset the guaranteed rent payment.

- Highway and Streets increased about 1.5% for the year from personnel and operating costs, for a total of \$52,359.
- Airport depreciation increased \$206,955 as Taxiway B was capitalized during the year while operating expenses decreased \$373,065 from cost of gas due to decrease in volume of sales attributable to 2017 fires. Net decrease totaled \$153,483.
- Health and Welfare increased \$120,240 in 2018 from professional services related to the Community Block Development Grant to build a public parking facility and property that was purchased in 2017. Contractual obligation under Project Breeze to provide salary incentives for new jobs created was fulfilled during 2018.
- Community Redevelopment Agency costs decreased during 2018 by \$36,793 as façade grants were all but eliminated. Currently, the Agency has begun construction on Wilson Park and any excess revenues remaining will cover costs for construction on the project.
- Culture and Recreation expenses decreased \$25,013 which are related to net pension costs.
- Public Safety expenditures increased overall \$499,547 in 2018 due to compensated absences and net pension related costs of \$331,813. During the year the City began leasing police cars for a net increase of \$82,475 in rental expense and overall personnel costs rose \$77,912 in overtime and salaries as vacant positions were filled.

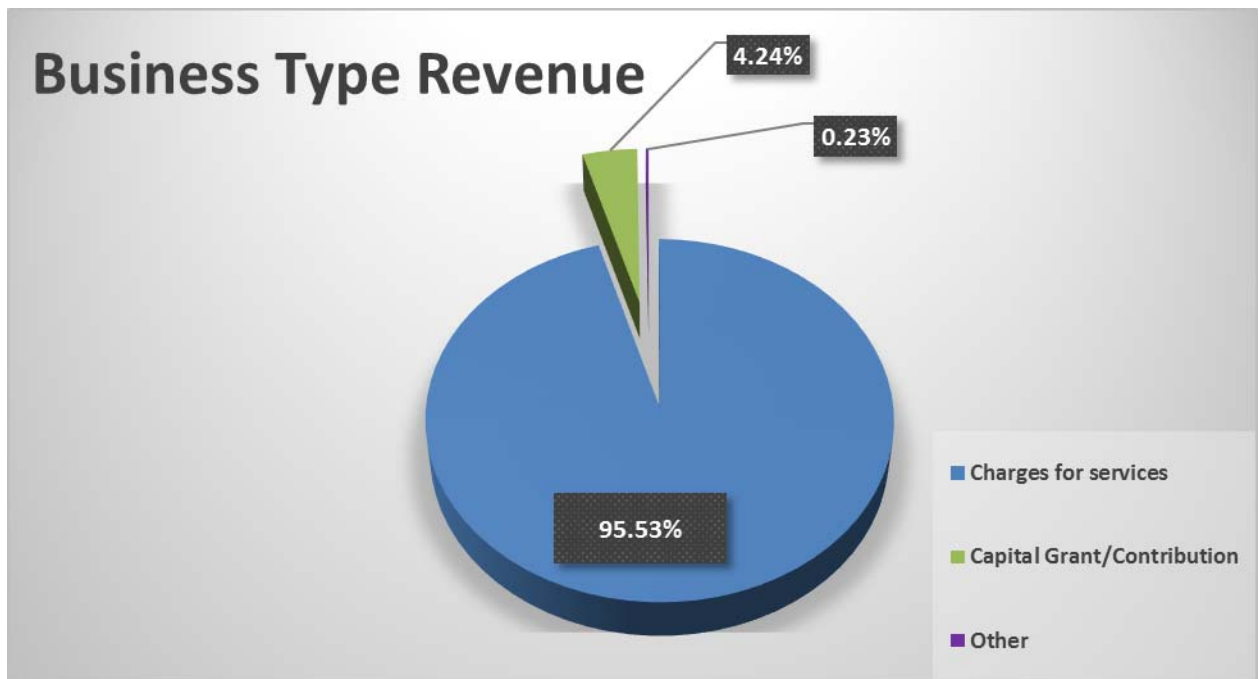
Business-type Activities

Business-type activities before transfers increased the City's net position by \$346,543 for fiscal year 2018 compared to a \$65,985 increase in 2017. Revenues for the City's business-type activities increased \$532,959 while total expenses increased \$346,543 for fiscal year 2018. Elements of the changes in revenues and expenses include:

Revenue:

- Charges for services increased \$378,797 due to rate increases of about 2.8% for utility water and sewer based on the consumer price index. Natural gas revenues rose \$94,464. While the average sales price of gas remained about the same, the City sold 81,258 more therms than the previous year, mostly attributable to residential sales. The City implemented a gas marketing strategy to give incentives to consumers who switch from electric to natural gas, which has been utilized extensively by residential customers during 2018.
- Capital grants from impact fees rose \$426,377 as the City has experienced tremendous growth. Impact fees were collected for construction of two new hotels, an assisted living facility and rehabilitation center.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)



Expenses:

- Water and sewer costs increased overall by \$947,923 during the year. Personnel service costs were down \$1,114,391 from changes in the net pension liability and OPEB costs while depreciation increased \$370,336 after the Kicklighter Wastewater Treatment Plant was placed in service. Interest expense was up \$902,030 as the City was no longer required to capitalize interest from the 2010B bond once the Kicklighter project was completed. Operating costs increased overall by \$856,805 from costs of running the new plant and repairs and maintenance to existing systems after damage to infrastructure from cave-ins and normal maintenance during the year.
- Natural gas expenses decreased \$259,464 due to reduction of net pension liability.

The City's Funds

As the City completed the year, its governmental funds reported a combined fund balance of \$13,836,482, which is a 19.6% percent increase over the previous year. Approximately 67.22% percent or \$9,301,081 of the fund balance constitutes unassigned fund balance, which is available for spending at the government's discretion. Non-spendable fund balance of 0.4% is comprised of:

❖ Inventory	\$ 54,699
❖ Prepaids	\$ 4,504

The restricted fund balance of 26.44% has been obligated for debt service of \$94,599, public safety of \$285,537, Airport of \$2,120,106, health and welfare of \$27,610 and community redevelopment of \$1,129,426. The assigned fund balance of 5.94% is subsequent year budget carryforwards of \$818,920.

MANAGEMENT’S DISCUSSION AND ANALYSIS
(continued)

Business-type Funds

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

General Fund Budgetary Highlights

For fiscal year 2018, the City adopted a balanced budget in the General Fund. The General Fund had an original budget of \$15,808,209; the final amended budget was \$16,327,059.

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

General Fund

- City received a grant for \$410,000 from State of Florida Economic Development Transportation Fund to design an access road to Lake Shore Hospital to improve the efficiency of ambulance access to the hospital. It was determined that the original plan to build the road would be too costly as the road would cross through wetlands. Therefore, the plan is being redesigned to accommodate a more suitable route.
- City received a grant of \$98,850 from Suwannee River Water Management District to retrofit restrooms in city buildings to reduce potable water used.
- Additional revenue from electric franchise fees and residential garbage fees added another \$10,000 to the budget during the year.

Capital Assets and Debt Administration

Capital Assets

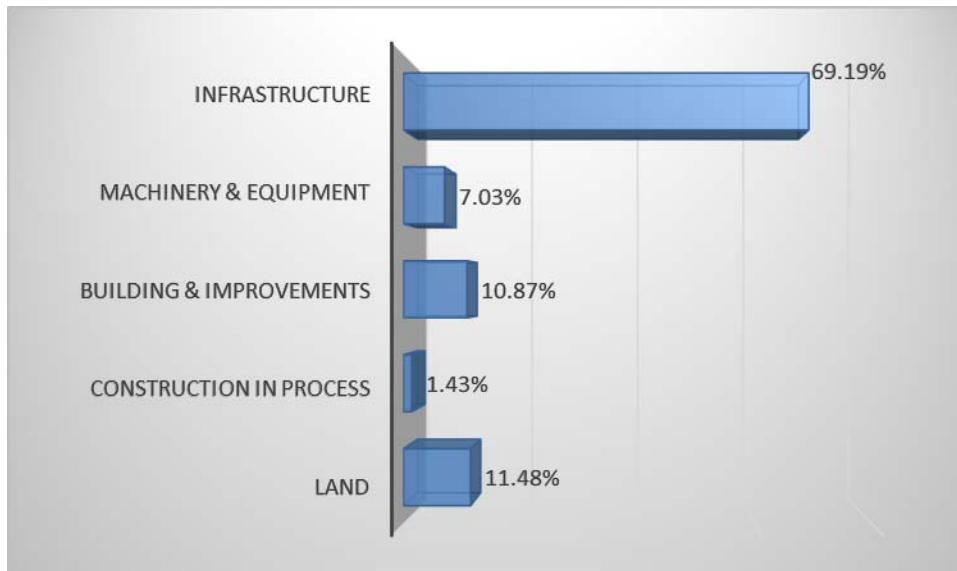
At the end of fiscal year 2018, the City had \$110,020,895 invested in a broad range of capital assets. This amount represents a net increase of \$3,112,085 over last year.

Capital Assets at Year End
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017
Land	\$ 7,339,288	\$ 7,344,288	\$ 5,295,556	\$ 5,295,556	\$ 12,634,844	\$ 12,639,844
Construction in Process	1,539,420	5,622,394	34,102	19,060,941	1,573,522	24,683,335
Building & Improvements	6,743,030	7,127,410	5,214,002	5,185,306	11,957,032	12,312,716
Machinery & equipment	2,006,829	2,207,084	5,727,474	1,726,624	7,734,303	3,933,708
Infrastructure	23,897,602	18,686,807	52,223,592	34,652,400	76,121,194	53,339,207
Totals	\$ 41,526,169	\$ 40,987,983	\$ 68,494,726	\$ 65,920,827	\$ 110,020,895	\$ 106,908,810

MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)

Capital Assets by Class:



Major capital asset acquisitions and reclassifications from construction in progress to infrastructure and building improvements for 2018 include:

General Government

Network Upgrades	IT	\$ 160,807
Street Paving/overlays	Public Works	\$ 259,349
Taxiway B Rehabilitation	Airport	\$6,161,660
Security Fencing	Airport	\$ 208,608

Business Type Activities

Gas Utility – Equipment	Gas	\$ 65,185
Gas System Upgrades	Gas	\$ 79,210
Directional Drill	Water Sewer	\$ 151,545
Skid Steer Loader	Water Sewer	\$ 33,950
Kicklighter Wastewater Plant	Water Sewer	\$11,184,476
Kicklighter Fencing & Gate	Water Sewer	\$ 100,150
St. Margaret St Plant Improvements	Water Sewer	\$ 497,750
Oxidation Ditch/Aerators	Water Sewer	\$ 3,182,216
Sewer Clarifier/Pumps	Water Sewer	\$ 1,968,233
Digesters 1-3	Water Sewer	\$ 997,175
Caterpillar 3512C Diesel	Water Sewer	\$ 425,965
RAS pumps/piping	Water Sewer	\$ 177,838
Chlorine Chambers	Water Sewer	\$ 469,250
Westfalia Centrifuge Skid	Water Sewer	\$ 450,931

Additional information on the City's capital assets can be found in Note 6 of the notes to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)

Long-term Debt

At the end of the current fiscal year, the City had total bond debt outstanding of \$43,637,110, net of unamortized refunding losses and discounts.

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenue bonds	\$7,635,424	\$7,969,415	\$36,001,686	\$ 37,408,259	\$ 43,637,110	\$45,377,674

Additional information on the City's long-term debt can be found in Note 8 of the notes to the financial statements.

The City considered many factors when preparing the fiscal year 2018 budgetary estimates. Some of the major considerations were local and national economic factors, which included:

- Seasonally adjusted unemployment rate for Florida in September 2018 was 3.3%, which is down overall from the previous year rate of 3.9%, while Columbia County averaged 3.9%.
- Consumer prices twelve month average increased 1.9% over the year mostly from energy prices for motor vehicle insurance and hospital services. The City was able to maintain no cost increase on health insurance by eliminating a plan classification which had a higher level of service and implemented higher deductibles to minimize any increases.
- The City still continues to experience tremendous growth. Property values increased \$43 million from 2017 to 2018 and three new hotels were in various stages of completion during the year.
- Revenue projections for state shared revenues were up \$79,025 over the previous year.

Financial Contact

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

BASIC FINANCIAL STATEMENTS

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

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Equity in pooled cash and cash equivalents	\$ 7,726,276	\$ 7,909,072	\$ 15,635,348
Investments	4,418,211	-	4,418,211
Receivables, net	558,396	2,405,640	2,964,036
Internal balances	40,000	(40,000)	-
Due from other governments	1,858,513	7,542	1,866,055
Inventories	54,699	245,884	300,583
Prepays	4,504	145,272	149,776
Net pension asset	1,681,598	-	1,681,598
Restricted assets:			
Equity in pooled cash	-	2,385,067	2,385,067
Capital assets:			
Capital assets, not being depreciated	8,878,708	5,329,658	14,208,366
Other capital assets, net of depreciation	32,647,461	63,165,068	95,812,529
Total assets	<u>\$ 57,868,366</u>	<u>\$ 81,553,203</u>	<u>\$ 139,421,569</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on bond refunding	\$ 34,513	\$ 133,580	\$ 168,093
Deferred outflows related to pensions	2,305,898	705,464	3,011,362
Total deferred outflows	<u>\$ 2,340,411</u>	<u>\$ 839,044</u>	<u>\$ 3,179,455</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 707,526	\$ 327,986	\$ 1,035,512
Customer deposits	102,212	1,125,306	1,227,518
Unearned revenue	14,379	384,740	399,119
Accrued interest payable	73,557	415,462	489,019
Noncurrent liabilities:			
Due within one year:			
Bonds and notes payable	517,792	1,454,000	1,971,792
Compensated absences	597,020	306,859	903,879
Due in more than one year:			
Bonds and notes payable	7,152,145	34,681,266	41,833,411
Compensated absences	180,396	109,191	289,587
Total OPEB liability	84,952	48,007	132,959
Net pension liability	5,303,211	2,269,077	7,572,288
Total liabilities	<u>\$ 14,733,190</u>	<u>\$ 41,121,894</u>	<u>\$ 55,855,084</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	\$ 2,664,273	\$ 504,206	\$ 3,168,479
Deferred inflows related to OPEB	3,371	1,905	5,276
Total deferred inflows	<u>\$ 2,667,644</u>	<u>\$ 506,111</u>	<u>\$ 3,173,755</u>
NET POSITION			
Net investment in capital assets	\$ 33,890,745	\$ 32,493,040	\$ 66,383,785
Restricted for:			
Public safety	285,537	-	285,537
Community redevelopment projects	1,129,426	-	1,129,426
Airport	2,120,106	-	2,120,106
Debt service	21,042	390,665	411,707
Capital improvements	-	1,578,940	1,578,940
Pension benefits	1,066,951	-	1,066,951
Other purposes	27,610	-	27,610
Unrestricted	4,266,526	6,301,597	10,568,123
Total net position	<u>\$ 42,807,943</u>	<u>\$ 40,764,242</u>	<u>\$ 83,572,185</u>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF LAKE CITY, 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 Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 3,084,728	\$ 30,636	\$ 40,421	\$ -	\$ (3,013,671)	\$ -	\$ (3,013,671)
Public safety	7,976,834	2,544,223	-	45,335	(5,387,276)	-	(5,387,276)
Highway and street	3,409,246	-	1,321,004	259,424	(1,828,818)	-	(1,828,818)
Airport	2,291,837	1,128,069	-	1,801,117	637,349	-	637,349
Health and welfare	372,650	-	-	-	(372,650)	-	(372,650)
Economic environment	86,346	-	47,938	164,450	126,042	-	126,042
Physical environment	442,540	491,709	-	-	49,169	-	49,169
Culture and recreation	627,667	127,313	16,306	-	(484,048)	-	(484,048)
Interest on long-term debt	208,299	-	-	-	(208,299)	-	(208,299)
Total governmental activities	<u>18,500,147</u>	<u>4,321,950</u>	<u>1,425,669</u>	<u>2,270,326</u>	<u>(10,482,202)</u>	<u>-</u>	<u>(10,482,202)</u>
Business-type activities:							
Water-sewer utility	10,901,716	13,877,154	-	790,943	-	3,766,381	3,766,381
Natural gas	3,579,508	3,945,295	-	-	-	365,787	365,787
Total business-type activities	<u>14,481,224</u>	<u>17,822,449</u>	<u>-</u>	<u>790,943</u>	<u>-</u>	<u>4,132,168</u>	<u>4,132,168</u>
Total primary government	<u>\$ 32,981,371</u>	<u>\$ 22,144,399</u>	<u>\$ 1,425,669</u>	<u>\$ 3,061,269</u>	<u>(10,482,202)</u>	<u>4,132,168</u>	<u>(6,350,034)</u>
General revenues:							
Property taxes					3,629,640	-	3,629,640
Sales taxes					2,587,064	-	2,587,064
Casualty and fire insurance premium taxes					168,569	-	168,569
Public service taxes					1,452,344	-	1,452,344
Other taxes					751,321	-	751,321
Franchise and utility taxes					1,412,846	-	1,412,846
State revenue sharing					400,353	-	400,353
Other intergovernmental revenues					195,466	-	195,466
Investment earnings					64,309	15,329	79,638
Miscellaneous revenues					86,609	27,269	113,878
Transfers					1,120,000	(1,120,000)	-
Total general revenues and transfers					<u>11,868,521</u>	<u>(1,077,402)</u>	<u>10,791,119</u>
Change in net position					1,386,319	3,054,766	4,441,085
Net position - beginning, as restated					41,421,624	37,709,476	79,131,100
Net position - ending					<u>\$ 42,807,943</u>	<u>\$ 40,764,242</u>	<u>\$ 83,572,185</u>

The accompanying notes to financial statements are an integral part of this statement.

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

	<u>General</u>	<u>Fire Department</u>	<u>Community Redevelopment Agency</u>	<u>Airport Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Equity in pooled cash and cash equivalents	\$ 4,665,859	\$ 215,707	\$ 1,130,658	\$ 1,048,690	\$ 665,362	\$ 7,726,276
Investments	4,418,211	-	-	-	-	4,418,211
Receivables, net	530,475	4,975	-	-	22,946	558,396
Due from other governments	804,290	48,773	-	1,005,450	-	1,858,513
Due from other funds	110,551	-	-	-	-	110,551
Inventories	26,002	-	-	-	28,697	54,699
Prepaid items	2,985	-	-	-	1,519	4,504
Total assets	<u>\$ 10,558,373</u>	<u>\$ 269,455</u>	<u>\$ 1,130,658</u>	<u>\$ 2,054,140</u>	<u>\$ 718,524</u>	<u>\$ 14,731,150</u>
LIABILITIES						
Accounts payable and accrued liabilities	\$ 407,473	\$ 76,128	\$ 932	\$ 182,507	\$ 40,486	\$ 707,526
Customer deposits	1,912	-	300	-	100,000	102,212
Unearned revenue	-	-	-	-	14,379	14,379
Due to other funds	-	-	-	-	70,551	70,551
Total liabilities	<u>409,385</u>	<u>76,128</u>	<u>1,232</u>	<u>182,507</u>	<u>225,416</u>	<u>894,668</u>
FUND BALANCES						
Nonspendable:						
Inventories	26,002	-	-	-	28,697	54,699
Prepaid items	2,985	-	-	-	1,519	4,504
Restricted for:						
Public safety	-	193,327	-	-	92,210	285,537
Airport	-	-	-	1,871,633	248,473	2,120,106
Debt service	-	-	-	-	94,599	94,599
Community redevelopment	-	-	1,129,426	-	-	1,129,426
Health and welfare	-	-	-	-	27,610	27,610
Assigned to:						
Subsequent year's budget	818,920	-	-	-	-	818,920
Unassigned	9,301,081	-	-	-	-	9,301,081
Total fund balances	<u>10,148,988</u>	<u>193,327</u>	<u>1,129,426</u>	<u>1,871,633</u>	<u>493,108</u>	<u>13,836,482</u>
Total liabilities and fund balances	<u>\$ 10,558,373</u>	<u>\$ 269,455</u>	<u>\$ 1,130,658</u>	<u>\$ 2,054,140</u>	<u>\$ 718,524</u>	<u>\$ 14,731,150</u>

The accompanying notes to financial statements are an integral part of this statement.

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

Fund balances - total governmental funds		\$ 13,836,482
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds</p>		
Total governmental capital assets	81,008,016	
Less: accumulated depreciation	<u>(39,481,847)</u>	41,526,169
<p>On the governmental fund statements, a net pension liability (asset) is not recorded until an amount is due and payable and the pension plan's fiduciary net position is not sufficient for payment of those benefits (no such liability exists at the end of the current fiscal year). On the statement of net position, the City's net pension liability (asset) of the defined benefit pension plans is reported as a noncurrent liability (asset). Additionally, deferred outflows and deferred inflows related to pensions are also reported.</p>		
Net pension liability	(5,303,211)	
Net pension asset	1,681,598	
Deferred outflows related to pensions	2,305,898	
Deferred inflows related to pensions	<u>(2,664,273)</u>	(3,979,988)
<p>On the governmental fund statements, a OPEB liability is not recorded unless an amount is due and payable (no such liability exists at the end of the current fiscal year). On the Statement of Net Position, the City's OPEB liability is reported as a noncurrent liability. Additionally, deferred outflows and deferred inflows related to OPEB are also reported.</p>		
Total OPEB liability	(84,952)	
Deferred inflows related to OPEB	<u>(3,371)</u>	(88,323)
<p>Long-term liabilities, including bonds payable and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities, deferred outflows, and other debt-related deferred charges consist of the following:</p>		
Bonds and notes payable	(7,669,937)	
Accrued interest payable	(73,557)	
Unamortized deferred loss on bond refunding	34,513	
Compensated absences	<u>(777,416)</u>	(8,486,397)
Net position of governmental activities		<u><u>\$ 42,807,943</u></u>

The accompanying notes to financial statements are an integral part of this statement.

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

	General	Fire Department	Community Redevelopment Agency	Airport Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 8,459,879	\$ 63,276	\$ 116,498	\$ -	\$ -	\$ 8,639,653
Franchise fees and permits	1,704,114	-	-	-	-	1,704,114
Intergovernmental	2,061,142	-	157,663	1,801,117	164,450	4,184,372
Charges for services	1,991,172	2,176,607	1,150	-	1,084,136	5,253,065
Fines and forfeitures	39,773	-	-	-	-	39,773
Investment income	59,547	745	1,461	2,500	56	64,309
Miscellaneous	76,786	30,003	17,638	-	62,813	187,240
Total revenues	<u>14,392,413</u>	<u>2,270,631</u>	<u>294,410</u>	<u>1,803,617</u>	<u>1,311,455</u>	<u>20,072,526</u>
Expenditures						
Current:						
General government	4,101,672	-	-	-	-	4,101,672
Public safety	5,008,448	2,185,245	-	-	1,067	7,194,760
Highway and street	2,682,306	-	-	-	-	2,682,306
Airport	-	-	-	-	1,015,358	1,015,358
Health and welfare	252,410	-	-	-	120,240	372,650
Economic environment	-	-	86,346	-	-	86,346
Physical environment	442,540	-	-	-	-	442,540
Culture and recreation	558,591	-	-	-	-	558,591
Capital outlay	752,585	132,133	90,688	2,176,048	106,533	3,257,987
Debt service:						
Principal retirement	-	-	82,081	-	255,394	337,475
Interest and fiscal charges	-	-	21,068	-	183,880	204,948
Total expenditures	<u>13,798,552</u>	<u>2,317,378</u>	<u>280,183</u>	<u>2,176,048</u>	<u>1,682,472</u>	<u>20,254,633</u>
Excess (deficiency) of revenues over expenditures	<u>593,861</u>	<u>(46,747)</u>	<u>14,227</u>	<u>(372,431)</u>	<u>(371,017)</u>	<u>(182,107)</u>
Other financing sources (uses)						
Transfers in	1,120,000	171,739	-	19,575	418,187	1,729,501
Transfers out	(539,926)	-	(50,000)	-	(19,575)	(609,501)
Proceeds from sale of capital assets	34,503	-	-	-	6,800	41,303
Total other financing sources (uses)	<u>614,577</u>	<u>171,739</u>	<u>(50,000)</u>	<u>19,575</u>	<u>405,412</u>	<u>1,161,303</u>
Net change in fund balances	<u>1,208,438</u>	<u>124,992</u>	<u>(35,773)</u>	<u>(352,856)</u>	<u>34,395</u>	<u>979,196</u>
Fund balances, beginning of year, as restated	8,940,550	68,335	1,165,199	2,224,489	458,713	12,857,286
Fund balances, end of year	<u>\$ 10,148,988</u>	<u>\$ 193,327</u>	<u>\$ 1,129,426</u>	<u>\$ 1,871,633</u>	<u>\$ 493,108</u>	<u>\$ 13,836,482</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF LAKE CITY, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Net change in fund balances - total governmental funds	\$ 979,196
Differences in amounts reported for governmental activities in the statement of activities are:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.	
Capital outlay expenditures	3,257,987
Depreciation expense	(2,711,002)
Loss on disposition of capital assets	(8,799)
Bond and loan proceeds are reported as financing sources in the governmental funds. However, the issuance of debt is reported as long-term debt payable in the statement of net position. Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment of debt principal reduces long-term liabilities in the statement of net position. These amounts are as follows:	
Principal repayment of general long-term debt	337,475
Governmental funds report contributions to defined benefit pension and OPEB plans as expenditures. However, in the statement of activities, the amount contributed to defined benefit pension plans reduces future total OPEB/net pension liability. Also included in expense in the statement of activities are amounts required to be amortized in future years related to pensions and OPEB.	
Change in net pension liability and deferred inflows/outflows related to pensions	(443,350)
Change in total OPEB liability and deferred inflows/outflows related to OPEB	5,779
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. These adjustments are as follows:	
Change in accrued interest on long-term debt and amortization of loss on refunding	(3,351)
Change in compensated absences liability	(27,616)
Change in net position of governmental activities	\$ 1,386,319

The accompanying notes to financial statements are an integral part of this statement.

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 8,247,548	\$ 8,247,548	\$ 8,459,879	\$ 212,331
Franchise fees and permits	1,452,027	1,453,282	1,704,114	250,832
Intergovernmental	1,644,137	2,152,987	2,061,142	(91,845)
Charges for services	1,994,377	2,003,122	1,991,172	(11,950)
Fines and forfeitures	16,891	16,891	39,773	22,882
Investment income	18,433	18,433	59,547	41,114
Miscellaneous	60,796	60,796	76,786	15,990
Total revenues	<u>13,434,209</u>	<u>13,953,059</u>	<u>14,392,413</u>	<u>439,354</u>
EXPENDITURES				
Current:				
General government	4,290,579	4,699,204	4,101,672	597,532
Public safety	5,692,410	5,715,532	5,008,448	707,084
Highway and street	2,921,825	2,921,825	2,682,306	239,519
Health and welfare	253,200	253,200	252,410	790
Physical environment	433,000	443,000	442,540	460
Culture and recreation	623,571	623,571	558,591	64,980
Capital outlay	1,053,689	1,118,887	752,585	366,302
Total expenditures	<u>15,268,274</u>	<u>15,775,219</u>	<u>13,798,552</u>	<u>1,976,667</u>
Excess (deficiency) of revenues over expenditures	<u>(1,834,065)</u>	<u>(1,822,160)</u>	<u>593,861</u>	<u>2,416,021</u>
Other financing sources (uses)				
Transfers in	1,120,000	1,120,000	1,120,000	-
Transfers out	(539,935)	(551,840)	(539,926)	11,914
Proceeds from sale of capital assets	52,000	52,000	34,503	(17,497)
Total other financing sources (uses)	<u>632,065</u>	<u>620,160</u>	<u>614,577</u>	<u>(5,583)</u>
Net change in fund balances	<u>(1,202,000)</u>	<u>(1,202,000)</u>	<u>1,208,438</u>	<u>2,410,438</u>
Fund balances, beginning of year, as restated	8,940,550	8,940,550	8,940,550	-
Fund balances, end of year	<u>\$ 7,738,550</u>	<u>\$ 7,738,550</u>	<u>\$ 10,148,988</u>	<u>\$ 2,410,438</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF LAKE CITY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - FIRE DEPARTMENT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 57,240	\$ 57,240	\$ 63,276	\$ 6,036
Charges for services	2,291,152	2,291,152	2,176,607	(114,545)
Investment income	-	-	745	745
Miscellaneous	25,000	25,000	30,003	5,003
Total revenues	2,373,392	2,373,392	2,270,631	(102,761)
EXPENDITURES				
Current:				
Public safety	2,486,131	2,380,586	2,185,245	195,341
Capital outlay	59,000	164,545	132,133	32,412
Total expenditures	2,545,131	2,545,131	2,317,378	227,753
Excess (deficiency) of revenues over expenditures	(171,739)	(171,739)	(46,747)	124,992
Other financing sources (uses)				
Transfers in	171,739	171,739	171,739	-
Total other financing sources (uses)	171,739	171,739	171,739	-
Net change in fund balances	-	-	124,992	124,992
Fund balances, beginning of year	68,335	68,335	68,335	-
Fund balances, end of year	\$ 68,335	\$ 68,335	\$ 193,327	\$ 124,992

The accompanying notes to financial statements are an integral part of this statement.

CITY OF LAKE CITY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - COMMUNITY REDEVELOPMENT AGENCY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget -
				(Negative)
REVENUES				
Taxes	\$ 118,000	\$ 118,000	\$ 116,498	\$ (1,502)
Intergovernmental	160,593	160,593	157,663	(2,930)
Charges for services	1,500	1,500	1,150	(350)
Investment income	400	400	1,461	1,061
Miscellaneous	-	-	17,638	17,638
Total revenues	<u>280,493</u>	<u>280,493</u>	<u>294,410</u>	<u>13,917</u>
EXPENDITURES				
Current:				
Economic environment	123,794	123,794	86,346	37,448
Capital outlay	1,139,191	1,089,191	90,688	998,503
Debt service:				
Principal retirement	82,082	82,082	82,081	1
Interest and fiscal charges	21,068	21,068	21,068	-
Total expenditures	<u>1,366,135</u>	<u>1,316,135</u>	<u>280,183</u>	<u>1,035,952</u>
Excess (deficiency) of revenues over expenditures	<u>(1,085,642)</u>	<u>(1,035,642)</u>	<u>14,227</u>	<u>1,049,869</u>
Other financing sources (uses)				
Transfers out	-	(50,000)	(50,000)	-
Total other financing sources (uses)	<u>-</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>
Net change in fund balances	<u>(1,085,642)</u>	<u>(1,085,642)</u>	<u>(35,773)</u>	<u>1,049,869</u>
Fund balances, beginning of year	1,165,199	1,165,199	1,165,199	-
Fund balances, end of year	<u>\$ 79,557</u>	<u>\$ 79,557</u>	<u>\$ 1,129,426</u>	<u>\$ 1,049,869</u>

The accompanying notes to financial statements are an integral part of this statement.

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

	Business-type Activities - Enterprise Funds		
	Water-Sewer Utility	Natural Gas	Total
ASSETS			
Equity in pooled cash and cash equivalents	\$ 6,302,703	\$ 1,606,369	\$ 7,909,072
Accounts receivable, net	2,043,583	362,057	2,405,640
Due from other governments	-	7,542	7,542
Inventories	180,730	65,154	245,884
Prepaid items	140,837	4,435	145,272
Due from other funds	94,328	-	94,328
Restricted current assets			
Equity in pooled cash	1,869,462	-	1,869,462
Total current assets	<u>10,631,643</u>	<u>2,045,557</u>	<u>12,677,200</u>
Noncurrent assets:			
Restricted cash	515,605	-	515,605
Capital assets:			
Land	5,295,243	313	5,295,556
Building and improvements	6,664,951	680,990	7,345,941
Infrastructure	83,286,287	3,706,570	86,992,857
Machinery and equipment	12,983,892	771,749	13,755,641
Construction in progress	34,102	-	34,102
Accumulated depreciation	(42,348,244)	(2,581,127)	(44,929,371)
Total capital assets, net	<u>65,916,231</u>	<u>2,578,495</u>	<u>68,494,726</u>
Total noncurrent assets	<u>66,431,836</u>	<u>2,578,495</u>	<u>69,010,331</u>
Total assets	<u>\$ 77,063,479</u>	<u>\$ 4,624,052</u>	<u>\$ 81,687,531</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on bond refunding	\$ 133,580	\$ -	\$ 133,580
Deferred outflows related to pensions	591,718	113,746	705,464
Total deferred outflows	<u>\$ 725,298</u>	<u>\$ 113,746</u>	<u>\$ 839,044</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 177,456	\$ 150,530	\$ 327,986
Deposits	787,850	337,456	1,125,306
Unearned revenue	-	384,740	384,740
Due to other funds	40,000	94,328	134,328
Compensated absences	235,623	71,236	306,859
Payable from restricted assets:			
Current maturities on long-term debt	1,454,000	-	1,454,000
Accrued interest payable	415,462	-	415,462
Total current liabilities	<u>3,110,391</u>	<u>1,038,290</u>	<u>4,148,681</u>
Noncurrent liabilities:			
Bonds and notes payable, net	34,681,266	-	34,681,266
Compensated absences	80,819	28,372	109,191
Total OPEB liability	37,930	10,077	48,007
Net pension liability	1,903,221	365,856	2,269,077
Total noncurrent liabilities	<u>36,703,236</u>	<u>404,305</u>	<u>37,107,541</u>
Total liabilities	<u>\$ 39,813,627</u>	<u>\$ 1,442,595</u>	<u>\$ 41,256,222</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	\$ 422,911	\$ 81,295	\$ 504,206
Deferred inflows related to OPEB	1,505	400	1,905
Total deferred inflows	<u>\$ 424,416</u>	<u>\$ 81,695</u>	<u>\$ 506,111</u>
NET POSITION			
Net investment in capital assets	\$ 29,914,545	\$ 2,578,495	\$ 32,493,040
Restricted for debt service	390,665	-	390,665
Restricted for renewal and replacement	500,000	-	500,000
Restricted for system improvements	1,078,940	-	1,078,940
Unrestricted	5,666,584	635,013	6,301,597
Total net position	<u>\$ 37,550,734</u>	<u>\$ 3,213,508</u>	<u>\$ 40,764,242</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF LAKE CITY, FLORIDA
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Business-type Activities - Enterprise Funds		
	Water-Sewer Utility	Natural Gas	Total
Operating revenues			
Charges for services	\$ 13,568,704	\$ 3,945,295	\$ 17,513,999
Other revenues	308,450	-	308,450
Total operating revenues	<u>13,877,154</u>	<u>3,945,295</u>	<u>17,822,449</u>
Operating expenses			
Personal services	2,926,656	644,690	3,571,346
Contractual services and supplies	3,420,935	2,503,644	5,924,579
Internal charges	980,000	300,000	1,280,000
Depreciation	2,240,855	131,174	2,372,029
Total operating expenses	<u>9,568,446</u>	<u>3,579,508</u>	<u>13,147,954</u>
Operating income (loss)	<u>4,308,708</u>	<u>365,787</u>	<u>4,674,495</u>
Nonoperating revenues (expenses)			
Interest earnings	12,804	2,525	15,329
Miscellaneous income	10,008	17,261	27,269
Interest and amortization expense	(1,706,023)	-	(1,706,023)
Interest subsidy	372,753	-	372,753
Total nonoperating revenues (expenses)	<u>(1,310,458)</u>	<u>19,786</u>	<u>(1,290,672)</u>
Income (loss) before contributions and transfers	<u>2,998,250</u>	<u>385,573</u>	<u>3,383,823</u>
Capital contributions and impact fees	780,305	-	780,305
Capital grants	10,638	-	10,638
Transfers in	-	-	-
Transfers out	(870,000)	(250,000)	(1,120,000)
Change in net position	<u>2,919,193</u>	<u>135,573</u>	<u>3,054,766</u>
Net position, beginning of year, as restated	34,631,541	3,077,935	37,709,476
Net position, end of year	<u><u>\$ 37,550,734</u></u>	<u><u>\$ 3,213,508</u></u>	<u><u>\$ 40,764,242</u></u>

The accompanying notes to financial statements are an integral part of this statement.

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

	Business-type Activities - Enterprise Funds		
	Water-Sewer Utility	Natural Gas	Total
Cash flows from operating activities			
Cash received from customers	\$ 13,789,581	\$ 3,936,119	\$ 17,725,700
Cash paid to employees	(3,617,255)	(827,957)	(4,445,212)
Cash paid to suppliers	(3,840,404)	(2,549,291)	(6,389,695)
Cash paid for interfund charges	(980,000)	(300,000)	(1,280,000)
Other receipts	10,008	-	10,008
Net cash provided by operating activities	<u>5,361,930</u>	<u>258,871</u>	<u>5,620,801</u>
Cash flows from noncapital financing activities			
Transfers to other funds	(870,000)	(250,000)	(1,120,000)
Cash flows from capital and related financing activities			
Impact fees	780,305	-	780,305
Acquisition and construction of capital assets	(4,799,158)	(129,509)	(4,928,667)
Capital grants	10,638	-	10,638
Principal payments of long-term debt	(1,416,000)	-	(1,416,000)
Interest paid	(1,335,254)	-	(1,335,254)
Net cash used in capital and related financing activities	<u>(6,759,469)</u>	<u>(129,509)</u>	<u>(6,888,978)</u>
Cash flows from investing activities			
Interest received	12,804	2,525	15,329
Net change in cash and cash equivalents	<u>(2,254,735)</u>	<u>(118,113)</u>	<u>(2,372,848)</u>
Cash and cash equivalents, beginning of year	10,942,505	1,724,482	12,666,987
Cash and cash equivalents, end of year	<u>\$ 8,687,770</u>	<u>\$ 1,606,369</u>	<u>\$ 10,294,139</u>
Cash and cash equivalents classified as:			
Unrestricted	\$ 6,302,703	\$ 1,606,369	\$ 7,909,072
Restricted	2,385,067	-	2,385,067
Total cash and cash equivalents	<u>\$ 8,687,770</u>	<u>\$ 1,606,369</u>	<u>\$ 10,294,139</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 4,308,708	\$ 365,787	\$ 4,674,495
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	2,240,855	131,174	2,372,029
Gain (loss) on disposition of capital assets	10,008	-	10,008
Changes in assets and liabilities:			
Accounts receivable	(147,720)	19,470	(128,250)
Due from other governments	10,752	(293)	10,459
Inventories	9,711	(5,624)	4,087
Prepaid items	6,083	141	6,224
Accounts payable and accrued liabilities	(435,263)	(40,164)	(475,427)
Deposits	49,395	23,635	73,030
Unearned revenue	-	(51,988)	(51,988)
Compensated absences	11,272	(2,910)	8,362
Net pension liability	(699,292)	(179,672)	(878,964)
Total OPEB liability	(2,579)	(685)	(3,264)
Net cash provided by (used in) operating activities	<u>\$ 5,361,930</u>	<u>\$ 258,871</u>	<u>\$ 5,620,801</u>
Non-cash investing, capital, and financing activities:			
Amortization of debt discount/loss on refunding	\$ 9,427	\$ -	\$ 9,427

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF LAKE CITY, FLORIDA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2018**

	Pension Trust Funds
ASSETS	
Cash and cash equivalents with trustee	\$ 3,465,940
Receivables	
Contributions receivable	164,707
Interest and dividends receivable	97,151
Total receivables	261,858
Investments, at fair value	
Corporate bonds	6,235,295
Municipal bonds	1,824,927
Equities	27,492,257
Mutual funds	9,412,871
Real estate funds	90,059
Total investments	45,055,409
Total assets	\$ 48,783,207
LIABILITIES	
Accounts payable	\$ 47,959
NET POSITION	
Restricted for pensions	\$ 48,735,248

The accompanying notes to financial statements are an integral part of this statement.

CITY OF LAKE CITY, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Pension Trust Funds
Additions	
Contributions:	
Employer	\$ 1,570,593
Plan members	152,023
State - insurance premium taxes	169,080
Total contributions	1,891,696
Investment earnings	
Net appreciation (depreciation) in fair value of investments	3,780,499
Interest and dividends	1,304,959
Total investment earnings	5,085,458
Less: investment expense	(230,770)
Net investment income (loss)	4,854,688
 Total additions	 6,746,384
Deductions	
Benefit payments and refunds	3,080,387
Administrative expenses	163,479
Total deductions	3,243,866
 Change in net position	 3,502,518
 Net position restricted for pensions, beginning of year	 45,232,730
 Net position restricted for pensions, end of year	 \$ 48,735,248

The accompanying notes to financial statements are an integral part of this statement.

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(1) **Summary of Significant Accounting Policies:**

The financial statements of the City of Lake City, Florida (the City), have been prepared in conformance with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted body for promulgating governmental accounting and financial reporting principles and the City has adopted the GASB Codification. The following is a summary of the City's significant accounting policies:

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

(b) **Blended component units**—The financial activity of The Lake City Community Redevelopment Agency (the Agency), is included in the financial reporting entity as a blended component unit. The Agency was established to provide a method of eliminating blighted areas, expanding employment opportunities, and providing an environment for the social and economic growth of an area designated by City Ordinance. Each member of the City Council is a member of the Agency. The Agency is presented as a governmental fund type.

The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Thus blended component assets are appropriately presented as funds of the primary government.

(c) **Government-wide and fund financial statements**—The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report aggregated information for the overall government for all of the activities of the primary government. These statements do not report fiduciary funds or fiduciary component units such as retirement trust funds. Those activities are reported only in fund financial statements. The effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange revenues, are reported separately from business-type activities, which are financed wholly or partially by fees charged to external parties for goods or services and are reported in enterprise funds.

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. Indirect costs are included in the program expense reported for individual functions and activities. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(1) **Summary of Significant Accounting Policies:** (Continued)

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. The City considers other reoccurring revenue to be available if they are collected within 90 days of the end of the current fiscal period. Grant and similar revenues are recognized when the related expenditure is incurred; this policy was adopted during 2018; see Note (13) for the impact of this change on beginning fund balance.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pension and other postemployment benefits, and claims and judgments are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

General Fund— The General Fund is the City’s primary operating fund. It accounts for all resources traditionally associated with governments except those required to be accounted for in another fund.

Fire Department Special Revenue Fund—The Fire Department Special Revenue Fund accounts for the activities of the Lake City Fire Department and is primarily funded by a fire protection assessment imposed on all nongovernmental real property within the City.

Community Redevelopment Agency Fund—The Community Redevelopment Agency Fund accounts for the receipt and expenditures from certain property tax increments which are to be used for specific projects involving community redevelopment..

Airport Capital Projects Fund—The Airport Capital Projects Fund accounts for capital project activity related to the City’s municipal airport. Fund resources are typically received in the form of local, state, and federal grants.

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(1) **Summary of Significant Accounting Policies:** (Continued)

The City reports the following major proprietary funds:

Water and Sewer System Fund—The Water and Sewer System Fund accounts for the activities of the City's water distribution operations.

Natural Gas Utility Fund—The Natural Gas Utility Fund accounts for the activities of the City's water distribution operations.

Additionally, the City reports the following fund types:

Pension Trust Funds—Accounts for the net position held in trust for defined pension benefits and the related financial activities of the employees' retirement system, which accumulates resources for defined pension benefit payments to the Police Officers' Pension Fund, the Fireman's Pension Trust Fund, and the General Employee's Pension Trust Fund. Assets accumulated and held in trust in defined contribution pension plans (deferred compensation and money purchase retirement plans) are not included in the financial statements, since such amounts immediately vest with the employees.

As a general rule, the effect of the City's interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. The City recognizes as operating revenue the portion of impact fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(1) **Summary of Significant Accounting Policies:** (Continued)

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

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

(f) **Deposits and investments**—The City's cash and cash equivalents include cash on hand, demand deposits and short-term investments that are readily convertible to known amounts of cash. Investments with original maturities of three months or less are considered to be cash equivalents.

The City's investment policies are governed by state statutes and local resolution. These policies authorize the City to invest in certificates of deposit, money market funds, obligations issued by the U.S. or obligations guaranteed as to principal and interest by the U.S., repurchase agreements collateralized by U.S. securities, and the SBA.

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

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

(h) **Receivables and payables**—Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are reported net of an allowance for doubtful accounts, where appropriate. Unbilled utility service receivables are recorded at year-end. They are calculated by pro-rating cycle billings subsequent to year-end according to the number of days included in the current fiscal year.

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(1) **Summary of Significant Accounting Policies:** (Continued)

(i) **Inventories and prepaid items**— All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

(j) **Restricted assets**—Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayments, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Restricted funds are comprised of the following:

Sinking funds - segregated resources generated from operations that are accumulated for making debt service payments over the next twelve months.

Construction funds - segregated resources consisting of net bond proceeds from the issuance of revenue bonds and other long-term debt obligations that are restricted to use in construction.

Renewal and replacement funds – segregated resources that are set aside to meet unexpected repairs or to fund asset renewal and replacement.

(k) **Capital assets**—Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at the acquisition value at the date of donation.

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

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

Assets	Years
Buildings and Improvements	10 – 60 years
Equipment	2 – 10 years
Infrastructure	20 – 60 years

(l) **Compensated absences**—It is the City’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(1) **Summary of Significant Accounting Policies:** (Continued)

(m) **Long-term obligations**—In the government-wide financial statements and the proprietary funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

(n) **Fund equity**—In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Those classifications are as follows:

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash such as inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation (i.e. when the government assesses, levies, charges, or otherwise mandates payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

Committed – Fund balance amounts that can only be used for specific purposes pursuant to constraints imposed by ordinance of the City Council are reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned – Fund balance amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed, are reported as assigned fund balance, except for stabilization arrangements. The City Council has delegated responsibility to the City Manager and Finance Director pursuant to Ordinance 97-804. In addition, residual balances in capital projects and debt service funds are considered assigned for the general purpose of the respective fund.

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(1) **Summary of Significant Accounting Policies:** (Continued)

Unassigned – Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

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

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

(o) **Deferred outflows/inflows of resources**—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items, deferred loss on bond refunding in the proprietary funds and government-wide statement of net position, and deferred outflows related to pensions, which qualify for reporting in this category. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows related to pensions are discussed further in Note (12) and deferred outflows related to OPEB are discussed further in Note (11).

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Currently, the only items in this category consisted of deferred inflows of resources related to pensions, as discussed further in Note (12) and deferred inflows related to OPEB are discussed further in Note (11).

(p) **Net position flow assumption**—Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to determine amounts reported as restricted and unrestricted net position, it is the City's policy to consider restricted net position to have been used before unrestricted net position is applied.

(q) **Use of estimates**—Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates assumed in preparing the financial statements.

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(2) **Reconciliation of Government-Wide and Fund Financial Statement:**

(a) **Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position**—Following the governmental fund balance sheet is a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. A detailed explanation of these differences is provided in this reconciliation.

(b) **Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**—Following the governmental fund statement of revenues, expenditures, and changes in fund balances, there is a reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. A detailed explanation of these differences is provided in this reconciliation.

(3) **Cash Deposits and Investments:**

(a) City of Lake City, Florida:

The City's investment policies are governed by Chapter 280 and 218, Florida Statutes, City Code of Ordinances, and the adopted investment policy. The basic allowable investment instruments are as follows:

The Local Government Surplus Funds Trust Fund (SBA) or other state sponsored funds – The State Board of Administration (SBA) pools investments for local governments while providing safety and liquidity.

Securities and Exchange Council registered money market and closed end mutual funds with an investment grade securities rating from a nationally recognized rating agency, investing solely in investments otherwise authorized for the City to invest in directly.

Interest-bearing time deposits or savings accounts in qualified public depositories

Direct obligations of the United States Treasury and agencies and instrumentalities. Securities will include, but not be limited to treasury bills, notes, bonds and any other obligations whose principal and interest is fully guaranteed by the United States of America or any of its agencies or instrumentalities.

Certificates of deposit – Non-negotiable interest bearing time certificates of deposit in banks organized under the laws of the United States and doing business and situated in Florida.

Repurchase agreements – Overnight (sweep) repurchase agreements collateralized by any security eligible for pledge to the Florida Chief Financial officer for security of local government funds. The City may only transact repurchase agreements with financial institutions that are Well Capitalized as that term is defined by the Federal Deposit Insurance Corporation.

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(3) Cash Deposits and Investments: (Continued)

Deposits include cash on hand and amounts held in the City’s demand accounts. Each demand account is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Any balance in excess of FDIC insurance is covered by collateral held by the City’s custodial bank, which is pledged to a state trust fund that provides security in accordance with Florida Security for Public Deposits Act, Chapter 280, Florida Statutes.

The Florida Security for Public Deposits Act (the Act) established guidelines for qualification and participation by banks and savings associations, procedures for the administration of the collateral requirements and characteristics of eligible collateral. Under the Act, the qualified public depository must pledge at least 50 percent of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance. Additional collateral, up to a maximum of 125 percent, may be required, if deemed necessary under the conditions set forth in the Act.

Obligations pledged to secure deposits must be delivered to the State Treasurer or, with the approval of the State Treasurer, to a bank, savings association, or trust company provided a power of attorney is delivered to the Treasurer. Under the Act, the pool may assess participating financial institutions on a pro rata basis to fund any shortfall in the event of the failure of a member institution.

The City measures and records its investments, assets whose use is limited, and restricted assets using fair value measurement guidelines established by GASB Statement No. 72. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

As of September 30, 2018, the City’s governmental and business-type investment portfolio was composed of the following investments:

<u>Investment Type</u>	<u>Credit Quality Rating (S&P)</u>	<u>Carrying Value</u>	<u>Weighted Average Investment Maturities (in Years)</u>		<u>Fair Value Hierarchy Classification</u>
			<u>Less Than 1</u>	<u>1 – 5</u>	
FMIT 0-2 Yr High Quality Bond Fund	AAAf/S1	\$ 3,620,766	\$ 3,620,766	\$ -	Level 2
FMIT 1-3 Yr High Quality Bond Fund	AAAf/S2	565,023	-	565,023	Level 2
Florida Prime	AAAm	232,422	232,422	-	N/A
Total Portfolio		<u>\$ 4,418,211</u>	<u>\$ 3,853,188</u>	<u>\$ 565,023</u>	

Interest Rate Risk: The City’s fixed rate investments are generally tied to bond reserve requirements and are intended to be held until the funds are needed, at maturity. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City’s pension funds limit their risk by averaging investment maturities at approximately seven to ten years.

Credit Risk: Credit risk is the risk that a debt issuer or other counter-party to an investment will not fulfill its obligations. The City’s portfolio is held entirely with public depositories and is invested in SBA funds, as described above.

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(3) **Cash Deposits and Investments:** (Continued)

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

Custodial Credit Risk—Investments: In the case of investments, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City generally utilizes third party custodians to help manage custodial credit risk.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The investment policy does not permit general obligations issued by a foreign government and is, therefore, not exposed to foreign currency risk.

(b) Pensions Plans:

The City's Pension Plans are authorized to invest in all of the instruments noted above as well as the following investments:

- Bonds, stocks, commingled mutual funds
- Foreign securities.

The following chart shows the City pension funds cash and investment accounts by investment portfolios and their respective maturities (in years):

	Fair Value	Weighted Average Maturity (years)	Credit Rating Range (Moody's)	Fair Value Hierarchy Classification
Corporate bonds	\$ 6,235,295	4.6	Aaa – Baa3	Level 2
Municipal bonds and government obligations	1,824,927	10.8	Aaa – A1	Level 2
Equities	27,492,257	N/A	NR	Level 1
Mutual funds	9,412,871	N/A	NR	Level 1
Real estate funds	90,059	N/A	NR	Level 1
Total Portfolio	<u>\$ 45,055,409</u>			

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. Generally, the longer the time to maturity, the greater the exposure to interest rate risk. The established performance objectives of the Pension Plans require investment maturities to provide sufficient liquidity to pay obligations as they become due. At September 30, 2018, the weighted average maturity in years for each investment type is included in the preceding table.

Credit Risk: Credit risk is the risk that a debt issuer or other counter-party to an investment will not fulfill its obligations. The Pension Plans utilize portfolio diversification in order to limit investments to the highest rated securities as rated by nationally recognized rating agencies. The ratings of the investments held at year end are shown above. All are rated within the investment policy guidelines at September 30, 2018.

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(3) **Cash Deposits and Investments:** (Continued)

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Fire Pension trust funds policy does not allow more than five (5) percent of its assets in the common stock, capital stock, or convertible securities of any one issuing company, nor shall the aggregate investment in any one issuing company, exceed five (5) percent of the outstanding stock of that company, nor shall the aggregate of its investments at market in common stock, capital stock and convertible securities exceed sixty (60) percent of the fund's total assets. Additionally, policy does not allow more than ten (10) percent of its assets in bonds, nor shall the aggregate of its investments in bonds exceed thirty (30) percent of the fund's total assets. The Police Pension trust funds policy does not allow more than five (5) percent of its assets in the common stock, capital stock, or convertible securities of any one issuing company, nor shall the aggregate investment in any one issuing company, exceed five (5) percent of the outstanding stock of that company, nor shall the aggregate of its investments at market in common stock, capital stock and convertible securities exceed sixty-five (65) percent of the fund's total assets. Additionally, policy does not allow more than ten (10) percent of its assets in bonds, nor shall the aggregate of its investments in bonds exceed thirty-five (35) percent of the fund's total assets. The General Employee Pension trust funds policy does not allow assets in the common stock, capital stock, or convertible securities to exceed seventy (70) percent of the fund's total assets or investments in bonds to exceed thirty (30) percent of the fund's total assets. At September 30, 2018, the investment portfolios met the single issuer limitations.

Custodial Credit Risk: Custodial credit risk is the risk that the City may not recover cash and investments held by another party in the event of financial failure. Custodial credit risk is limited since investments are held in independent custodial safekeeping accounts or mutual funds.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Pension trust funds policies allow for variable limitations on the concentration of foreign securities. At September 30, 2018, the investment portfolios met the foreign securities limitations.

(4) **Accounts Receivable:**

The City's receivables consisted of the following at September 30, 2018:

	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable
Governmental Activities:			
General Fund			
Accounts receivable	\$ 545,284	\$ (14,809)	\$ 530,475
Fire Department Special Revenue Fund			
Accounts receivable	4,975	-	4,975
Nonmajor Governmental Funds			
Accounts receivable	22,946	-	22,946
Total – Governmental Activities	573,205	(14,809)	558,396
Business-Type Activities:			
Water and Sewer Fund			
Accounts receivable	2,280,832	(237,249)	2,043,583
Natural Gas Fund			
Accounts receivable	382,631	(20,574)	362,057
Totals – Business-Type Activities	2,663,463	(257,823)	2,405,640
Totals	\$ 3,236,668	\$ (272,632)	\$ 2,964,036

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(5) **Interfund Loans, Advances, Fees, and Transfers:**

The outstanding balances between funds result mainly from the time lag between the dates reimbursable expenditures occur, when transactions are recorded in the accounting system, and when payments between funds are made. Individual fund interfund receivables and payables for the primary government at September 30, 2018, are comprised of the following:

	Due From Other Funds	Due to Other Funds
Governmental Activities:		
General:		
Water and Sewer Fund	\$ 40,000	\$ -
Non-Major Funds	70,551	-
Non-Major Funds:		
General Fund	-	70,551
Business-Type Activities:		
Water and Sewer Fund:		
General Fund	-	40,000
Natural Gas Fund	94,328	-
Natural Gas Fund:		
Water and Sewer Fund	-	94,328
Totals – All Funds	\$ 204,879	\$ 204,879

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(5) **Interfund Loans, Advances, Fees, and Transfers:** (Continued)

For the year ended September 30, 2018, individual fund transfers to and from other funds for the primary government were comprised of the following:

	<u>Transfer From</u>	<u>Transfer To</u>
Governmental Activities:		
General Fund:		
Fire Department Fund	\$ -	\$ 171,739
Debt Service Fund	-	368,187
Water and Sewer Fund	870,000	-
Natural Gas Fund	250,000	-
Other Governmental Funds:		
Fire Department Fund:		
General Fund	171,739	-
Community Redevelopment Agency Fund:		
CDBG Housing Fund	-	50,000
CDBG Housing Fund:		
Community Redevelopment Agency Fund	50,000	-
Debt Service Fund:		
General Fund	368,187	-
Airport Special Revenue Fund:		
Airport Construction Fund	-	19,575
Airport Construction Fund:		
Airport Special Revenue Fund	19,575	-
	<u>1,729,501</u>	<u>609,501</u>
Business-type Activities:		
Water and Sewer Fund:		
General Fund	-	870,000
Natural Gas Fund:		
General Fund	-	250,000
	<u>-</u>	<u>1,120,000</u>
Totals – All Funds	<u>\$ 1,729,501</u>	<u>\$ 1,729,501</u>

Transfers are used to move revenues between funds to reflect the activities of the fund with the primary government. The primary government accounts for activities such as budgetary authorizations, subsidies or matching funds for various grant programs, and reimbursements to the general fund for services provided to other funds.

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(6) Capital Assets:

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated –				
Land	\$ 7,344,288	\$ -	\$ (5,000)	\$ 7,339,288
Construction in progress	5,622,394	1,439,383	(5,522,357)	1,539,420
Total capital assets, not being depreciated	<u>12,966,682</u>	<u>1,439,383</u>	<u>(5,527,357)</u>	<u>8,878,708</u>
Capital assets, being depreciated –				
Buildings and improvements	15,197,762	2,956	-	15,200,718
Infrastructure	37,886,675	6,676,680	-	44,563,355
Machinery and Equipment	11,962,436	661,325	(258,526)	12,365,235
Total capital assets, being depreciated	<u>65,046,873</u>	<u>7,340,961</u>	<u>(258,526)</u>	<u>72,129,308</u>
Less accumulated depreciation for–				
Buildings, improvements	(8,070,351)	(387,337)	-	(8,457,688)
Infrastructure	(19,199,866)	(1,465,887)	-	(20,665,753)
Machinery and Equipment	(9,755,355)	(857,778)	254,727	(10,358,406)
Total accumulated depreciation	<u>(37,025,572)</u>	<u>(2,711,002)</u>	<u>254,727</u>	<u>(39,481,847)</u>
Total capital assets, being depreciated, net	<u>28,021,301</u>	<u>(4,629,959)</u>	<u>(3,799)</u>	<u>32,647,461</u>
Governmental activities capital assets, net	<u>\$ 40,987,983</u>	<u>\$ 6,069,342</u>	<u>\$ (5,531,156)</u>	<u>\$ 41,526,169</u>
Business-type activities:				
Capital assets, not being depreciated –				
Land	\$ 5,295,556	\$ -	\$ -	\$ 5,295,556
Construction in progress	19,060,941	34,102	(19,060,941)	34,102
Total capital assets, not being depreciated	<u>24,356,497</u>	<u>34,102</u>	<u>(19,060,941)</u>	<u>5,329,658</u>
Capital assets, being depreciated –				
Buildings	7,128,334	217,607	-	7,345,941
Utility Plant and Improvements	67,809,721	19,183,136	-	86,992,857
Machinery and Equipment	9,202,921	4,572,024	(19,304)	13,755,641
Total capital assets, being depreciated	<u>84,140,976</u>	<u>23,972,767</u>	<u>(19,304)</u>	<u>108,094,439</u>
Less accumulated depreciation for –				
Buildings and improvements	(1,943,029)	(188,910)	-	(2,131,939)
Utility Plant and Improvements	(33,157,320)	(1,611,945)	-	(34,769,265)
Machinery and Equipment	(7,476,297)	(571,174)	19,304	(8,028,167)
Total accumulated depreciation	<u>(42,576,646)</u>	<u>(2,372,029)</u>	<u>19,304</u>	<u>(44,929,371)</u>
Total capital assets, being depreciated, net	<u>41,564,330</u>	<u>21,600,738</u>	<u>-</u>	<u>63,165,068</u>
Business-type activities capital assets, net	<u>\$ 65,920,827</u>	<u>\$ 21,634,840</u>	<u>\$ (19,060,941)</u>	<u>\$ 68,494,726</u>

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(6) **Capital Assets:** (Continued)

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General governmental	\$ 243,383
Public safety	479,703
Transportation	669,043
Airport	1,264,641
Culture and recreation	54,232
Total depreciation expense - governmental activities	<u>\$ 2,711,002</u>
Business-type activities:	
Water and sewer	\$ 2,240,855
Natural gas	131,174
Total depreciation expense - business-type activities	<u>\$ 2,372,029</u>

(7) **Commitments:**

As of September 30, 2018, the City had outstanding commitments on contracts in progress as follows:

<u>Project</u>	<u>Remaining Commitment</u>
CDBG Parking Lot	\$ 425,037
Lake Shore Hospital Access Road	252,569
Airport Main Runway	69,975
	<u>\$ 747,581</u>

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

During 2018, the City entered into a development agreement related to the redevelopment of the Blanche Hotel property, in which the City agreed to make a one-time grant of \$1,000,000 to the developer, construct certain infrastructure related to the redevelopment project, and execute a 10-year guaranteed rental agreement. Under this agreement, the City commits to making rent advance payments in the amount of \$35,417 per month for 10 years starting upon completion of the renovation project. The advanced rent will be refunded to the City in the form of a percentage of all rents collected by the developers monthly and a percentage of annual cash distributions, as defined in the agreement. Any rent advances not refunded will be repaid to the City upon the developer's refinancing of its original loans for development of the Blanche Hotel in no less than fifteen years, with interest, commencing on the date of refinancing. The developer's loan is secured by a subordinated mortgage and security agreement which encumbers the real estate, improvements, and other property of the developer. The \$1,000,000 million grant was paid during the fiscal year ended September 30, 2018.

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(8) Long-Term Liabilities:

Long-term liability activity for the year ended September 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
Revenue bonds and notes	8,007,412	-	(337,475)	7,669,937	517,792
Compensated absences	<u>749,800</u>	<u>706,832</u>	<u>(679,216)</u>	<u>777,416</u>	<u>597,020</u>
Governmental activities – Total long-term liabilities	<u>\$ 8,757,212</u>	<u>\$ 706,832</u>	<u>\$ (1,016,691)</u>	<u>\$8,447,353</u>	<u>\$ 1,114,812</u>
Business-type activities:					
Bonds payable:					
Revenue bonds and notes	\$ 37,436,000	\$ -	\$ (1,416,000)	\$ 36,020,000	\$ 1,454,000
Add deferred amount:					
Original issue (premium)	<u>120,525</u>	-	<u>(5,259)</u>	<u>115,266</u>	-
Total bonds and notes payable	<u>37,556,525</u>	<u>-</u>	<u>(1,421,259)</u>	<u>36,135,266</u>	<u>1,454,000</u>
Compensated absences	<u>407,688</u>	<u>297,243</u>	<u>(288,881)</u>	<u>416,050</u>	<u>306,859</u>
Business-type activities – Total long-term liabilities	<u>\$ 37,964,213</u>	<u>\$ 297,243</u>	<u>\$ (1,710,140)</u>	<u>\$ 36,551,316</u>	<u>\$ 1,760,859</u>

Bonds and notes payable in the City’s governmental activities at September 30, 2018, were comprised of the following obligations:

Series 2012 Sales Tax Revenue and Refunding Bonds, was issued to refund Series 2011 Bonds and to finance public capital projects, due in payments of principal plus interest at 2.89% semi-annually on January 1 and July 1 of each year until final maturity on July 1, 2030. Pledged by proceeds of local government half-cent sales tax revenue, including investment income of certain funds.	\$ 3,711,165
Series 2015 Community Redevelopment Agency Revenues Note, was issued to fund the construction of redevelopment projects in the Community Redevelopment Area, due in payments of principal plus interest at 1.80% semi-annually on April 1 and October 1 of each year until final maturity on April 1, 2030. Pledged by Community Redevelopment Agency tax increment revenues.	1,108,772
Series 2017 Airport Revenue Bonds was issued to construct certain capital improvements at the Lake City Gateway airport. due in payments of principal plus interest at 2.58% semi-annually on April 1 and October 1 of each year until final maturity on April 1, 2032. Pledged by local communications services tax and airport revenues.	2,850,000
Total revenue bonds and notes payable	<u>\$ 7,669,937</u>

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(8) **Long-Term Liabilities:** (Continued)

Annual debt service requirements to maturity for the City’s governmental activities bonds and notes payable are as follows:

Year Ending September 30,	Revenue Bonds		Total
	Principal	Interest	
2019	\$ 517,792	\$ 197,382	\$ 715,174
2020	531,408	183,771	715,179
2021	545,397	169,792	715,189
2022	559,745	155,438	715,183
2023	574,475	140,699	715,174
2024-2028	3,107,754	468,152	3,575,906
2029-2033	1,833,366	84,680	1,918,046
Total	<u>\$ 7,669,937</u>	<u>\$ 1,399,914</u>	<u>\$ 9,069,851</u>

Bonds and notes payable in the City’s business-type activities at September 30, 2018, were comprised of the following obligations:

Series 2010A Utility System Refunding Revenue Bonds, were issued in the amount of \$9,815,000 to refund Utilities Revenue Bonds Series 1998A and 2000. Due in payments of principal plus interest ranging from 3.5 to 5.0% semi-annually beginning in 2017 on January 1 and July 1 of each year until final maturity on July 1, 2028.	\$ 8,670,000
Series 2010B Utility System Revenue Bonds were issued in the amount of \$18,385,000 to finance the expansion of the City’s sewer capital projects. Due serially beginning in 2028 with interest rates ranging from 6.025 to 6.275%, payable in semi-annual installments due on January 1 and July 1 through July 1, 2040.	18,385,000
Series 2013 Utility System Refunding Revenue Bonds, were issued in the amount of \$3,057,200 to refund Series 2003 Revenue and Refunding bonds and to finance improvements to the City’s water and sewer system. Due serially with interest at 1.27%, payable in semi-annual installments due on January 1 and July 1 through July 1, 2023. Pledged by water and sewer fund revenues.	796,000
Series 2016 Utility System Refunding Revenue Bonds, were issued in the amount of \$9,547,000 to refund the State Revolving Fund Loan and construct improvements to the City’s water and sewer system. Due in payments of principal plus interest at 1.79% semi-annually with payments on December 15 and June 15 through June 15, 2029. Principal and interest are payable solely from and secured by a lien on the net revenues of the City’s water and sewer utility systems	8,169,000
Total revenue bonds and notes payable	<u>\$ 36,020,000</u>

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(8) **Long-Term Liabilities:** (Continued)

Annual debt service requirements to maturity for the City's business-type activities bonds and notes payable are as follows:

Year Ending September 30,	Revenue Bonds & Notes		Total
	Principal	Interest	
2019	\$ 1,454,000	\$ 1,633,955	\$ 3,087,955
2020	1,497,000	1,594,960	3,091,960
2021	1,529,000	1,500,106	3,029,106
2022	1,572,000	1,485,467	3,057,467
2023	1,616,000	1,470,549	3,086,549
2024-2028	9,157,000	6,621,624	15,778,624
2029-2033	7,430,000	4,939,520	12,369,520
2034-2038	8,060,000	2,719,952	10,775,952
2039-2040	3,705,000	351,087	4,056,087
Total	<u>\$ 36,020,000</u>	<u>\$ 22,313,220</u>	<u>\$ 58,333,220</u>

(9) **Contingencies:**

The City is engaged in various liability claims incidental to the conduct of its general government operations at September 30, 2018. The outcomes of established claims are included in these financial statements. In the opinion of the City's legal counsel, no legal proceedings are pending or threatened against the City which are not covered by applicable insurance which would inhibit its ability to perform its operations or materially affect its financial condition.

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

(10) **Risk Management:**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, all of which is satisfactorily insured by limited risk, high deductible commercial general liability insurance. Commercial insurance policies are also obtained for other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

The City is a member of the Florida Municipal Self-Insurance fund (the Fund). The fund was created to allow members to pool their liabilities pursuant to provisions in Florida Workers' Compensation Law. The City pays an annual premium to the Fund for workers' compensation coverage. The Fund's underwriting and rate setting policies were established after consulting with an independent actuary. The Fund is not assessable and the City has no liability for future deficits of the Fund, if any.

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(11) Other Postemployment Benefits (OPEB):

Plan Description—Effective October 1, 2017, the City implemented GASB Statement No. 75, *Accounting and Reporting for Post-Employment Benefits Other Than Pensions*, for certain post-employment healthcare benefits provided by the City. The City elected to implement the requirements of this statement prospectively. No assets are held in trust for payment of the OPEB liability as the City had no OPEB liability other than as arising from the implicit rate subsidy, as discussed in the following paragraph.

Retirees and their dependents are permitted to remain covered under the City’s respective health care plans as long as they pay a full premium applicable to the coverage elected. This conforms to the minimum required of Florida governmental employers per Chapter 112.08, Florida Statutes. The Other Post-Employment Benefit Plan does not issue a stand-alone report

Benefits Provided—The Other Post Employment Benefit Plan is a single-employer benefit plan administered by the City. Retirees are charged whatever the insurance company charges for the type of coverage elected, however, the premiums charged by the insurance company are based on a blending of the experience among younger active employees and older retired employees. The older retirees actually have a higher cost which means the City is actually subsidizing the cost of the retiree coverage because it pays all or a significant portion of the premium on behalf of the active employee. GASB No. 75 calls this the “implicit rate subsidy.”

Plan Membership—At October 1, 2017, the date of the latest actuarial valuation, plan participation consisted of the following:

Active Members	237
Inactive Members	10
	247

Total OPEB Liability—The City’s total OPEB liability of \$132,959 was measured as of September 30, 2018, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs—The total OPEB liability in the September 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases (FRS, General and Fire)	3.15%
Salary increases (Police)	15.00% first year and 5% each subsequent year
Discount rate	4.18%
Healthcare cost trend rate	8.50%
	Ultimate rate reached in 2074 4.00%
Retirees’ share of benefit-related costs	100.00%

The City does not have a dedicated Trust to pay retiree healthcare benefits. The discount rate was based on the S&P Municipal Bond 20 Year High Grade Rate Index as of September 27, 2018.

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(11) **Other Postemployment Benefits (OPEB):** (Continued)

Mortality rates were based on the RP-2000 Combined Mortality Table for males and females with mortality projected generationally with Improvement Scale BB.

Changes in the OPEB liability for the fiscal year ended September 30, 2018, were as follows:

	Total OPEB Liability
Balance at September 30, 2017	\$ 147,278
Changes for a year:	
Service cost	6,136
Interest	5,232
Changes of assumptions	(6,155)
Benefit payments – implicit rate subsidy	(19,532)
Net changes	(14,319)
Balance at September 30, 2018	\$ 132,959

Sensitivity of the total OPEB liability to changes in the discount rate:

The following presents the total OPEB liability of the City calculated using the discount rate of 4.18%, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is 1% lower (3.18%) or 1% higher (5.18%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Total OPEB Liability	\$ 144,643	\$ 132,959	\$ 122,485

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate:

The following presents the total OPEB liability of the City as well as what the City’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (3.00%-7.50%) or 1% higher (5.00%-9.50%) than the current healthcare cost trend rates (4.00%-8.50%):

	1% Decrease	Current Trend Rates	1% Increase
Total OPEB Liability	\$ 119,192	\$ 132,959	\$ 149,393

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

(11) Other Postemployment Benefits (OPEB): (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended September 30, 2018, the City recognized OPEB expense of \$17,989. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ -	\$ 5,276

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2019	(879)
2020	(879)
2021	(879)
2022	(879)
2023	(879)
Thereafter	(881)

(12) Employee Retirement Systems and Pension Funds:

A. Florida Retirement System

Plan Description and Administration

The City participates in the Florida Retirement System (FRS), a multiple-employer, cost sharing defined public employee retirement system which covers all of the City’s full-time employees. The System is a noncontributory retirement plan, administered by the State of Florida, Department of Administration, Division of Retirement to provide retirement and survivor benefits to participating public employees. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. The FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

In addition, all regular employees of the City are eligible to enroll as members of the Retiree Health Insurance Subsidy (HIS) Program. The HIS is a cost-sharing, multiple-employer defined benefit pension plan established and administered in accordance with section 112.363, Florida Statutes. The benefit is a monthly payment to assist retirees of the state-administered retirement systems in paying their health insurance costs. For the fiscal year ended September 30, 2018, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of service credited at retirement multiplied by \$5. The minimum payment is \$30 and the maximum payment is \$150 per month, pursuant to section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under one of the state-administered retirement systems must provide proof of eligible health insurance coverage, which can include Medicare.

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(12) **Employee Retirement Systems and Pension Funds:** (Continued)

Benefits Provided and Employees Covered

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of both Plans may include up to four years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments. Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the five highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the eight highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement plan and/or class to which the member belonged when the service credit was earned.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

Employees may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular, DROP, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

Financial Statements

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services, Bureau of Financial Reporting Statewide Financial Reporting Section by mail at 200 E. Gaines Street, Tallahassee, Florida 32399-0364; by telephone at (850) 413-5511; or at the Department's Web site (www.myfloridacfo.com). An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from:

Florida Department of Management Services
Division of Retirement, Research and Education Services
P.O. Box 9000
Tallahassee, FL 32315-9000
850-488-5706 or toll free at 877-377-1737

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(12) **Employee Retirement Systems and Pension Funds:** (Continued)

Contributions

Employers may participate in certain classes of FRS membership. The employee contribution rate for eligible employees are 3.0%. Each class has descriptions and employer contribution rates in effect during the fiscal year ended September 30, 2018, as follows (contribution rates are in agreement with the actuarially determined rates):

<u>FRS Membership Plan & Class</u>	<u>Through June 30, 2018</u>	<u>After June 30, 2018</u>
Regular Class	7.92%	8.26%
Elected Officers	45.50%	48.70%
Senior Management Service	22.71%	24.06%
Special Risk Regular	23.27%	24.50%
DROP from FRS	9.09%	9.62%

Current-year employer HIS contributions were made at a rate of 1.66% of covered payroll, included in the above rates.

Actual contributions made for entity employees participating in FRS and HIS for the plan year ended June 30, 2018, were as follows:

Entity Contributions – FRS	\$ 327,437
Entity Contributions – HIS	83,726
Employee Contributions – FRS	151,313

Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions

At September 30, 2018, the entity reported a net pension liability related to FRS and HIS as follows:

<u>Plan</u>	<u>Net Pension Liability</u>
FRS	\$ 3,460,646
HIS	1,634,089
Total	<u>\$ 5,094,735</u>

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer proportion of the net pension liability was based on a projection of the organization's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, as actuarially determined. At June 30, 2018 and June 30, 2017, the organization's proportionate share of the FRS and HIS net pension liabilities were as follows:

<u>Plan</u>	<u>2018</u>	<u>2017</u>
FRS	0.011489332%	0.010534545%
HIS	0.015439074%	0.015319547%

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(12) **Employee Retirement Systems and Pension Funds:** (Continued)

For the plan year ended June 30, 2018, pension expense was recognized related to the FRS and HIS plans as follows:

FRS	\$	683,038
HIS		171,470
Total	\$	<u>854,508</u>

Deferred outflows/inflows related to pensions:

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	FRS		HIS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 293,169	\$ (10,641)	\$ 25,017	\$ (2,776)
Changes of assumptions	1,130,771	-	181,731	(172,770)
Net different between projected and actual investment earnings	-	(267,377)	986	-
Change in proportionate share	289,942	(70,562)	146,243	-
Contributions subsequent to measurement date	100,408	-	23,465	-
	<u>\$ 1,814,290</u>	<u>\$ (348,580)</u>	<u>\$ 377,442</u>	<u>\$ (175,546)</u>

The above amounts for deferred outflows of resources for contributions related to pensions resulting from Town contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended September 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions being amortized for a period of greater than one year will be recognized in pension expense in succeeding years as follows:

2019	\$	575,429
2020		376,887
2021		83,506
2022		232,739
2023		125,746
Thereafter		149,426
Total	\$	<u>1,543,733</u>

Actuarial assumptions:

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

The total pension liability for each of the defined benefit plans was determined by an actuarial valuation, using the entry age normal actuarial cost method. Inflation increases for both plans is assumed at 2.60%. Payroll growth, including inflation, for both plans is assumed at 3.25%. Both the discount rate and the long-term expected rate of return used for FRS investments is 7.00%. This rate decreased from the prior year rate, which was 7.10%. The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(12) **Employee Retirement Systems and Pension Funds:** (Continued)

Because HIS Program uses a pay-as-you-go funding structure, a municipal bond rate of 3.87% was used to determine was used to determine the total pension for the program. This rate increased from the prior year rate, which was 3.58%. Mortality assumptions for both plans were based on the Generational RP-2000 with Projection Scale BB tables.

Long-term expected rate of return:

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in October 2018, the FRS Actuarial Assumptions conference reviewed long-term assumptions developed by both Milliman’s capital market assumptions team and by a capital market assumptions team from Aon Hewitt Investment Consulting, which consults to the Florida State Board of Administration. The table below shows Milliman’s assumptions for each of the asset classes in which the plan was invested at that time based on the long-term target asset allocation. The allocation policy’s description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

Asset Class	Target Allocation	Long-Term Arithmetic Expected Rate of Return
Cash	1.0%	2.9%
Fixed income	18.0%	4.4%
Global equities	54.0%	7.6%
Real estate	11.0%	6.6%
Private equity	10.0%	10.7%
Strategic investments	6.0%	6.0%
Total	100.0%	

Sensitivity of the net pension liability to changes in the discount rate:

The following presents the proportionate shares of the FRS and HIS net pension liability of the City calculated using the current discount rates, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

Plan	Current Discount Rate	NPL with 1% Decrease	NPL at Current Discount Rate	NPL with 1% Increase
FRS	7.00%	\$ 6,315,825	\$ 3,460,646	\$ 1,089,252
HIS	3.87%	1,861,132	1,634,089	1,444,836

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

(12) **Employee Retirement Systems and Pension Funds:** (Continued)

B. City-Sponsored Defined Benefit Pension Plans

Plan Description and Administration

The City maintains three separate single-employer, defined benefit pension plans: The City of Lake City Municipal Firefighters' Pension Trust Fund (the Fire Plan) covers all of the City's fire and rescue personnel; the City of Lake City Municipal Police Officers' Pension Trust Fund (the Police Plan) covers all of the City's police officers; the City of Lake City Employees' Retirement Plan Fund (the General Employees Plan) covers other general employees of the City. These plans contain the assets, liabilities and net position of each respective plan.

All financial activity is reported within the accompanying financial statements. Investments are reported at fair value and are managed by third party money managers. The City's independent custodian and the individual money managers price each instrument (using various third party pricing sources) and reconcile material differences. Investments that do not have an established market are reported at estimated fair value. Performance reporting, manager fees, and the City's asset valuation are based on the custodian's determination of value.

The City also has a Deferred Retirement Option Program for eligible Police and Fire Plan participants. The DROP Plan allows members who have met the eligibility requirement for normal retirement to have their retirement benefits deposited monthly into a DROP account, earning interest, while simultaneously continuing to work (but not earning additional credit for retirement) for up to thirty-six months (3 years) for General and Fire Plan and sixty months (5 years) for Police Plan. Employees who enter the DROP Program have an option of either receiving their earned compensated absences when they enter the program in one lump sum, or to receive the lump sum at the end of their employment with the City. The purpose of this program is to provide a way for retirees to accumulate additional savings while continuing employment.

Costs incurred by each of the plans for administration of the plans, which includes legal and actuarial fees, trustee fees and investment advisory fees, are borne by the respective retirement plans and are included in the actuarial analysis of the required funding amounts.

Benefits Provided and Employees Covered

Each Plan provides retirement, disability, and death benefits to plan participants and beneficiaries. Cost of living adjustments are provided to retirees and beneficiaries in accordance with the respective plan provisions. Each of the Plans has contracted with an actuary to provide an actuarial valuation of each plan as of October 1 of each year. Current membership in the employee retirement plans was composed of the following at October 1, 2018:

	General Employees' Plan	Police Officers' Plan	Firemen's Plan
Retirees and beneficiaries currently receiving benefits, including DROP participants	107	22	20
Vested terminated employees	12	17	3
Active participants	21	37	18
Total current membership	<u>140</u>	<u>76</u>	<u>41</u>

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(12) **Employee Retirement Systems and Pension Funds:** (Continued)

General Employees' Plan

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

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

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

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

Benefit terms also provide for a disability benefit, an annual 2% cost-of-living adjustment to members who completed at least twenty years of credited service and a health supplement.

The funding policy is established by City Ordinance, which may be amended by the City Council. The City is required to contribute at an actuarially determined rate. Plan members are required to contribute 2% of their annual covered salary.

The Board of Trustees is responsible for establishing and amending the General Employees Plan investment policies.

Police Officers' Plan

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

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

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

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(12) **Employee Retirement Systems and Pension Funds:** (Continued)

The normal retirement benefit shall be equal to 3.00% of final compensation times years of credited service. Benefit terms also provide for a disability benefit, an annual 2% cost-of-living adjustment to members who have attained age sixty and a health supplement.

The funding policy is established by City Ordinance, which may be amended by the City Council. The City is required to contribute at an actuarially determined rate. Plan members are required to contribute 5% of their annual covered salary.

The Board of Trustees is responsible for establishing and amending the Police Plan investment policies.

Firemen's Plan

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

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

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

The normal retirement benefit shall be equal to 2.75% of final compensation times years of credited service. Benefit terms also provide for a disability benefit, an annual 2% cost-of-living adjustment to members who have attained age sixty and a health supplement.

The funding policy is established by City Ordinance, which may be amended by the City Council. The City is required to contribute at an actuarially determined rate. Plan members are required to contribute 5% of their annual covered salary.

The Board of Trustees is responsible for establishing and amending the Fire Plan investment policies.

Financial Statements

The financial statements of the plans are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value. The City's single-employer pension plans do not issue stand-alone financial statements

Contributions

The State of Florida also makes contributions to the Firefighters' and Police Officers' Retirement Plans in accordance with Chapter 175 and Chapter 185 of the Florida Statutes as amended by the State Legislature. This contribution by the State of Florida is first recognized as revenue in the General Fund before being transferred to the Pension Fund. The City's actual annual contribution for each plan is determined by subtracting estimated employee contributions and actual State of Florida contributions from the total annual required contribution as determined by the actuary.

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(12) **Employee Retirement Systems and Pension Funds:** (Continued)

Contributions to the City's pension plans for the year ended September 30, 2018, were as follows:

	General Employees' Plan	Police Officers' Plan	Firemen's Plan	Total
Employee contributions	\$ 16,597	\$ 93,893	\$ 41,533	\$ 152,023
City contributions	959,005	296,700	314,888	1,570,593
State contributions	-	105,293	63,787	169,080
Total contributions	<u>\$ 975,602</u>	<u>\$ 495,886</u>	<u>\$ 420,208</u>	<u>\$ 1,891,696</u>

Investment Policy

See Note (3) for additional discussion of the investment policies for each of the Plans. The following was the asset allocation policy for each of the plans at September 30, 2018:

	Target Asset Allocation		
Asset Class	General Employees' Plan	Police Officers' Plan	Firemen's Plan
Domestic equities	90%	50%	67%
Bonds	8%	0%	25%
Cash and equivalents	2%	0%	3%
Real estate	0%	0%	5%
International equities	0%	15%	0%
Broad market fixed income	0%	30%	0%
Non-core fixed income	0%	5%	0%

Net Pension Liability

The components of the net pension liability of the pension plans at September 30, 2018, were as follows:

	General Employees' Plan	Police Officers' Plan	Firemen's Plan	Total
Total pension liability	\$ 23,923,310	\$ 14,729,445	\$ 10,878,447	\$ 49,531,202
Plan fiduciary net position	(21,968,490)	(16,411,043)	(10,355,715)	(48,735,248)
Net pension liability (asset)	<u>\$ 1,954,820</u>	<u>\$ (1,681,598)</u>	<u>\$ 522,732</u>	<u>\$ 795,954</u>

Plan fiduciary net position as percentage of total pension liability	91.83%	111.42%	95.19%	98.39%
---	--------	---------	--------	--------

The total pension liability was determined by an actuarial valuation as of October 1, 2017 and measurement date of September 30, 2018, using the following actuarial assumptions to all measurement periods.

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(12) **Employee Retirement Systems and Pension Funds:** (Continued)

	General Employees' Plan	Police Officers' Plan	Firemen's Plan
Inflation	3.25%	2.50%	3.00%
Salary increases	4.00-7.00%	6.00%	4.00-7.00%
Investment rate of return	7.75%	7.50%	7.75%
Mortality table	RP2000	RP2000	RP2000

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.

Best estimates of arithmetic real rates of return for each major class included in the pension plan's target asset allocation as of September 30, 2018, are summarized in the following table:

<u>Long Term Expected Real Rate of Return</u>			
Asset Class	General Employees' Plan	Police Officers' Plan	Firemen's Plan
Domestic equities	8.55%	7.50%	6.37%
Bonds	0.44%	n/a	1.38%
Cash and equivalents	0.04%	n/a	0.38%
Real estate	n/a	n/a	0.06%
International equities	n/a	8.50%	n/a
Broad market fixed income	n/a	2.50%	n/a
Non-core fixed income	n/a	2.50%	n/a

Discount rate:

The discount rate used to measure the total pension liability for each pension plan varied as discussed on the following pages. The projection of cash flows used to determine the discount rate assumed the 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.

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(12) **Employee Retirement Systems and Pension Funds:** (Continued)

Changes in net pension liability:

Changes in each plan's net pension liability were as follows:

	General Employees' Plan		
	Total Pension	Plan	Net Pension
	Liability	Fiduciary Net	Liability
	(a)	Position (b)	(a - b)
Beginning Balance	\$ 23,462,611	\$ 20,246,604	\$ 3,216,007
Changes for year:			
Service cost	93,780	-	93,780
Interest	1,765,941	-	1,765,941
Differences between expected/actual experience	141,087	-	141,087
Changes of assumptions	-	-	-
Contributions – employer	-	959,005	(959,005)
Contributions – employee	-	16,597	(16,597)
Net investment income	-	2,324,679	(2,324,679)
Benefit payments, including refunds	(1,540,109)	(1,540,109)	-
Administrative expenses	-	(38,286)	38,286
Net changes	<u>460,699</u>	<u>1,721,886</u>	<u>(1,261,187)</u>
Ending Balance	<u>\$ 23,923,310</u>	<u>\$ 21,968,490</u>	<u>\$ 1,954,820</u>

	Police Officers' Plan		
	Total Pension	Plan	Net Pension
	Liability	Fiduciary Net	Liability
	(a)	Position (b)	(asset)
	(a - b)		
Beginning Balance	\$ 13,903,057	\$ 15,312,227	\$ (1,409,170)
Changes for year:			
Service cost	368,645	-	368,645
Interest	1,041,883	-	1,041,883
Changes in benefit terms	-	-	-
Differences between expected/actual experience	155,061	-	155,061
Changes of assumptions	-	-	-
Contributions – employer	-	296,710	(296,710)
Contributions – state	-	105,293	(105,293)
Contributions – employee	-	93,893	(93,893)
Net investment income	-	1,379,459	(1,379,459)
Benefit payments, including refunds	(739,201)	(739,201)	-
Administrative expenses	-	(37,338)	37,338
Net changes	<u>826,388</u>	<u>1,098,816</u>	<u>(272,428)</u>
Ending Balance	<u>\$ 14,729,445</u>	<u>\$ 16,411,043</u>	<u>\$ (1,681,598)</u>

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(12) **Employee Retirement Systems and Pension Funds:** (Continued)

	Firemen's Plan		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a - b)
Beginning Balance	\$ 10,397,835	\$ 9,673,899	\$ 723,936
Changes for year:			
Service cost	153,355	-	153,355
Interest	786,676	-	786,676
Differences between expected/actual experience	341,659	-	341,659
Changes of assumptions	-	-	-
Contributions – employer	-	314,888	(314,888)
Contributions – state	-	63,787	(63,787)
Contributions – employee	-	41,533	(41,533)
Net investment income	-	1,124,631	(1,124,631)
Benefit payments, including refunds	(801,078)	(801,078)	-
Administrative expenses	-	(61,945)	61,945
Net changes	<u>480,612</u>	<u>681,816</u>	<u>(201,204)</u>
Ending Balance	<u>\$ 10,878,447</u>	<u>\$ 10,335,715</u>	<u>\$ 522,732</u>

Sensitivity of the net pension liability to changes in the discount rate:

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

<u>Plan</u>	<u>Current Discount Rate</u>	<u>NPL with 1% Decrease</u>	<u>NPL at Current Discount Rate</u>	<u>NPL with 1% Increase</u>
General Employees	7.75%	\$ 4,402,590	\$ 1,954,820	\$ (66,798)
Police	7.50%	261,024	(1,681,598)	(3,275,196)
Fire	7.75%	1,495,062	522,732	(746,414)
Total		<u>\$ 6,158,676</u>	<u>\$ 795,954</u>	<u>\$ (4,088,408)</u>

For the year ended September 30, 2018, the annual-money weighted rate of return on each pension plan investments, net of pension plan investment expense was as follows:

	<u>General Employees Plan</u>	<u>Police Officers' Plan</u>	<u>Firemen's Plan</u>
Annual money-weighted rate of return	8.68%	9.11%	9.57%

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions

For the year ended September 30, 2018, the City recognized pension expense of \$378,077, \$191,807, and \$311,081 in the General Employees, Police Officers', and Firemen's pension plans, respectively, for a total of \$880,965.

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(12) **Employee Retirement Systems and Pension Funds:** (Continued)

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	General Employees' Plan		Police Officers' Plan		Firemen's Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -	\$ 124,048	\$ (605,567)	\$ 315,890	\$ (33,540)
Changes of assumptions	-	-	234,982	-	144,710	-
Net different between projected and actual investment earnings	-	(1,042,342)	-	(368,110)	-	(594,794)
	<u>\$ -</u>	<u>\$(1,042,342)</u>	<u>\$ 359,030</u>	<u>\$ (973,677)</u>	<u>\$ 460,600</u>	<u>\$ (628,334)</u>

Amounts reported as deferred outflows and deferred inflows of resources related to pensions being amortized for a period of greater than one year will be recognized in pension expense in succeeding years as follows:

	General Employees' Plan	Police Officers' Plan	Firemen's Plan
2019	\$ (98,666)	\$ (24,273)	\$ 83,205
2020	(420,494)	(296,924)	(176,378)
2021	(367,397)	(276,149)	(64,481)
2022	(155,785)	(17,301)	(10,080)
2023	-	-	-
Thereafter	-	-	-

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(12) **Employee Retirement Systems and Pension Funds:** (Continued)

C. Pension Fund Financial Statements

The City does not issue separate financial statements for General Employees' Police Officers', or Firemen's Pension Plan. The basic financial statements of the City include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position that presents a single column presented by fund type for all pension trust funds. Presented below are the financial statements for each pension trust fund as of and for the year ended September 30, 2018:

STATEMENT OF FIDUCIARY NET POSITION

	<u>General Plan</u>	<u>Police Plan</u>	<u>Fire Plan</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents with trustee	\$ 2,177,630	\$ 956,130	\$ 332,180	\$ 3,465,940
Receivables				
Contributions receivable	41,450	122,746	511	164,707
Interest and dividends receivable	31,889	32,484	32,778	97,151
Total receivables	<u>73,339</u>	<u>155,230</u>	<u>33,289</u>	<u>261,858</u>
Investments, at fair value				
Corporate bonds	653,903	4,381,099	1,200,293	6,235,295
Municipal bonds	657,361	-	1,167,566	1,824,927
Equities	8,993,881	10,945,321	7,553,055	27,492,257
Mutual funds	9,412,871	-	-	9,412,871
Real estate funds	-	-	90,059	90,059
Total investments	<u>19,718,016</u>	<u>15,326,420</u>	<u>10,010,973</u>	<u>45,055,409</u>
Total assets	<u>\$ 21,968,985</u>	<u>\$ 16,437,780</u>	<u>\$ 10,376,442</u>	<u>\$ 48,783,207</u>
LIABILITIES				
Accounts payable	<u>\$ 495</u>	<u>\$ 26,737</u>	<u>\$ 20,727</u>	<u>\$ 47,959</u>
NET POSITION				
Restricted for pensions	<u>\$ 21,968,490</u>	<u>\$ 16,411,043</u>	<u>\$ 10,355,715</u>	<u>\$ 48,735,248</u>

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(12) **Employee Retirement Systems and Pension Funds:** (Continued)

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

	<u>General Plan</u>	<u>Police Plan</u>	<u>Fire Plan</u>	<u>Total</u>
Additions				
Contributions:				
Employer	\$ 959,005	\$ 296,700	\$ 314,888	\$ 1,570,593
Plan members	16,597	93,893	41,533	152,023
State - insurance premium taxes	-	105,293	63,787	169,080
Total contributions	<u>975,602</u>	<u>495,886</u>	<u>420,208</u>	<u>1,891,696</u>
Investment earnings				
Net appreciation (depreciation) in fair value of investments	1,772,912	1,061,481	946,106	3,780,499
Interest and dividends	669,267	380,365	255,327	1,304,959
Total investment earnings	<u>2,442,179</u>	<u>1,441,846</u>	<u>1,201,433</u>	<u>5,085,458</u>
Less: investment expense	(117,500)	(36,469)	(76,801)	(230,770)
Net investment income (loss)	<u>2,324,679</u>	<u>1,405,377</u>	<u>1,124,632</u>	<u>4,854,688</u>
Total additions	<u>3,300,281</u>	<u>1,901,263</u>	<u>1,544,840</u>	<u>6,746,384</u>
Deductions				
Benefit payments and refunds	1,540,109	739,200	801,078	3,080,387
Administrative expenses	38,286	63,247	61,946	163,479
Total deductions	<u>1,578,395</u>	<u>802,447</u>	<u>863,024</u>	<u>3,243,866</u>
Change in net position	<u>1,721,886</u>	<u>1,098,816</u>	<u>681,816</u>	<u>3,502,518</u>
Net position restricted for pensions, beginning of year	20,246,604	15,312,227	9,673,899	45,232,730
Net position restricted for pensions, end of year	<u>\$21,968,490</u>	<u>\$16,411,043</u>	<u>\$10,355,715</u>	<u>\$48,735,248</u>

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(13) **Restatement of Net Position:**

Government Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; was issued June 2015 and was implemented beginning with its year ending September 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. This Statement replaces the requirements of GASB Statement No. 45, *Accounting for Postemployment Benefits Other Than Pensions*, as well as the requirements of GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plan, for OPEB*, as they relate to OPEB liabilities being recorded in the statements of net position. The City's implementation of this Statement has required the restatement of certain liabilities as deferred outflows or deferred inflows of resources in the Statement of Net Position. Statement No. 75 established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. Recognition of these liabilities requires a restatement to the prior year's net position in both governmental activities and business-type activities.

Additionally, the City recorded restatements to beginning fund balance/net position in various funds as follows: 1) a change in accounting principle whereby grant revenues in governmental funds are now recognized when earned, regardless of availability period; 2) correction of an error related to cutoff of various revenue streams; and 3) to write-off old debt issuance costs in the water and sewer fund.

The impact of the above restatements on the respective fund balance/net position amounts as of September 30, 2017, are as follows:

(a) **Governmental Activities:**

	<u>General Fund</u>	<u>CDBG Housing Fund</u>	<u>Airport Capital Project Funds</u>	<u>Governmental Activities</u>
Net position – 9/30/17, originally reported	\$ 8,542,573	\$ (160,513)	\$ 1,495,468	\$ 41,165,425
Recording of beginning OPEB liability	-	-	-	183,527
Change in accounting principle – revenue	325,305	160,513	729,021	-
Correction of error – revenue cutoff	72,672	-	-	72,672
Net position – 9/30/17, as restated	<u>\$ 8,940,550</u>	<u>\$ -</u>	<u>\$ 2,224,489</u>	<u>\$ 41,421,624</u>

(b) **Business-type Activities:**

	<u>Water and Sewer Fund</u>	<u>Natural Gas Fund</u>	<u>Business-type Activities</u>
Net position – 9/30/17, originally reported	\$ 34,893,003	\$ 3,067,645	\$ 37,960,648
Recording of beginning OPEB liability	53,313	10,290	63,603
Write-off of old debt issuance costs	(314,775)	-	(314,775)
Net position – 9/30/17, as restated	<u>\$ 34,631,541</u>	<u>\$ 3,077,935</u>	<u>\$ 37,709,476</u>

CITY OF LAKE CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

(14) **Recent Accounting Pronouncements:**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future financial statements. Listed below are pronouncements with required implementation dates effective for fiscal years subsequent to September 30, 2018, that have not yet been implemented. Management has not currently determined what, if any, impact implementation of the following will have on the City's financial statements:

- (a) GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, in November 2016. GASB 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs), which are legally enforceable liabilities associated with the retirement of a tangible capital asset. The provisions in GASB 83 are effective for periods beginning after June 15, 2018.
- (b) GASB issued Statement No. 84, *Fiduciary Activities*, in January 2017. GASB 84 improves guidance regarding the identification and reporting of fiduciary activities. The provisions in GASB 84 are effective for periods beginning after December 15, 2018.
- (c) GASB issued Statement No. 87, *Leases*, in June 2017. GASB 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in GASB 87 are effective for periods beginning after December 15, 2019.
- (d) GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, in April 2018. GASB 88 requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The provisions in GASB 88 are effective for periods beginning after June 15, 2018.
- (e) GASB issued Statement No. 90, *Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61*, in August 2018. GASB 90 improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. The provisions in GASB 90 are effective for periods beginning after December 15, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LAKE CITY, FLORIDA
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY
AND RELATED RATIOS
LAST 10 FISCAL YEARS
(UNAUDITED)**

	2018
Total OPEB Liability	
Service cost	\$ 6,136
Interest	5,232
Changes of assumptions	(6,155)
Benefit payments - implicit rate subsidy	(19,532)
Net change in total OPEB liability	(14,319)
Total OPEB liability - beginning of year	147,278
Total OPEB liability - end of year	\$ 132,959

Notes to Schedule:

Valuation date: 10/1/2017

Changes of assumptions. Changes of assumptions and other changes reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

2018	4.18%
------	-------

*10 years of data will be presented as it becomes available.

CITY OF LAKE CITY, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
GENERAL EMPLOYEES' PENSION PLAN
SEPTEMBER 30, 2018
(UNAUDITED)

Fiscal Year Ending September 30,	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability					
Service cost	\$ 93,780	\$ 92,950	\$ 126,321	\$ 151,095	\$ 193,901
Interest	1,765,941	1,661,505	1,652,136	1,604,706	1,642,659
Difference between actual and expected experience	141,087	-	(241,541)	52,506	(512,911)
Changes of assumptions	-	1,052,237	-	40,814	39,439
Benefit payments including refunds of contributions	(1,540,109)	(1,379,802)	(1,385,504)	(1,190,298)	(1,139,297)
Net change in total pension liability	460,699	1,426,890	151,412	658,823	223,791
Total pension liability - beginning	23,462,611	22,035,721	21,884,309	21,225,486	21,001,695
Total pension liability - ending (a)	<u>\$ 23,923,310</u>	<u>\$ 23,462,611</u>	<u>\$ 22,035,721</u>	<u>\$ 21,884,309</u>	<u>\$ 21,225,486</u>
Total Fiduciary Net Position					
Contributions - employer	\$ 959,005	\$ 960,362	\$ 903,328	\$ 985,384	\$ 1,089,395
Contributions - employee	16,597	19,425	23,359	26,763	31,280
Net investment income	2,324,679	2,453,755	1,575,111	(252,263)	1,690,061
Benefit payments, including refunds of contributions	(1,540,109)	(1,379,802)	(1,385,504)	(1,190,298)	(1,144,518)
Administrative expense	(38,286)	(32,166)	(38,134)	(39,845)	(34,060)
Net change in plan fiduciary net position	1,721,886	2,021,574	1,078,160	(470,259)	1,632,158
Plan fiduciary net position - beginning	20,246,604	18,225,030	17,146,870	17,617,129	15,984,971
Plan fiduciary net position - ending (b)	<u>\$ 21,968,490</u>	<u>\$ 20,246,604</u>	<u>\$ 18,225,030</u>	<u>\$ 17,146,870</u>	<u>\$ 17,617,129</u>
Net pension liability - ending (a) - (b)	<u>\$ 1,954,820</u>	<u>\$ 3,216,007</u>	<u>\$ 3,810,691</u>	<u>\$ 4,737,439</u>	<u>\$ 3,608,357</u>
Plan fiduciary net position as a percentage of the total pension liability	91.83%	86.29%	82.71%	78.35%	83.00%
Covered payroll	\$ 1,015,616	\$ 1,087,009	\$ 1,129,111	\$ 1,496,576	\$ 1,625,433
Net pension liability as a percentage of covered payroll	192.48%	295.86%	337.49%	316.55%	221.99%

*10 years of data will be presented as it becomes available

CITY OF LAKE CITY, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
POLICE OFFICERS' PENSION PLAN
SEPTEMBER 30, 2018
(UNAUDITED)

Fiscal Year Ending September 30,	2018	2017	2016	2015	2014
Total Pension Liability					
Service cost	\$ 368,645	\$ 341,397	\$ 437,718	\$ 425,461	\$ 432,783
Interest	1,041,883	1,050,183	1,014,179	969,009	906,193
Changes in benefit terms	-	-	(132,292)	-	-
Difference between actual and expected experience	155,061	(741,233)	(303,219)	(118,614)	-
Changes of assumptions	-	-	587,453	-	-
Benefit payments including refunds of contributions	(739,201)	(837,333)	(609,763)	(536,201)	(506,056)
Net change in total pension liability	826,388	(186,986)	994,076	739,655	832,920
Total pension liability - beginning	13,903,057	14,090,043	13,095,967	12,356,312	11,523,392
Total pension liability - ending (a)	<u>\$ 14,729,445</u>	<u>\$ 13,903,057</u>	<u>\$ 14,090,043</u>	<u>\$ 13,095,967</u>	<u>\$ 12,356,312</u>
Total Fiduciary Net Position					
Contributions - employer	\$ 296,710	\$ 297,723	\$ 514,483	\$ 689,254	\$ 605,655
Contributions - state	105,293	112,064	118,886	95,363	95,877
Contributions - employee	93,893	85,582	84,732	88,082	84,726
Net investment income	1,379,459	1,595,827	1,279,744	(359,178)	1,184,164
Benefit payments, including refunds of contributions	(739,201)	(837,333)	(609,763)	(536,201)	(506,056)
Administrative expense	(37,338)	(33,774)	(44,309)	(33,094)	(20,159)
Net change in plan fiduciary net position	1,098,816	1,220,089	1,343,773	(55,774)	1,444,207
Plan fiduciary net position - beginning	15,312,227	14,092,138	12,748,365	12,804,139	11,359,932
Plan fiduciary net position - ending (b)	<u>\$ 16,411,043</u>	<u>\$ 15,312,227</u>	<u>\$ 14,092,138</u>	<u>\$ 12,748,365</u>	<u>\$ 12,804,139</u>
Net pension liability (asset) - ending (a) - (b)	<u>\$ (1,681,598)</u>	<u>\$ (1,409,170)</u>	<u>\$ (2,095)</u>	<u>\$ 347,602</u>	<u>\$ (447,827)</u>
Plan fiduciary net position as a percentage of the total pension liability	111.42%	110.14%	100.01%	97.35%	103.62%
Covered payroll	\$ 1,877,855	\$ 1,711,639	\$ 1,694,648	\$ 1,819,061	\$ 1,694,522
Net pension liability as a percentage of covered payroll	-89.55%	-82.33%	-0.12%	19.11%	-26.43%

*10 years of data will be presented as it becomes available

CITY OF LAKE CITY, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FIREMEN'S PENSION PLAN
SEPTEMBER 30, 2018
(UNAUDITED)

Fiscal Year Ending September 30,	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability					
Service cost	\$ 153,355	\$ 141,339	\$ 129,860	\$ 129,239	\$ 120,314
Interest	786,676	750,730	723,418	661,734	594,942
Difference between actual and expected experience	341,659	-	(83,851)	212,813	759,502
Changes of assumptions	-	173,054	-	204,390	-
Benefit payments including refunds of contributions	(801,078)	(425,576)	(431,420)	(449,619)	(369,386)
Net change in total pension liability	480,612	639,547	338,007	758,557	1,105,372
Total pension liability - beginning	10,397,835	9,758,288	9,420,281	8,661,724	7,556,352
Total pension liability - ending (a)	<u>\$ 10,878,447</u>	<u>\$ 10,397,835</u>	<u>\$ 9,758,288</u>	<u>\$ 9,420,281</u>	<u>\$ 8,661,724</u>
Total Fiduciary Net Position					
Contributions - employer	\$ 314,888	\$ 368,917	\$ 305,436	\$ 254,845	\$ 294,336
Contributions - state	63,787	-	-	-	-
Contributions - employee	41,533	43,185	41,491	41,979	41,811
Net investment income	1,124,631	1,111,293	1,066,780	(289,594)	971,584
Benefit payments, including refunds of contributions	(801,078)	(425,576)	(431,420)	(449,619)	(369,386)
Administrative expense	(61,945)	(54,477)	(43,425)	(38,590)	(30,193)
Other	-	-	-	32,341	-
Net change in plan fiduciary net position	681,816	1,043,342	938,862	(448,638)	908,152
Plan fiduciary net position - beginning	9,673,899	8,630,557	7,691,695	8,140,333	7,232,181
Plan fiduciary net position - ending (b)	<u>\$ 10,355,715</u>	<u>\$ 9,673,899</u>	<u>\$ 8,630,557</u>	<u>\$ 7,691,695</u>	<u>\$ 8,140,333</u>
Net pension liability - ending (a) - (b)	<u>\$ 522,732</u>	<u>\$ 723,936</u>	<u>\$ 1,127,731</u>	<u>\$ 1,728,586</u>	<u>\$ 521,391</u>
Plan fiduciary net position as a percentage of the total pension liability	95.19%	93.04%	88.44%	81.65%	93.98%
Covered payroll	\$ 879,278	\$ 861,178	\$ 834,327	\$ 805,330	\$ 808,371
Net pension liability as a percentage of covered payroll	59.45%	84.06%	135.17%	214.64%	64.50%

*10 years of data will be presented as it becomes available

**CITY OF LAKE CITY, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
GENERAL EMPLOYEES' PENSION PLAN
SEPTEMBER 30, 2018
(UNAUDITED)**

Fiscal Year	Actuarially Determined Contribution (ADC)	Contributions in Relation to ADC	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Employee Payroll
2018	\$ 974,284	\$ 996,166	\$ (21,882)	\$ 1,015,616	98.08%
2017	995,683	997,576	(1,893)	1,087,009	91.77%
2016	976,209	938,332	37,877	1,129,111	83.10%
2015	988,182	1,023,568	(35,386)	1,496,576	68.39%
2014	1,123,502	1,130,821	(7,319)	1,625,433	69.57%

Notes to Schedule:

Valuation Date: 10/1/2018

Methods and assumptions used to determine contribution rates:

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

*10 years of data will be presented as it becomes available

**CITY OF LAKE CITY, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
POLICE OFFICERS' PENSION PLAN
SEPTEMBER 30, 2018
(UNAUDITED)**

Fiscal Year	Actuarially Determined Contribution (ADC)	Contributions in Relation to ADC	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Employee Payroll
2018	\$ 339,892	\$ 402,003	\$ (62,111)	\$ 1,877,855	21.41%
2017	373,137	409,787	(36,650)	1,711,639	23.94%
2016	460,944	633,369	(172,425)	1,694,648	37.37%
2015	598,956	784,617	(185,661)	1,819,061	43.13%
2014	701,532	701,532	-	1,694,522	41.40%

Notes to Schedule:

Valuation Date: 10/1/2016

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method: Entry Age Normal Actuarial Cost Method
Amortization Method: Level Percentage of Pay, Closed
Remaining Amortization Period: 30 Years (as of 10/1/2015 Valuation)
Mortality: RP-2000 Table with No Projection - (Disabled Lives Set Forward 5 Years)
Retirement Age: Earlier of Age 55 and 10 Years of Service, or Age 52 with 25 Years of Service
Interest Rate: 7.50% per Year Compounded Annually, Net of Investment Related Expenses
Salary Increases: 6.00% per Year Until the Assumed Retirement Age, Projected Salary at Retirement is Increased 24% to Account for Non-regular Compensation
Early Retirement: Commencing with the Attainment of Early Retirement Status, Members are Assumed to Retire with an Immediate Subsidized Benefit at the Rate of 5% per Year
Payroll Growth: 1.00% per Year
Cost of Living Adjustment: 2.00% per Year Beginning at Age 60
Asset Valuation Method: Each Year, the Prior Actuarial Value of Assets is Brought Forward Utilizing the Historical Geometric 4-Year Average Market Value Return; it is Possible that Over Time this Technique will Produce an Insignificant Bias Above or Below Market Value
Termination and Disability Rate: See Table Below

Age	Percent Terminating During the Year	Percent Becoming Disabled During the Year
20	9.00%	0.15%
30	7.50%	0.20%
40	3.90%	0.35%
50	1.20%	0.90%

*10 years of data will be presented as it becomes available.

**CITY OF LAKE CITY, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
FIREMEN'S PENSION PLAN
SEPTEMBER 30, 2018
(UNAUDITED)**

Fiscal Year	Actuarially Determined Contribution (ADC)	Contributions in Relation to ADC	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Employee Payroll
2018	\$ 384,222	\$ 393,349	\$ (9,127)	\$ 879,278	44.74%
2017	382,832	383,213	(381)	861,178	44.50%
2016	382,832	317,272	65,560	834,327	38.03%
2015	249,267	264,721	(15,454)	805,330	32.87%
2014	292,123	303,916	(11,793)	808,371	37.60%

Notes to Schedule:

Valuation Date: 10/1/2018

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method:	Individual Entry Age, Level Percent of Pay
Amortization Method:	Level Dollar, Closed
Remaining Amortization Period:	10 to 15 Years Based on Year Established
Asset Valuation Method:	Actuarial Value, Based on 5-year Recognition of Returns Greater or Less Than the Assumed Investment Return.
Inflation:	3.00%
Investment Rate of Return:	7.75%
Salary Increases:	7% to 4%
Retirement Age:	100% at Normal Retirement Eligibility Date
Mortality:	FRS Mortality Table

*10 years of data will be presented as it becomes available.

**CITY OF LAKE CITY, FLORIDA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF INVESTMENT RETURNS
 SEPTEMBER 30, 2018
 (UNAUDITED)**

For the Year Ending September 30,	General Employees' Pension Plan	Police Officers' Pension Plan	Firemen's Pension Plan
2018	8.68%	9.11%	9.57%
2017	14.41%	11.49%	13.03%
2016	9.97%	10.06%	14.81%
2015	-0.82%	-2.79%	-2.72%
2014	11.31%	10.38%	14.75%

*10 years of data will be presented as it becomes available.

CITY OF LAKE CITY, FLORIDA
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST 10 FISCAL YEARS
(UNAUDITED)

	As of the Plan Year Ended June 30,				
	2018	2017	2016	2015	2014
Florida Retirement System (FRS)					
Proportion of the net pension liability	0.011489332%	0.010534545%	0.010698858%	0.011407846%	0.009832049%
Proportionate share of the net pension liability	\$ 3,460,646	\$ 3,116,048	\$ 2,701,470	\$ 1,473,476	\$ 599,900
Covered payroll	5,043,764	4,883,093	4,722,366	4,587,672	3,918,194
Proportionate share of the net pension liability as a percentage of covered payroll	68.61%	63.81%	57.21%	32.12%	15.31%
Plan fiduciary net position as a percentage of the total pension liability	84.26%	83.89%	84.88%	92.00%	96.09%
Health Insurance Subsidy Program (HIS)					
Proportion of the net pension liability	0.015439074%	0.015319547%	0.015298419%	0.015115116%	0.013187655%
Proportionate share of the net pension liability	\$ 1,634,089	\$ 1,638,037	\$ 1,782,967	\$ 1,541,506	\$ 1,233,078
Covered payroll	5,043,764	4,883,093	4,722,366	4,587,672	3,918,194
Proportionate share of the net pension liability as a percentage of covered payroll	32.40%	33.55%	37.76%	33.60%	31.47%
Plan fiduciary net position as a percentage of the total pension liability	2.15%	1.64%	0.97%	0.50%	0.99%

Note 1: GASB 68 requires information for 10 years. However, until a full 10-year trend is compiled, information is presented for only those years for which information is available.

**CITY OF LAKE CITY, FLORIDA
SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS
(UNAUDITED)**

	As of the Plan Year Ended June 30,				
	2018	2017	2016	2015	2014
Florida Retirement System (FRS)					
Contractually required contribution	\$ 327,437	\$ 274,240	\$ 260,909	\$ 278,133	\$ 215,364
Contributions in relation to the contractually required contribution	327,437	274,240	260,909	278,133	215,364
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 5,043,764	\$ 4,883,093	\$ 4,722,366	\$ 4,587,672	\$ 3,918,194
Contributions as a percentage of covered payroll	6.49%	5.62%	5.52%	6.06%	5.50%
Health Insurance Subsidy Program (HIS)					
Contractually required contribution	\$ 83,726	\$ 81,075	\$ 78,414	\$ 57,779	\$ 45,176
Contributions in relation to the contractually required contribution	83,726	81,075	78,414	57,779	45,176
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 5,043,764	\$ 4,883,093	\$ 4,722,366	\$ 4,587,672	\$ 3,918,194
Contributions as a percentage of covered payroll	1.66%	1.66%	1.66%	1.26%	1.15%

Note 1: GASB 68 requires information for 10 years. However, until a full 10-year trend is compiled, information is presented for only those years for which information is available.

SUPPLEMENTARY INFORMATION

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

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Airport	Seized Assets	Special Police	Drug Task Force Grant	CDBG Housing	Debt Service	
ASSETS							
Equity in pooled cash and cash equivalents	\$ 423,064	\$ 67,346	\$ 39,243	\$ 10,000	\$ 31,110	\$ 94,599	\$ 665,362
Receivables, net	22,946	-	-	-	-	-	22,946
Inventories	28,697	-	-	-	-	-	28,697
Prepaid items	1,519	-	-	-	-	-	1,519
Total assets	<u>\$ 476,226</u>	<u>\$ 67,346</u>	<u>\$ 39,243</u>	<u>\$ 10,000</u>	<u>\$ 31,110</u>	<u>\$ 94,599</u>	<u>\$ 718,524</u>
LIABILITIES							
Accounts payable and accrued liabilities	\$ 36,986	\$ -	\$ -	\$ -	\$ 3,500	\$ -	\$ 40,486
Customer deposits	100,000	-	-	-	-	-	100,000
Unearned revenue	-	14,379	-	-	-	-	14,379
Due to other funds	60,551	-	-	10,000	-	-	70,551
Total liabilities	<u>197,537</u>	<u>14,379</u>	<u>-</u>	<u>10,000</u>	<u>3,500</u>	<u>-</u>	<u>225,416</u>
FUND BALANCES							
Nonspendable:							
Inventories	28,697	-	-	-	-	-	28,697
Prepaid items	1,519	-	-	-	-	-	1,519
Restricted for:							
Public safety	-	52,967	39,243	-	-	-	92,210
Airport	248,473	-	-	-	-	-	248,473
Debt service	-	-	-	-	-	94,599	94,599
Health and welfare	-	-	-	-	27,610	-	27,610
Total fund balances	<u>278,689</u>	<u>52,967</u>	<u>39,243</u>	<u>-</u>	<u>27,610</u>	<u>94,599</u>	<u>493,108</u>
Total liabilities and fund balances	<u>\$ 476,226</u>	<u>\$ 67,346</u>	<u>\$ 39,243</u>	<u>\$ 10,000</u>	<u>\$ 31,110</u>	<u>\$ 94,599</u>	<u>\$ 718,524</u>

**CITY OF LAKE CITY, FLORIDA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	<u>Special Revenue Funds</u>						Total Nonmajor Governmental Funds
	<u>Airport</u>	<u>Seized Assets</u>	<u>Special Police</u>	<u>Drug Task Force Grant</u>	<u>CDBG Housing</u>	<u>Debt Service</u>	
REVENUES							
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ 164,450	\$ -	\$ 164,450
Charges for services	1,084,136	-	-	-	-	-	1,084,136
Investment income	21	35	-	-	-	-	56
Miscellaneous	59,385	-	3,428	-	-	-	62,813
Total revenues	<u>1,143,542</u>	<u>35</u>	<u>3,428</u>	<u>-</u>	<u>164,450</u>	<u>-</u>	<u>1,311,455</u>
EXPENDITURES							
Current:							
Public safety	-	1,067	-	-	-	-	1,067
Airport	1,015,358	-	-	-	-	-	1,015,358
Health and welfare	-	-	-	-	120,240	-	120,240
Capital outlay	39,933	-	-	-	66,600	-	106,533
Debt service:							
Principal retirement	-	-	-	-	-	255,394	255,394
Interest and fiscal charges	71,079	-	-	-	-	112,801	183,880
Total expenditures	<u>1,126,370</u>	<u>1,067</u>	<u>-</u>	<u>-</u>	<u>186,840</u>	<u>368,195</u>	<u>1,682,472</u>
Excess (deficiency) of revenues over expenditures	<u>17,172</u>	<u>(1,032)</u>	<u>3,428</u>	<u>-</u>	<u>(22,390)</u>	<u>(368,195)</u>	<u>(371,017)</u>
Other financing sources (uses)							
Transfers in	-	-	-	-	50,000	368,187	418,187
Transfers out	(19,575)	-	-	-	-	-	(19,575)
Proceeds from sale of capital assets	6,800	-	-	-	-	-	6,800
Total other financing sources (uses)	<u>(12,775)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>368,187</u>	<u>405,412</u>
Net change in fund balances	<u>4,397</u>	<u>(1,032)</u>	<u>3,428</u>	<u>-</u>	<u>27,610</u>	<u>(8)</u>	<u>34,395</u>
Fund balances, beginning of year, as restated	274,292	53,999	35,815	-	-	94,607	458,713
Fund balances, end of year	<u>\$ 278,689</u>	<u>\$ 52,967</u>	<u>\$ 39,243</u>	<u>\$ -</u>	<u>\$ 27,610</u>	<u>\$ 94,599</u>	<u>\$ 493,108</u>

CITY OF LAKE CITY, FLORIDA
SCHEDULE OF NET REVENUES AND DEBT SERVICE COVERAGE
UTILITY SYSTEM REVENUE AND REFUNDING BONDS
SERIES 2010, SERIES 2013, AND SERIES 2016 RATE COVENANT
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Gross revenues	
Charges for services	\$ 13,568,704
Other revenues	308,450
Connection and impact fees	778,305
Total gross revenues	<u>14,655,459</u>
 Cost of operation and maintenance	
Personal services	2,926,656
Contractual services and supplies	3,420,935
Internal charges	980,000
Total cost of operation and maintenance	<u>7,327,591</u>
 Net revenues	 <u><u>\$ 7,327,868</u></u>
 Current annual debt service	
2010A bonds	\$ 965,619
2010B bonds, net of \$372,753 Federal subsidy	767,513
2013 Bonds	165,576
2016 Bonds	822,193
Total current annual debt service	<u><u>\$ 2,720,901</u></u>
 Debt service coverage ratio	 <u><u>2.69</u></u>
 Required minimum debt service coverage ratio	 <u><u>1.10</u></u>

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

<u>Federal/State Agency / Pass-Through Entity / Federal/State Program</u>	<u>CFDA / CSFA Number</u>	<u>Contract / Grant Number</u>	<u>Expenditures</u>
FEDERAL AWARDS			
<u>U.S. Department of Housing and Urban Development</u>			
Indirect Programs:			
Passed-through Florida Department of Economic Opportunity: Community Development Block Grant	14.228	17DB-OL-03-22-02-C02	\$ 164,450
<u>U.S. Department of Transportation</u>			
Direct Programs:			
State and Community Highway Safety	20.600	SC-18-13-06	15,000
National Priority Safety Programs	20.616	M2HVE-18-20-05	13,625
National Priority Safety Programs	20.616	M5HVE-18-06-05	12,529
Total Highway Safety Cluster			<u>41,154</u>
Direct Programs:			
Airport Improvement Program	20.106	3-12-0039-022-2016	564,376
Airport Improvement Program	20.106	3-12-0039-023-2018	556,881
Total U.S. Department of Transportation			<u>1,162,411</u>
<u>U.S. Department of Homeland Security</u>			
Indirect Programs:			
Passed-through Florida Department of Community Affairs Hazard Mitigation Grant	97.039	Hurricane Irma	47,938
Total Federal Awards			<u><u>\$ 1,374,799</u></u>
STATE FINANCIAL ASSISTANCE			
<u>State of Florida Department of Transportation</u>			
Direct Programs:			
Economic Development Transportation Projects	55.032	GOL76 437416-1-54-01	\$ 157,431
Direct Programs:			
Aviation Grant Programs	55.004	FP#436606-1-94-17	154,426
Aviation Grant Programs	55.004	FP#440058-1-94-17	47,065
Aviation Grant Programs	55.004	FP#441222-1-94-17	192,637
Aviation Grant Programs	55.004	GOQ87	40,857
Aviation Grant Programs	55.004	GOV34	244,876
Total Aviation Grant Programs			<u>679,861</u>
Total Florida Department of Transportation			<u>837,292</u>
Total State Financial Assistance			<u><u>\$ 837,292</u></u>

The accompanying notes to the schedule of expenditures of federal awards and state financial assistance are an integral part of this schedule.

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

(1) **Basis of Presentation:**

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal and state grant activity of the City of Lake City, Florida, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Section 215.97, Florida Statutes. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City.

(2) **Summary of Significant Accounting Policies:**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

No grant awards were passed through to subrecipients.

(3) **De Minimis Indirect Cost Rate Election:**

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

(4) **Contingency:**

Project expenditures are subject to audit and adjustment. If any expenditures were to be disallowed by the grantor agency as a result of such an audit, any claim for reimbursement to the grantor agency would become a liability of the City. In the opinion of management, all project expenditures included on the accompanying schedule are in compliance with the terms of the project agreements and applicable federal and state laws and regulations.

**CITY OF LAKE CITY, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

A. Summary of Auditors' Results:

Financial Statements:

Type of audit report issued on the financial statements: *Unmodified*

Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards:

Internal control over major Federal programs:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance for major Federal programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes none reported

Auditee qualified as a low-risk auditee? yes no

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

Identification of major Federal programs:

CFDA Number	Program Name
20.106	Airport Improvement Program

State Financial Assistance:

Internal control over major State projects:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance for major State projects: *Unmodified*

Any audit findings disclosed that are required to be reported for state financial assistance projects in accordance with Chapter 10.550? _____ yes X none reported

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

Identification of major State programs:

<u>CSFA Number</u>	<u>Program Name</u>
55.004	Aviation Grant Programs

B. Financial Statement Findings: None.

2018-001 Prior Period Restatements and Other Audit Adjustments

Criteria: A key assertion related to the accuracy of an organization’s accrual-basis financial statements is cutoff. All transactions, in most cases regardless of the timing with which cash actually changes hand, should be recorded in the period to which they relate. All year-end account balances should be reviewed for proper cutoff and compliance with all applicable accounting standards.

Condition: Various adjustments were proposed as a result of our audit procedures, including a \$339,000 adjustment to recognize additional accrual of various state revenues, a \$158,000 adjustment to accrue unbilled grant revenues in the general fund, and a \$315,000 prior period adjustment for to reduce beginning net position in the water/sewer fund for bond issuance costs not written off upon the adoption of GASB 65 in prior years.

Cause: With regard to prior period balances, certain adjustments were not made in prior years upon the implementation of new accounting standards, and the old debt issuance cost balances continued to be amortized as they had been prior to the new accounting standard going into effect. With regard to current year accruals, reconciliations were not performed to ensure completeness of grant revenues relative to related expenditures.

Effect: Had the audit adjustments not been proposed, various beginning equity and ending balance sheet amounts would have been misstated.

Recommendation: We recommend all transactions and year-end balances be reviewed for proper cutoff, including a reconciliation between any related grant revenue and expenditure activity.

2018-002 Assessment of Information Technology Controls

Criteria: In the current economic and technological environment, information technology controls play a critical role in the operations, security, and integrity of an organization’s accounting and financial reporting processes.

Condition: Certain documentation necessary to perform an assessment of the City’s information technology controls was not available to be provided or could not be obtained.

Cause: Some of the requested documents for purposes of assessing the City’s information technology controls were not available or could not be obtained from the respective outside vendor.

Effect: We were unable to perform a comprehensive assessment over certain aspects of the City's general and application-level controls related to information technology. Certain deficiencies or other issues related to these controls may have not been identified and may not be known by the City.

Recommendation: We recommend the City works with its software vendors and any other outside vendors impacting the information technology environment to obtain all applicable documentation necessary to document the outside controls in place and performing ongoing risk assessments and monitoring processes related to the City's general informational technology controls.

- C. **State Project Findings and Questioned Costs:** None.
- D. **Summary Schedule of Prior Audit Findings:** Not applicable as there were no prior audit findings related to internal control over financial reporting and compliance or compliance and internal control over compliance related to the City's federal programs and state projects.
- E. **Corrective Action Plan:** See Auditee's Response to findings as listed in the table of contents.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND STATE PROJECT AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE AND CHAPTER 10.550, RULES OF THE AUDITOR GENERAL

To the Honorable Mayor, City Council, and City Manager,
City of Lake City, Florida:

Report on Compliance for Each Major Federal Program and State Project

We have audited the City of Lake City, Florida's (the City) compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* and the *Florida Department of Financial Services State Projects Compliance Supplement*, that could have a direct and material effect on each of the City's major federal programs and state projects for the year ended September 30, 2018. The City's major federal programs and state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program and State Project

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

Report on Internal Control over Compliance

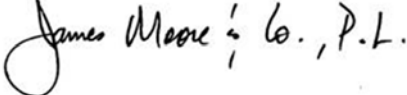
Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major state project to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance and Section 215.97, Florida Statutes, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

Gainesville, Florida
May 28, 2019



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

To the Honorable Mayor, City Council, and City Manager,
City of Lake City, Florida:

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

Internal Control over Financial Reporting

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

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

Our consideration of internal control 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. We did identify certain deficiencies in internal control, described as comments 2018-001 and 2018-002 in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies.

121 Executive Circle
Daytona Beach, FL 32114-1180
Telephone: 386-257-4100

133 East Indiana Avenue
DeLand, FL 32724-4329
Telephone: 386-738-3300

5931 NW 1st Place
Gainesville, FL 32607-2063
Telephone: 352-378-1331

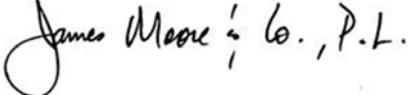
2477 Tim Gamble Place, Suite 200
Tallahassee, FL 32308-4386
Telephone: 850-386-6184

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "James Moore & Co., P.L." The signature is written in a cursive style with a large initial 'J'.

Gainesville, Florida
May 28, 2019

**INDEPENDENT AUDITORS' MANAGEMENT LETTER REQUIRED
BY CHAPTER 10.550, RULES OF THE STATE OF FLORIDA
OFFICE OF THE AUDITOR GENERAL**

To the Honorable Mayor, City Council, and City Manager,
City of Lake City, Florida:

Report on the Financial Statements

We have audited the basic financial statements of City of Lake City, Florida (the City), as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated May 28, 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 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 Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditors' Report on Compliance for Each Major Federal Program and Major State Project and Report on Internal Control over Compliance in accordance with the Uniform Guidance and Chapter 10.550, Rules of the Auditor General; Schedule of Findings and Questioned Costs; 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 28, 2019, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. No repeat findings exist from the second preceding audit. The following is a summary of prior year recommendations:

2017-001 Purchase Cards – Corrective action taken.

Official Title and Legal Authority

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

121 Executive Circle
Daytona Beach, FL 32114-1180
Telephone: 386-257-4100

133 East Indiana Avenue
DeLand, FL 32724-4329
Telephone: 386-738-3300

5931 NW 1st Place
Gainesville, FL 32607-2063
Telephone: 352-378-1331

2477 Tim Gamble Place, Suite 200
Tallahassee, FL 32308-4386
Telephone: 850-386-6184

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 has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific conditions met. In connection with our audit, we determined that the City, did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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

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 had no such recommendations.

Additional Matters

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

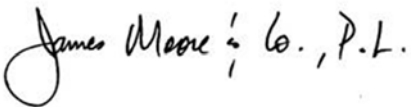
City of Lake City, Florida's Response to Findings

The City's responses to the findings identified in our audit are outlined as listed in the table of contents. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Letter

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

Gainesville, Florida
May 28, 2019



INDEPENDENT ACCOUNTANTS' EXAMINATION REPORT

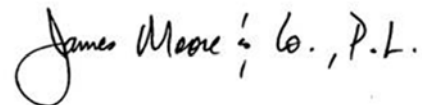
To the Honorable Mayor, City Council, and City Manager,
City of Lake City, Florida:

We have examined the City of Lake City, Florida's (the City) compliance with Section 218.415, Florida Statutes, *Local Government Investment Policies*, for the year ended September 30, 2018. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied with Section 218.415, Florida Statutes, *Local Government Investment Policies*, for the year ended September 30, 2018, in all material respects. An examination involves performing procedures to obtain evidence about the City's compliance with those requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of risks of material noncompliance with those requirements, 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.

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

Gainesville, Florida
May 28, 2019



121 Executive Circle
Daytona Beach, FL 32114-1180
Telephone: 386-257-4100

133 East Indiana Avenue
DeLand, FL 32724-4329
Telephone: 386-738-3300

5931 NW 1st Place
Gainesville, FL 32607-2063
Telephone: 352-378-1331

2477 Tim Gamble Place, Suite 200
Tallahassee, FL 32308-4386
Telephone: 850-386-6184

AUDITEE'S RESPONSE TO:
Independent Auditors' Management Letter
May 28, 2019

2018-001 Prior Period Restatements and Other Audit Adjustments

During the year an accounting change was made to more accurately reflect revenue recognition under the modified accrual basis of accounting. The accounting standards require that in order to recognize revenues, they have to be both measurable and available. In the past, the City had been using thirty days as its cut off period to recognize revenue. Accounting standards allow up to ninety days. Previous history reflected that revenue that was previously deferred was well within the ninety day time frame to recognize revenue. In fact, most revenues are received prior to sixty days. Therefore, the change was made to restate the fund balance by \$339,000. Going forward there should be no additional adjustments.

Upon adoption of GASB 65 which required any bond issuance costs to be expensed, the City discussed with the previous auditor all outstanding issuance costs that needed write off. It was determined by the prior auditor, in their opinion, that the recorded costs of \$315,000 that represented insurance costs did not meet the intended requirement for write off under GASB 65; therefore, the costs remained on the books and continued to amortize. The City would have removed these costs but relied on the previous auditor's judgment. Once again, this is a one-time adjustment to the accounting records and going forward, no issuance costs will be recorded.

The adjustment to unbilled grant revenue of \$158,000 was an oversight on the part of the City and all balances will be reviewed to ensure that going forward, all documentation will be reviewed for accuracy and appropriately recorded.

2018-002 Assessment of Information Technology Controls

The City will make all efforts to have our software vendor be more responsive to our requests to allow adequate assessment of the processes for controls and risk assessment.