

TOWN OF PONCE DE LEON, FLORIDA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

**TOWN OF PONCE DE LEON, FLORIDA
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SEPTEMBER 30, 2019**

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor
and Town Council Members

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 Town of Ponce de Leon, Florida (the Town), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Town'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 Town of Ponce de Leon, Florida, as of September 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-9 and the budgetary comparison information for the General Fund on page 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2020, on our consideration of the Town'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 Town's internal control over financial reporting and compliance.

Warren Averett, LLC

Fort Walton Beach, Florida
August 17, 2020

**TOWN OF PONCE DE LEON, FLORIDA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

General Information

As management of the Town, we offer readers of the financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year ended September 30, 2019. We encourage readers to consider the information presented here in conjunction with our Town's financial statements, which follow this section.

Financial Highlights

- The assets of the Town's governmental activities exceeded its liabilities at the close of fiscal year 2019 by \$663,781. The Town has a deficit unrestricted net position of \$98,718.
- The assets of the Town's business-type activities exceeded its liabilities at the close of fiscal year 2019 by \$2,563,123. Of this amount, \$2,496,789 is invested in capital assets (net of related debt), and \$28,042 is restricted by third party sources. The Town has a remaining deficit unrestricted net position of \$38,292.

Overview of the Financial Statements

The focus of the financial statements is on both the Town as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison (year-to-year, government-to-government) and enhance the Town's accountability.

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to private-sector business.

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

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenue and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g. earned but unused annual leave).

**TOWN OF PONCE DE LEON, FLORIDA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

Government-Wide Financial Statements – Continued

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). The governmental activities of the Town include general government, public safety, public services and intergovernmental functions. The business-type activities of the Town include the water and sewer operations. All of these activities are collectively referred to in the financial statements as those of the primary government.

Fund Financial Statements

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

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Such information may be useful in evaluating a government's near-term financial requirements. Found on pages 12-15 of this report are the basic governmental fund financial statements.

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

The Town maintains two individual governmental funds (General Fund and Special Revenue Fund). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for these funds.

The Town adopts an annual appropriated budget for its General Fund. Budgetary comparison schedules are provided for the fund to demonstrate compliance with the budget, which are located within the required supplementary information on page 33 of this report.

**TOWN OF PONCE DE LEON, FLORIDA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

Proprietary Fund

An enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses an enterprise fund to account for its water and sewer operations. Proprietary fund statements provide the same type of information as the government-wide financial statements, except in more detail. Found on pages 16-19 of this report are the basic proprietary fund financial statements.

Notes to the Financial Statements

The notes provide additional information, which is essential to the full understanding of the data provided in the government-wide and fund financial statements. Beginning on page 20 of this report are the notes to the financial statements.

Government-Wide Financial Analysis

As noted earlier, net position may serve as a useful indicator of a government's financial position. Overall, the Town's assets were \$4,226,679, and liabilities were \$999,775 at the close of the fiscal year.

The largest portion of the Town's net position, \$3,114,517, reflects its net investment in capital assets (e.g. land, buildings, improvements other than buildings, infrastructure and other), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the Town's net investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position, \$172,813, represents resources that are subject to external restrictions on how they may be used. The remaining unrestricted deficit net position is \$60,426.

**TOWN OF PONCE DE LEON, FLORIDA
STATEMENTS OF NET POSITION
AS OF SEPTEMBER 30, 2019 AND 2018**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other asset	\$ 59,144	\$ 81,606	\$ 396,048	\$ 40,681	\$ 455,192	\$ 122,287
Capital assets	617,728	671,604	3,153,759	2,726,364	3,771,487	3,397,968
Total assets	676,872	753,210	3,549,807	2,767,045	4,226,679	3,520,255
Long-term liabilities						
outstanding	1,431	689	659,055	679,849	660,486	680,538
Other liabilities	11,660	25,869	327,629	27,513	339,289	53,382
Total liabilities	13,091	26,558	986,684	707,362	999,775	733,920
Net investment in capital assets	617,728	671,604	2,496,789	2,049,535	3,114,517	2,721,139
Restricted	144,771	150,200	28,042	30,608	172,813	180,808
Unrestricted (deficit)	(98,718)	(95,152)	38,292	(20,460)	(60,426)	(115,612)
Total net position	\$ 663,781	\$ 726,652	\$ 2,563,123	\$ 2,059,683	\$ 3,226,904	\$ 2,786,335

**TOWN OF PONCE DE LEON, FLORIDA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

Government-Wide Financial Analysis – Continued

Governmental activities decreased the Town's net position by \$62,871, and business-type activities increased the Town's net position by \$503,440. Reported in the table below are the key elements of these decreases.

TOWN OF PONCE DE LEON, FLORIDA STATEMENTS OF CHANGES IN NET POSITION FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017						
	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
REVENUES						
Program revenues						
Charges for services	\$ 30,476	\$ 24,577	\$ 346,413	\$ 294,900	\$ 376,889	\$ 319,477
Operating grants and contributions	35,372	16,293	-	-	35,372	16,293
Capital grants and contributions	38,124	45,102	530,547	63,600	568,671	108,702
General revenues						
Taxes	145,839	148,171	-	-	145,839	148,171
Intergovernmental	40,488	38,599	-	-	40,488	38,599
Other revenue	7,731	5,566	362	7,034	8,093	12,600
TOTAL REVENUES	<u>298,030</u>	<u>278,308</u>	<u>877,322</u>	<u>365,534</u>	<u>1,175,352</u>	<u>643,842</u>
EXPENSES						
Primary government						
General government	241,631	250,853	-	-	241,631	250,853
Public safety	67,491	20,778	-	-	67,491	20,778
Transportation	23,369	20,705	-	-	23,369	20,705
Culture and recreation	2,423	22,308	-	-	2,423	22,308
Debt service interest	-	995	-	-	-	995
Business-type activities						
Water and sewer	-	-	399,869	386,327	399,869	386,327
TOTAL EXPENSES	<u>334,914</u>	<u>315,639</u>	<u>399,869</u>	<u>386,327</u>	<u>734,783</u>	<u>701,966</u>
Decrease in net position before transfers	<u>(36,884)</u>	<u>(37,331)</u>	<u>477,453</u>	<u>(20,793)</u>	<u>440,569</u>	<u>(58,124)</u>
Transfers	(25,987)	-	25,987	-	-	-
Change in net position	(62,871)	(37,331)	503,440	(20,793)	440,569	(58,124)
NET POSITION, BEGINNING	726,652	763,983	2,059,683	2,080,476	2,786,335	2,844,459
NET POSITION, ENDING	<u>\$ 663,781</u>	<u>\$ 726,652</u>	<u>\$ 2,563,123</u>	<u>\$ 2,059,683</u>	<u>\$ 3,226,904</u>	<u>\$ 2,786,335</u>

**TOWN OF PONCE DE LEON, FLORIDA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

FINANCIAL IMPACTS

Normal Impacts

There are eight basic impacts on revenues and expenses as reflected below:

Revenues

- **Economic Condition:** This can reflect a declining, stable or growing economic environment and has a substantial impact on property, sales, gas or other tax revenue.
- **Town Council Approved Rate Adjustments:** While certain tax rates are set by statute, the Town Council has significant authority to impose and periodically adjust rates (water, wastewater, sewer, impact fees, recreation user fees, etc.).
- **Changing Patterns in Intergovernmental Grant Revenue (Both Recurring and Non-Recurring):** Certain recurring revenues (e.g. state revenue sharing and community development block grants) may experience significant changes periodically, while non-recurring (or one-time) grants are less predictable and often distorting in their impact on year-to-year comparisons.
- **Market Impacts on Investment Income:** The current market conditions have a significant influence on the Town's investment income, causing it to fluctuate greatly.

Expenses

- **Introduction of New Programs:** Within functional expense categories (general, transportation-streets, parks and recreation, etc.), individual programs may be added or deleted to meet changing community needs.
- **Authorized Position Adjustments:** Changes in service demand may cause the Town Council to change authorized staffing.
- **Salary Adjustments:** The ability to attract and retain human and intellectual resources requires the Town to strive to approach a competitive salary range position in the marketplace.
- **Inflation:** While overall inflation appears to be reasonably modest, the Town is a major consumer of certain commodities such as paper, chemicals, supplies, fuel, oil and parts. Some fluctuations may experience commodity specific increases.

Current Year Impacts – Governmental Activities

- Operating grants and contributions revenues increased by \$19,079 largely due to a grant agreement to make certain local improvements.
- Public safety expenses increased \$46,713, due to the Town's fire department purchasing new gear for the firemen.

**TOWN OF PONCE DE LEON, FLORIDA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

As of September 30, 2019, the Town's governmental funds reported combined ending fund balances of \$47,484, a decrease of \$8,253 from the prior year.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, deficit unassigned fund balance of the General Fund was \$98,841.

During fiscal year 2019, the fund balance of the Town's General Fund increased by \$1,753. The factors concerning this increase have been addressed in the discussion of the Town's governmental activities.

Proprietary Fund

The focus of the Town's proprietary fund is to provide the same type of information as found in the government-wide financial statements, but in more detail. Charges for services increased \$51,513 in fiscal year 2019, due to a rate increase and expansion of customer base. Capital grants and contributions increased by \$466,947, due to a water and sewer systems improvement, projected funded with grant dollars.

GENERAL FUND BUDGETARY HIGHLIGHTS

For fiscal year 2019, actual revenues were above budget by \$37,587, and expenditures exceeded budgeted appropriations by \$9,947. There were operational public safety expenditures that exceeded the budget.

CAPITAL ASSETS AND OUTSTANDING DEBT

Capital Assets

As of September 30, 2019, the Town's investment in capital assets for governmental and business-type activities totals \$3,771,487. This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, curbs and gutters, streets and sidewalks, water system, drainage and sewer systems. Additional information on the capital assets of the Town can be found in Note 5 of this report.

**TOWN OF PONCE DE LEON, FLORIDA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

CAPITAL ASSETS AND OUTSTANDING DEBT – CONTINUED

Outstanding Debt

As of September 30, 2019, the Town had \$656,970 of long-term debt outstanding. All of the Town's debt is secured solely by specified revenue sources (i.e., water and sewer revenues). The Town has no general obligation or special assessment debt. The State of Florida does not place a legal limit of debt on municipalities. The Town entered into a promissory note for the purchase of new truck for water & sewer operations. Additional information on the Town's long-term debt can be found in Note 8 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The State of Florida, by constitution, does not have a state personal income tax; therefore, the State operates primarily using sales, gasoline and corporate income taxes. Local governments (cities, counties and school boards) primarily rely upon property and a limited array of permitted other taxes (sales, gasoline, utility service taxes, etc.) and fees (franchise and occupational license) for their governmental activities. There is a limited number of state shared revenues and recurring and non-recurring grants from both the State and Federal Governments, which provide funding for specific programs, projects or activities. For the business-type activities and certain governmental activities (permitting and recreational programs), the user pays a related fee or charge associated with the service.

The level of taxes, fees and charges for services (including development related impact fees) has an impact on the Town's specific competitive ability to encourage development and redevelopment (office, retail, residential and industrial) for those businesses that choose to locate in our jurisdiction. As the Town has limited growth potential, it places great emphasis on redevelopment, and it is essential for the continued financial and economic health of our community. In addition to these factors, COVID-19 could impact our operational activities and the present level of service we provide to our citizens.

REQUESTS FOR INFORMATION

This financial report is designed to give a general overview of the Town's finances and to demonstrate accountability for the money it receives from taxpayers, customers and creditors. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Clerk, Jessica Harris, P.O. Box 214, Ponce de Leon, FL 32455, or by calling (850) 836-4361.

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TOWN OF PONCE DE LEON, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 41,725	\$ 293,762	\$ 335,487
Receivables, net	-	63,060	63,060
Due from other governments	4,686	-	4,686
Internal balances	12,571	(12,571)	-
Prepaid items	162	-	162
Restricted assets:			
Cash and cash equivalents	-	51,797	51,797
Capital assets:			
Non-depreciable	185,771	136,690	322,461
Depreciable, net	431,957	3,017,069	3,449,026
TOTAL ASSETS	676,872	3,549,807	4,226,679
LIABILITIES			
Accounts payable	11,660	303,765	315,425
Accrued liabilities	-	-	-
Payable from restricted assets:			
Customer deposits	-	23,864	23,864
Non-current liabilities:			
Due within one year:			
Notes payable	-	42,925	42,925
Due in more than one year:			
Compensated absences	1,431	2,085	3,516
Notes payable	-	614,045	614,045
TOTAL LIABILITIES	13,091	986,684	999,775
NET POSITION			
Net investment in capital assets	617,728	2,496,789	3,114,517
Restricted:			
Debt service	-	24,542	24,542
Transportation	144,771	-	144,771
Water system improvements	-	3,500	3,500
Unrestricted (deficit)	(98,718)	38,292	(60,426)
TOTAL NET POSITION	\$ 663,781	\$ 2,563,123	\$ 3,226,904

See notes to the financial statements.

TOWN OF PONCE DE LEON, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Function/program activities	Program Revenues				Primary Government			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Governmental activities:								
General government	\$ 241,631	\$ 29,201	\$ 12,823	\$ -	\$ (199,607)	\$ -	\$ (199,607)	
Public safety	67,491	-	22,549	-	(44,942)	-	(44,942)	
Culture and recreation	2,423	1,275	-	38,124	36,976	-	36,976	
Transportation	23,369	-	-	-	(23,369)	-	(23,369)	
Total governmental activities	334,914	30,476	35,372	38,124	(230,942)	-	(230,942)	
Business-type activities:								
Water and sewer	399,869	346,413	-	530,547	-	477,091	477,091	
TOTAL PRIMARY GOVERNMENT	\$ 734,783	\$ 376,889	\$ 35,372	\$ 568,671	(230,942)	477,091	246,149	
General revenues								
Taxes								-
Sales taxes					55,800	-	55,800	
Utility service taxes					50,744	-	50,744	
Franchise fees					39,295	-	39,295	
Intergovernmental, unrestricted					40,488	-	40,488	
Miscellaneous					7,731	362	8,093	
Transfers					(25,987)	25,987	-	
Total general revenues					168,071	26,349	194,420	
CHANGE IN NET POSITION					(62,871)	503,440	440,569	
NET POSITION AT BEGINNING OF YEAR					726,652	2,059,683	2,786,335	
NET POSITION AT END OF YEAR					\$ 663,781	\$ 2,563,123	\$ 3,226,904	

See notes to the financial statements.

**TOWN OF PONCE DE LEON, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2019**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 19,600	\$ 22,125	\$ 41,725
Due from other governments	3,224	1,462	4,686
Due from other funds	-	112,134	112,134
Prepaid items	162	-	162
TOTAL ASSETS	<u><u>\$ 22,986</u></u>	<u><u>\$ 135,721</u></u>	<u><u>\$ 158,707</u></u>
LIABILITIES			
Accounts payable	\$ 11,660	\$ -	\$ 11,660
Due to other funds	99,563	-	99,563
Total liabilities	<u>111,223</u>	<u>-</u>	<u>111,223</u>
FUND BALANCE			
Nonspendable:			
Prepaid items	162	-	162
Restricted for:			
Transportation	10,442	134,329	144,771
Assigned for:			
Road and street maintenance	-	1,392	1,392
Unassigned (deficit)	<u>(98,841)</u>	<u>-</u>	<u>(98,841)</u>
Total fund balance (deficit)	<u>(88,237)</u>	<u>135,721</u>	<u>47,484</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 22,986</u></u>	<u><u>\$ 135,721</u></u>	<u><u>\$ 158,707</u></u>

See notes to the financial statements.

**TOWN OF PONCE DE LEON, FLORIDA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2019**

Fund balance, total governmental funds (page 12)	\$	47,484
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources; therefore, they are not reported in the governmental funds:

Governmental non-depreciable assets	185,771	
Governmental depreciable assets	1,711,018	
Less accumulated depreciation	<u>(1,279,061)</u>	
		617,728

Long-term liabilities are not due and payable in the current period; therefore, they are not reported in the governmental funds:

Compensated absences		<u>(1,431)</u>
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Net position of governmental activities (page 10)	\$	<u><u>663,781</u></u>
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See notes to the financial statements.

TOWN OF PONCE DE LEON, FLORIDA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 82,288	\$ 10,560	\$ 92,848
Licenses, fees, and permits	42,324	-	42,324
Intergovernmental	101,433	-	101,433
Charges for services	2,234	-	2,234
Miscellaneous	58,368	823	59,191
Total revenues	286,647	11,383	298,030
EXPENDITURES			
Current			
General governmental services	193,251	-	193,251
Public safety	63,471	-	63,471
Culture and recreation	205	-	205
Transportation	1,980	21,389	23,369
Total expenditures	258,907	21,389	280,296
DEFICIENCY OF REVENUES UNDER EXPENDITURES	27,740	(10,006)	17,734
OTHER FINANCING USES			
Transfers in	(25,987)	-	(25,987)
Total other financing sources	(25,987)	-	(25,987)
NET CHANGE IN FUND BALANCE	1,753	(10,006)	(8,253)
FUND BALANCE (DEFICIT), BEGINNING	(89,990)	145,727	55,737
FUND BALANCE (DEFICIT), ENDING	\$ (88,237)	\$ 135,721	\$ 47,484

See notes to the financial statements.

**TOWN OF PONCE DE LEON, FLORIDA
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 (page 14)	\$ (8,253)
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Amounts reported for governmental activities in the statement of activities are different because:

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.

Less current year depreciation	<u>(53,876)</u>	(53,876)
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Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds:

Change in long-term compensated absences	<u>(742)</u>
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Change in net position of governmental activities (page 11)	<u><u>\$ (62,871)</u></u>
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See independent auditors' report.

**TOWN OF PONCE DE LEON, FLORIDA
PROPRIETARY FUND
STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Water and Sewer Fund
ASSETS	
Current assets:	
Cash	\$ 293,762
Receivables, net	63,060
Restricted assets - cash and cash equivalents	<u>51,797</u>
Total current assets	408,619
Non-current assets:	
Capital assets	
Non-depreciable	136,690
Depreciable, net	<u>3,017,069</u>
Total non-current assets	<u>3,153,759</u>
TOTAL ASSETS	<u>3,562,378</u>
LIABILITIES	
Current liabilities:	
Accounts payable	303,765
Due to other funds	12,571
Notes payable	42,925
Payable from restricted assets:	
Customer deposits	<u>23,864</u>
Total current liabilities	383,125
Non-current liabilities:	
Compensated absences	2,085
Notes payable	<u>614,045</u>
Total non-current liabilities	<u>616,130</u>
TOTAL LIABILITIES	<u>999,255</u>
NET POSITION	
Net investment in capital assets	2,496,789
Restricted for debt service	24,542
Restricted for system improvements	3,500
Unrestricted	<u>38,292</u>
TOTAL NET POSITION	<u><u>\$ 2,563,123</u></u>

See notes to the financial statements.

**TOWN OF PONCE DE LEON, FLORIDA
 PROPRIETARY FUND
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<u>Water and Sewer Fund</u>
OPERATING REVENUES	
Charges for services	\$ 346,413
OPERATING EXPENSES	
Personal services	57,594
Operating	192,719
Depreciation	124,361
Total operating expenses	<u>374,674</u>
OPERATING LOSS	(28,261)
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(25,195)
Interest income	362
Total non-operating expenses	<u>(24,833)</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(53,094)
CAPITAL CONTRIBUTIONS AND TRANSFERS	
Capital grants	530,547
Transfers in	25,987
Total capital contributions and transfers	<u>556,534</u>
CHANGE IN NET POSITION	503,440
NET POSITION, BEGINNING	<u>2,059,683</u>
NET POSITION, ENDING	<u><u>\$ 2,563,123</u></u>

See notes to the financial statements.

**TOWN OF PONCE DE LEON, FLORIDA
PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 321,588
Payments to suppliers	(190,113)
Payments to employees	<u>(58,529)</u>
Net cash provided by operating activities	<u>72,946</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES	
Interfund borrowings/repayments	(5,340)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisitions of capital assets	(258,310)
Proceeds from capital grants	530,547
Proceeds from issuance of long-term debt	20,802
Principal paid on long-term debt	(40,661)
Interest paid on long-term debt	<u>(25,195)</u>
Net cash used in capital and related financing activities	<u>227,183</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>362</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	295,151
CASH AND CASH EQUIVALENTS, BEGINNING	<u>50,408</u>
CASH AND CASH EQUIVALENTS, ENDING	<u><u>\$ 345,559</u></u>
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF	
Current	\$ 293,762
Restricted	<u>51,797</u>
Total cash and cash equivalents	<u><u>\$ 345,559</u></u>

See independent auditors' report.

**TOWN OF PONCE DE LEON, FLORIDA
PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**RECONCILIATION OF OPERATING LOSS TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Operating loss	\$ (28,261)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	124,361
Increase in assets:	
Accounts receivable	(28,889)
Increase (decrease) in liabilities:	
Accounts payable	2,606
Customer deposits	4,064
Compensated absences	(935)
Net cash provided by operating activities	<u>\$ 72,946</u>

See independent auditors' report.

TOWN OF PONCE DE LEON, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

1. DESCRIPTION OF THE TOWN AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Town

The Town of Ponce de Leon, Florida (the Town) was incorporated under the laws and statutes of the State of Florida in 1963. The Town operates under a Mayor-Council form of government. As authorized by its charter, the Town provides the following services: roads and streets, water and sewer, culture and recreation, public improvements and general administrative services.

The accounting policies of the Town conform to accounting principles generally accepted in the United States of America. The following is a summary of the significant accounting policies of the Town:

The Reporting Entity

The financial statements of the Town have been prepared in conformity with the accounting principles generally accepted in the United States of America as specified by the Governmental Accounting Standards Board (GASB). In addition, there are no component units as defined by the Governmental Accounting Standards Board, which are required to be included in the Town's reporting entity.

Government-Wide and Fund Financial Statements

The basic financial statements include government-wide and fund financial statements. The reporting model focuses on the Town as a whole, as well as major funds. Government-wide and fund financial statements categorize primary activities as governmental or business-type. In the statement of net position, governmental and business-type activities (a) are presented on a consolidated basis and (b) reflect full accrual accounting, which incorporates long-term assets and receivables, as well as long-term debt and obligations. As a general rule, eliminations have been made to minimize the double-counting of internal activities.

The statement of activities reflects both the gross and net cost per functional category (transportation, culture and recreation, etc.), which are otherwise being supported by general government revenues (taxes, licenses and permits, etc.). The statement of activities reduces gross expenses, including depreciation, by related program revenues. The program revenues must be directly associated with a function of a business-type activity. Operating grants include operating specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

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. 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.

**TOWN OF PONCE DE LEON, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

**1. DESCRIPTION OF THE TOWN AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
– CONTINUED**

Measurement Focus and Basis of Accounting – Continued

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 Town considers revenues to be available if they are collected within six months of the end of the current fiscal period, except for property taxes, for which the period is 60 days. 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.

Franchise taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and are 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 Town, are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Basis of Presentation

The financial transactions of the Town 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 Town's enterprise fund are charges to customers for utility services. The Town also recognizes as operating revenues, the portion of tap fees intended to recover the cost of connecting customers to the system. 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.

**TOWN OF PONCE DE LEON, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

**1. DESCRIPTION OF THE TOWN AND 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 Town:

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 Town has two major governmental funds: the General Fund and the Special Revenue Fund.

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

Special Revenue Fund – This fund is used to account for the Town's gasoline tax and intergovernmental revenue designated to support the Town's highways and street maintenance and other infrastructure.

Proprietary

Proprietary funds focus on the determination of net income, changes in net position, financial position, and cash flows. The Town's proprietary fund is an enterprise fund, as fees are charged to external users for services. The following is a description of the Town's enterprise fund.

Water and Sewer Fund – Used to account for the water and sewer operations of the Town, which provides distribution of potable water, sales, service, and sewer operations.

Assets, Liabilities, and Net Position or Fund Balance

Cash and Cash Equivalents

For purposes of these statements, all highly-liquid investments (including restricted assets), with a maturity of three months or less when purchased, are considered to be cash equivalents.

Receivables and Payables

Interfund transactions are reflected as loans, services provided, reimbursements or transfers. Loans between funds outstanding at the end of the fiscal year 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."

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. 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.

**TOWN OF PONCE DE LEON, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

**1. DESCRIPTION OF THE TOWN AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
– CONTINUED**

Assets, Liabilities, and Net Position or Fund Balance – Continued

Receivables and Payables – Continued

All proprietary fund receivables are shown net of an allowance for uncollectibles. At September 30, 2019, gross accounts receivable totaled \$66,841, with an allowance for doubtful accounts of \$3,781.

Restricted Assets

Certain resources of the Water and Sewer Fund are classified as restricted assets because their use is limited by applicable bond covenants and enabling legislation.

Additionally, water and sewer deposits received from customers are classified as restricted assets. This money is restricted for use as payment of the final customer bill, refund to a good-standing customer or returned to the customer upon settlement of the final bill.

Capital Assets

Capital assets, which include 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. The Town was in Phase III of the required implementation time of GASB Statement No. 34; accordingly, it was not required to retroactively record infrastructure assets. Therefore, purchases of infrastructure assets subsequent to October 1, 2003, are reported in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial cost more than \$750.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

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

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

Buildings	40 years
Infrastructure	40 years
Improvements	20 years
Equipment	5-10 years

**TOWN OF PONCE DE LEON, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

**1. DESCRIPTION OF THE TOWN AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
– CONTINUED**

Assets, Liabilities and Net Position or Fund Balance – Continued

Compensated Absences

Vacation leave is paid when incurred by the Town. Such amounts are accrued in the governmental activities and proprietary funds. Vacation leave may be accrued up to 120 hours. Sick leave is expected to be taken within the fiscal year. Employees are eligible to receive payment of available unpaid vacation leave up to a maximum of 120 available hours upon retirement or termination.

Long-Term Obligations

In the government-wide financial statements and enterprise fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or enterprise fund statement of net position.

Governmental Fund Balances

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 resources reported in the governmental funds. Fund balance classifications, under GASB No. 54, are comprised of the following:

Nonspendable – cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.

Restricted – can only be used for specific purposes, which are externally imposed by creditors, grantors, contributors or laws or regulations or are imposed by law through constitutional provisions or enabling legislation.

Committed – can be used only for the specific purposes determined by a formal action of the Town's highest level of decision-making authority. The Town Council is the highest level of decision-making authority for the Town that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (adoption of another ordinance) to remove or revise the limitation.

Assigned – can only be used for specific purposes, but which do not meet the more formal criterion to be considered either restricted or committed. Fund balances may be assigned by the Town Council for specific purposes through the budget process or agenda items. The assigned designation may be reversed by the Town Council at any public meeting.

Unassigned – represent the residual fund balance within the General Fund, which has not been restricted, committed or assigned. In funds other than the General Fund, unassigned fund balances are limited to negative residual balances.

**TOWN OF PONCE DE LEON, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

1. DESCRIPTION OF TOWN AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Assets, Liabilities, and Net Position or Fund Balance – Continued

Governmental Fund Balances – Continued

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use in the General Fund or any other governmental fund, it is the Town's policy to use committed resources first, then assigned, and then unassigned as needed. The Town does not have a formal minimum fund balance requirement.

Capital Contributions

Capital contributions in the proprietary funds financial statements arise from grants or outside contributions of resources restricted to capital acquisition and construction.

Net Position

Net position in the government-wide and proprietary funds financial statements are classified as net investment in capital assets, restricted and unrestricted. The Town considers restricted amounts to be spent first when both restricted and unrestricted net position is 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.

Reclassifications

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year presentation. Such reclassifications have no effect on total fund balance or net position previously reported.

Subsequent Events

Subsequent events were evaluated through August 17, 2020, which is the date the financial statements were available to be issued.

**TOWN OF PONCE DE LEON, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

2. CASH AND INVESTMENTS

Deposits

It is the Town's policy to maintain its deposits only 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 Town deposits, including certificates of deposit, are considered fully insured.

At September 30, 2019, the value of the Town's deposits were \$431,964, all of which were held by qualified public depositories under Chapter 280, Florida Statutes.

3. RECEIVABLES

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

	Governmental Activities		Business-Type Activities	
	General	Special Revenue	Water and Sewer Fund	Total
Accounts	\$ -	\$ -	\$ 66,841	\$ 66,841
Less allowance for doubtful accounts	-	-	(3,781)	(3,781)
Total receivables, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,060</u>	<u>\$ 63,060</u>
Due from other governments	<u>\$ 3,224</u>	<u>\$ 1,462</u>	<u>\$ -</u>	<u>\$ 4,686</u>

Amounts due from other governments relate to half-cent sales taxes, discretionary sales taxes, telecommunications service taxes and local option fuel taxes collected by the State.

TOWN OF PONCE DE LEON, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

4. 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	\$ 185,771	\$ -	\$ -	\$ 185,771
Capital assets being depreciated:				
Buildings	310,298	-	-	310,298
Improvements other than buildings	596,336	-	-	596,336
Machinery and equipment	804,384	-	-	804,384
Total capital assets being depreciated	1,711,018	-	-	1,711,018
Less accumulated depreciation				
Buildings	(226,738)	(4,279)	-	(231,017)
Improvements other than buildings	(281,921)	(26,108)	-	(308,029)
Machinery and equipment	(716,526)	(23,489)	-	(740,015)
Total accumulated depreciation	(1,225,185)	(53,876)	-	(1,279,061)
Total capital assets being depreciated, net	485,833	(53,876)	-	431,957
Governmental activities, net	<u>\$ 671,604</u>	<u>\$ (53,876)</u>	<u>\$ -</u>	<u>\$ 617,728</u>

TOWN OF PONCE DE LEON, 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 and improvements	\$ 85,490	\$ -	\$ -	\$ 85,490
Construction in progress	51,200	-	-	51,200
Total capital assets not being depreciated	136,690	-	-	136,690
Capital assets being depreciated:				
Buildings and improvements	8,021	530,954	-	538,975
Infrastructure	4,840,631	-	-	4,840,631
Machinery and equipment	104,718	20,802	-	125,520
Total capital assets being depreciated	4,953,370	551,756	-	5,505,126
Less accumulated depreciation				
Buildings and improvements	(6,568)	(200)	-	(6,768)
Infrastructure	(2,253,777)	(119,886)	-	(2,373,663)
Machinery and equipment	(103,351)	(4,275)	-	(107,626)
Total accumulated depreciation	(2,363,696)	(124,361)	-	(2,488,057)
Total capital assets being depreciated, net	2,589,674	427,395	-	3,017,069
Business-type activities, net	\$ 2,726,364	\$ 427,395	\$ -	\$ 3,153,759

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

Governmental activities	
General government	\$ 47,638
Public safety	4,020
Culture and recreation	2,218
Total depreciation expense – governmental activities	<u>\$ 53,876</u>
Business-type activities	
Water and sewer	<u>\$ 124,361</u>

TOWN OF PONCE DE LEON, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

5. RISK MANAGEMENT

The Town is exposed to various risks of loss related to tort; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town purchases insurance through commercial carriers and coverage through Preferred Governmental Insurance Trust, which includes workers' compensation, comprehensive general liability and automobile physical damage. There has been no significant reduction in insurance coverage from prior fiscal year. Insurance coverage has been sufficient to cover all claims made in the prior three fiscal years.

6. LONG-TERM DEBT

Changes in Long-Term Debt Liabilities

The following is a summary of changes in long-term debt liabilities of the Town for the year ended September 30, 2019:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Compensated absences	\$ 689	\$ 3,304	\$ (2,562)	\$ 1,431	\$ -
Total governmental activities	<u>\$ 689</u>	<u>\$ 3,304</u>	<u>\$ (2,562)</u>	<u>\$ 1,431</u>	<u>\$ -</u>
Business-type activities					
Notes payable	\$ 676,829	\$ 20,802	\$ (40,661)	\$ 656,970	\$ 42,925
Compensated absences	3,020	3,269	(4,204)	2,085	-
Total business-type activities	<u>\$ 679,849</u>	<u>\$ 24,071</u>	<u>\$ (44,865)</u>	<u>\$ 659,055</u>	<u>\$ 42,925</u>

Description of Long-Term Debt Outstanding

	Current	Long-Term	Total
GOVERNMENTAL ACTIVITIES			
<i>Accrued Compensated Absences</i>			
Total long-term portion of accumulated, vested annual leave for governmental funds.	\$ -	\$ 1,431	\$ 1,431
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ -</u>	<u>\$ 1,431</u>	<u>\$ 1,431</u>

**TOWN OF PONCE DE LEON, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

7. LONG-TERM DEBT – CONTINUED

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
BUSINESS-TYPE ACTIVITIES			
<i>Notes Payable</i>			
\$679,800 commercial promissory note dated August 2018 bearing interest at 4.60%; interest and principal payments of approximately \$5,672, due in monthly installments through February 2032. Proceeds were used to refinance two outstanding bond issuances.	\$ 38,973	\$ 600,659	\$ 639,632
\$20,802 commercial promissory note dated October 2018 bearing interest at 4.68%; interest and principal payments of approximately \$390 due in monthly installments through October 2023. Proceeds were used to purchase a truck for water and sewer operations.	\$ 3,952	\$ 13,386	\$ 17,338
<i>Accrued Compensated Absences</i>			
Total long-term portion of accumulated, vested annual leave for enterprise funds.	-	2,085	2,085
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 42,925</u>	<u>\$ 616,130</u>	<u>\$ 659,055</u>

Annual Requirements to Amortize Debt Outstanding

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

<u>Year ending September 30,</u>	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 42,925	\$ 29,822
2020	45,052	27,694
2021	47,196	25,550
2022	49,443	23,303
2023	47,323	21,095
2024-2028	270,868	69,452
2029-2033	154,163	9,196
Total	<u>\$ 656,970</u>	<u>\$ 206,112</u>

**TOWN OF PONCE DE LEON, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

8. INTERFUND BALANCES

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

Due to Fund	Due from Fund			Total
	General Fund	Special Revenue Fund	Water and Sewer Fund	
General Fund	\$ -	\$ 68,236	\$ 31,327	\$ 99,563
Water and Sewer Fund	-	43,898	-	43,898
	<u>\$ -</u>	<u>\$ 112,134</u>	<u>\$ 31,327</u>	<u>\$ 143,461</u>

Interfund balances in the enterprise fund represent expenses paid by the governmental funds on behalf of that fund. The interfund balances in the governmental funds represent revenues collected for the benefit of Special Revenue Fund that have not been transferred from the General Fund.

9. LEASE REVENUE

The Town leases a commercial warehouse building to a local business. The acquisition value of the warehouse was \$117,628, and it is fully depreciated as of September 30, 2019. The one-year lease commenced in October 2017 and provides the lessee with six one-year options to renew the lease at each anniversary date. The base annual rent is 18,000 with a 3% rate increase at each annual anniversary date (if the lessee executes its option to extend the lease). The Town recognized rental income of \$19,838 for the year ended September 30, 2019.

10. FINANCIAL CONDITION

At September 30, 2019, there was a fund balance deficit in the General Fund of \$98,841. The Town plans to pursue new sources of revenues and reduce operating costs to restore these deficits in subsequent periods.

For the year ended September 30, 2019, expenditures exceeded appropriations in the General Fund by \$9,947.

**TOWN OF PONCE DE LEON, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

11. 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 Town'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 Town's financial condition or results of operations is uncertain and cannot be estimated.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PONCE DE LEON, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
SEPTEMBER 30, 2019

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 57,260	\$ 57,260	\$ 82,288	\$ 25,028
Licenses, fees, and permits	56,500	56,500	42,324	(14,176)
Intergovernmental	89,250	89,250	101,433	12,183
Charges for services	550	550	2,234	1,684
Miscellaneous	45,500	45,500	58,368	12,868
Total revenues	249,060	249,060	286,647	37,587
EXPENDITURES				
Current:				
General government	245,660	245,660	193,251	52,409
Public safety	1,200	1,200	63,471	(62,271)
Transportation	600	600	1,980	(1,380)
Culture and recreation	1,500	1,500	205	1,295
Total expenditures	248,960	248,960	258,907	(9,947)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	100	100	27,740	27,640
OTHER FINANCING USES				
Transfers in	-	-	(25,987)	(25,987)
Total other financing sources	-	-	(25,987)	(25,987)
NET CHANGE IN FUND BALANCE	100	100	1,753	1,653
FUND BALANCE (DEFICIT), BEGINNING	-	-	(89,990)	(89,990)
FUND BALANCE (DEFICIT), ENDING	<u>\$ 100</u>	<u>\$ 100</u>	<u>\$ (88,237)</u>	<u>\$ (88,337)</u>

See independent auditors' report.

TOWN OF PONCE DE LEON, FLORIDA
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
SEPTEMBER 30, 2019

Budgets Policy

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted by ordinance for the general fund, however, budgets for the special revenue fund and water and sewer fund are not adopted. 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 October 1 of each year, proposed budgets are received by the Town Council from the Mayor. These proposed expenditures, along with all estimated receipts, taxes to be levied and balances expected to be brought forward, are considered by the Town Council. The Town Council requires such changes as deemed necessary, sets proposed millages, 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 Town. 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 general fund of the Town is legally enacted through passage of an ordinance. Budget amendments are periodically passed through resolutions during 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.

See independent auditors' report.

COMPLIANCE SECTION

**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 Town Council Members
Town of Ponce de Leon, Florida

We have examined the Town of Ponce de Leon, Florida's (the Town's) compliance with Section 218.415, Florida Statutes, in regards to investments for the year ended September 30, 2019.

Management is responsible for the Town's compliance with those requirements. Our responsibility is to express an opinion on the Town'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 Town complied, in all material respects, with the specified requirements. An examination involves procedures to obtain evidence about whether the Town complied with the specified requirements. The nature, timing and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the Town's compliance with specified requirements.

In our opinion, the Town of Ponce de Leon, Florida complied, in all material respects, with Section 218.415, Florida Statutes, with regards to investments for the year ended September 30, 2019.

Warren Averett, LLC

Fort Walton Beach, Florida
August 17, 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 Town Council Members
Town of Ponce de Leon, Florida

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 the governmental activities, the business-type activities and each major fund of the Town of Ponce de Leon, Florida (the Town), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated August 17, 2020.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2017-001 and 2017-002, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 instances of noncompliance or other matters, which are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2017-005, 2017-006, 2017-007 and 2018-002.

Town's Response to Findings

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of this 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.



Fort Walton Beach, Florida
August 17, 2020

**TOWN OF PONCE DE LEON, FLORIDA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Material Weaknesses

Finding 2017-001: Accounting and Financial Statement Preparation

Several general ledger accounts were not reconciled to detail supporting ledgers during the year. As a result, material audit adjustments were required to bring the Town's books into compliance with generally accepted accounting principles and to correct errors noted in cash accounts, interfund receivables and payables, and fund balance accounts. In addition, the Town requires assistance to prepare the year-end financial statements for audit. Further, the Town does not maintain support for journal entries posted, nor is there evidence of review of these journal entries.

We recommend all general ledger accounts be reconciled monthly to detail subsidiary ledgers, and any reconciling items be promptly investigated and adjusted with adequate explanation. In addition, we recommend involving the Mayor and/or Councilmembers to participate during the review of financial information such as the bank reconciliations and journal entries.

Views of the Responsible Officials and Planned Corrective Action – The Town's management acknowledges the finding and will attempt personnel training with the objective of in-house preparation of the financial statements in accordance with generally accepted accounting principles.

Finding 2017-002: Segregation of Duties

The Town lacks sufficient personnel to appropriately separate all accounting functions and to provide optimum segregation of duties. Key areas of weakness are the lack of review performed on the monthly bank reconciliations and the receipting and billing process being performed by the same individual. The finding could result in material misstatements to the financial statements and the misappropriation of assets.

We strongly recommend the Council implement detection controls, independent of the Clerk, to monitor daily activities.

Views of Responsible Officials and Planned Corrective Action – Due to our lack of resources, we are unable to properly separate duties. The Town Council will continue to monitor transactions to provide financial oversight.

**TOWN OF PONCE DE LEON, FLORIDA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Compliance Findings

Finding 2017-005 Financial Condition

The Town was not in a state of “deteriorating financial condition,” as defined by Rules of the Auditor General 10.554(1)(f) and Florida Statute 218.503(1); however, the Town’s overall financial condition demonstrates signs of deterioration, which, if not corrected, could result in a future financial emergency.

The General Fund had an unassigned deficit of \$98 thousand. The Special Revenue Fund is owed approximately \$112 thousand from other funds, \$68 thousand from the General Fund and \$44 thousand from the Water and Sewer Fund.

We recommend the Town develop long and short-term financial plans to strengthen financial condition. The financial plans should include: (1) a review of spending needs; (2) a system for monitoring revenues and expenditures; (3) budget reserves to provide for future capital needs and unexpected costs; and (4) projected revenues sufficient to cover projected costs. The Town should analyze all available options to increase its revenues or decrease expenditures.

Views of Responsible Officials and Planned Corrective Action – The Town Council understands the Town’s overall financial condition and are resolving the issue by controlling expenses and being cautious regarding spending. In addition, the Town is evaluating possible new revenue sources for the Town.

Finding 2017-006 Debt Service Reserve Funding Deficiency

The Town has not been able to make timely deposits into the reserve accounts as required by its debt covenants. As of September 30, 2019, the Town’s resources restricted by external sources exceeded the total amount of cash on hand, which means that the debt service reserve was underfunded by approximately \$7,700.

Views of the Responsible Officials and Planned Corrective Action – The Town’s management is aware of the covenant requirements, but has been unable to comply with requirements based on financial condition of the Town.

**TOWN OF PONCE DE LEON, FLORIDA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Finding 2017-007: Submission of Annual Financial Report and Audit

Section 218.32, Florida Statutes, requires the Town to submit its annual financial report (AFR) to the Florida Department of Financial Services within 45 days after delivery of the audit report, but no later than nine months after the end of the fiscal year of the governmental entity. In addition, Section 218.39, Florida Statutes, requires the Town's audited financial statements to be submitted to the Auditor General within 45 days after delivery of the audit report, but no later than nine months after the end of the fiscal year of the governmental entity. The Town's fiscal year 2018 AFR and audit were not submitted to the proper agencies within the allotted time period.

We recommend Town management establish financial policies and procedures to allow for the timely filing of these required submissions.

Views of the Responsible Officials and Planned Corrective Action – The Town's management is aware of the late filings and will be undertaking a new timeline for closing the fiscal year and preparing for a more timely audit in subsequent years.

Finding 2018-002: Expenditures in Excess of Budgeted Appropriations

For the year ended September 30, 2019, expenditures exceeded budgeted appropriations in the General Fund by \$9,947.

We recommend that the Town Council monitor and amend the budget, as necessary, based on changing circumstances during the year.

Views of the Responsible Officials and Planned Corrective Action – Management agrees with the recommendation noted and will closely monitor expenditures in the context of the budget and pass formal budgetary amendments, when necessary.

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MANAGEMENT LETTER

To the Honorable Mayor and Town Council Members
Town of Ponce de Leon, Florida

Report on the Financial Statements

We have audited the financial statements of the Town of Ponce de Leon, Florida (the Town), as of and for the fiscal year ended September 30, 2019, and have issued our report thereon dated August 17, 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 Reports and Schedule

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*; Schedule of Findings and Responses; and Independent Accountants' Report on an Examination of Compliance Requirements in Accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in these reports and schedule, which are dated August 17, 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 some findings and recommendations made in the preceding annual financial audit report. Below is a summary of the findings, which have been remediated or repeated for fiscal year 2019.

FY 2018 Finding Number	Status	FY 2019 Finding Number
2017-001	Repeated	2017-001
2017-002	Repeated	2017-002
2017-003	Remediated	N/A
2017-005	Repeated	2017-005
2017-006	Repeated	2017-006
2017-007	Repeated	2017-007
2018-001	Remediated	N/A
2018-002	Repeated	2018-002

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 for the Town has been disclosed in Note 1 to the financial statements.

Financial Condition and Management

Section 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 Town 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 Town did not meet any of the conditions described in Section 218.503(1), Florida Statutes. Pursuant to Sections 10.554(1)(i)5.b., and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures. It is management's responsibility to monitor the Town'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 the same. We have noted deteriorating financial conditions, which are outlined in our Finding 2017-005 in the accompanying schedule of findings and responses.

Additional Matters

Section 10.554(1)(i)2., *Rules of Auditor General*, requires that we address in the management letter, any recommendations to improve financial management. Our recommendations are outlined in the accompanying schedule of findings and responses.

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

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, members of the Town 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 us during our audit.



Fort Walton Beach, Florida
August 17, 2020