

CITY OF FREEPORT, FLORIDA

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

SEPTEMBER 30, 2019

**CITY OF FREEPORT, FLORIDA
TABLE OF CONTENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<u>Page</u>
I. FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements	
<u>Governmental Funds</u>	
Balance Sheet	14
Reconciliation of the Balance Sheet to the Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balance	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	18
<u>Proprietary Funds – Business-Type Activities</u>	
Statement of Net Position	19
Statement of Revenues, Expenses and Changes in Net Position	21
Statement of Cash Flows	22
Notes to the Financial Statements	24
II. REQUIRED SUPPLEMENTARY INFORMATION	
Pension Schedules	
Schedule of Proportional Share of Net Pension Liability – Florida Retirement System	52
Schedule of Proportional Share of Net Pension Liability – Health Insurance Subsidy	53
Schedule of Contributions – Florida Retirement System	54
Schedule of Contributions – Health Insurance Subsidy	55
III. SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of State Financial Assistance	56
Notes to the Schedule of Expenditures of State Financial Assistance	57

**CITY OF FREEPORT, FLORIDA
TABLE OF CONTENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

IV. COMPLIANCE SECTION

Independent Accountants' Report on an Examination of Compliance Requirements In Accordance With Chapter 10.550, <i>Rules Of The Auditor General</i>	58
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 <i>Government Auditing Standards</i>	59
Independent Auditors' Report on Compliance for the Major State Project and on Internal Control Over Compliance Required by Chapter 10.550, <i>Rules of the Auditor General</i>	61
Schedule of Findings and Questioned Costs	63
Summary Schedule of Prior Audit Findings	65
Management Letter	66

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Freeport, Florida (the City), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City of Freeport, Florida, as of September 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison information for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension plan schedules, 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 basic financial statements. The Schedule of Expenditures of State Financial Assistance as required by Chapter 69I-5, *Schedule of Expenditures of State Financial Assistance*, Rules of the Department of Financial Services and Chapter 10.550, *Rules of the Auditor General*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of State Financial Assistance is the responsibility of management and was derived from and relates 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 the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of State Financial Assistance is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Warren Averett, LLC

Destin, Florida

April 22, 2020

**CITY OF FREEPORT, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

The City of Freeport, Florida's (the City) discussion and analysis provides an objective overview of the City's financial activities for the fiscal year ended September 30, 2019. The analysis provides summary financial information for the City and should be read in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- ❖ Total assets and deferred outflows of the City exceeded total liabilities and deferred inflows by \$53,244,913 (net position). Of this amount, \$5,389,252 is unrestricted for governmental activities, and \$28,110 is unrestricted for business-type activities, while \$366,152 is restricted net position for governmental activities and \$3,337,457 is restricted for business-type activities. Total net position includes \$18,727,986 of net investment in capital assets in the governmental activities and \$25,395,956 in the business-type activities.
- ❖ Total net position of the City increased by \$2,399,669. Of this amount, \$518,244 is attributable to governmental activities and \$1,881,425 is attributable to business-type activities.
- ❖ As of September 30, 2019, the General Fund's unassigned fund balance was \$5,739,343, which is over 1.6 times more than the General Fund's total expenditures for fiscal year 2019.
- ❖ Revenues for governmental activities increased by \$1,050,271 or 29%, and expenses increased by \$762,661 or 28%, between September 30, 2019 and 2018.
- ❖ Revenues for business-type activities increased by \$308,456 or 7%, and expenses also increased by \$141,415 or 4%. This has contributed to the reduction in the unrestricted deficit within the business-type activities by \$456,380 or 107%.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

**CITY OF FREEPORT, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

BASIC FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

These financial statements include a statement of net position and statement of activities on the City as a whole. These statements are designed to provide the user of the financial statements a combined overview of the City's financial position and results of operations in a manner similar to private-sector companies by utilizing the economic resources measurement focus and accrual basis of accounting. This method better matches revenues and expenses to the period in which the revenue is earned and the expense attributed.

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

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

Fund Financial Statements

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

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

**CITY OF FREEPORT, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

BASIC FINANCIAL STATEMENTS – CONTINUED

Notes to Financial Statements

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

FINANCIAL ANALYSIS OF THE CITY

The following table reflects the condensed statement of net position:

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 6,965,034	\$ 6,357,350	\$ 8,806,291	\$ 7,288,726	\$ 15,771,325	\$ 13,646,076
Capital assets	19,573,360	19,479,145	32,060,560	31,474,507	51,633,920	50,953,652
Total assets	26,538,394	25,836,495	40,866,851	38,763,233	67,405,245	64,599,728
Total deferred outflows of resources	380,074	304,864	538,253	427,419	918,327	732,283
Long-term liabilities	1,598,421	1,403,736	11,188,114	10,966,410	12,786,535	12,370,146
Other liabilities	737,508	635,493	1,282,162	1,115,085	2,019,670	1,750,578
Total liabilities	2,335,929	2,039,229	12,470,276	12,081,495	14,806,205	14,120,724
Total deferred inflows of resources	99,149	136,984	173,305	229,059	272,454	366,043
Net position						
Net investment in capital assets	18,727,986	18,617,833	25,395,956	24,476,575	44,123,942	43,094,408
Restricted	366,152	360,280	3,337,457	2,831,793	3,703,609	3,192,073
Unrestricted (deficit)	5,389,252	4,987,033	28,110	(428,270)	5,417,362	4,558,763
Total net position	\$ 24,483,390	\$ 23,965,146	\$ 28,761,523	\$ 26,880,098	\$ 53,244,913	\$ 50,845,244

The City is able to report positive balances in all three categories of net position for the governmental activities and business-type activities, as well as the city as a whole. The positive increase in the unrestricted net position within the business-type activities is attributable to the increase in revenues exceeding the increase in operating expenses between the two fiscal years.

Capital assets (i.e. land, buildings, infrastructure and equipment) are utilized to provide services to citizens and therefore, are not available for future spending. This investment in capital assets, net of related debt is the largest portion of the City's total net position. This comprises 83% and 85% of the City's total net position as of September 30, 2019 and 2018, respectively. The restricted net position is comprised of funds required to be used for the retirement of the City's debt obligations, as well as impact fees that can only be used for expansion of the City's water and sewer systems.

**CITY OF FREEPORT, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

FINANCIAL ANALYSIS OF THE CITY – CONTINUED

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

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
REVENUES						
Program revenues						
Charges for services	\$ 221,263	\$ 174,078	\$ 4,135,654	\$ 3,404,133	\$ 4,356,917	\$ 3,578,211
Operating grants and contributions	681,921	172,603	-	-	681,921	172,603
Capital grants and contributions	-	-	708,390	1,137,446	708,390	1,137,446
General revenues						
Property taxes	1,405,794	1,170,346	-	-	1,405,794	1,170,346
Other taxes	2,072,240	1,824,116	-	-	2,072,240	1,824,116
Other revenues	265,984	255,788	95,914	89,923	361,898	345,711
TOTAL REVENUES	4,647,202	3,596,931	4,939,958	4,631,502	9,587,160	8,228,433
EXPENSES						
Primary government						
General government	1,348,214	1,032,077	-	-	1,348,214	1,032,077
Physical Environment	683,722	574,887	-	-	683,722	574,887
Transportation	373,062	199,733	-	-	373,062	199,733
Economic Environment	183,181	133,632	-	-	183,181	133,632
Culture and Recreation	835,887	720,585	-	-	835,887	720,585
Interest on long-term debt	35,472	35,963	-	-	35,472	35,963
Business-type activities						
Water	-	-	1,885,845	1,905,347	1,885,845	1,905,347
Sewer	-	-	1,842,108	1,681,191	1,842,108	1,681,191
TOTAL EXPENSES	3,459,538	2,696,877	3,727,953	3,586,538	7,187,491	6,283,415
Change in net position before transfers	1,187,664	900,054	1,212,005	1,044,964	2,399,669	1,945,018
Transfers	(669,420)	(403,420)	669,420	403,420	-	-
Change in net position	518,244	496,634	1,881,425	1,448,384	2,399,669	1,945,018
Net position at beginning of year	23,965,146	23,468,512	26,880,098	25,431,714	50,845,244	48,900,226
Net position at end of year	\$ 24,483,390	\$ 23,965,146	\$ 28,761,523	\$ 26,880,098	\$ 53,244,913	\$ 50,845,244

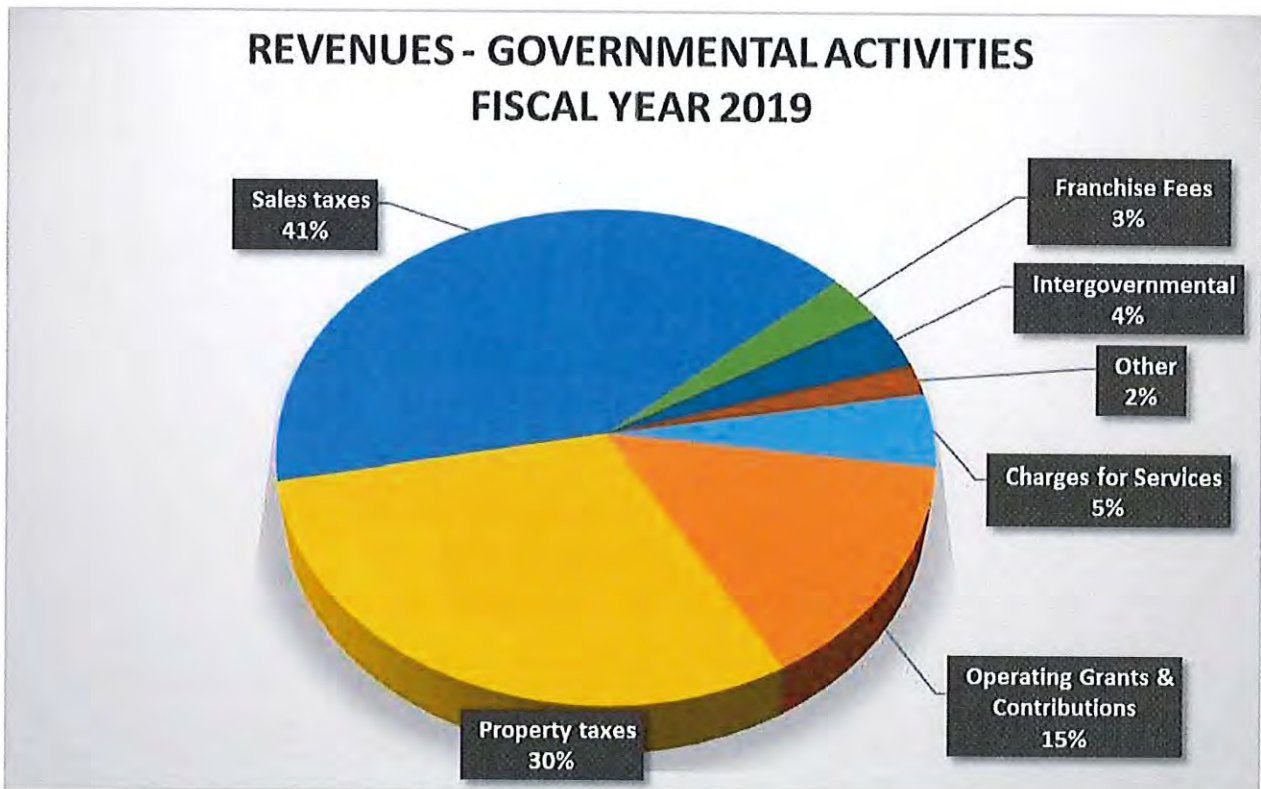
For the year ended September 30, 2019, revenues for governmental activities exceeded expenses by \$518,244, and revenues for business-type activities exceeded expenses by \$1,881,425. Total revenues increased by \$1,358,727 and the expenses increased by \$904,076, which has provided a greater positive change in net position between fiscal year ending 2019 and 2018.

**CITY OF FREEPORT, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

FINANCIAL ANALYSIS OF THE CITY – CONTINUED

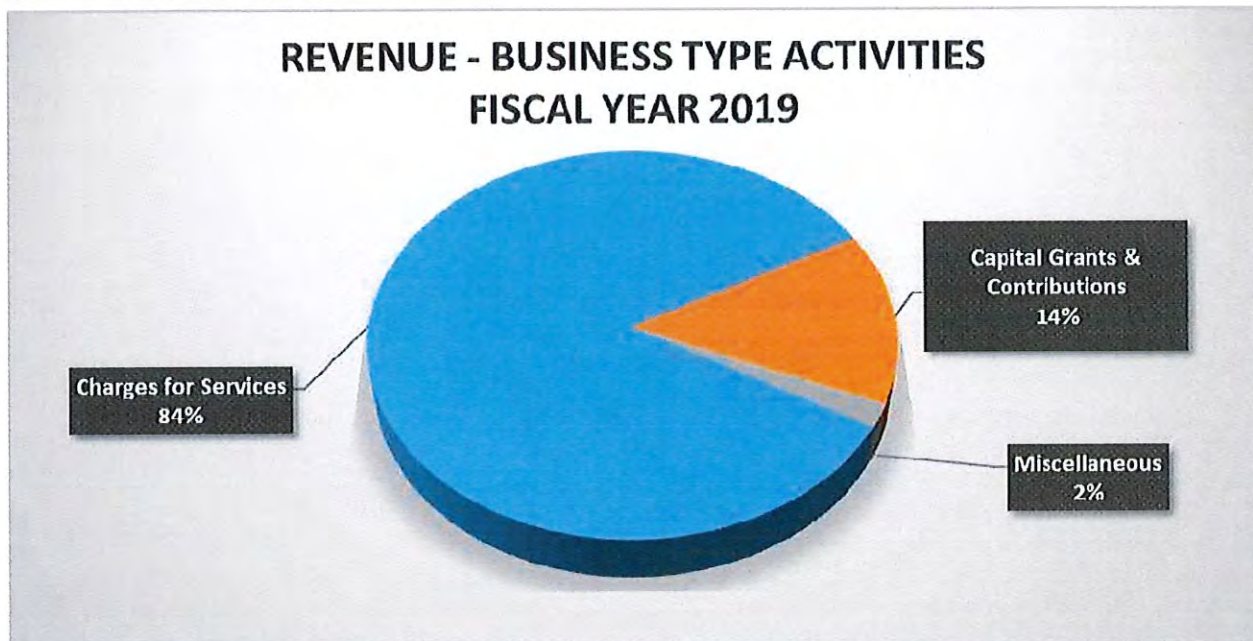
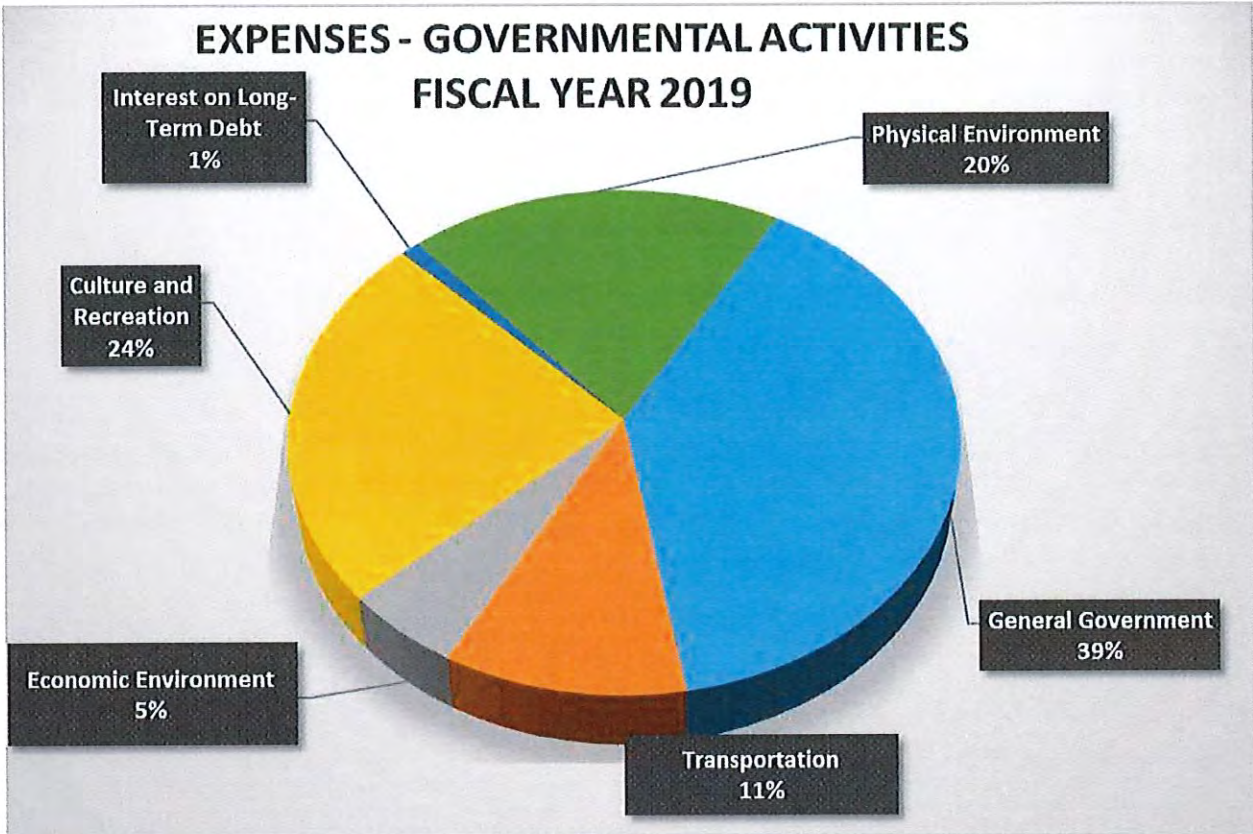
The following pie charts give a breakdown of the revenue and expenses of the governmental activities as well as the business-type activities. Some of the more interesting information contained in these pie charts are:

- ❖ Property taxes account for 30% of the City's revenues from governmental activities, and sales taxes account for 41%.
- ❖ General government and culture and recreation expenses account for 63% of total expenses for governmental activities.
- ❖ 84% of revenues for business-type activities (i.e. water and sewer) are derived from charges for services.
- ❖ Revenues received from user charges for business-type activities exceeded expenses by \$1,212,005, or 25%.



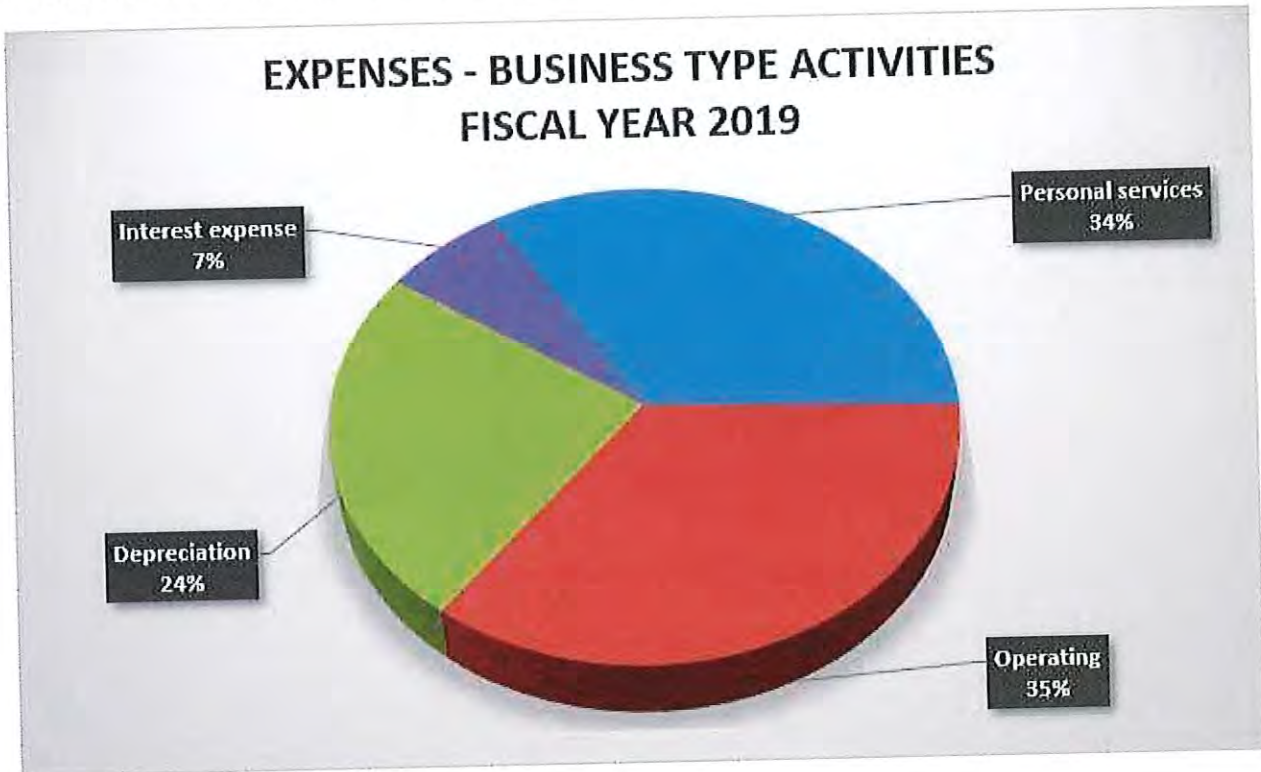
CITY OF FREEPORT, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019

FINANCIAL ANALYSIS OF THE CITY – CONTINUED



CITY OF FREEPORT, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019

FINANCIAL ANALYSIS OF THE CITY – CONTINUED



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

General Fund

The main operating fund of the City is the General Fund. As of September 30, 2019, total assets of the General Fund were \$6,965,073, and total liabilities were \$718,046. Unassigned fund balance was \$5,739,343, which represents 92% of the total fund balance of \$6,247,027.

Proprietary Funds

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

Water Fund

The asset makeup of this fund is very capital intensive with capital assets, net of accumulated depreciation, representing 75% of the fund's total assets. The depreciation expense for this fund was \$447,630 for fiscal year ended September 30, 2019. During fiscal year 2019, the Water Fund had an increase in net position of \$802,569. The total net position of this fund as of September 30, 2019, was \$12,611,018. Of this amount, \$1,892,001 or 15% was unrestricted.

**CITY OF FREEPORT, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS – CONTINUED

Sewer Fund

Just like the Water Fund the asset makeup of this fund is very capital intensive with net capital assets representing 76% of the fund's total assets. The depreciation expense for this fund was \$454,707 for the fiscal year ended September 30, 2019.

During fiscal year 2019, the Sewer Fund had an increase in net position of \$1,078,856. The total net position of the Sewer Fund, as of September 30, 2019, was \$16,150,505. Of this amount, \$15,719,382 or 97% represents the fund's investment in capital assets, net of related debt.

CAPITAL ASSET ACTIVITY

The City's total investment in capital assets for both its governmental and business-type activities as of September 30, 2019, was \$51,633,920 (net of accumulated depreciation). This investment in capital assets include land, construction in progress, building, improvements, as well as machinery and equipment.

Major capital asset transactions during fiscal year 2019 included the following:

- ❖ Sewer transmission lines and pollution control facilities – \$842,122
- ❖ Land acquired through grant funds for a barrier free park – \$301,700
- ❖ Design fees for a new sewer plant – \$202,000

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

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 12,668,964	\$ 12,367,264	\$ 392,225	\$ 392,225	\$ 13,061,189	\$ 12,759,489
Construction in progress	52,806	9,125	4,669,889	3,832,722	4,722,695	3,841,847
Buildings	2,903,112	2,912,237	821,891	821,891	3,725,003	3,734,128
Improvements other than buildings	9,190,848	8,979,537	36,061,024	35,555,493	45,251,872	44,535,030
Machinery and equipment	793,854	696,413	2,177,298	2,031,606	2,971,152	2,728,019
Accumulated depreciation	(6,036,224)	(5,485,431)	(12,061,767)	(11,159,430)	(18,097,991)	(16,644,861)
Total	\$ 19,573,360	\$ 19,479,145	\$ 32,060,560	\$ 31,474,507	\$ 51,633,920	\$ 50,953,652

**CITY OF FREEPORT, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

DEBT MANAGEMENT

At the end of the current fiscal year, the City had total bond debt and notes payable outstanding in the amount of \$8,071,290. This debt amount represents bonds secured solely by specified revenue sources (i.e. revenue bonds payable) and notes payable. Principal repayments during the year on the revenue bonds totaled \$158,938, and repayments on notes payable totaled \$194,856. There is also an additional \$565,840 in notes payable for new wastewater transmission lines and a pollution control facility.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenue Bonds payable	\$ 845,374	\$ 861,312	\$ 4,611,600	\$ 4,754,600	\$ 5,456,974	\$ 5,615,912
Notes payable	-	-	2,614,316	2,243,332	2,614,316	2,243,332
Total	<u>\$ 845,374</u>	<u>\$ 861,312</u>	<u>\$ 7,225,916</u>	<u>\$ 6,997,932</u>	<u>\$ 8,071,290</u>	<u>\$ 7,859,244</u>

OTHER FINANCIAL INFORMATION

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

REQUEST FOR INFORMATION

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

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**CITY OF FREEPORT, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2019**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Cash	\$ 4,745,037	\$ 4,599,669	\$ 9,344,706
Certificates of deposit	-	784,343	784,343
Receivables, net	15,937	383,616	399,553
Internal balances	1,299,961	(1,299,961)	-
Due from other governments	197,142	-	197,142
Inventory, at cost	-	481,468	481,468
Prepaid assets	16,777	24,832	41,609
Restricted assets			
Cash	635,660	3,330,108	3,965,768
Certificates of deposit	54,520	502,216	556,736
Capital assets			
Non-depreciable	12,721,770	5,062,114	17,783,884
Depreciable, net	6,851,590	26,998,446	33,850,036
TOTAL ASSETS	26,538,394	40,866,851	67,405,245
DEFERRED OUTFLOWS OF RESOURCES	380,074	538,253	918,327
LIABILITIES			
Accounts payable	244,001	326,894	570,895
Due to other governments	119,951	-	119,951
Accrued liabilities	29,427	40,481	69,908
Unearned revenue	-	53,097	53,097
Payable from restricted assets			
Accrued interest	2,906	21,883	24,789
Customer deposits	324,628	494,867	819,495
Non-current liabilities			
Due within one year			
Revenue bonds payable	16,595	149,000	165,595
Notes payable	-	195,940	195,940
Due in more than one year			
Unearned revenue	-	3,148,735	3,148,735
Compensated absences	43,456	84,448	127,904
Revenue bonds payable	828,779	4,462,600	5,291,379
Notes payable	-	2,418,376	2,418,376
Other post-employment benefits	17,863	30,141	48,004
Net pension liability	708,323	1,043,814	1,752,137
TOTAL LIABILITIES	2,335,929	12,470,276	14,806,205
DEFERRED INFLOWS OF RESOURCES	99,149	173,305	272,454
NET POSITION			
Net investment in capital assets	18,727,986	25,395,956	44,123,942
Restricted			
Debt service	56,358	379,069	435,427
System improvements	-	2,958,388	2,958,388
Capital infrastructure projects	309,794	-	309,794
Unrestricted	5,389,252	28,110	5,417,362
TOTAL NET POSITION	\$ 24,483,390	\$ 28,761,523	\$ 53,244,913

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Function/program activities	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government	\$ 1,348,214	\$ 128,764	\$ 286,700	\$ -	\$ (932,750)	\$ -	\$ (932,750)
Physical environment	683,722	-	-	-	(683,722)	-	(683,722)
Transportation	373,062	-	183,940	-	(189,122)	-	(189,122)
Economic environment	183,181	-	183,209	-	28	-	28
Culture and recreation	835,887	92,499	28,072	-	(715,318)	-	(715,316)
Debt service interest	35,472	-	-	-	(35,472)	-	(35,472)
Total governmental activities	3,459,538	221,263	681,921	-	(2,556,354)	-	(2,556,354)
Business-type activities							
Water	1,885,845	1,998,612	-	177,600	-	290,367	290,367
Sewer	1,842,108	2,137,042	-	530,790	-	825,724	825,724
Total business-type activities	3,727,953	4,135,654	-	708,390	-	1,116,091	1,116,091
Total primary government	\$ 7,187,491	\$ 4,356,917	\$ 681,921	\$ 708,390	(2,556,354)	1,116,091	(1,440,263)
General revenues							
Taxes							
Property taxes					1,405,794	-	1,405,794
Sales taxes					1,926,923	-	1,926,923
Franchise fees					145,317	-	145,317
Intergovernmental, unrestricted					172,425	-	172,425
Miscellaneous					87,235	84,585	171,820
Investment earnings					6,324	11,329	17,653
Transfers					(669,420)	669,420	-
Total general revenues and transfers					3,074,598	765,334	3,839,932
CHANGE IN NET POSITION					518,244	1,881,425	2,399,669
NET POSITION AT BEGINNING OF YEAR					23,965,146	25,880,098	50,845,244
NET POSITION AT END OF YEAR					\$ 24,483,390	\$ 28,761,523	\$ 53,244,913

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
GOVERNMENTAL FUND
BALANCE SHEET
SEPTEMBER 30, 2019**

	General Fund
ASSETS	
Cash	\$ 4,745,037
Receivables	15,937
Due from other funds	1,300,000
Due from other governments	197,142
Prepaid items	16,777
Restricted assets	
Cash	635,660
Certificates of deposit	54,520
TOTAL ASSETS	\$ 6,965,073
LIABILITIES	
Accounts payable	\$ 244,001
Due to other governments	119,951
Due to other funds	39
Accrued liabilities	29,427
Payable from restricted assets	
Customer deposits	324,628
Total liabilities	718,046
FUND BALANCE	
Nonspendable	16,777
Restricted	366,152
Assigned	124,755
Unassigned	5,739,343
Total fund balances	6,247,027
TOTAL LIABILITIES AND FUND BALANCE	\$ 6,965,073

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
GOVERNMENTAL FUND
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2019**

Fund balance, total governmental funds		\$ 6,247,027
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental non-depreciable/amortizable assets	12,721,770	
Governmental depreciable/amortizable assets	12,887,814	
Less accumulated depreciation/amortization	<u>(6,036,224)</u>	19,573,360
Deferred inflows of resources and deferred outflows of resources are not available/receivable or due/payable, respectively, in the current period and therefore are not reported in the governmental funds.		
Deferred outflows of resources related to pension plans	380,074	
Deferred inflows of resources related to pension plans	<u>(99,149)</u>	280,925
Long-term liabilities are not due and payable in the current period		
Revenue bonds payable	(845,374)	
Accrued interest	(2,906)	
Compensated absences	(43,456)	
Other post-employment benefits	(17,863)	
Net pension liability	<u>(708,323)</u>	<u>(1,617,922)</u>
Net position of governmental activities		<u>\$ 24,483,390</u>

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	General Fund
REVENUES	
Taxes	\$ 1,588,313
Intergovernmental	2,714,203
Charges for services	221,263
Fines	1,792
Miscellaneous	121,631
Total revenues	4,647,202
EXPENDITURES	
Current	
General government	1,185,955
Physical environment	683,722
Transportation	321,389
Economic environment	183,181
Culture and recreation	400,789
Capital outlay	645,008
Debt service	
Principal	15,938
Interest	35,529
Total expenditures	3,471,511
EXCESS OF REVENUES OVER EXPENDITURES	1,175,691
OTHER FINANCING USES	
Transfers out	(669,420)
NET CHANGE IN FUND BALANCE	506,271
FUND BALANCE AT BEGINNING OF YEAR	5,740,756
FUND BALANCE AT END OF YEAR	\$ 6,247,027

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
GOVERNMENTAL FUND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE TO THE STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2019**

Net change in fund balance – governmental funds \$ 506,271

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

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

Expenditures for capital assets	645,008	
Less current year depreciation/amortization	<u>(550,793)</u>	
		94,215

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

Revenue bond principal repayments	15,938	
Change in accrued interest on long-term debt	<u>55</u>	
		15,993

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

Change in net pension liability	(197,919)	
Change in deferred inflows of resources related to pensions	37,835	
Change in deferred inflows of resources related to pensions	75,210	
Change in long-term compensated absences	<u>(13,361)</u>	
		<u>(98,235)</u>

Change in net position of governmental activities		<u>\$ 518,244</u>
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See notes to the financial statements.

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**CITY OF FREEPORT, FLORIDA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 1,548,330	\$ 1,548,330	\$ 1,588,313	\$ 39,983
Intergovernmental	3,088,880	3,375,580	2,714,203	(661,377)
Charges for services	143,450	143,450	221,263	77,813
Fines	1,800	1,800	1,792	(8)
Miscellaneous	<u>62,900</u>	<u>62,900</u>	<u>121,631</u>	<u>58,731</u>
Total revenues	4,845,360	5,132,060	4,647,202	(484,858)
EXPENDITURES				
Current				
General government	1,319,420	1,306,540	1,185,955	120,585
Physical environment	1,384,670	1,384,670	683,722	700,948
Transportation	409,640	407,630	321,389	86,241
Economic environment	105,400	105,400	183,181	(77,781)
Culture and recreation	597,110	582,110	400,789	181,321
Capital outlay	264,700	266,710	645,008	(378,298)
Debt service				
Principal	15,940	15,940	15,938	2
Interest	<u>35,530</u>	<u>35,530</u>	<u>35,529</u>	<u>1</u>
Total expenditures	<u>4,132,410</u>	<u>4,104,530</u>	<u>3,471,511</u>	<u>633,019</u>
EXCESS OF REVENUES OVER EXPENDITURES	712,950	1,027,530	1,175,691	148,161
OTHER FINANCING USES				
Transfers out	<u>(653,330)</u>	<u>(669,420)</u>	<u>(669,420)</u>	<u>-</u>
Total other financing uses	<u>(653,330)</u>	<u>(669,420)</u>	<u>(669,420)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	59,620	358,110	506,271	148,161
FUND BALANCE - BEGINNING OF YEAR	<u>5,740,756</u>	<u>5,740,756</u>	<u>5,740,756</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 5,800,376</u></u>	<u><u>\$ 6,098,866</u></u>	<u><u>\$ 6,247,027</u></u>	<u><u>\$ 148,161</u></u>

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2019**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
ASSETS			
Current assets			
Cash	\$ 2,026,634	\$ 2,573,035	\$ 4,599,669
Certificates of deposit	784,343	-	784,343
Restricted assets - cash	1,101,952	2,228,156	3,330,108
Restricted assets - certificates of deposit	435,358	66,858	502,216
Receivables, net	194,489	189,127	383,616
Due from other funds	85,138	-	85,138
Inventory	438,950	42,518	481,468
Prepaid items	13,026	11,806	24,832
Total current assets	<u>5,079,890</u>	<u>5,111,500</u>	<u>10,191,390</u>
Non-current assets			
Capital assets			
Non-depreciable	464,541	4,597,573	5,062,114
Depreciable, net	<u>15,045,140</u>	<u>11,953,306</u>	<u>26,998,446</u>
Total non-current assets	<u>15,509,681</u>	<u>16,550,879</u>	<u>32,060,560</u>
TOTAL ASSETS	<u>20,589,571</u>	<u>21,662,379</u>	<u>42,251,950</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>285,631</u>	<u>252,622</u>	<u>538,253</u>

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION – CONTINUED
 SEPTEMBER 30, 2019**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 62,185	\$ 264,709	\$ 326,894
Accrued liabilities	24,541	15,940	40,481
Due to other funds	-	1,385,099	1,385,099
Unearned revenue	47,383	5,714	53,097
Revenue bonds payable	142,000	7,000	149,000
Notes payable	71,698	124,242	195,940
Payable from restricted assets			
Accrued interest	16,229	5,654	21,883
Customer deposits	494,867	-	494,867
Total current liabilities	<u>858,903</u>	<u>1,808,358</u>	<u>2,667,261</u>
Non-current liabilities			
Unearned revenue	1,066,054	2,082,681	3,148,735
Compensated absences	57,216	27,232	84,448
Revenue bonds payable	4,269,600	193,000	4,462,600
Notes payable	1,349,809	1,068,567	2,418,376
Other post-employment benefits	15,829	14,312	30,141
Net pension liability	554,409	489,405	1,043,814
Total non-current liabilities	<u>7,312,917</u>	<u>3,875,197</u>	<u>11,188,114</u>
TOTAL LIABILITIES	<u>8,171,820</u>	<u>5,683,555</u>	<u>13,855,375</u>
DEFERRED INFLOWS OF RESOURCES	92,364	80,941	173,305
NET POSITION			
Invested in capital assets	9,676,574	15,719,382	25,395,956
Restricted for system improvements	681,762	2,276,626	2,958,388
Restricted for debt service	360,681	18,388	379,069
Unrestricted (deficit)	1,892,001	(1,863,891)	28,110
TOTAL NET POSITION	<u>\$ 12,611,018</u>	<u>\$ 16,150,505</u>	<u>\$ 28,761,523</u>

See notes to the financial statements.

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**CITY OF FREEPORT, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 1,998,612	\$ 2,137,042	\$ 4,135,654
OPERATING EXPENSES			
Personal services	683,332	573,828	1,257,160
Operating	529,503	778,096	1,307,599
Depreciation	447,630	454,707	902,337
Total operating expenses	<u>1,660,465</u>	<u>1,806,631</u>	<u>3,467,096</u>
OPERATING INCOME (LOSS)	338,147	330,411	668,558
NON-OPERATING REVENUES (EXPENSES)			
Interest expense	(225,380)	(35,477)	(260,857)
Interest	7,160	4,169	11,329
Miscellaneous	42,312	42,273	84,585
Total non-operating revenues (expenses)	<u>(175,908)</u>	<u>10,965</u>	<u>(164,943)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	162,239	341,376	503,615
Impact fees	177,600	530,790	708,390
Transfers in	462,730	206,690	669,420
Total capital contributions and transfers	<u>640,330</u>	<u>737,480</u>	<u>1,377,810</u>
CHANGE IN NET POSITION	802,569	1,078,856	1,881,425
NET POSITION AT BEGINNING OF YEAR	<u>11,808,449</u>	<u>15,071,649</u>	<u>26,880,098</u>
NET POSITION AT END OF YEAR	<u>\$ 12,611,018</u>	<u>\$ 16,150,505</u>	<u>\$ 28,761,523</u>

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 1,877,146	\$ 1,995,843	\$ 3,872,989
Payments to suppliers/employees	(1,483,431)	(1,213,385)	(2,696,816)
Miscellaneous income	42,312	42,273	84,585
Net cash provided by operating activities	<u>436,027</u>	<u>824,731</u>	<u>1,260,758</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Change in interfund balances	(419,498)	(274,546)	(694,044)
Transfers in	462,730	206,690	669,420
Net cash provided (used) by non-capital financing activities	<u>43,232</u>	<u>(67,856)</u>	<u>(24,624)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from impact fees	177,600	530,790	708,390
Acquisitions of capital assets	(157,474)	(1,330,916)	(1,488,390)
Proceeds from capital grants and contributions	1,515,455	-	1,515,455
Proceeds from issuance of long-term debt	-	565,840	565,840
Principal repayments on long-term debt	(207,261)	(130,595)	(337,856)
Interest paid on long-term debt	(225,870)	(34,552)	(260,422)
Net cash provided (used) by capital and related financing activities	<u>1,102,450</u>	<u>(399,433)</u>	<u>703,017</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	7,160	4,169	11,329
Purchase of certificates of deposits	(1,219,701)	(66,858)	-
Net cash provided (used) by investing activities	<u>(1,212,541)</u>	<u>(62,689)</u>	<u>11,329</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	369,168	294,753	1,950,480
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,759,418</u>	<u>4,506,438</u>	<u>7,265,856</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,128,586</u>	<u>\$ 4,801,191</u>	<u>\$ 9,216,336</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF			
Current	\$ 2,026,634	\$ 2,573,035	\$ 4,599,669
Restricted	1,101,952	2,228,156	3,330,108
Total cash and cash equivalents	<u>\$ 3,128,586</u>	<u>\$ 4,801,191</u>	<u>\$ 7,929,777</u>

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS – CONTINUED
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 338,147	\$ 330,411	\$ 668,558
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	447,630	454,707	902,337
Miscellaneous revenue	42,312	42,273	84,585
Decrease (increase) in assets:			-
Accounts receivable, net	321	(16,539)	(16,218)
Inventory	(372,289)	1,409	(370,880)
Prepaid items	(3,317)	1,919	(1,398)
Deferred outflows of resources	(58,868)	(51,966)	(110,834)
Increase (decrease) in liabilities:			
Customer deposits	52,489	-	52,489
Accounts payable	17,624	71,667	89,291
Accrued liabilities	6,151	1,237	7,388
Compensated absences	14,804	3,181	17,985
Unearned revenue	(174,276)	(124,660)	(298,936)
Other post-employment benefits	-	484	484
Net pension liability	154,912	136,749	291,661
Deferred inflows of resources	(29,613)	(26,141)	(55,754)
Net cash provided by operating activities	<u>\$ 436,027</u>	<u>\$ 824,731</u>	<u>\$ 1,260,758</u>

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of City

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

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

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

The Reporting Entity

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

As of September 30, 2019, the City had no component units with a significant operational or financial relationship with the City.

Government-Wide and Fund Financial Statements

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

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-Wide and Fund Financial Statements – Continued

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

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

Measurement Focus and Basis of Accounting

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

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

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

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

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

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus and Basis of Accounting – Continued

The following is the current property tax calendar:

Property Tax Calendar

Lien Date	January 1st
Levy Date	November 1st
Due Date	November 1st
Delinquent Date	April 1st

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

Revenue recognition criteria for property taxes requires that property taxes expected to be collected within 60 days of the current period be accrued. No accrual has been made for 2019 ad valorem taxes because property taxes are not legally due until subsequent to the end of the fiscal year.

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

Basis of Presentation

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

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

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

CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

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

Governmental

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

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

Proprietary

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

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

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

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

Cash and Cash Equivalents

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

Receivables and Payables

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

All receivables in governmental funds are typically shown net of an allowance for uncollectibles. At September 30, 2019, the City considers all governmental fund receivables collectible and accordingly, does not have an allowance.

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

CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Receivables and Payables – Continued

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

Inventory

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

Restricted Assets

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

Capital Assets

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

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

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

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Capital Assets – Continued

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

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

Deferred Inflows/Outflows of Resources

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

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

Compensated Absences

The City allows employees to accumulate earned, but unused personal leave based on the length of service to the City. All vested or accumulated leave is accrued when incurred in the government-wide financial statements and in the proprietary fund type financial statements. A liability for compensated absences is reported in the governmental fund types financial statements only if they have matured, for example, as a result of employee resignations or retirements.

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

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

CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Compensated Absences – Continued

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

In the government-wide financial statements and the proprietary fund type financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are recorded as liabilities to the extent it is probable the benefits will result in termination payments. A liability is reported in the governmental fund type financial statements only for amounts which have matured and are due based on retirement.

Unearned Revenue

Unearned revenues are reported in connection with resources that have been received but not yet earned. At September 30, 2019, unearned revenue in the Water Fund and the Sewer Fund is composed of prepayments for regular utility services and payments received for water and wastewater system connection fees from developers.

Long-Term Obligations

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

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

Other Postemployment Benefits (OPEB) Liability

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

CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Other Postemployment Benefits (OPEB) Liability – Continued

The City reports a total OPEB liability of \$48,004 as of September 30, 2019. This amount is recognized in the government-wide financial statements and in the proprietary funds financial statements. Due to the insignificant amounts involved, management has elected not to provide the detailed footnotes as required by the GASB.

Net Pension Liability

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

Classification of Fund Balance

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

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

CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Classification of Fund Balance – Continued

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

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

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

Net Position

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

Estimates

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

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Events

On March 11, 2020, the World Health Organization declared the novel strain of the coronavirus (“COVID-19”) a pandemic. The COVID-19 outbreak is disrupting supply chains and affecting production and services across a range of industries, including but not limited to tourism and travel. The extent of the impact of COVID-19 on the City’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our citizens, employees, vendors and economical mitigation measures to be taken by federal and state government, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the City’s financial condition or results of operations is uncertain and cannot be estimated.

Subsequent events were evaluated through April 22, 2020, which is the date the financial statements were available to be issued.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets

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

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

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

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. As stated above, encumbrance accounting is employed in governmental funds. Any purchase order or contract outstanding at year-end does not constitute expenditures, but instead are reported as assignment of fund balance. Total encumbrances reported as assigned fund balance in the accompanying financial statements were \$124,755 at September 30, 2019.

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

3. DEPOSITS AND INVESTMENTS

Deposits

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

As of September 30, 2019, the value of the City's deposits was \$13,447,088, all of which was held by qualified public depositories under Chapter 280, Florida Statutes.

Certificates of Deposit

The City invests surplus funds into interest-bearing certificates of deposit at qualified public depositories in accordance with Section 218.415, Florida Statutes. Certificates of deposit are recorded at cost plus accrued interest, which approximates fair value. As of September 30, 2019, the total carrying value of certificates of deposit was \$1,341,079. These certificates have maturity dates ranging from May 2020 through August 2020.

4. RECEIVABLES

Receivables and amounts due from other governments at September 30, 2019, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>		<u>Total</u>
	<u>General Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	
Accounts	\$ 15,937	\$ 241,135	\$ 209,258	\$ 466,330
Less allowance for doubtful accounts	-	(46,646)	(20,131)	(66,777)
Total receivables, net	<u>\$ 15,937</u>	<u>\$ 194,489</u>	<u>\$ 189,127</u>	<u>\$ 399,553</u>
Taxes	\$ 188,017	\$ -	\$ -	\$ 188,017
Grants	<u>9,125</u>	<u>-</u>	<u>-</u>	<u>9,125</u>
Due from other governments	<u>\$ 197,142</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 197,142</u>

Due from Other Governments

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

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

5. CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 12,367,264	\$ 301,700	\$ -	\$ 12,668,964
Construction in progress	9,125	34,556	9,125	52,806
Total capital assets not being depreciated	<u>12,376,389</u>	<u>336,256</u>	<u>9,125</u>	<u>12,721,770</u>
Capital assets being depreciated				
Buildings	2,912,237	-	(9,125)	2,903,112
Improvements other than buildings	8,979,537	211,311	-	9,190,848
Machinery and equipment	696,413	97,441	-	793,854
Total capital assets being depreciated	<u>12,588,187</u>	<u>308,752</u>	<u>(9,125)</u>	<u>12,887,814</u>
Less accumulated depreciation				
Buildings	(768,316)	(58,113)	-	(826,429)
Improvements other than buildings	(4,284,549)	(435,636)	-	(4,720,185)
Machinery and equipment	(432,566)	(57,044)	-	(489,610)
Total accumulated depreciation	<u>(5,485,431)</u>	<u>(550,793)</u>	<u>-</u>	<u>(6,036,224)</u>
Total capital assets being depreciated, net	<u>7,102,756</u>	<u>(242,041)</u>	<u>(9,125)</u>	<u>6,851,590</u>
Governmental activities, net	<u>\$ 19,479,145</u>	<u>\$ 94,215</u>	<u>\$ -</u>	<u>\$ 19,573,360</u>

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

5. CHANGES IN CAPITAL ASSETS – CONTINUED

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 392,225	\$ -	\$ -	\$ 392,225
Construction in progress	3,832,722	1,344,251	(507,084)	4,669,889
Total capital assets not being depreciated	<u>4,224,947</u>	<u>1,344,251</u>	<u>(507,084)</u>	<u>5,062,114</u>
Capital assets being depreciated				
Buildings	821,891	-	-	821,891
Improvements other than buildings	35,555,493	-	505,531	36,061,024
Machinery and equipment	2,031,606	144,139	1,553	2,177,298
Total capital assets being depreciated	<u>38,408,990</u>	<u>144,139</u>	<u>507,084</u>	<u>39,060,213</u>
Less accumulated depreciation				
Buildings	(183,981)	(18,133)	-	(202,114)
Improvements other than buildings	(9,449,750)	(747,966)	-	(10,197,716)
Machinery and equipment	(1,525,699)	(136,238)	-	(1,661,937)
Total accumulated depreciation	<u>(11,159,430)</u>	<u>(902,337)</u>	<u>-</u>	<u>(12,061,767)</u>
Total capital assets being depreciated, net	<u>27,249,560</u>	<u>(758,198)</u>	<u>507,084</u>	<u>26,998,446</u>
Business-type activities, net	<u><u>\$ 31,474,507</u></u>	<u><u>\$ 586,053</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 32,060,560</u></u>

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

Governmental activities	
General government	\$ 84,572
Transportation	51,673
Culture and recreation	414,548
Total depreciation expense - governmental activities	<u><u>\$ 550,793</u></u>
Business-type activities	
Water	\$ 447,630
Sewer	454,707
Total depreciation expense - business-type activities	<u><u>\$ 902,337</u></u>

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

6. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM

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

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

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

Pension Plan

Plan Description

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

Benefits Provided

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

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

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

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

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

Pension Plan – Continued

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

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

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

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

Contributions

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Regular Class:	8.47%	8.26%	7.92%
Special Risk:	25.48%	24.50%	23.27%
Senior Management Class:	25.41%	24.06%	22.71%
DROP:	14.60%	14.03%	13.26%

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

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

Pension Plan – Continued

These employer contribution rates include 1.66% for HIS Plan subsidies for the periods October 1, 2016 through September 30, 2019. The City's contributions, including employee contributions, to the pension plan totaled \$120,210, \$103,662, and \$49,564 for the fiscal years ended September 30, 2019, 2018, and 2017, respectively.

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

At September 30, 2019, the City reported a liability of \$1,335,130 for its proportionate share of the pension plan's net pension liability. The City's proportionate share of the net pension liability was based on the City's share of contributions to the FRS relative to the contributions of all participating governments. At June 30, 2019, the City's proportionate share was 0.003876841%.

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019.

For the fiscal year ended September 30, 2019, the City recognized pension expense of \$196,634. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 79,190	\$ 829
Change of assumptions	342,919	-
Net difference between projected and actual earnings on pension plan investments	-	73,866
Changes in proportion and differences between City pension plan contributions and proportionate share of contributions	313,085	118,029
City pension plan contributions subsequent to the measurement date	28,352	-
	\$ 763,546	\$ 192,724

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

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

Pension Plan – Continued

A component of deferred outflows of resources related to the pension plan of \$28,352, resulting from City contributions to the plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2020. Other components reported as deferred outflows of resources and deferred inflows of resources related to the pension plan, except for changes in proportion and related differences in the share of contributions, will be recognized in pension expense (income) as follows:

Fiscal year ending	Amount
<u>September 30:</u>	
2019	\$ 162,114
2020	74,129
2021	127,952
2022	105,395
2023	53,987
Thereafter	18,893
	\$ 542,470

Actuarial Assumptions

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

Inflation	2.60%
Salary increases	3.25%, average, including inflation
Investment rate of return	6.90%, net of pension plan investment expense, including inflation

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

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

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

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

Pension Plan – Continued

Actuarial Assumptions – Continued

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

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1.00%	3.30%	3.30%	1.20%
Fixed income	18.00%	4.10%	4.10%	3.50%
Global equity	54.00%	8.00%	6.80%	16.50%
Private equity	11.00%	11.20%	8.40%	25.80%
Strategic investments	6.00%	5.90%	5.70%	6.70%
Real estate (property)	<u>10.00%</u>	6.70%	6.10%	11.70%
Total	<u>100.00%</u>			
Assumed inflation – mean			2.60%	1.70%

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

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

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

The following represents the City's proportionate share of the net pension liability calculated using the discount rate of 6.90%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount

	<u>1% Decrease 5.90%</u>	<u>Current Discount Rate 6.90%</u>	<u>1% Increase 7.90%</u>
City's proportionate share of the net pension liability (asset)	\$ 2,307,995	\$ 1,335,130	\$ 522,623

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

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

Pension Plan – Continued

Pension Plan Fiduciary Net Position

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

HIS Plan

Plan Description

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

Benefits Provided

For the fiscal year ended September 30, 2019, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month. To be eligible to receive these benefits, a retiree under a state-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Contributions

The HIS Plan is funded by required contributions from FRS participating employers, as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2019, the HIS contribution for the plan was 1.66%. The City contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

The City's contributions to the HIS Plan totaled \$20,695, \$17,765, and \$15,741 for the fiscal years ended September 30, 2019, 2018, and 2017, respectively.

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

At September 30, 2019, the City reported a liability of \$417,007 for its proportionate share of the HIS Plan's net pension liability. At June 30, 2019, the City's proportionate share was .003726934%.

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019.

CITY OF FREEPORT, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2019

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

HIS Plan – Continued

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources – Continued
 For the fiscal year ended September 30, 2019, the City recognized pension expense of \$13,312. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,065	\$ 511
Change of assumptions	48,285	34,083
Net difference between projected and actual earnings on pension plan investments	269	-
Changes in proportion and differences between City pension plan contributions and proportionate share of contributions	96,135	45,136
City pension plan contributions subsequent to the measurement date	5,027	-
	\$ 154,781	\$ 79,730

A component of deferred outflows of resources related to the HIS Plan totaling \$5,027, resulting from City contributions to the HIS Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending September 30, 2020. Other components reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan, except for changes in the proportion and related differences in the share of contributions will be recognized in pension expense as follows:

Fiscal year ending September 30:	Amount
2018	\$ 16,334
2019	14,715
2020	11,778
2021	5,647
2022	8,695
Thereafter	12,855
	\$ 70,024

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

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

HIS Plan – Continued

Actuarial Assumptions

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

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

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

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

Discount Rate

The discount rate used to measure the total pension liability was 3.50%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

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

The following represents the City's proportionate share of the net pension liability calculated using the discount rate 3.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower one percentage point higher than the current rate:

	<u>1% Decrease</u> <u>2.50%</u>	<u>Current</u> <u>Discount</u> <u>Rate</u> <u>3.50%</u>	<u>1% Increase</u> <u>4.50%</u>
City's proportionate share of the net pension liability (asset)	\$ 476,034	\$ 417,007	\$ 367,843

Pension Plan Fiduciary Net Position

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

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

7. LONG-TERM DEBT

Changes in Long-Term Debt Liabilities

Long-term debt activity for the year ended September 30, 2019, is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Revenue bonds payable	\$ 861,312	\$ -	\$ (15,938)	\$ 845,374	\$ 16,595
Compensated absences	30,095	42,666	(29,305)	43,456	-
Total governmental activities	\$ 891,407	\$ 42,666	\$ (45,243)	\$ 888,830	\$ 16,595
Business-type activities					
Revenue bonds payable	\$ 4,754,600	\$ -	\$ (143,000)	\$ 4,611,600	\$ 149,000
Notes payable	2,243,332	565,840	(194,856)	2,614,316	195,940
Compensated absences	66,463	73,250	(55,265)	84,448	-
Total business-type activities	\$ 7,064,395	\$ 639,090	\$ (393,121)	\$ 7,310,364	\$ 344,940

Description of Long-Term Debt Outstanding

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
GOVERNMENTAL ACTIVITIES			
<i>Revenue Bonds - Direct Placement</i>			
\$1,000,000 City of Freeport, Florida Capital Improvement Revenue Bonds, Series 2007, 4.125% interest and principal due in annual installments of \$51,467 through September 2047. Franchise fees and local communications service tax revenues are pledged for payment of the note. Proceeds were used for the construction of a new administration building.	\$ 16,595	\$ 828,779	\$ 845,374
Total revenue bonds	16,595	828,779	845,374
<i>Compensated Absences</i>			
Total long-term portion of accumulated, vested annual and sick leave for governmental funds.	-	43,456	43,456
TOTAL GOVERNMENTAL ACTIVITIES	\$ 16,595	\$ 872,235	\$ 888,830

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

7. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding – Continued

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
BUSINESS-TYPE ACTIVITIES			
<i>Revenue Bonds</i>			
\$1,014,000 City of Freeport, Florida, Water System Junior Lien Revenue Bonds, Series 1996, 4.5% interest and principal due in annual installments of \$55,505 to \$61,655 through October 2036. Proceeds were used to fund improvements to the water distribution system.	\$ 26,000	\$ 628,000	\$ 654,000
\$1,606,000 City of Freeport, Florida, Water System Revenue Bonds, Series 2003, 4.5% interest and principal due in annual installments of \$59,197 to \$89,452 through October 2042. Proceeds were used to fund improvements to the water distribution system.	32,000	1,227,600	1,259,600
\$1,200,000 City of Freeport, Florida, Water System Revenue Bonds, Series 2012, 2.75% interest and principal due in annual installments of \$70,898 to \$70,928 through October 2035. Proceeds were used to fund improvements to the North Bay water distribution system.	38,000	1,550,000	1,588,000
<i>Revenue Bonds - Direct Placement</i>			
\$1,977,000 City of Freeport, Florida, Water System Revenue Bonds, Series 2004, 4.5% interest and principal due in annual installments of \$109,280 to \$110,770 through October 2043. Proceeds were used to fund improvements to the North Bay water distribution system.	46,000	864,000	910,000
\$280,000 City of Freeport, Florida, Sewer System Revenue Bonds, Series 2000, 4.5% interest and principal due in annual installments of \$8,360 to \$15,530 through October 2039. Proceeds were used to fund improvements to the wastewater treatment plant.	7,000	193,000	200,000
Total revenue bonds	149,000	4,462,600	4,611,600
<i>Notes Payable - Direct Borrowing</i>			
\$2,200,000 Walton County Sewer Interlocal Agreement (as modified) dated May 2006, unsecured, noninterest bearing with principal payments due in annual installments of \$102,686 through December 2019. Proceeds were used to fund an extension of the Bay Area wastewater system.	102,686	-	102,686

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

7. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding – Continued

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Notes Payable Direct Borrowing - Continued			
\$2,380,106 Florida Department of Transportation Promissory Note dated January 2012, unsecured, noninterest bearing with principal payments due in annual installments of \$36,706 to \$39,668 through October 2042. Proceeds were used to relocate and expand utility services along US Highway 331.	<u>39,668</u>	<u>631,726</u>	<u>671,394</u>
\$1,400,000 Commercial Promissory Note dated May 2015, of which \$872,652 was allocated to the Water Fund, 4.85% interest and principal due in monthly installments of \$5,688 through July 2035. Proceeds were used to refund two outstanding bond issuances and is secured by future water, sewer revenues.	<u>32,030</u>	<u>718,083</u>	<u>750,113</u>
\$1,400,000 Commercial Promissory Note dated May 2015, of which \$527,348 was allocated to the Sewer Fund, 4.85% interest and principal due in monthly installments of \$3,437 through July 2035. Proceeds were used to refund two outstanding bond issuances and is secured by future water, sewer revenues.	<u>19,631</u>	<u>440,115</u>	<u>459,746</u>
\$863,900 State of Florida Department of Environmental Protection Revolving Loan Fund; due in semi-annual installments of \$25,640 through 7/15/40 at 0.78%. Proceeds were used to fund the engineering & construction of a wastewater pollution control facility and is secured by future water, sewer revenues.	<u>-</u>	<u>562,940</u>	<u>562,940</u>
\$67,694 State of Florida Department of Environmental Protection Revolving Loan Fund; semi annual payments of \$2,791 including interest at 1.43% beginning June 2019 through June 2032. Proceeds were used to fund the engineering and construction of a wastewater pollution control facility and is secured by future water, sewer revenues.	<u>1,925</u>	<u>65,512</u>	<u>67,437</u>
Total notes payable	<u>195,940</u>	<u>2,418,376</u>	<u>2,614,316</u>
Accrued Compensated Absences			
Accumulated, vested annual compensation for Enterprise Funds.	<u>-</u>	<u>84,448</u>	<u>84,448</u>
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 344,940</u>	<u>\$ 6,965,424</u>	<u>\$ 7,310,364</u>
GRAND TOTAL LONG-TERM DEBT			<u>\$ 8,199,194</u>

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

7. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding – Continued

The City's outstanding revenue bonds payable and notes payable do not contain any significant events of default with finance-related consequences, termination events with finance-related consequences or subjective acceleration clauses.

Pledged Revenue

The City has pledged certain revenues to repay certain bonds and notes outstanding as of September 30, 2019. The following table reports the revenues pledged for each debt issue, the amount of such revenues received in the current year, the current year principal and interest paid on the debt, the approximate percentage of each revenue, which is pledged to meet the debt obligation, the date through which the revenue is pledged under the debt agreement, and the total pledged future revenues for each debt, which is the amount of principal and interest on the debt at year end.

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

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

7. LONG-TERM DEBT – CONTINUED

Requirement to Amortize all Long-Term Debt

The annual requirements to amortize all debt outstanding except accrued annual leave as of September 30, 2019, follows:

Governmental Activities

<u>Year Ending September 30</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 16,595	\$ 34,872
2021	17,280	34,187
2022	17,993	33,474
2023	18,735	32,732
2024	19,508	31,959
2025-2029	110,294	147,042
2030-2034	134,999	122,338
2035-2039	165,235	92,100
2040-2044	202,245	55,090
2045-2049	142,490	11,913
Total	<u>\$ 845,374</u>	<u>\$ 595,707</u>

Business-Type Activities

<u>Year Ending September 30</u>	<u>Revenue Bonds</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 149,000	\$ 191,597	\$ 195,940	\$ 59,470
2021	155,000	185,697	140,694	64,479
2022	162,000	179,544	147,327	57,846
2023	168,000	173,112	150,618	54,555
2024	174,000	166,427	153,924	51,249
2025-2029	983,000	721,990	827,212	198,410
2030-2034	1,195,000	508,260	836,565	86,479
2035-2039	986,000	264,923	160,015	2,666
2040-2044	639,600	67,806	2,021	-
Total	<u>\$ 4,611,600</u>	<u>\$ 2,459,356</u>	<u>\$ 2,614,316</u>	<u>\$ 575,154</u>

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

8. RISK MANAGEMENT

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

9. INTERFUND BALANCES AND TRANSFERS

The following is a summary of interfund balances at September 30, 2019:

Due to Fund	Due from Fund		
	General Fund	Sewer Fund	Total
General Fund	\$ -	\$ 1,300,000	\$ 1,300,000
Water Fund	39	85,099	85,138
	\$ 39	\$ 1,385,099	\$ 1,385,138

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

The following is a summary of interfund transfers for the year ended September 30, 2019:

Transfers Out	Transfers In		
	Water Fund	Sewer Fund	Total
General Fund	\$ 462,730	\$ 206,690	\$ 669,420
	\$ 462,730	\$ 206,690	\$ 669,420

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

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

10. GOVERNMENTAL FUND BALANCES

At September 30, 2019, the City's governmental fund balances were classified as follows:

	General Fund
Nonspendable	
Prepaid items	\$ 16,777
Restricted for	
Capital expansion projects	309,794
Debt service	56,358
Total restricted	366,152
Assigned to	
Equipment purchases	68,065
Parks building project	25,156
Other purposes	31,534
Total assigned	124,755
Unassigned	5,739,343
	\$ 6,247,027

11. COMMITMENTS AND CONTINGENCIES

Grants

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

Interlocal Landfill Agreement

In 1995, the City entered into an interlocal agreement with Walton County for solid waste disposal services. Under the terms of the agreement, the County provides a landfill and solid waste collection services to the City's residents. In lieu of tipping fees, the City remits its 1% small county surtax receipts to the County as payment for the solid waste disposal services. At the end of each fiscal year, any funds remaining from the aforementioned small county surtaxes remitted to the County throughout the year are redistributed to the local governments participating in the agreement pursuant to the Florida Department of Revenue's sales tax distribution formula in effect at the time of distribution. The City remitted \$1,238,519 to Walton County for solid waste collection and disposal services and received a refund of surplus operating funds from the County totaling \$554,797 for the fiscal year ended September 30, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	0.003876841%	0.003101888%	0.001868061%	0.001502455%	0.003019949%	0.004024554%
City's proportionate share of the net pension liability (asset)	\$ 1,335,130	\$ 934,305	\$ 552,749	\$ 379,371	\$ 390,067	\$ 245,557
City's covered-employee payroll	\$ 1,278,395	\$ 1,202,318	\$ 969,153	\$ 803,112	\$ 862,866	\$ 1,082,584
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	104.44%	77.71%	57.03%	47.24%	45.21%	22.68%
Plan fiduciary net position as a percentage of the total pension liability	82.61%	84.26%	83.89%	84.88%	92.00%	96.09%

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

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

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

	2019	2018	2017	2016	2015	2014
City's proportion of the net pension liability (asset)	0.003726934%	0.003101369%	0.002972526%	0.002440516%	0.003229403%	0.003672819%
City's proportionate share of the net pension liability (asset)	\$ 417,007	\$ 328,252	\$ 317,836	\$ 284,432	\$ 329,348	\$ 343,418
City's covered-employee payroll	\$ 1,278,395	\$ 1,202,318	\$ 969,153	\$ 803,112	\$ 862,866	\$ 1,082,584
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	32.62%	27.30%	32.80%	35.42%	38.17%	31.72%
Plan fiduciary net position as a percentage of the total pension liability	2.63%	2.15%	1.64%	0.97%	0.50%	0.99%

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

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 131,130	\$ 111,502	\$ 56,985	\$ 57,958	\$ 71,193	\$ 106,547
Contributions in relation to the contractually required contribution	<u>(131,130)</u>	<u>(111,502)</u>	<u>(56,985)</u>	<u>(57,958)</u>	<u>(71,193)</u>	<u>(106,547)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,278,395	\$ 1,202,318	\$ 969,153	\$ 803,112	\$ 862,866	\$ 1,082,584
Contributions as a percentage of covered-employee payroll	10.26%	9.27%	5.88%	7.22%	8.25%	9.84%

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

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 21,016	\$ 19,958	\$ 16,087	\$ 13,332	\$ 14,323	\$ 17,971
Contributions in relation to the contractually required contribution	<u>(21,016)</u>	<u>(19,958)</u>	<u>(16,087)</u>	<u>(13,332)</u>	<u>(14,323)</u>	<u>(17,971)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,278,395	\$ 1,202,318	\$ 969,153	\$ 803,112	\$ 862,866	\$ 1,082,584
Contributions as a percentage of covered-employee payroll	1.64%	1.66%	1.66%	1.66%	1.66%	1.66%

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

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

SUPPLEMENTAL INFORMATION

**CITY OF FREEPORT, FLORIDA
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

State Agency Pass-Through Entity State Project	CSFA Number	Contract / Grant Number	Expenditures	Passed thru to Subrecipients
Florida Department of Environmental Protection				
Direct projects				
Wastewater Treatment Facility Construction	37.077	WW60321	\$ 562,483	\$ -
Florida Communities Trust	37.078	UA-008	286,700	-
Total Florida Department of Environmental Protection			<u>849,183</u>	<u>-</u>
Florida Department of Transportation				
Direct project				
Small County Outreach Program	55.009	G0T60	190,440	-
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u>\$ 1,039,623</u>	<u>\$ -</u>

See notes to the schedule

**CITY OF FREEPORT, FLORIDA
NOTES TO THE SCHEDULE OF EXPENDITURES
OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of State Financial Assistance (the Schedule) includes the state grant activity of the City of Freeport, Florida (the City) for the year ended September 30, 2019. The information in this schedule is presented in accordance with the requirements of Chapter 69I-5, *Schedule of Expenditures of State Financial Assistance*, Rules of the Department of Financial Services and Chapter 10.550, *Rules of the Auditor General*. Because the Schedule presents only a selected portion of the operations of the Company, it is not intended to and does not present the financial position, changes in net position 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 the cost principles contained in Chapter 69I-5, *Schedule of Expenditures of State Financial Assistance*, Rules of the Department of Financial Services and Chapter 10.550, *Rules of the Auditor General*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

IV. COMPLIANCE SECTION

- COMPLIANCE MATTERS
- MANAGEMENT LETTER
- RESPONSES TO MANAGEMENT LETTER

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

To the Honorable Mayor and
Members of the City Council

We have examined the City of Freeport, Florida's (the City) compliance with Section 218.415, Florida Statutes, in regard to investments for the year ended September 30, 2019.

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

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the specified requirements. An examination involves performing procedures to obtain evidence about whether the City compliance with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including the assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination of the City's compliance with specified requirements.

In our opinion, the City of Freeport, Florida complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2019.

Warren Averett, LLC

Destin, Florida
April 22, 2020

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

To the Honorable Mayor and
Members of the City Council

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of governmental activities, the business-type activities and each major fund of the City of Freeport, Florida (the City), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 22, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Warren Averett, LLC

Destin, Florida

April 22, 2020

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE
MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY CHAPTER 10.550, RULES OF THE
AUDITOR GENERAL**

To the Honorable Mayor and
Members of the City Council

Report on Compliance of Major State Project

We have audited the City of Freeport, Florida's (the City) compliance with the types of requirements described in the Department of Financial Services' *State Projects Compliance Supplement*, that could have a direct and material effect on the City's major State project for the year ended September 30, 2019. The City's major State project is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with State statutes, regulations and the terms and conditions of its State assistance applicable to its State projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the city's major State project 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Chapter 10.550, *Rules of the Auditor General*. Those standards and Chapter 10.550, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major 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 the major State project. However, our audit does not provide legal determination of the City's compliance.

Opinion on the Major State Project

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major State project for the year ended September 30, 2019.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major State project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major State project and to test and report on internal control over compliance in accordance with Chapter 10.550, *Rules of the Auditor General*, 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 as combination of deficiencies in internal control over compliance with the 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 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 results of that testing based on the requirements of Chapter 10.550, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purposes.

Warren Averett, LLC
Destin, Florida
April 22, 2020

CITY OF FREEPORT, FLORIDA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 SEPTEMBER 30, 2019

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that is/are not considered to be material weakness(es)? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

State Project

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that is/are not considered to be material weakness(es)? Yes X None Reported

Type of auditor's report issued on compliance for major project: Unmodified

- Any audit finding disclosed that are required to be reported in accordance with Chapter 10.557, *Rules of the Auditor General*? Yes X No

Identification of major State project:

State Project Name

State CSFA No.

Wastewater Treatment Facility Construction

37.007

Dollar threshold used to distinguish between Type A and Type B State projects:

\$311,887

**CITY OF FREEPORT, FLORIDA
SCHEDULE OF FINDINGS AND
QUESTIONED COSTS – CONTINUED
SEPTEMBER 30, 2019**

II. FINDINGS – FINANCIAL STATEMENTS

The results of our audit of the City did not disclose any findings required to be reported under *Generally Accepted Governmental Auditing Standards*.

III. FINDINGS – MAJOR STATE PROJECT

The results of audit of the City did not disclose any findings required to be reported under Chapter 10.550, *Rules of the Auditor General*.

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City of Freeport

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
SEPTEMBER 30, 2019**

FINDINGS – FINANCIAL STATEMENTS

2018-001 – Grant Accrual Process

Condition

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

Current Status

Corrective action was taken.

MANAGEMENT LETTER

To the Honorable Mayor and
Members of the City Council

Report on the Financial Statements

We have audited the financial statements of the City of Freeport, Florida (the City), as of and for the fiscal year ended September 30, 2019, and have issued our report thereon dated April 22, 2020.

Auditors' Responsibility

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

Other Reporting Requirements

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements in Accordance with *Government Auditing Standards* and our Independent Accountants' Report on an Examination of Compliance Requirements in Accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports, which are dated April 22, 2020, 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 corrective actions have been taken to address findings and recommendations made in the preceding annual financial report. Corrective actions have been taken to address the findings and recommendations made in the preceding financial audit report.

Official Title and Legal Authority

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

Financial Condition and Management

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

Pursuant to Sections 10.554(1)(i)5.c., and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures for the City. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. Our assessment was performed as of September 30, 2019.

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

Additional Matters

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

Purpose of this Letter

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

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

Warren Averett, LLC
Destin, Florida
April 22, 2020