



CITY OF FROSTPROOF, FLORIDA

FINANCIAL STATEMENTS

September 30, 2021

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City of Frostproof
The Friendly City

INTRODUCTORY SECTION

City of Frostproof, Florida

LIST OF PRINCIPAL OFFICIALS

September 30, 2021

City Council

Mayor

Jonathan Albert

Council Members

Austin Gravely

Leslie Brewer

Mike Hutto

Tashana True

City Manager

Nicole McDowell

City Attorney

Chuck Galloway

City Clerk

Nicole McDowell

City Planner

Jennifer Codo-Salisbury

Finance Director

Melissa Anderson

Library Director

Melissa D. Hadden

Fire Chief

Jerry Riner

Building Official

Robert Lane

Utility Manager

Savannah Padgett

Public Service Director

Josh Turner



City of Frostproof
The Friendly City

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Members of the City Commission
City of Frostproof
Frostproof, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Frostproof, Florida (the City) as of and for the year ended September 30, 2021, 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City'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.

CERTIFIED PUBLIC ACCOUNTANTS

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The Honorable Mayor and
Members of the City Commission
City of Frostproof
Frostproof, Florida

INDEPENDENT AUDITOR'S REPORT

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information as listed in the table of contents (collectively, the required supplementary information) 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 a report dated September 14, 2022, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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.



September 14, 2022
Sarasota, Florida

As management of the City of Frostproof, Florida (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2021. We encourage readers to consider the information presented here in conjunction with the basic financial statements, which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$17,737,551 (net position) compared to \$17,994,729 in the prior year. Of this amount, \$2,107,613 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors compared to \$2,124,365 in the prior year.
- The government's total net position decreased by \$257,178 compared to a decrease of \$430,667 in the prior year.
- The City's governmental activities reported ending net position of \$7,443,630 an increase of \$430,561 or 6% over the prior year.
- The City's business-type activities reporting ending net position of \$10,293,921 a decrease of \$687,739 or 6% over the prior year.

Overview of the Financial Statements

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

Government-wide financial statements

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

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

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

Overview of the Financial Statements (cont...)

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

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

The government-wide financial statements can be found by referencing the table of contents of this report.

Reporting the City's Most Significant Funds:

Fund financial statements

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

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

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

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

Overview of the Financial Statements (cont...)

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

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

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

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

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

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

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. While these funds represent trust responsibilities of the government, these assets are restricted in purpose and do not represent discretionary assets of the government. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City reports two pension trust funds that are used to report resources held in trust for retirees and beneficiaries covered by the general employees' pension trust fund and the police officers' pension trust fund. Additionally, the City reports a custodial fund to account for certain fees collected on behalf of other governments.

Notes to the financial statements

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

Overview of the Financial Statements (cont...)

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

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

Government-wide Financial Analysis

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

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

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|----------------------------------|--------------------------------|---------------------|---------------------------------|----------------------|---------------------------------|----------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Current and other assets | \$ 3,244,513 | \$ 3,179,059 | \$ 1,045,824 | \$ 1,364,199 | \$ 4,290,337 | \$ 4,543,258 |
| Capital assets | 4,836,748 | 4,413,168 | 11,941,372 | 12,524,792 | 16,778,120 | 16,937,960 |
| Total assets | 8,081,261 | 7,592,227 | 12,987,196 | 13,888,991 | 21,068,457 | 21,481,218 |
| Deferred outflows | 413,702 | 408,920 | 86,464 | 87,524 | 500,166 | 496,444 |
| Current liabilities | 176,661 | 117,963 | 426,465 | 517,386 | 603,126 | 635,349 |
| Non-current liabilities | 594,406 | 733,603 | 2,132,771 | 2,406,945 | 2,727,177 | 3,140,548 |
| Total liabilities | 771,067 | 851,566 | 2,559,236 | 2,924,331 | 3,330,303 | 3,775,897 |
| Deferred inflows | 280,266 | 136,512 | 220,503 | 70,524 | 500,769 | 207,036 |
| Net position: | | | | | | |
| Net investment in capital assets | 4,836,748 | 4,413,168 | 9,570,374 | 9,913,760 | 14,407,122 | 14,326,928 |
| Restricted | 932,440 | 1,047,475 | 290,376 | 495,961 | 1,222,816 | 1,543,436 |
| Unrestricted | 1,674,442 | 1,552,426 | 433,171 | 571,939 | 2,107,613 | 2,124,365 |
| Total net position | \$ 7,443,630 | \$ 7,013,069 | \$ 10,293,921 | \$ 10,981,660 | \$ 17,737,551 | \$ 17,994,729 |

Government-wide Financial Analysis (cont...)

Net position – Investment in Capital Assets – The largest portion of the City's net position, (81%) reflects its investment in capital assets (e.g., land, buildings, sewer and water system, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net position – Restricted – Restricted net position, representing 7% of the City's total net position, are subject to external restrictions on how they may be used.

Net position – Unrestricted - Unrestricted net position comprises 12% of total net position and may be used to meet the government's ongoing obligations to citizens and creditors.

On September 30, 2021, the City reports positive balances in all three categories of net position for the City as a whole.

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Government-wide Financial Analysis (cont...)

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

Statement of Activities (Summary)
For the year ended September 30,

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---------------------------|--------------------------------|---------------------|---------------------------------|----------------------|---------------------------------|----------------------|
| | <u>2021</u> | <u>2020</u> | <u>2021</u> | <u>2020</u> | <u>2021</u> | <u>2020</u> |
| Revenues: | | | | | | |
| <i>Program Revenues:</i> | | | | | | |
| Charges for services | \$ 595,106 | \$ 496,300 | \$ 1,999,978 | \$ 1,930,646 | \$ 2,595,084 | \$ 2,426,946 |
| Operating grants/contrib. | 359,482 | 373,009 | - | - | 359,482 | 373,009 |
| Capital grants/contrib. | 145,141 | 163,436 | 78,320 | 61,337 | 223,461 | 224,773 |
| <i>General revenues:</i> | | | | | | |
| Taxes | 1,712,923 | 1,603,355 | - | - | 1,712,923 | 1,603,355 |
| Intergovernmental | 402,076 | 337,599 | - | - | 402,076 | 337,599 |
| Other | 20,092 | 32,942 | 752 | 10,463 | 20,844 | 43,405 |
| Total revenues | 3,234,820 | 3,006,641 | 2,079,050 | 2,002,446 | 5,313,870 | 5,009,087 |
| Expenses: | | | | | | |
| General government | 658,280 | 533,503 | - | - | 658,280 | 533,503 |
| Law enforcement | 829,948 | 1,166,836 | - | - | 829,948 | 1,166,836 |
| Fire control | 208,113 | 176,942 | - | - | 208,113 | 176,942 |
| Building enforcement | 71,140 | 43,312 | - | - | 71,140 | 43,312 |
| Transportation | 447,741 | 405,028 | - | - | 447,741 | 405,028 |
| Culture | 244,743 | 237,156 | - | - | 244,743 | 237,156 |
| Community affairs | 344,294 | 349,509 | - | - | 344,294 | 349,509 |
| Water and wastewater | - | - | 2,133,617 | 1,979,611 | 2,133,617 | 1,979,611 |
| Sanitation | - | - | 506,325 | 445,515 | 506,325 | 445,515 |
| Stormwater | - | - | 126,847 | 102,342 | 126,847 | 102,342 |
| Total expenses | 2,804,259 | 2,912,286 | 2,766,789 | 2,527,468 | 5,571,048 | 5,439,754 |
| Change in Net Position | 430,561 | 94,355 | (687,739) | (525,022) | (257,178) | (430,667) |
| Net position - Beginning | 7,013,069 | 6,918,714 | 10,981,660 | 11,506,682 | 17,994,729 | 18,425,396 |
| Net position - Ending | \$ 7,443,630 | \$ 7,013,069 | \$ 10,293,921 | \$ 10,981,660 | \$ 17,737,551 | \$ 17,994,729 |

Governmental activities – Governmental activities increased the City’s net position by \$430,561 as compared to an increase of \$94,355 for the prior year. The main reasons for the current year changes are as follows:

- Total revenue increased by \$228,179 or 8% and total expenses decreased by \$108,027 or 4%.
- General revenue increased \$161,195 or 8% mainly due to increased taxes of \$109,568 and increased intergovernmental revenue of \$64,477.
- Program revenues increased by \$66,984 or 6% mainly due to increased building permit related revenue, including variance and zoning fees, of \$28,600 and increased code enforcement fee revenue of \$10,533 and increased cemetery plot sales of \$23,950.

Government-wide Financial Analysis (cont...)

- Total expenses decreased by \$108,027 or 4% mainly due to a \$336,800 decrease in law enforcement expenses due to reporting pension expense of approximately \$291,000 in 2020 and reporting a negative pension expense of approximately \$53,000 in 2021. This was due to the police officers' pension trust fund experiencing better than anticipated investment returns. This decrease was partially offset by general increases in a large variety of diverse expense categories throughout the functions of the governmental activities.

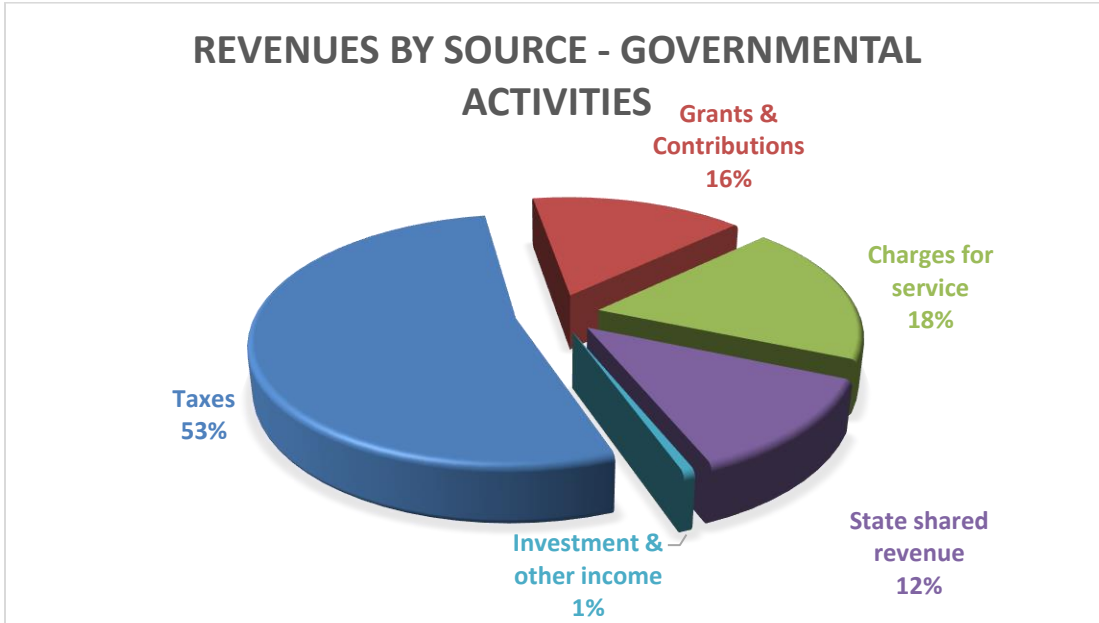
Business-type activities – Business-type activities decreased the City's net position by \$687,739 as compared to a decrease of \$525,022 for the prior year. The main reasons for the current year changes are as follows:

- Total revenue increased by \$76,604 or 4% caused mainly by a \$69,332 (4%) increase in charges for services and a \$16,983 (28%) in capital grants and contributions.
- Total expenses increased by \$239,321 or 9%.
 - Water and wastewater expenses increased by \$154,006 (8%) due to an approximate increase in personnel and related expenses of \$149,000.
 - Sanitation expenses increased by \$60,810 or 14% due to increased fees charged to the City for solid waste collection and disposal of approximately \$37,000 and increased personnel and personnel related expenses of approximately \$21,000.
 - Stormwater expenses increased by \$24,505 or 24% due to due to an approximate increase in personnel and personnel related expenses of \$21,000.

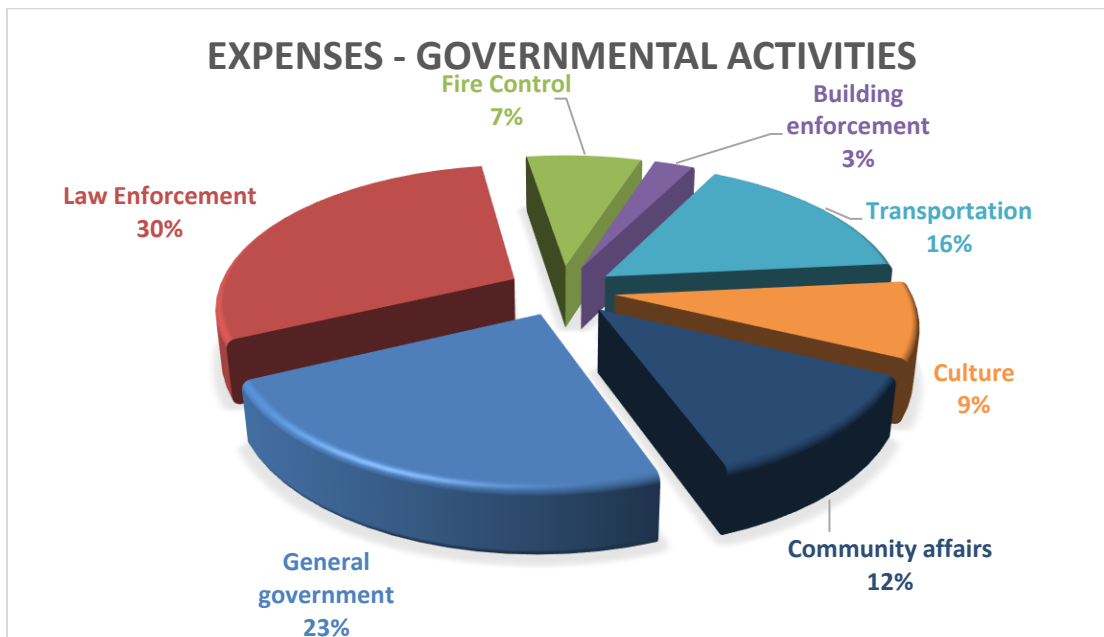
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Government-wide Financial Analysis (cont...)

The following pie chart illustrates revenues of governmental activity by source for the year ended September 30, 2021. Taxes, which include property, franchise and utility taxes, comprise 53% of the revenue in the City's governmental activities (53% in the prior year). Taxes increased \$109,568 from the prior year.

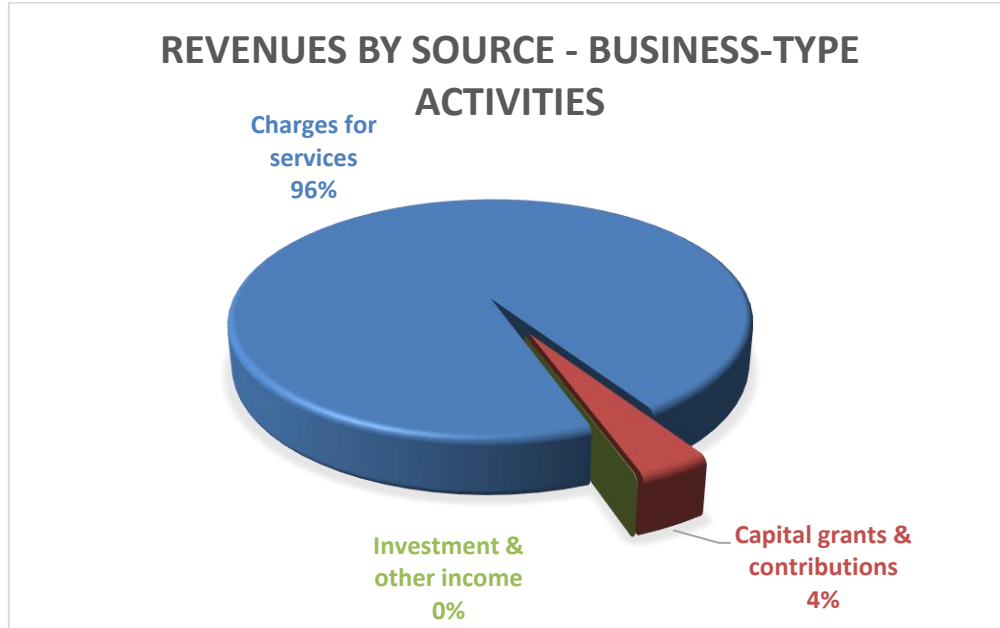


The following pie chart illustrates expenses of governmental activities for the year ended September 30, 2021. Law enforcement is the largest expense and comprises 30% of the expenses in the City's governmental activities (40% in the prior year).

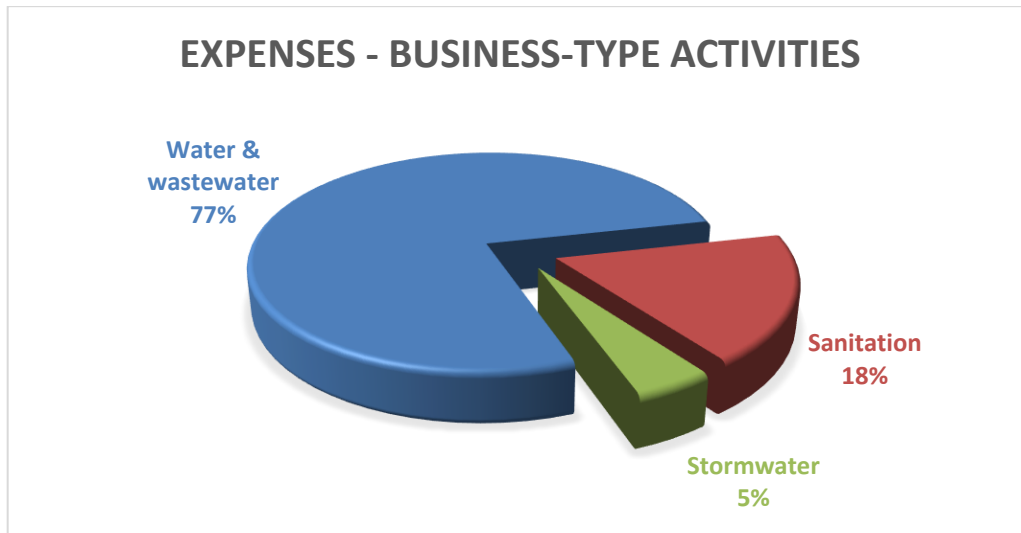


Government-wide Financial Analysis (concluded)

The following pie chart illustrates revenues of business-type activities by source for the year ended September 30, 2021. Charges for services comprise 96% of the revenues in the City's business-type activities (96% in the prior year). Charges for services increased by \$69,332 (4%) from the prior year.



The following pie chart illustrates expenses of business-type activities for the year ended September 30, 2021. The water and wastewater system accounts for 77% of the expenses of the City's business-type activities (78% in the prior year). Water and wastewater system expenses increased by \$148,927 (8%) from the prior year.



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's only major governmental fund, the general fund, reported ending fund balances of \$2,931,189, an increase of \$106,398 in comparison with the previously reported balance in the prior year. Of this total, \$1,968,375 for the general fund constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance, \$962,814 is nonspendable, restricted or assigned as indicated. Total fund balance in the prior year was \$2,824,791, of which \$1,539,188 represented unassigned fund balance.

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

- Total general fund revenues increased by \$195,688 or 6% mainly due to increased tax revenue of \$110,590 or 7% predominately caused by increased franchise fees and utility service taxes driven by increased economic activity within the City and State.
- Total general fund expenditures increased by approximately \$485,814 or 18% mainly caused by increased capital outlay expenditures of \$560,784 (339%) which was partially offset by decreased culture expenditures of \$92,382 (33%).
 - The increase in capital outlay expenditures was mainly due to the purchase of a new fire truck for approximately \$475,000.
 - The decline in culture expenditures was mainly due to events held in the prior year that did not recur in the current year.

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

Financial Analysis of the Government's Funds (concluded)

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

General Fund Budgetary Highlights

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

Actual budgetary inflows and other sources (insurance proceeds) on a budgetary basis were greater than budgeted resources by \$402,742 and actual expenditures on a budgetary basis were \$467,149 less than budgeted resulting in an overall favorable budget variance of \$869,891. The general fund budget was amended during the year to increase budgeted outflows by \$170,120. The amendments were to account for actual budgetary outflows that exceeded the City's original estimate.

Capital Assets and Debt Administration

Capital assets – The City's investment in capital assets for its governmental and business-type activities as of September 30, 2021, amounts to \$16,778,120 (net of accumulated depreciation). This investment includes land, buildings, vehicles, equipment, furnishings, water and wastewater treatment system and stormwater system. This amount represents a net decrease of \$159,840 or 1% under last year which is the result of current year depreciation expenses in excess of current year additions. Information on the City's capital assets is summarized in the following table.

| | Capital Assets Activity | | | | | |
|-----------------------------------|-----------------------------------|---------------------|---------------------------------|----------------------|---------------------------------|----------------------|
| | (net of accumulated depreciation) | | | | | |
| | as of September 30, | | | | | |
| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Land | \$ 226,886 | \$ 226,886 | \$ 80,318 | \$ 80,318 | \$ 307,204 | \$ 307,204 |
| Buildings | 1,931,423 | 1,972,263 | - | - | 1,931,423 | 1,972,263 |
| Intangible assets | - | - | 105,300 | 105,300 | 105,300 | 105,300 |
| Idle assets | - | - | 216,537 | 216,537 | 216,537 | 216,537 |
| Improvements other than buildings | 693,812 | 734,759 | - | - | 693,812 | 734,759 |
| Machinery and equipment | 962,641 | 518,555 | 360,973 | 374,767 | 1,323,614 | 893,322 |
| Infrastructure | 1,021,986 | 960,705 | - | - | 1,021,986 | 960,705 |
| Water and wastewater system | - | - | 9,028,306 | 9,644,890 | 9,028,306 | 9,644,890 |
| Stormwater system | - | - | 467,800 | 492,715 | 467,800 | 492,715 |
| Construction in progress | - | - | 1,682,138 | 1,610,265 | 1,682,138 | 1,610,265 |
| Total | <u>\$ 4,836,748</u> | <u>\$ 4,413,168</u> | <u>\$ 11,941,372</u> | <u>\$ 12,524,792</u> | <u>\$ 16,778,120</u> | <u>\$ 16,937,960</u> |

Additional information on the City's capital assets can be found in Note 5 of the Notes to the Financial Statements in this report.

Capital Assets and Debt Administration (concluded)

Long-Term Debt – At the end of the current fiscal year, the City had total debt outstanding in the amount of \$2,370,998 in bonds and loans payable. The following table provides a comparative summary of the City’s outstanding debt. This amount represents a net decrease of \$240,034 or 10% under last year which is the result of current year depreciation expenses in excess of current year additions. Information on the City’s capital assets is summarized in the following table:

| | Outstanding Debt | | | | | |
|-----------------------|--------------------------------|--------------------|---------------------------------|---------------------|---------------------------------|---------------------|
| | as of September 30, | | | | | |
| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
| | <u>2021</u> | <u>2020</u> | <u>2021</u> | <u>2020</u> | <u>2021</u> | <u>2020</u> |
| Revenue bonds payable | \$ - | \$ - | \$ 1,702,184 | \$ 1,849,702 | \$ 1,702,184 | \$ 1,849,702 |
| Loans payable | - | - | 668,814 | 761,330 | 668,814 | 761,330 |
| Total | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,370,998</u> | <u>\$ 2,611,032</u> | <u>\$ 2,370,998</u> | <u>\$ 2,611,032</u> |

Additional information on the City’s long-term debt can be found in Note 6 of the Notes to the Financial Statements of this report.

Requests for information

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

CITY OF FROSTPROOF, FLORIDA

Statement of Net Position

September 30, 2021

| | Primary Government | | |
|---------------------------------------|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 1,986,683 | \$ 426,178 | \$ 2,412,861 |
| Investments | 30,990 | - | 30,990 |
| Receivables, current: | | | |
| Customer accounts, net | - | 174,077 | 174,077 |
| Franchise and utility service taxes | 56,161 | - | 56,161 |
| Intergovernmental | 65,627 | - | 65,627 |
| Notes receivable | 5,575 | - | 5,575 |
| Deposits | 40,276 | - | 40,276 |
| Restricted assets: | | | |
| Cash and cash equivalents | 932,440 | 362,389 | 1,294,829 |
| Net pension asset | 126,761 | 83,180 | 209,941 |
| Capital Assets: | | | |
| Non-depreciable | 226,886 | 2,084,293 | 2,311,179 |
| Depreciable, net | 4,609,862 | 9,857,079 | 14,466,941 |
| TOTAL ASSETS | 8,081,261 | 12,987,196 | 21,068,457 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows related to pensions | 413,702 | 86,464 | 500,166 |
| LIABILITIES | | | |
| Accounts payable | 119,241 | 83,765 | 203,006 |
| Accrued payroll | 15,119 | 13,116 | 28,235 |
| Due to other governments | 23,860 | - | 23,860 |
| Unearned revenue | 18,291 | - | 18,291 |
| Accrued interest payable | - | 7,808 | 7,808 |
| Customer deposits | 150 | 64,205 | 64,355 |
| Long-term obligations: | | | |
| Due within one year | - | 257,571 | 257,571 |
| Due in more than one year | 594,406 | 2,132,771 | 2,727,177 |
| TOTAL LIABILITIES | 771,067 | 2,559,236 | 3,330,303 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows related to pensions | 280,266 | 220,503 | 500,769 |
| NET POSITION | | | |
| Net investment in capital assets | 4,836,748 | 9,570,374 | 14,407,122 |
| Restricted for: | | | |
| Debt service | - | 47,912 | 47,912 |
| Cultural activities | 9,902 | - | 9,902 |
| Stormwater management | - | 233,614 | 233,614 |
| Capital improvement | 96,347 | 8,850 | 105,197 |
| Building code enforcement | 102,044 | - | 102,044 |
| Transportation expenses | 665,285 | - | 665,285 |
| Fire protection services | 58,862 | - | 58,862 |
| Unrestricted | 1,674,442 | 433,171 | 2,107,613 |
| TOTAL NET POSITION | \$ 7,443,630 | \$ 10,293,921 | \$ 17,737,551 |

The accompanying notes are an integral part of these financial statements

CITY OF FROSTPROOF, FLORIDA

Statement of Activities

For the year ended September 30, 2021

| FUNCTIONS/PROGRAMS | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|---|---------------------|----------------------|-----------------------------------|---------------------------------|---|--------------------------|----------------------|
| | | Charges for Services | Operating Grant and Contributions | Capital Grant and Contributions | Governmental Activities | Business-Type Activities | Total |
| PRIMARY GOVERNMENT | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 658,280 | \$ 181,605 | \$ - | \$ - | \$ (476,675) | \$ - | \$ (476,675) |
| Law enforcement | 829,948 | 2,515 | 33,451 | - | (793,982) | - | (793,982) |
| Fire control | 208,113 | 256,114 | - | - | 48,001 | - | 48,001 |
| Building enforcement | 71,140 | 121,812 | - | - | 50,672 | - | 50,672 |
| Transportation | 447,741 | 26,881 | 180,558 | 145,141 | (95,161) | - | (95,161) |
| Culture/recreation | 244,743 | 5,419 | 118,548 | - | (120,776) | - | (120,776) |
| Community affairs | 344,294 | 760 | 26,925 | - | (316,609) | - | (316,609) |
| Total governmental activities | 2,804,259 | 595,106 | 359,482 | 145,141 | (1,704,530) | - | (1,704,530) |
| Business-type activities: | | | | | | | |
| Water and wastewater utility | 2,133,617 | 1,461,778 | - | 78,320 | - | (593,519) | (593,519) |
| Sanitation utility | 506,325 | 480,531 | - | - | - | (25,794) | (25,794) |
| Stormwater utility | 126,847 | 57,669 | - | - | - | (69,178) | (69,178) |
| Total business-type activities | 2,766,789 | 1,999,978 | - | 78,320 | - | (688,491) | (688,491) |
| TOTAL PRIMARY GOVERNMENT | \$ 5,571,048 | \$ 2,595,084 | \$ 359,482 | \$ 223,461 | (1,704,530) | (688,491) | (2,393,021) |
| GENERAL REVENUES | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes, levied for general purposes | | | | | 922,403 | - | 922,403 |
| Franchise and public service taxes | | | | | 790,520 | - | 790,520 |
| State shared revenue | | | | | 402,076 | - | 402,076 |
| Investment earnings | | | | | 2,846 | 752 | 3,598 |
| Other revenues | | | | | 17,246 | - | 17,246 |
| Total general revenues and transfers | | | | | 2,135,091 | 752 | 2,135,843 |
| Change in net position | | | | | 430,561 | (687,739) | (257,178) |
| NET POSITION, beginning of year | | | | | 7,013,069 | 10,981,660 | 17,994,729 |
| NET POSITION, end of year | | | | | \$ 7,443,630 | \$ 10,293,921 | \$ 17,737,551 |

The accompanying notes are an integral part of these financial statements

CITY OF FROSTPROOF, FLORIDA
 Balance Sheet – Governmental Funds
 September 30, 2021

| | <u>General Fund</u> | <u>Non-major Latt Maxcy Memorial Library Special Revenue Fund</u> | <u>Total</u> |
|-------------------------------------|-------------------------|---|---------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 1,986,683 | \$ 9,902 | \$ 1,996,585 |
| Investments | 30,990 | - | 30,990 |
| Receivables, current: | | | |
| Franchise and utility service taxes | 56,161 | - | 56,161 |
| Intergovernmental | 65,627 | - | 65,627 |
| Notes receivable | 5,575 | - | 5,575 |
| Prepaid expenditures | 40,276 | - | 40,276 |
| Restricted assets: | | | |
| Cash and cash equivalents | 922,538 | - | 922,538 |
| Total assets | <u>\$ 3,107,850</u> | <u>\$ 9,902</u> | <u>\$ 3,117,752</u> |
| LIABILITIES | | | |
| Accounts payable | 119,241 | - | 119,241 |
| Accrued wages | 15,119 | - | 15,119 |
| Due to other governments | 23,860 | - | 23,860 |
| Deposits | 150 | - | 150 |
| Unearned revenue | 18,291 | - | 18,291 |
| Total liabilities | <u>176,661</u> | <u>-</u> | <u>176,661</u> |
| FUND BALANCE | | | |
| Nonspendable: | | | |
| Prepaid expenditures | 40,276 | - | 40,276 |
| Restricted for: | | | |
| Cultural activities | - | 9,902 | 9,902 |
| Building code enforcement | 102,044 | - | 102,044 |
| Capital improvements | 96,347 | - | 96,347 |
| Transportation improvements | 665,285 | - | 665,285 |
| Fire protection services | 58,862 | - | 58,862 |
| Unassigned | 1,968,375 | - | 1,968,375 |
| Total fund balances | <u>2,931,189</u> | <u>9,902</u> | <u>2,941,091</u> |
| Total liabilities and fund balance | <u>\$ 3,107,850</u> | <u>\$ 9,902</u> | <u>\$ 3,117,752</u> |

The accompanying notes are an integral part of these financial statements

CITY OF FROSTPROOF, FLORIDA

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position

September 30, 2021

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

| | |
|--|---------------------|
| FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | \$ 2,941,091 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 4,836,748 |
| The net pension asset is not an available resource and, therefore, is not reported in the governmental funds. | 126,761 |
| Deferred outflows of resources represent a decrease in net position or fund balance that applies to a future period(s) and, therefore, are not reported in the governmental funds. | 413,702 |
| Deferred inflows of resources represent an increase in net position or fund balance that applies to a future period(s) and, therefore, are not reported in the governmental funds. | (280,266) |
| Compensated absences and net pension liabilities are not due and payable in the current period and, therefore, are not reported in the funds. | |
| This is the year-end compensated absences liability. | (37,175) |
| This is the year-end net pension liability. | (557,231) |
| NET POSITION OF GOVERNMENTAL ACTIVITIES | <u>\$ 7,443,630</u> |

The accompanying notes are an integral part of these financial statements

CITY OF FROSTPROOF, FLORIDA

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

For the year ended September 30, 2021

| | <u>General Fund</u> | <u>Non-major Latt Maxcy Memorial Library Special Revenue Fund</u> | <u>Total</u> |
|--|-------------------------|---|---------------------|
| REVENUES: | | | |
| Taxes: | | | |
| Property | \$ 922,403 | \$ - | \$ 922,403 |
| Franchise and utility taxes | 841,893 | - | 841,893 |
| Licenses and permits | 140,838 | - | 140,838 |
| Intergovernmental revenue | 735,704 | - | 735,704 |
| Charges for services | 430,556 | - | 430,556 |
| Fines and forfeitures | 31,120 | - | 31,120 |
| Investment income | 2,839 | - | 2,839 |
| Other | 104,530 | 7 | 104,537 |
| Total revenues | <u>3,209,883</u> | <u>7</u> | <u>3,209,890</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| General government | 496,019 | - | 496,019 |
| Public safety | 1,200,546 | - | 1,200,546 |
| Transportation | 317,318 | - | 317,318 |
| Culture | 187,103 | - | 187,103 |
| Community affairs | 201,459 | - | 201,459 |
| Capital outlay | 725,969 | - | 725,969 |
| Total expenditures | <u>3,128,414</u> | <u>-</u> | <u>3,128,414</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 81,469 | 7 | 81,476 |
| OTHER FINANCING SOURCES (USES) | | | |
| Insurance proceeds | 24,929 | - | 24,929 |
| NET CHANGE IN FUND BALANCE | 106,398 | 7 | 106,405 |
| FUND BALANCE, beginning of year | <u>2,824,791</u> | <u>9,895</u> | <u>2,834,686</u> |
| FUND BALANCE, end of year | <u>\$ 2,931,189</u> | <u>\$ 9,902</u> | <u>\$ 2,941,091</u> |

The accompanying notes are an integral part of these financial statements

CITY OF FROSTPROOF, FLORIDA

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities

For the year ended September 30, 2021

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 106,405

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

This is the amount of capital assets recorded in the current period. 713,723
This is the amount of depreciation recorded in the current period. (262,745)
This is the book value of dispositions recorded in the current period. (27,398)

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

This is the change in accrued compensated absences during the year. 16,062

Pension expense is reported in the statement of activities which differs from pension expenditures as reported in the governmental funds:

This amount represents the change in deferred inflows related to pensions. (143,754)
This amount represents the change in deferred outflows related to pensions. 4,782
This amount represents the change in the net pension asset. (99,649)
This amount represents the change in the net pension liability. 123,135

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 430,561

CITY OF FROSTPROOF, FLORIDA
Statement of Net Position – Proprietary Fund
September 30, 2021

| | <u>Enterprise Fund</u> |
|--|----------------------------|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 426,178 |
| Customer receivables, net | 174,077 |
| Total current assets | <u>600,255</u> |
| Noncurrent assets: | |
| Restricted cash and cash equivalents | 362,389 |
| Net pension asset | 83,180 |
| Capital assets: | |
| Non-depreciable | 2,084,293 |
| Depreciable, net | 9,857,079 |
| Total noncurrent assets | <u>12,386,941</u> |
| Total assets | <u>12,987,196</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflows of resources related to pensions | <u>86,464</u> |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable | 83,765 |
| Accrued wages | 13,116 |
| Bonds and notes payable, current | 257,571 |
| Total current liabilities | <u>354,452</u> |
| Noncurrent liabilities: | |
| Liabilities payable from restricted assets: | |
| Customer deposits | 64,205 |
| Interest payable | 7,808 |
| Compensated absences | 19,344 |
| Bonds and notes payable, noncurrent portion | 2,113,427 |
| Total noncurrent liabilities | <u>2,204,784</u> |
| Total liabilities | <u>2,559,236</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows of resources related to pensions | <u>220,503</u> |
| NET POSITION | |
| Net investment in capital assets | 9,570,374 |
| Restricted for: | |
| Debt service | 47,912 |
| Stormwater management | 233,614 |
| Capital improvements | 8,850 |
| Unrestricted | 433,171 |
| Total net position | <u>\$ 10,293,921</u> |

The accompanying notes are an integral part of these financial statements

CITY OF FROSTPROOF, FLORIDA

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund

For the year ended September 30, 2021

| | Enterprise Fund |
|---|----------------------------|
| OPERATING REVENUES: | |
| Charges for services | |
| Water and wastewater (pledged as security for revenue bonds) | \$ 1,461,778 |
| Stormwater | 57,669 |
| Assessment and franchise fees - Sanitation | 480,531 |
| Total operating revenues | <u>1,999,978</u> |
| OPERATING EXPENSES: | |
| Personnel services | 789,522 |
| Contract services | 131,361 |
| Insurance | 49,581 |
| Materials and supplies | 92,588 |
| Repair and maintenance | 207,156 |
| Sanitation fees | 429,678 |
| Utilities | 86,977 |
| Miscellaneous | 30,564 |
| Depreciation | 879,790 |
| Total operating expenses | <u>2,697,217</u> |
| OPERATING LOSS | <u>(697,239)</u> |
| NONOPERATING REVENUE (EXPENSE) | |
| Interest expense | (64,493) |
| Gain (loss) on disposal of property | (5,079) |
| Investment revenue | 752 |
| Total nonoperating revenues (expense) | <u>(68,820)</u> |
| INCOME BEFORE CONTRIBUTIONS AND GRANTS | <u>(766,059)</u> |
| CAPITAL CONTRIBUTIONS | |
| Grants | 78,320 |
| Total capital contributions | 78,320 |
| CHANGE IN NET POSITION | <u>(687,739)</u> |
| NET POSITION, beginning of year | <u>10,981,660</u> |
| NET POSITION, end of year | <u>\$ 10,293,921</u> |

The accompanying notes are an integral part of these financial statements

CITY OF FROSTPROOF, FLORIDA

Statement of Cash Flows – Proprietary Fund

For the year ended September 30, 2021

| | Enterprise Fund |
|---|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Receipts from customers | \$ 2,036,218 |
| Payments to suppliers | (1,097,019) |
| Payments for salaries and benefits | (610,851) |
| Net cash flows from operating activities | <u>328,348</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | |
| Acquisition and construction of capital assets, net of related payables | (310,309) |
| Principal paid on long-term debt | (249,614) |
| Interest paid on borrowings | (65,452) |
| Proceeds from long-term debt | 9,580 |
| Payments from disposal of assets | 8,860 |
| Capital grants received, net of change in related receivable | 97,094 |
| Net cash flows from capital and related financing activities | <u>(509,841)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest on invested funds | <u>752</u> |
| Net cash flows from investing activities | <u>752</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (180,741) |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>969,308</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 788,567</u> |
| As shown in the Accompanying Financial Statements | |
| Cash and cash equivalents | \$ 426,178 |
| Restricted cash and cash equivalents | <u>362,389</u> |
| Total cash and cash equivalents | <u>\$ 788,567</u> |

Continued...

The accompanying notes are an integral part of these financial statements

CITY OF FROSTPROOF, FLORIDA

Statement of Cash Flows – Proprietary Fund (concluded)

For the year ended September 30, 2021

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

| | | |
|--|----|----------------|
| Operating income (loss) | \$ | (697,239) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | |
| Depreciation expense | | 879,790 |
| (Increase) decrease in accounts receivable | | 27,170 |
| (Increase) decrease in prepaid expenses | | 35,072 |
| Increase (decrease) in customer deposits | | 9,070 |
| Increase (decrease) in accounts payable | | (104,186) |
| Increase (decrease) in accrued wages and comp absences | | (28,986) |
| Increase (decrease) in pension elements | | 207,657 |
| Net cash flows from operating activities | \$ | <u>328,348</u> |

Noncash financing and investing activities:

| | | |
|------|--|----------|
| None | | <u>-</u> |
|------|--|----------|

The accompanying notes are an integral part of these financial statements

CITY OF FROSTPROOF, FLORIDA

Statement of Fiduciary Net Position – Fiduciary Funds

September 30, 2021

| | Pension Trust Funds | Custodial Fund |
|---------------------------------|------------------------------------|---------------------------|
| ASSETS | | |
| Investments | \$ 6,751,528 | \$ - |
| Receivables: | | |
| Due from other governments | 47,423 | - |
| Due from broker | 1,150 | - |
| Accrued interest and dividends | 5,607 | - |
| Prepaid items | 25,869 | - |
| Total assets | <u>6,831,577</u> | <u>-</u> |
| LIABILITIES | | |
| Accounts payable: | | |
| Due to broker | 811 | - |
| Total liabilities | <u>811</u> | <u>-</u> |
| NET POSITION | | |
| Restricted for pension benefits | <u>\$ 6,830,766</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these financial statements

CITY OF FROSTPROOF, FLORIDA

Statement of Changes in Fiduciary Net Position – Fiduciary Funds

For the year ended September 30, 2021

| | Pension Trust Funds | Custodial Fund |
|---|------------------------------------|---------------------------|
| ADDITIONS | | |
| Contributions: | | |
| Employer: | | |
| City | \$ 88,594 | \$ - |
| Other | - | - |
| Employee | 30,029 | - |
| On-behalf payments - State of Florida | 26,963 | - |
| Fee collected on behalf of other governments | - | 337,225 |
| Total contributions | <u>145,586</u> | <u>337,225</u> |
| Investment earnings: | | |
| Interest and dividends | 87,536 | - |
| Net increase in the fair value of investments | 1,061,046 | - |
| Total investment earnings | <u>1,148,582</u> | - |
| Less investment expense | 48,854 | - |
| Net investment earnings | <u>1,099,728</u> | - |
| Total additions | <u>1,245,314</u> | <u>337,225</u> |
| DEDUCTIONS | | |
| Benefits | 348,559 | - |
| Refund of contributions | 8,675 | - |
| Administrative expenses | 25,071 | - |
| Remittance of fees to other governments | - | 337,225 |
| Total deductions | <u>382,305</u> | <u>337,225</u> |
| CHANGE IN NET POSITION | 863,009 | - |
| NET POSITION, beginning of year | <u>5,967,757</u> | - |
| NET POSITION, end of year | <u>\$ 6,830,766</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

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

Based on these criteria, the financial reporting entity reports two fiduciary component units which are legally separate from the City, but are so intertwined that they are, in substance the same as the City. They are reported as part of the City and blended with the fiduciary funds of the City and are listed below:

- General Employees' Pension Trust Fund established pursuant to Ordinance No. 411.
- Police Officers' Pension Trust Fund established pursuant to Chapter 185, Florida Statutes and Ordinance No. 00-O-4.

B. BASIS OF PRESENTATION

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

Government-wide Financial Statements - The required government-wide financial statements are the Statement of Net Position and the Statement of Activities, which report information on all of the nonfiduciary activities of the City. The effects of interfund activity have been removed from these statements.

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

The City's fiduciary funds are also excluded from the government-wide financial statements since by definition these assets are being held for the benefit of a third party and cannot be used to fund activities or obligations of the government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *Business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment, including depreciation.

The City does not allocate the interest expense of governmental fund debt or indirect costs such as finance, personnel, legal, etc. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

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

The City reports the following major governmental fund:

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

The City reports the following major proprietary fund:

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

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

In addition, the City reports the following fund types:

- **Special Revenue Funds** – Special Revenue Funds are a type of governmental fund used to account for revenue sources that are usually restricted by law, regulation, or administrative action. The City has one non-major special revenue fund.
- **Pension Trust Funds** – Pension Trust Funds are a type of fiduciary fund used to account for the activities of the general employees’ pension and the police officers’ pension plans, which accumulate resources for defined benefit payments to qualified employees.
- **Custodial Fund** – The custodial fund is a type of fiduciary fund which is used to account for impact fees collected on behalf of Polk County, Florida (the “County”). These funds are collected on behalf of the County as new construction takes place within the City and remitted to the County monthly.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

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

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

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

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

CASH AND INVESTMENTS

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

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

INTERFUND BALANCES – Transactions between funds that result in amounts owed are referred to as either “due from/to other funds” for current interfund loans or “advances from/to other funds” for noncurrent interfund loans. Amounts receivable from, or payable to, other funds are reflected in the account of the fund until liquidated. Any remaining balances are reported in the government-wide statements as “internal balances”.

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

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

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

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

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

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

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

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

INTEREST COSTS - Interest costs incurred before the end of a construction period is a financing activity separate from the related capital asset and interest costs incurred before the end of the construction period are recognized as an expense in the period in which the cost is incurred. These interest costs are not capitalized as part of the historical cost of the capital asset.

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

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

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

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

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

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

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

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

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

EQUITY CLASSIFICATIONS -

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

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

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

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

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

NOTE 2 - PROPERTY TAX CALENDAR

Under Florida Law, the assessment of all properties and the collection of all county, municipal, special districts and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The tax levy of the City is established by the City Council prior to October 1 of each year and the Polk County Property Appraiser incorporates the millages into the total tax levy, which includes the municipalities, the County, independent districts and the Polk County School Board tax requirements. State statutes permit cities to levy property taxes at a rate of up to 10 mills. The City's millage rate in effect for the fiscal year ended September 30, 2021 was 6.5530.

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

NOTE 3 - BUDGETARY LAW AND PRACTICE

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

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

On or before September 30th, the budget is legally enacted for the General and Enterprise Funds through the passage of an ordinance. City Council approval is required to alter the original budget of any fund or department and this approval must be in the form of an ordinance. The legal level of budgetary control is therefore established at the department level which is the level at which expenditures may not exceed legal appropriations.

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

NOTE 4 – CASH AND INVESTMENTS

Custodial Credit Risk-Deposits

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

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

On September 30, 2021, the carrying amount of the City’s deposits and investments (excluding pension trust funds) is summarized below:

| | |
|---|---------------------|
| Cash and cash equivalents: | |
| Cash on hand | \$ 400 |
| Deposits in financial institutions: | |
| Insured or fully collateralized bank deposits | 3,696,968 |
| FL CLASS governmental investment pool | <u>10,323</u> |
| Total cash and cash equivalents | <u>\$ 3,707,691</u> |

The FL CLASS investment pool is similar to a money market investment that strives to maintain a net asset value of \$1.00 per share. FL CLASS does not meet all the specific criteria outlined in GASB Cod. Sec. In5.104, therefore the City is required to measure the FL CLASS investments at fair value. FL CLASS reports the amortized cost of the pool investments which approximates fair value. Furthermore, because FL CLASS is an external investment pool, the City’s investment in FL CLASS is not required to be categorized within the fair value hierarchy prescribed by GAAP.

The pool is rated AAAM by Standard and Poor and the pool is not exposed to custodial credit risk because the investments are not evidenced by securities that exist in physical or book entry form. The dollar weighted average days to maturity of FLCLASS on September 30, 2021 is 47 days.

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

Restricted Cash

Certain cash and cash equivalents are legally restricted in the statement of net position on September 30, 2021 as follows:

| | Governmental Activities | Business-type Activities |
|---------------------------------------|----------------------------|-----------------------------|
| Capital improvements - transportation | \$ 665,285 | \$ - |
| Cultural services | 9,902 | - |
| Fire protection services | 58,862 | - |
| Building code enforcement | 102,044 | - |
| Impact fees: | | |
| Water | - | 5,250 |
| Sewer | - | 3,000 |
| Stormwater | - | 600 |
| Fire protection | 20,192 | - |
| General government | 17,106 | - |
| Library | 10,818 | - |
| Police | 11,748 | - |
| Parks and recreation | 21,593 | - |
| Transportation | 14,890 | - |
| Stormwater management | - | 233,614 |
| Customer deposits | - | 64,205 |
| Debt service | - | 55,720 |
| Total restricted cash | <u>\$ 932,440</u> | <u>\$ 362,389</u> |

Investments

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

The pension trust funds have individual investment policies which set forth the allowable mix and type of investments allowed including corporate or other bonds and common stock with certain limitations.

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

Investments (cont...)

| | Governmental Activities | Fiduciary Funds | Total | Portfolio |
|-------------------------------|----------------------------|---------------------|---------------------|----------------|
| Investment Type: | | | | |
| Money market funds | \$ - | \$ 26,383 | \$ 26,383 | 0.39% |
| U.S. treasuries | 30,990 | 268,331 | 299,321 | 4.41% |
| U.S. Gov't agencies | - | 49,217 | 49,217 | 0.73% |
| FMPTF (a) | - | 1,915,947 | 1,915,947 | 28.25% |
| Corporate bonds | - | 183,426 | 183,426 | 2.70% |
| Corporate stocks | - | 3,027,860 | 3,027,860 | 44.64% |
| Equity mutual fund | - | 497,598 | 497,598 | 7.34% |
| Fixed income ETF | - | 742,466 | 742,466 | 10.95% |
| Real estate investment trusts | - | 40,300 | 40,300 | 0.59% |
| Total investments | <u>\$ 30,990</u> | <u>\$ 6,751,528</u> | <u>\$ 6,782,518</u> | <u>100.00%</u> |

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

Investments – Fair Value

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

The City (excluding pension trust fund investments) has the following recurring fair value measurements as of September 30, 2021:

- U.S. Treasury securities of \$30,990 are valued using quoted market prices (Level 1 inputs).

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

The City’s Pension Trust Funds have the following recurring fair value measurements as of September 30, 2021:

General Employees’ Pension Trust Fund:

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

As of September 30, 2021, the carrying amount of the General Employees’ Pension Trust Fund’s investments with the FMIVT were as follows:

| General Employees' Pension Trust Fund | |
|--|---------------------|
| FMIvT Cash Fund | \$ 13,412 |
| FMIvT Broad Market High Quality Bond Fund | 296,972 |
| FMIvT Core Plus Fund | 302,720 |
| FMIvT Diversified Large Cap | 484,735 |
| FMIvT Diversified Small to Mid Cap Fund | 266,317 |
| FMIvT International Equity | 390,853 |
| FMIvT Core Real Estate | <u>160,938</u> |
| Total | <u>\$ 1,915,947</u> |

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

Police Officers’ Pension Trust Fund:

| | September 30, 2021 | Fair Value Measurements Using | | |
|---|-----------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investment by fair value level | | | | |
| Debt securities | | | | |
| U.S. Treasury securities | \$ 268,331 | \$ - | \$ 268,331 | \$ - |
| U.S. Agencies | 49,217 | - | 49,217 | - |
| Corporate bonds | 183,426 | - | 183,426 | - |
| Fixed income exchange traded fund | 742,466 | 742,466 | - | - |
| Total debt securities | <u>1,243,440</u> | <u>742,466</u> | <u>500,974</u> | <u>-</u> |
| Equity securities | | | | |
| Domestic | 2,184,400 | 2,184,400 | - | - |
| Foreign | 843,460 | 843,460 | - | - |
| Real estate | 40,300 | 40,300 | - | - |
| Mutual fund | 497,598 | 497,598 | - | - |
| Total equity securities | <u>3,565,758</u> | <u>3,565,758</u> | <u>-</u> | <u>-</u> |
| Total investments by fair value level | <u>4,809,198</u> | <u>\$ 4,308,224</u> | <u>\$ 500,974</u> | <u>\$ -</u> |
| Investments measured at amortized cost | | | | |
| Money market mutual funds | <u>26,383</u> | | | |
| Total investments | <u>\$ 4,835,581</u> | | | |

Debt and equity securities classified in level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities’ relationship to benchmark quoted prices.

NOTE 4 – CASH AND INVESTMENTS (concluded)

Interest Rate Risk and Credit Risk

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

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

| Investment Type | Credit Rating (a) | Fair Value | Weighted Average Maturity |
|---|-------------------|---------------------|---------------------------|
| Governmental activities: | | | |
| U.S. Treasury securities | AAA | \$ 30,990 | - |
| General Employees' Pension Trust Fund: | | | |
| FMIvT Broad Market High Quality Bond Fund | AAf/S4 | 296,972 | 6.30 |
| FMIvT Core Plus Fund | Not Rated | 302,720 | 8.21 |
| | | <u>\$ 599,692</u> | |
| Police Officers' Pension Trust Fund: | | | |
| U.S. Treasury securities | AAA | 268,331 | 3.50 |
| U.S. Agencies | AA+ | 49,217 | 3.37 |
| Corporate bonds | BBB+ to AAA | 183,426 | 3.10 |
| iShares Barclays Aggregate Bond Fund ETF | Not Rated | 515,816 | na |
| Barclays TIPS bond fund ETF | Not Rated | 226,650 | na |
| | | <u>\$ 1,243,440</u> | |

(a) The credit rating service listed above is S&P except for the FMIvT investments which is rated by Fitch

na - not available

Concentration of Credit Risk

Concentration of credit risk is defined as when five percent or more of the total investments are invested with one issuer. Investments issued or explicitly guaranteed by the United States government and investments in mutual funds or pools are excluded. There were no concentrations to disclose for the year ended September 30, 2021.

CITY OF FROSTPROOF, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2021 was as follows:

| | Balance October 1, 2020 | Increases | Decreases | Balance September 30, 2021 |
|---|-------------------------------|---------------------|--------------------|----------------------------------|
| <u>Governmental Activities:</u> | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 226,886 | \$ - | \$ - | \$ 226,886 |
| Total capital assets, not being depreciated | 226,886 | - | - | 226,886 |
| Capital assets, being depreciated: | | | | |
| Buildings | 4,289,609 | 62,627 | (56,522) | 4,295,714 |
| Capitalized building lease | 97,154 | - | - | 97,154 |
| Improvements, other than buildings | 1,772,872 | 9,689 | - | 1,782,561 |
| Equipment | 2,594,220 | 532,217 | (19,885) | 3,106,552 |
| Infrastructure | 1,275,102 | 109,190 | - | 1,384,292 |
| Total capital assets, being depreciated | 10,028,957 | 713,723 | (76,407) | 10,666,273 |
| Less accumulated depreciation for: | | | | |
| Buildings | (2,375,638) | (71,827) | 27,311 | (2,420,154) |
| Capitalized building lease | (38,862) | (2,429) | - | (41,291) |
| Improvements, other than buildings | (1,038,113) | (50,636) | - | (1,088,749) |
| Equipment | (2,075,665) | (89,944) | 21,698 | (2,143,911) |
| Infrastructure | (314,397) | (47,909) | - | (362,306) |
| Total accumulated depreciation | (5,842,675) | (262,745) | 49,009 | (6,056,411) |
| Total capital assets being depreciated, net | 4,186,282 | 450,978 | (27,398) | 4,609,862 |
| Governmental activities capital assets, net | <u>\$ 4,413,168</u> | <u>\$ 450,978</u> | <u>\$ (27,398)</u> | <u>\$ 4,836,748</u> |
| <u>Business-type activities:</u> | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 80,318 | \$ - | \$ - | \$ 80,318 |
| Construction-in-progress | 1,610,265 | 71,873 | - | 1,682,138 |
| Intangible assets | 105,300 | - | - | 105,300 |
| Idle assets | 216,537 | - | - | 216,537 |
| Total capital assets, not being depreciated | 2,012,420 | 71,873 | - | 2,084,293 |
| Capital assets, being depreciated: | | | | |
| Water and wastewater system | 18,932,336 | 161,609 | (11,365) | 19,082,580 |
| Stormwater system | 853,719 | - | (15,605) | 838,114 |
| Machinery and equipment | 974,944 | 76,827 | (1,948) | 1,049,823 |
| Total capital assets, being depreciated | 20,760,999 | 238,436 | (28,918) | 20,970,517 |
| Less accumulated depreciation for: | | | | |
| Water and wastewater system | (9,287,446) | (769,253) | 2,425 | (10,054,274) |
| Stormwater system | (361,004) | (21,890) | 12,580 | (370,314) |
| Machinery and equipment | (600,177) | (88,647) | (26) | (688,850) |
| Total accumulated depreciation | (10,248,627) | (879,790) | 14,979 | (11,113,438) |
| Total capital assets being depreciated, net | 10,512,372 | (641,354) | (13,939) | 9,857,079 |
| Business-type activities capital assets, net | <u>\$ 12,524,792</u> | <u>\$ (569,481)</u> | <u>\$ (13,939)</u> | <u>\$ 11,941,372</u> |

NOTE 5 - CAPITAL ASSETS (concluded)

Depreciation expense was charged to the following programs and functions:

Governmental Activities:

| | | |
|--|----|----------------|
| General government | \$ | 42,721 |
| Public safety | | 49,177 |
| Transportation | | 78,908 |
| Culture | | 37,662 |
| Community affairs | | 54,277 |
| Total depreciation expense - governmental activities | \$ | <u>262,745</u> |

Business-type Activities:

| | | |
|---|----|----------------|
| Water and wastewater system | \$ | 851,738 |
| Stormwater system | | 25,886 |
| Sanitation | | 2,166 |
| Total depreciation expense - business-type activities | \$ | <u>879,790</u> |

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NOTE 6 - LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended September 30, 2021:

| | Balance October 1, 2020 | Increases | Decreases | Balance September 30, 2021 | Amounts Due within One Year |
|--|-------------------------------|-----------------|---------------------|----------------------------------|-----------------------------------|
| Governmental Activities: | | | | | |
| Long-term liabilities: | | | | | |
| <i>Other liabilities:</i> | | | | | |
| Net pension liability | \$ 680,366 | \$ - | \$ (123,135) | \$ 557,231 | \$ - |
| Compensated absences | 53,237 | - | (16,062) | 37,175 | - |
| Total long-term liabilities | <u>\$ 733,603</u> | <u>\$ -</u> | <u>\$ (139,197)</u> | 594,406 | <u>\$ -</u> |
| Less amounts due in one year | | | | - | |
| Net long-term liabilities in excess of one year | | | | <u>\$ 594,406</u> | |
| Business-type Activities: | | | | | |
| Long-term liabilities: | | | | | |
| <i>Revenue bonds payable</i> | | | | | |
| Water and sewer system refunding revenue bond, series 2012 | \$ 985,564 | \$ - | \$ (84,351) | \$ 901,213 | \$ 88,282 |
| Water and sewer system refunding revenue bond, series 2017 | 864,138 | - | (63,167) | 800,971 | 64,952 |
| <i>Loans payable</i> | | | | | |
| Florida Department of Environmental Protection loan DW531010 | - | 9,580 | - | 9,580 | 96 |
| Florida Department of Environmental Protection loan WW60007L | 761,330 | - | (102,096) | 659,234 | 104,241 |
| Total revenue and loans payable | <u>2,611,032</u> | <u>9,580</u> | <u>(249,614)</u> | <u>2,370,998</u> | <u>257,571</u> |
| <i>Other liabilities:</i> | | | | | |
| Compensated absences | 47,172 | - | (27,828) | 19,344 | - |
| Total long-term liabilities | <u>\$ 2,658,204</u> | <u>\$ 9,580</u> | <u>\$ (277,442)</u> | 2,390,342 | <u>\$ 257,571</u> |
| Less amounts due in one year | | | | (257,571) | |
| Net long-term liabilities in excess of one year | | | | <u>\$ 2,132,771</u> | |

Notes to Long-Term Obligations Table

Long term liabilities, including accumulated compensated absences, are typically liquidated by the individual fund to which the liability is directly associated. All of the City's long-term debt (revenue bonds and loans payable) arose through direct borrowings or direct placements.

Business-Type Activities:

Revenue Bonds Payable:

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

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

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

- The **2017 Series Water and Sewer Refunding Revenue Bond** was issued June 23, 2017 to refund the United States Department of Agriculture, Rural Utilities Service Loan in the amount of \$1,050,937. The bond bears interest at 2.24% and payments are due semiannually on each March 1 and September 1, including principal and interest, with a final maturity on September 1, 2032. The bond requires the maintenance of a sinking fund. The 2017 Water and Sewer Refunding Bond is on parity with the 2012 Series Water and Sewer Revenue Refunding Bond.

Loans Payable:

- The **State of Florida Department of Environmental Protection Loan WW60007L** was issued in the amount of \$2,000,000 and provided funds for the collection, transmission and treatment of the wastewater system in the northwest and southeast quadrants of the City and for the planning and design of new collector sewers. The loan bears interest at 2.09% and payments are due in semiannual installments, including principal and interest installments of \$58,739 with the final payment due in June 2027.
- The **State of Florida Department of Environmental Protection Loan DW531010** was issued in the amount of \$9,580 and provided funds to increase the wastewater system disposal capacity. The loan has a zero percent interest rate and payments are due in semiannual installments of \$527 with the final payment due in February 2032.
- The **State of Florida Department of Environmental Protection Loans** are secured by the net revenues of the water and wastewater system. This loan is subordinate to the **2012 and 2017 Water and Sewer Refunding Revenue Bonds** which are secured by the same revenue. These loans require the maintenance of sinking and reserve funds at various specified amounts and require a minimum debt service coverage of 115% and 120%, respectively.

Remedies: All of the City's long-term debt obligations allow for the obligors/lenders to take whatever legal actions are necessary to collect the amounts due in the event of default. The following debt obligations have additional remedies in the event of default as follows:

- **2017 Water and Sewer Refunding Revenue Bond** – The lender may, at their option, declare the entire principal amount outstanding and accrued interest immediately due and payable and may take possession of the water and sewer system and repair, maintain and operate or rent it.
- **State of Florida Department of Environmental Protection Loans** – The lender may request a court to appoint a receiver to manage the City's water and sewer systems, intercept the delinquent amount from any unobligated funds due to the City under any revenue or tax sharing fund established by the State of Florida, impose a penalty in the amount not to exceed a rate of 18 percent per annum on the amount due, notify financial market credit rating agencies and potential creditors, and may accelerate the repayment schedule or increase the interest rate on the unpaid principal of the loan to as much as 1.667 times the loan interest rate.

NOTE 6 - LONG-TERM OBLIGATIONS (concluded)

Maturities: Annual requirements to repay all long-term bonds and notes payable for business-type activities as of September 30, 2021, are as follows:

| <u>Fiscal Year Ending</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------|---------------------|-------------------|---------------------|
| 2022 | \$ 257,571 | \$ 58,634 | \$ 316,205 |
| 2023 | 264,904 | 51,301 | 316,205 |
| 2024 | 271,442 | 44,763 | 316,205 |
| 2025 | 278,148 | 38,057 | 316,205 |
| 2026 | 285,025 | 31,180 | 316,205 |
| 2027-2031 | 932,406 | 63,559 | 995,965 |
| 2032-2036 | 81,502 | 1,022 | 82,524 |
| Total | <u>\$ 2,370,998</u> | <u>\$ 288,516</u> | <u>\$ 2,659,514</u> |

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NOTE 7 – PLEDGED REVENUES

Debt service Coverage – The City is required by the loan covenants of the water and wastewater revenue bonds to provide debt service coverage for bond payments of 120% for the year. The Florida Department of Environmental Protection (FDEP) also requires coverage of 115% for its loan payments for the year. The debt service coverage calculations for the year ended September 30, 2021 are as follows:

| Senior Debt Service Coverage Calculation | |
|---|-------------------|
| Gross revenues (a) | \$ 1,462,530 |
| Less: | |
| Total operating expenses (b) | (2,064,045) |
| Remove: Depreciation expense | 851,738 |
| Remove: Change in pension elements | 207,657 |
| Operation and maintenance expenses (c) | (1,004,650) |
| Net available revenue - Revenue bonds | <u>\$ 457,880</u> |
| Debt service requirements - Revenue bonds | <u>\$ 197,674</u> |
| Coverage - Revenue bonds | <u>232%</u> |

| Subordinate Debt Service Coverage Calculation | |
|---|-------------------|
| Net available revenue for revenue bonds | \$ 457,880 |
| less: debt service requirements and required coverage for revenue bonds (d) | (237,209) |
| Net available revenue - loans payable | <u>\$ 220,671</u> |
| Debt service requirements - loans payable | <u>\$ 117,478</u> |
| Coverage - loans payable | <u>188%</u> |

- (a) Includes operating revenues for water and wastewater treatment and investment revenue.
- (b) Excludes sanitation expenses (\$506,325) and stormwater expenses (\$126,847).
- (c) Water and sewer operating expenses after removal of depreciation and changes in the pension elements required by GASB Cod. Sec. P20 because neither require the expenditure of cash.
- (d) The subordinate debt requires the coverage of senior debt obligation debt service as well as the senior debt required coverage to be removed from net available revenues when calculating the subordinate debt coverage ratio. This is the debt service requirements of the revenue bonds multiplied by the senior debt service coverage requirement of 1.2.

The City was able to meet the senior and subordinate debt service coverage requirements of 120% and 115%, respectively.

NOTE 7 – PLEDGED REVENUES (concluded)

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

| Pledged Revenue | Revenue Pledged Through | Total Principal and Interest Outstanding | Current Year Principal and Interest Paid | Current Year Revenue | % of Revenues to Principal and Interest Paid |
|-----------------------------------|-------------------------|--|--|----------------------|--|
| Water and wastewater net revenues | 9/15/2032 | \$ 2,659,514 | \$ 315,066 | \$ 457,880 | 145.33% |

NOTE 8 – PENSION PLANS

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

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

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

General Employees’ Pension Trust Fund

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

As of October 1, 2020 (the latest available actuarial report date), the members of the plan were as follows:

| | |
|--|----|
| Inactive plan members and beneficiaries receiving benefits | 8 |
| Inactive employees entitled to but not receiving benefits or refund of contributions | 19 |
| Active plan members | 12 |
| Total | 39 |

NOTE 8 – PENSION PLANS (cont...)

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

Benefits Provided – The plan provides retirement, disability, and pre-retirement death benefits to all current members. Normal retirement age is 65 with at least 10 years of credited service. Upon normal retirement, members are entitled to a benefit at 2.5% of their average final compensation for each year of credited service (up to 30 years). Early retirement age is 55 with at least 10 years of credited service. Upon early retirement, the benefit is reduced actuarially for each year by which the participant’s early retirement age precedes the normal retirement age. The plan also provides disability benefits for participants who are disabled on a continuous and permanent basis.

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

Contributions – The City Council establishes and may amend by ordinance the contribution requirements of plan members. The City is required by City ordinance and Florida Statutes to make additional contributions to fund the pension plan at an actuarially determined amount. Plan members contribute at least 1% but not more than 10% of pensionable earnings. The City’s actuarially required contribution for the year ended September 30, 2021 was \$110,960. Actual contributions for the year were zero as the City utilized an unallocated overpayment from a prior year to fund the 2021 required contribution.

Net Pension Liability – The City’s September 30, 2021 net pension liability was measured as of September 30, 2021.

Actuarial assumptions – The total pension liability was determined by an actuarial valuation as of October 1, 2020, that was updated to September 30, 2021 (City’s measurement date) using the following actuarial assumptions applied to all measurement periods:

| | |
|----------------------------|---|
| Liability measurement date | September 30, 2021 |
| Valuation date | October 1, 2020 |
| Discount rate | 7.00% per year (2.62% per year is attributable to long term inflation); this rate was used to discount all future benefit payments. |
| Salary increases | 5.50% per year, plus average earnings are loaded by 2.50% for accumulated leave payments upon termination of employment |
| Cost of living increases | None is assumed |

NOTE 8 – PENSION PLANS (cont...)

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

The mortality table used was the PUB-2010 Headcount-Weighted Below Median Mortality Tables, with full generational improvements in mortality using Scale MP-2018 and with male ages set back one year.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of September 30, 2021, are summarized in the following table:

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|--|-------------------|--|
| Core bonds | 15.00% | 1.60% |
| Core plus | 15.00% | 2.10% |
| U.S. large cap equity | 25.00% | 4.60% |
| U.S. small cap equity | 14.00% | 5.50% |
| Non-U.S. equity | 21.00% | 6.70% |
| Core real estate | 10.00% | 5.00% |
| Total or weighted arithmetic average | 100.00% | 4.38% |

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. This discount rate was based on the expected rate of return on pension plan investments of 4.38% and a 2.62% per year attributable to long term inflation. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 8 – PENSION PLANS (cont...)

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

The components of the net pension liability (asset) for the Plan as of September 30, 2021, were as follows:

| | |
|--|---------------------|
| Total pension liability | \$ 1,706,006 |
| Plan fiduciary net position | <u>(1,915,947)</u> |
| Net pension liability (asset) | <u>\$ (209,941)</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 112% |

Changes in City’s Net Pension (Asset) Liability – Changes in the City’s net pension (asset) liability for the year ending September 30, 2021 are as follows:

| | Increase (Decrease) | | |
|---|-------------------------|-----------------------------|-------------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension (Asset) Liability |
| | (a) | (b) | (a)-(b) |
| Measurement date - September 30, 2020 | \$ 1,263,270 | \$ 1,629,478 | \$ (366,208) |
| Changes for the year: | | | |
| Service cost | 86,830 | - | 86,830 |
| Interest | 92,589 | - | 92,589 |
| Difference between actual and expected experience | (169,822) | - | (169,822) |
| Change in assumptions | (56,064) | - | (56,064) |
| Change in benefit terms | 536,509 | - | 536,509 |
| Contributions - employee | - | 29,805 | (29,805) |
| Net investment income | - | 303,970 | (303,970) |
| Benefit payments, including refunds of employee contributions | <u>(47,306)</u> | <u>(47,306)</u> | <u>-</u> |
| Net changes | <u>442,736</u> | <u>286,469</u> | <u>156,267</u> |
| Measurement date - September 30, 2021 | <u>\$ 1,706,006</u> | <u>\$ 1,915,947</u> | <u>\$ (209,941)</u> |

The Plan was amended to increase the retirement benefit from 1.50% for each year of credited service to 2.50% and the employee contribution percentage was changed from a flat 1.00% of pensionable wages to a minimum of 1% to a maximum of 10% of pensionable wages as determined by the City.

NOTE 8 – PENSION PLANS (cont...)

General Employees’ Pension Trust Fund (concluded)

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

| As of September, 9/30/2021 | Current Discount Rate 7.00% | 1% Decrease \$ | Current Rate \$ | 1% Increase \$ |
|----------------------------------|--------------------------------------|-------------------|--------------------|-------------------|
| | | 64,858 | (209,941) | (437,014) |

Pension Expense, Deferred Outflows and Inflows of Resources Related to Plan – For the year ended September 30, 2021, the City recognized pension expense of \$491,711. On September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 51,609 | \$ 303,695 |
| Change in assumptions | 159,406 | 46,594 |
| Net difference between projected and actual earnings on Plan investments | - | 150,480 |
| Total | <u>\$ 211,015</u> | <u>\$ 500,769</u> |

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

| Year ending September 30, | Amount |
|------------------------------|---------------------|
| 2022 | \$ (74,692) |
| 2023 | (73,129) |
| 2024 | (78,289) |
| 2025 | (75,525) |
| 2026 | (6,145) |
| Thereafter | 18,026 |
| Total | <u>\$ (289,754)</u> |

Payables to Pension Plan – On September 30, 2021, the City reported no payables for outstanding contributions.

Money-weighted Rate of Return – For the year ended September 30, 2021, the money-weighted rate of return, net of investment expenses and adjusted for the changing amounts invested for the plan was 19.51%.

NOTE 8 – PENSION PLANS (cont...)

Police Officers’ Pension Trust Fund

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

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

The members of the plan for each valuation report date below (the latest available) were as follows:

| | as of October 1, | |
|--|------------------|------|
| | 2019 | 2020 |
| Inactive plan members and beneficiaries receiving benefits | 9 | 11 |
| Inactive employees entitled to but not receiving benefits | 3 | 1 |
| Active plan members | 1 | 1 |
| Total | 13 | 13 |

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

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

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

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

NOTE 8 – PENSION PLANS (cont...)

Police Officers’ Pension Trust Fund (cont...)

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

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

Contributions – The Police Officers’ Pension Trust Fund receives proceeds from an excise tax on casualty insurance premiums to fund its annual required contribution. While the City no longer has its own police department, some of the City police officers who transferred to the Polk County Sheriff’s Office elected to remain with the City retirement plan. The City contributes annually such amounts as are necessary to fund the difference between the actuarially required annual contribution for the plan and the excise tax on casualty insurance premiums.

For the year ended September 30, 2021, the excise tax totaled \$26,963 and is treated as an on-behalf payment with the proceeds recorded as operating grants and public safety expenses/expenditures in the government-wide and general fund financial statements. Plan members are required to contribute 1% of their salary. The City’s actuarially required contribution for the year ended September 30, 2021 was \$120,862. Actual contributions for the year from the City, including the excise tax amount, and Sheriff Office equaled \$115,557 or 96% of the required contributions. The City has prepaid contributions available to offset the difference between the actual contributions and the required amount.

Net Pension Liability – The City’s September 30, 2021 net pension liability was measured as of September 30, 2020.

Actuarial assumptions – The total pension liability was determined by an actuarial valuation as of October 1, 2019, that was updated to September 30, 2020 (City’s measurement date) using the following actuarial assumptions applied to all measurement periods:

| Liability measurement date | September 30, 2020 | September 30, 2021 |
|----------------------------|--------------------|--------------------|
| Valuation date | October 1, 2019 | October 1, 2020 |
| Inflation | 2.50% | 2.50% |
| Salary increases | 4.00% | 4.00% |
| Discount rate | 7.00% | 6.50% |
| Investment rate of return | 7.00% | 6.50% |

The mortality table used for the September 30, 2020 and 2021 measurement date were based on the Society of Actuaries’ Retirement Plans Experience Committee (RPEC) Pub-2010 Public Retirement Plans Mortality Tables Reports. All rates were projected generationally with Mortality Improvement Scale MP-2018.

NOTE 8 – PENSION PLANS (cont...)

Police Officers’ Pension Trust Fund (cont...)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of September 30, 2020 and 2021 are summarized in the following tables:

September 30, 2020:

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|---|-------------------|--|
| Domestic equity | 45.00% | 5.60% |
| International equity | 12.50% | 4.53% |
| Emerging markets equity | 2.50% | 6.10% |
| Fixed income | 30.00% | 1.56% |
| MLP/Energy infrastructure | 10.00% | 4.80% |
| Total allocation and weighted arithmetic average rate of return | 100.00% | 4.19% |

September 30, 2021:

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|---|-------------------|--|
| Domestic equity | 45.00% | 5.85% |
| International equity | 12.50% | 4.68% |
| Emerging markets equity | 2.50% | 6.25% |
| Fixed income | 30.00% | 1.50% |
| MLP/Energy infrastructure | 10.00% | 2.90% |
| Total allocation and weighted arithmetic average rate of return | 100.00% | 4.11% |

NOTE 8 – PENSION PLANS (cont...)

Police Officers’ Pension Trust Fund (cont...)

Discount Rate - A single discount rate of 7.0% was used to measure the total pension liability as of the September 30, 2020 and 6.50% as of the September 30, 2021 measurement dates. This single discount rate was based on the expected rate of return on pension plan investments. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the total actuarially determined contribution rates and the member rate.

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

Net Pension Liability as of the Plan’s Financial Reporting Date - The components of the net pension liability as of the Plan’s financial reporting date of September 30, 2021, which differs from the City’s measurement date of September 30, 2020, was as follows:

| | |
|---|--------------------|
| Total pension liability | \$ 5,251,606 |
| Plan fiduciary net position | <u>(4,914,819)</u> |
| Net pension liability (asset) | <u>\$ 336,787</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 94% |

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NOTE 8 – PENSION PLANS (cont...)

Police Officers’ Pension Trust (cont...)

Changes in City’s Net Pension Liability – Changes in the City’s net pension liability for the measurement date ending September 30, 2020 are as follows:

| | Increase (Decrease) | | |
|--|----------------------------|--------------------------------|----------------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension (Asset) Liability |
| | (a) | (b) | (a)-(b) |
| Measurement date - September 30, 2019 | \$ 4,958,341 | \$ 4,277,975 | \$ 680,366 |
| Changes for the year: | | | |
| Service cost | 13,135 | - | 13,135 |
| Interest | 338,970 | - | 338,970 |
| Difference between actual and expected experience | (46,501) | - | (46,501) |
| Changes of assumptions | (110,337) | - | (110,337) |
| Contributions - City | - | 124,352 | (124,352) |
| Contributions - State | - | 28,570 | (28,570) |
| Contributions - employee | - | 754 | (754) |
| Net investment income | - | 186,373 | (186,373) |
| Benefit payments, including refunds of employee contributions | (258,098) | (258,098) | - |
| Administrative expense | - | (21,647) | 21,647 |
| Net changes | (62,831) | 60,304 | (123,135) |
| Measurement date - September 30, 2020 | <u>\$ 4,895,510</u> | <u>\$ 4,338,279</u> | <u>\$ 557,231</u> |

In accordance with GASB Cod. Sec. P20, the City’s net pension liability of the Police Officers’ Pension Trust is measured as of end of the prior fiscal year. The City’s September 30, 2021 net pension liability (reporting date) for the Police Officers’ Pension Trust was measured as of September 30, 2020 (measurement date). The City uses the same date for the measurement date and the reporting date for the General Employees’ Pension Trust Fund.

NOTE 8 – PENSION PLANS (cont...)

Police Officers’ Pension Trust (cont...)

Sensitivity of the Net Pension (Asset) Liability to Changes in the Discount Rate – The following presents the net pension liability (asset) of the City as of the measurement date (September 30, 2020), and as of the Plan’s financial reporting date (September 30, 2021) , calculated using the current discount rate for each of the calculations as well as what the plan’s net pension (asset) liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

| As of September, | Current Discount Rate | 1% Decrease | Current Rate | 1% Increase |
|---------------------|-----------------------------|--------------|--------------|--------------|
| 9/30/2020 | 7.00% | \$ 1,196,211 | \$ 557,231 | \$ 37,413 |
| 9/30/2021 | 6.50% | \$ 1,056,549 | \$ 336,787 | \$ (245,874) |

Pension Expense, Deferred Outflows and Inflows of Resources Related to Plan – For the year ended September 30, 2021, the City recognized a negative pension expense of (\$53,011). On September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Net difference between projected and actual earnings on Plan investments | \$ 173,594 | \$ - |
| City contributions subsequent to the measurement date | 115,557 | - |
| Total | <u>\$ 289,151</u> | <u>\$ -</u> |

Deferred outflows of resources related to City contributions subsequent to the measurement date of September 30, 2020 will be recognized as a reduction of the net pension liability in the year ended September 30, 2022. Remaining amounts reported as deferred inflows and outflows of resources will be recognized in pension expense in the years and amounts shown below.

| Year ending September 30, | Amount |
|------------------------------|-------------------|
| 2022 | \$ 39,840 |
| 2023 | 52,747 |
| 2024 | 59,272 |
| 2025 | 21,735 |
| Total | <u>\$ 173,594</u> |

NOTE 8 – PENSION PLANS (cont...)

Police Officers' Pension Trust (concluded)

Payables to Pension Plan – On September 30, 2021, the City reported no payables for outstanding contributions.

Money-weighted Rate of Return – For the year ended September 30, 2021, the money-weighted rate of return, net of investment expenses and adjusted for the changing amounts actually invested for the plan was 18.98%.

Pension Plan Financial Statements

Statement of Fiduciary Net Position as of September 30, 2021:

| | General Employees' Pension Trust Fund | Police Officers' Pension Trust Fund | Total |
|---------------------------------|--|--|---------------------|
| ASSETS | | | |
| Investments | \$ 1,915,947 | \$ 4,835,581 | \$ 6,751,528 |
| Receivables: | | | |
| Due from other governments | - | 47,423 | 47,423 |
| Due from broker | - | 1,150 | 1,150 |
| Accrued interest and dividends | - | 5,607 | 5,607 |
| Prepaid items | - | 25,869 | 25,869 |
| Total assets | <u>1,915,947</u> | <u>4,915,630</u> | <u>6,831,577</u> |
| LIABILITIES | | | |
| Accounts payable: | | | |
| Due to broker | - | 811 | 811 |
| Total liabilities | <u>-</u> | <u>811</u> | <u>811</u> |
| NET POSITION | | | |
| Restricted for pension benefits | <u>\$ 1,915,947</u> | <u>\$ 4,914,819</u> | <u>\$ 6,830,766</u> |

NOTE 8 – PENSION PLANS (concluded)

Pension Plan Financial Statements (concluded)

Schedule of Changes in Fiduciary Net Position for the year ended September 30, 2021:

| | General Employees' Pension Trust Fund | Police Officers' Pension Trust Fund | Total |
|---|--|--|---------------------|
| ADDITIONS | | | |
| Contributions: | | | |
| Employer: | | | |
| City | \$ - | \$ 88,594 | \$ 88,594 |
| Employee | 29,805 | 224 | 30,029 |
| On-behalf payments - State of Florida | - | 26,963 | 26,963 |
| Total contributions | <u>29,805</u> | <u>115,781</u> | <u>145,586</u> |
| Investment earnings: | | | |
| Interest and dividends | - | 87,536 | 87,536 |
| Net increase in the fair value of investments | 314,654 | 746,392 | 1,061,046 |
| Total investment earnings | 314,654 | 833,928 | 1,148,582 |
| Less investment expense | 10,684 | 38,170 | 48,854 |
| Net investment earnings | <u>303,970</u> | <u>795,758</u> | <u>1,099,728</u> |
| Total additions | <u>333,775</u> | <u>911,539</u> | <u>1,245,314</u> |
| DEDUCTIONS | | | |
| Benefits | 38,631 | 309,928 | 348,559 |
| Refund of contributions | 8,675 | - | 8,675 |
| Administrative expenses | - | 25,071 | 25,071 |
| Total deductions | <u>47,306</u> | <u>334,999</u> | <u>382,305</u> |
| CHANGE IN NET POSITION | 286,469 | 576,540 | 863,009 |
| NET POSITION, beginning of year | <u>1,629,478</u> | <u>4,338,279</u> | <u>5,967,757</u> |
| NET POSITION, end of year | <u>\$ 1,915,947</u> | <u>\$ 4,914,819</u> | <u>\$ 6,830,766</u> |

NOTE 9 – OTHER EMPLOYEE BENEFIT PLANS

The City Manager has the option of participating in a separate deferred compensation plan or to participate in the general employees' pension plan. If the City Manager selects the deferred compensation plan, the City contributes 6% of the City Manager's salary and the City Manager is required to contribute a minimum of 1%. The current City Manager opted to participate in the general employees' pension plan, so no City contributions were made to a deferred compensation plan for the benefit of the City Manager.

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

NOTE 10 - OTHER POST EMPLOYMENT BENEFIT (OPEB) OBLIGATIONS

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

The City engaged an actuary to estimate the total other post-employment benefit (OPEB) obligation measured as of September 30, 2020 which resulted in an estimated actuarial determined OPEB obligation and OPEB expense that was immaterial and accordingly, there is no OPEB liability recorded in the financial statements. It is the intent of the City to engage an actuary to recalculate the total OPEB liability if there are significant changes in the City's staffing matrix or the health care benefits provided.

NOTE 11 – SEGMENT INFORMATION FOR ENTERPRISE FUND

The City has outstanding debt secured by its water and sewer revenues. The water and sewer operations are accounted for in a single enterprise fund along with sanitation and stormwater. Because many of the assets and liabilities of the enterprise fund are not separately identifiable with any one operating segment (e.g. cash, accounts receivables, accounts payable, etc.), it is not possible to present segment information disclosures for cash flows and some components of net position. Segment financial information that can be separately identified for the enterprise fund as of and for the year ended September 30, 2021, is presented below:

| | Water System | Sewer System | Total Water and Sewer System |
|---|---------------------|---------------------|---------------------------------------|
| Condensed statement | | | |
| of revenue, expenses and | | | |
| changes in net position: | | | |
| Operating revenues | \$ 659,746 | \$ 802,032 | \$ 1,461,778 |
| Operating expenses | | | |
| Personnel services | (280,170) | (372,720) | (652,890) |
| Contract services | (44,608) | (68,174) | (112,782) |
| Insurance | (18,095) | (22,473) | (40,568) |
| Materials and supplies | (55,700) | (32,751) | (88,451) |
| Repair and maintenance | (94,119) | (106,875) | (200,994) |
| Utilities | (29,671) | (57,306) | (86,977) |
| Miscellaneous | (13,371) | (16,274) | (29,645) |
| Depreciation | (232,960) | (618,778) | (851,738) |
| Nonoperating revenues / (expenses) | | | |
| Interest expense | - | (64,493) | (64,493) |
| Grants | - | 78,320 | 78,320 |
| Investment revenue | 752 | - | 752 |
| Gain (loss) on disposal of property | (5,079) | - | (5,079) |
| Change in net position | <u>\$ (113,275)</u> | <u>\$ (479,492)</u> | <u>\$ (592,767)</u> |
| Summary information | | | |
| from statement of net position: | | | |
| Capital assets, net | | | <u>\$ 11,941,372</u> |
| Long-term debt, including current portion | | | <u>\$ 2,370,998</u> |

NOTE 12 - RISK MANAGEMENT AND LITIGATION

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The City participates in several programs that are fully or partially funded by grants received from Federal, state, or county agency sources. Expenditures financed by grants are subject to audit by the appropriate grantor government/agency. If expenditures are disallowed due to non-compliance with grant program regulations, the City may be required to reimburse the grantor government/agency. As of September 30, 2021, the City believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.

The City is under contract with the Polk County Sheriff’s Office to provide law enforcement services to the City through the year ended September 30, 2021. The City is required to provide the Sheriff with adequate office space at the City’s expense and the contract can be terminated by either party upon 365 days written notice. The City paid \$801,425 for the year ended September 30, 2021. The contract calls for the following minimum costs going forward:

| Fiscal year ending September 30, | Amount |
|-------------------------------------|-----------|
| 2022 | \$816,949 |
| 2023 | \$833,288 |
| 2024 | \$849,953 |
| 2025 | \$866,952 |

NOTE 14 – JOINT VENTURE

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

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

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

NOTE 14 – JOINT VENTURE (concluded)

Membership fees - The terms of the interlocal agreement require each Member Government to contribute their proportionate share of the PRWC's annual working capital needs which are established annually by a resolution of the PRWC's Board of Directors. For the year ended September 30, 2021, the total annual working capital needs of the PRWC was \$198,000 of which the City's proportionate share was \$1,219.

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



City of Frostproof
The Friendly City

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FROSTPROOF, FLORIDA
 Budgetary Comparison Schedule – General Fund
 for the year ended September 30, 2021

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts (budgetary basis)</u> | <u>Variance with Final Budget Favorable (Unfavorable)</u> |
|---|-------------------------|---------------------|---|---|
| | <u>Original</u> | <u>Final</u> | | |
| RESOURCES: | | | | |
| Taxes: | | | | |
| Property | \$ 897,430 | \$ 897,430 | \$ 922,403 | \$ 24,973 |
| Franchise and utility taxes | 672,710 | 672,710 | 841,893 | 169,183 |
| Licenses and permits | 73,000 | 73,000 | 140,838 | 67,838 |
| Intergovernmental revenue | 720,550 | 720,550 | 735,704 | 15,154 |
| Charges for services | 379,180 | 379,180 | 430,556 | 51,376 |
| Fines and forfeitures | 12,200 | 12,200 | 31,120 | 18,920 |
| Investment income | 25,000 | 25,000 | 2,839 | (22,161) |
| Other | 52,000 | 52,000 | 104,530 | 52,530 |
| Total resources | <u>2,832,070</u> | <u>2,832,070</u> | <u>3,209,883</u> | <u>377,813</u> |
| OUTFLOWS | | | | |
| General government: | | | | |
| Legislative | 16,210 | 16,210 | 14,004 | 2,206 |
| Executive | 55,860 | 57,560 | 55,916 | 1,644 |
| Clerk/finance | 101,260 | 107,210 | 99,631 | 7,579 |
| Legal | 44,200 | 37,700 | 37,325 | 375 |
| Planning | 34,500 | 53,000 | 49,173 | 3,827 |
| Cemetery | 99,940 | 99,240 | 92,285 | 6,955 |
| Other general government | 143,820 | 158,270 | 156,833 | 1,437 |
| Total general government | <u>495,790</u> | <u>529,190</u> | <u>505,167</u> | <u>24,023</u> |
| Public safety: | | | | |
| Law and Code Enforcement | 974,870 | 964,420 | 961,289 | 3,131 |
| Fire department | 231,470 | 233,070 | 197,644 | 35,426 |
| Building department | 40,290 | 43,890 | 42,996 | 894 |
| Total public safety | <u>1,246,630</u> | <u>1,241,380</u> | <u>1,201,929</u> | <u>39,451</u> |
| Transportation | 756,690 | 746,690 | 454,968 | 291,722 |
| Library | 233,970 | 255,090 | 208,435 | 46,655 |
| Parks and recreation | 217,930 | 348,780 | 283,482 | 65,298 |
| Total outflows | <u>2,951,010</u> | <u>3,121,130</u> | <u>2,653,981</u> | <u>467,149</u> |
| EXCESS (DEFICIENCY) OF RESOURCES OVER (UNDER) OUTFLOWS | | | | |
| | <u>(118,940)</u> | <u>(289,060)</u> | <u>555,902</u> | <u>844,962</u> |
| Insurance proceeds | <u>-</u> | <u>-</u> | <u>24,929</u> | <u>24,929</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ (118,940)</u> | <u>\$ (289,060)</u> | <u>\$ 580,831</u> | <u>\$ 869,891</u> |

Continued...

CITY OF FROSTPROOF, FLORIDA

Budgetary Comparison Schedule – General Fund (concluded)

for the year ended September 30, 2021

Explanation of differences between budgetary and GAAP basis revenues and expenditures

Uses/outflows of resources

| | |
|--|----------------------------|
| Actual amounts (budgetary basis) "total outflows" from the budgetary comparison schedule | \$ 2,653,981 |
| Differences - budget to GAAP: | |
| Basis difference - purchase of a fire truck budgeted and paid for in the previous year but recognized as an expenditure under GAAP in the Statement of Revenues, Expenditures and Changes in Fund Balance in the current year. | <u>\$ 474,433</u> |
| Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds | <u><u>\$ 3,128,414</u></u> |

NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND - The annual budget for the general fund is generally prepared in accordance with the modified accrual basis of accounting.

CITY OF FROSTPROOF, FLORIDA

**General Employees' Pension Trust Fund - Schedule of Changes in Net Pension Liability and Related Ratios
Required Supplementary Information**

| Measurement date | 9/30/2021 | 9/30/2020 | 9/30/2019 | 9/30/2018 |
|--|----------------|----------------|----------------|----------------|
| Reporting date | 9/30/2021 | 9/30/2020 | 9/30/2019 | 9/30/2018 |
| Total pension liability | | | | |
| Service cost | \$ 86,830 | \$ 45,005 | \$ 51,364 | \$ 58,564 |
| Interest | 92,589 | 89,816 | 88,225 | 84,198 |
| Change in assumptions | (56,064) | - | - | - |
| Change in benefit terms | 536,508 | - | - | 3,238 |
| Difference between expected and actual experience | (169,822) | (21,648) | (54,549) | (24,915) |
| Benefit payments, including refunds of employee contributions | (47,305) | (120,237) | (55,845) | (54,472) |
| Net change in total pension liability | 442,736 | (7,064) | 29,195 | 66,613 |
| Total pension liability, beginning | 1,263,270 | 1,270,334 | 1,241,139 | 1,174,526 |
| Total pension liability, ending (a) | \$ 1,706,006 | \$ 1,263,270 | \$ 1,270,334 | \$ 1,241,139 |
| Plan fiduciary net position | | | | |
| Contributions - City | \$ - | \$ - | \$ 16,324 | \$ 30,815 |
| Contributions - Employee | 29,805 | 4,884 | 5,918 | 5,119 |
| Net investment income (loss) | 303,970 | 96,051 | 74,688 | 110,343 |
| Benefit payments, including refunds of employee contributions | (47,306) | (120,237) | (55,845) | (54,472) |
| Administrative expenses | - | - | - | (7,975) |
| Net change in plan fiduciary net position | 286,469 | (19,302) | 41,085 | 83,830 |
| Plan fiduciary net position, beginning | 1,629,478 | 1,648,780 | 1,607,695 | 1,523,865 |
| Plan fiduciary net position, ending (b) | \$ 1,915,947 | \$ 1,629,478 | \$ 1,648,780 | \$ 1,607,695 |
| Net pension liability (asset) (a)-(b) | \$ (209,941) | \$ (366,208) | \$ (378,446) | \$ (366,556) |
| Plan fiduciary net position as a percentage of total pension liability | 112.31% | 128.99% | 129.79% | 129.53% |
| Covered payroll | \$ 517,081 | \$ 454,066 | \$ 515,265 | \$ 564,733 |
| Net pension liability as a percentage of covered payroll | Not Applicable | Not Applicable | Not Applicable | Not Applicable |

Continued...

CITY OF FROSTPROOF, FLORIDA

General Employees' Pension Trust Fund - Schedule of Changes in Net Pension Liability and Related Ratios
(Concluded)

Required Supplementary Information

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

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

CITY OF FROSTPROOF, FLORIDA

General Employees' Pension Trust Fund - Notes to the Schedule of Changes in Net Pension Liability and Related Ratios

Required Supplementary Information

Changes of Assumptions:

For measurement date September 30, 2021:

- The mortality rates were changed from the RP-2000 Combined Mortality Table with generational improvements using Scale BB to PUB-2010 Mortality Tables with generational improvements using Scale MP-2018.

For measurement date September 30, 2017:

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

For measurement date September 30, 2016:

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

Changes in Benefit Terms:

For measurement date September 30, 2021:

- The Plan was amended to increase the retirement benefit from 1.50% for each year of credited service to 2.50% and the employee contribution percentage was changed from a flat 1.00% of pensionable wages to a minimum of 1% to a maximum of 10% of pensionable wages as determined by the City.

For measurement date September 30, 2018:

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

CITY OF FROSTPROOF, FLORIDA

**Police Officers' Pension Trust Fund - Schedule of Changes in Net Pension Liability and Related Ratios
Required Supplementary Information**

| Measurement date | 9/30/2021 | 9/30/2020 | 9/30/2019 | 9/30/2018 |
|---|--------------|--------------|--------------|--------------|
| Reporting date | 9/30/2022 | 9/30/2021 | 9/30/2020 | 9/30/2019 |
| Total pension liability | | | | |
| Service cost | \$ 13,672 | \$ 13,135 | \$ 11,966 | \$ 11,009 |
| Interest | 332,795 | 338,970 | 331,768 | 329,312 |
| Change in excess State money | - | - | - | - |
| Difference between expected and actual experience | 14,833 | (46,501) | 26,080 | (49,778) |
| Change of assumptions | 304,724 | (110,337) | 118,271 | 112,600 |
| Benefit payments, including refunds of employee contributions | (309,928) | (258,098) | (251,328) | (241,433) |
| Net change in total pension liability | 356,096 | (62,831) | 236,757 | 161,710 |
| Total pension liability, beginning | 4,895,510 | 4,958,341 | 4,721,584 | 4,559,874 |
| Total pension liability, ending (a) | \$ 5,251,606 | \$ 4,895,510 | \$ 4,958,341 | \$ 4,721,584 |
| Plan fiduciary net position | | | | |
| Contributions - City | \$ 88,594 | \$ 124,352 | \$ 146,650 | \$ 116,898 |
| Contributions - State of Florida | 26,963 | 28,570 | 27,130 | 25,010 |
| Contributions - Employee | 224 | 754 | 708 | 656 |
| Contributions - Others | - | - | - | 16,000 |
| Net investment income (loss) | 795,758 | 186,373 | 115,702 | 327,756 |
| Benefit payments, including refunds of employee contributions | (309,928) | (258,098) | (251,328) | (241,433) |
| Administrative expenses | (25,071) | (21,647) | (26,054) | (18,776) |
| Net change in plan fiduciary net position | 576,540 | 60,304 | 12,808 | 226,111 |
| Plan fiduciary net position, beginning | 4,338,279 | 4,277,975 | 4,265,167 | 4,039,056 |
| Plan fiduciary net position, ending (b) | \$ 4,914,819 | \$ 4,338,279 | \$ 4,277,975 | \$ 4,265,167 |
| Net pension liability (asset) (a)-(b) | \$ 336,787 | \$ 557,231 | \$ 680,366 | \$ 456,417 |
| Plan fiduciary net position as a percentage of total pension liability | 93.59% | 88.62% | 86.28% | 90.33% |
| Covered payroll | \$ 22,444 | \$ 75,436 | \$ 70,847 | \$ 65,605 |
| Net pension liability as a percentage of covered payroll | 1500.57% | 738.68% | 960.33% | 695.70% |

Continued...

CITY OF FROSTPROOF, FLORIDA

Police Officers' Pension Trust Fund - Schedule of Changes in Net Pension Liability and Related Ratios (Concluded)
Required Supplementary Information

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

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

CITY OF FROSTPROOF, FLORIDA

Police Officers' Pension Trust Fund - Notes to the Schedule of Changes in Net Pension Liability and Related Ratios
Required Supplementary Information

Changes of Assumptions:

For measurement date September 30, 2021:

- The investment rate of return was lowered from 7.0% to 6.50%.

For measurement date September 30, 2020:

- As mandated by Chapter 2015-157, Laws of Florida, the assumed rates of mortality were changed to the rates used in Milliman's July 1, 2019 FRS valuation report for special risk employees, with appropriate adjustments made based on plan demographics.

For measurement date September 30, 2019:

- The investment rate of return was lowered from 7.2% to 7.0%.

For measurement date September 30, 2018:

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

For measurement date September 30, 2017:

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

For measurement date September 30, 2016:

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

CITY OF FROSTPROOF, FLORIDA

General Employees' Pension Trust Fund - Schedule of Contributions

Required Supplementary Information

| <u>Fiscal year end</u> | (1) Actuarially Determined Contribution | (2) Contributions Recognized by the Plan | (3) Difference between (1) and (2) | Covered Payroll | Column (2) as a % of Covered Payroll |
|------------------------|--|---|---|--------------------|---|
| September 30, 2021 | \$ 110,960 | \$ - | \$ (110,960) | \$ 517,081 | 0.00% |
| September 30, 2020 | 15,540 | - | (15,540) | 454,066 | 0.00% |
| September 30, 2019 | 27,457 | 16,324 | (11,133) | 515,265 | 3.17% |
| September 30, 2018 | 34,117 | 30,801 | (3,316) | 564,733 | 5.45% |
| September 30, 2017 | 40,788 | 35,973 | (4,815) | 620,486 | 5.80% |
| September 30, 2016 | 27,165 | 33,151 | 5,986 | 510,322 | 6.50% |
| September 30, 2015 | 8,576 | 32,578 | 24,002 | 509,811 | 6.39% |
| September 30, 2014 | 31,112 | 161,111 | 129,999 | Not Available | Not Available |
| September 30, 2013 | 35,033 | 35,033 | - | 550,447 | 6.36% |
| September 30, 2012 | 34,473 | 34,473 | - | Not Available | Not Available |

CITY OF FROSTPROOF, FLORIDA

General Employees' Pension Trust Fund - Notes to Schedule of Contributions
Required Supplementary Information

Valuation date October 1, 2020

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

Methods and assumptions used to determine contribution amounts:

Discount rate 7.00% per annum

Salary increases: 5.50% per annum, plus average earnings are loaded by 2.50% to account for accumulated leave payments upon termination of employment

Cost-of-living assumption: None assumed

Mortality basis: Sex-distinct rates set forth in the PUB-2010 Headcount-Weighted Below Median mortality tables with full generational improvements in mortality using Scale MP-2018 and with males ages set back one year.

Retirement: 20% of eligible participants are assumed to retire at age 62, 10% of eligible participants are assumed to retire at each of ages 63 and 64, and 100% of eligible participants are assumed to retire at 65.

Other decrements: With respect to participants with less than seven years of service, termination rates are service-based and range from 8.70% with less than one year of service to 6.00% with between six and seven years of service; with respect to all other participants, termination rates are age-based and range from 5.40% at age 20 to 0.00% at age 60.

Non-investment expenses: Projected benefit liability is loaded by 4.50% to account for anticipated administrative expenses.

Future contributions: Contributions from the employer and employees are assumed to be made as legally required.

Changes: Mortality assumptions were changed from the RP-2000 Mortality Tables to the PUB-2010 Mortality Tables.

CITY OF FROSTPROOF, FLORIDAPolice Officers' Pension Trust Fund - Schedule of Contributions
Required Supplementary Information

| <u>Fiscal year end</u> | (1) Actuarially Determined Contribution | (2) Contributions Recognized by the Plan | (3) Difference between (1) and (2) | Covered Payroll | Column (2) as a % of Covered Payroll |
|------------------------|--|---|---|--------------------|---|
| September 30, 2021 | \$ 120,862 | \$ 115,557 | \$ 5,305 | \$ 22,444 | 514.87% |
| September 30, 2020 | 165,168 | 152,922 | 12,246 | 75,436 | 202.72% |
| September 30, 2019 | 164,149 | 173,780 | (9,631) | 70,847 | 245.29% |
| September 30, 2018 | 149,988 | 157,908 | (7,920) | 65,605 | 240.70% |
| September 30, 2017 | 150,536 | 150,536 | - | 64,601 | 233.02% |
| September 30, 2016 | 154,869 | 154,869 | - | 126,208 | 122.71% |
| September 30, 2015 | 204,539 | 204,539 | - | 128,143 | 159.62% |
| September 30, 2014 | 190,052 | 190,052 | - | 173,421 | 109.59% |

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

CITY OF FROSTPROOF, FLORIDA

Police Officers’ Pension Trust Fund - Notes to Schedule of Contributions

Required Supplementary Information

Valuation date: October 1, 2019

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

Methods and assumptions used to determine contribution amounts:

- Funding method: Entry age normal actuarial cost method. The following loads are applied: Interest - a half year, based on the current 7.2% assumption. Salary - a half year, based on the current 4.0% assumption.
- Discount rate: 7.00% per annum (2.50% per annum is attributable to long-term inflation); this rate was used to discount all future benefit payments
- Salary increases: 4.0% per year up to the assumed retirement age. Also the projected salary at retirement is increased 10% to account for non-regular compensation.
- Cost-of-living assumption: 2.5% per year.
- Mortality basis: Mortality rates are based on the RP-2000 mortality tables for active, inactive and disabled males or females, as appropriate, with adjustments for mortality improvements based on Scale BB.
- Retirement age: Earlier of age 50 or the completion of 20 years of service. Also, any Member who has reached Normal Retirement is assumed to continue employment for on additional year.
- Early retirement: Commencing with the earliest Early Retirement Age (45), Members are assumed to retire with an immediate subsidized benefit at the rate of 5% per year.
- Disability and Termination: See table below. It is assumed that 75% of disablements and active Member deaths are service related.
- Payroll growth: 0.00%
- Changes: The discount rate was changed from 7.2% in the October 1, 2018 valuation to 7.0% in the October 1, 2019 valuation.

Termination and disability rate tables:

| Age | % Terminating during the year | % Becoming disabled during the year |
|-----|----------------------------------|---|
| 20 | 17.20% | 0.03% |
| 30 | 15.00% | 0.04% |
| 40 | 8.20% | 0.07% |
| 50 | 1.70% | 0.18% |

CITY OF FROSTPROOF, FLORIDAGeneral Employees' Pension Trust Fund and Police Officers' Pension Trust Fund Schedule of Investment Returns
Required Supplementary Information

General Employees' Pension Trust Fund:

| <u>Fiscal year ended</u> | <u>Annual money-weighted rate of return net of investment expenses</u> |
|--------------------------|--|
| September 30, 2021 | 19.51% |
| September 30, 2020 | 6.79% |
| September 30, 2019 | 5.38% |
| September 30, 2018 | 7.52% |
| September 30, 2017 | 13.40% |
| September 30, 2016 | 7.80% |
| September 30, 2015 | 0.60% |
| September 30, 2014 | 8.57% |
| September 30, 2013 | 12.00% |
| September 30, 2012 | 17.81% |

Police Officers' Pension Trust Fund:

| <u>Fiscal year ended</u> | <u>Annual money-weighted rate of return net of investment expenses</u> |
|--------------------------|--|
| September 30, 2021 | 18.98% |
| September 30, 2020 | 4.47% |
| September 30, 2019 | 2.78% |
| September 30, 2018 | 8.32% |
| September 30, 2017 | 9.35% |
| September 30, 2016 | 9.48% |
| September 30, 2015 | -3.19% |
| September 30, 2014 | 6.74% |

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



City of Frostproof
The Friendly City

OTHER REPORTS

**INDEPENDENT AUDITOR'S 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**

The Honorable Mayor and
Members of the City Commission
City of Frostproof
Frostproof, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Frostproof, Florida (the City) as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 14, 2022.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described below that we consider to be a significant deficiency.

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The Honorable Mayor and
Members of the City Commission
City of Frostproof
Frostproof, Florida

**INDEPENDENT AUDITOR'S 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***

2021-01 Tracking of Construction Work in Progress

Condition – The City does not have a process in place to ensure timely capitalization and depreciation of completed projects. As a result certain assets reported as construction work in progress in prior years were completed and placed in service but were not reclassified to other capital asset categories and depreciated as of the date placed in service.

Effect – Capital assets, net of accumulated depreciation, is likely overstated as of September 30, 2021.

Recommendation – We recommend management review its current construction work in progress to determine when assets were placed in service and begin depreciating assets accordingly or dispose of them if the project was abandoned.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 financial statements. 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Frostproof's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the City's response to the findings identified in our audit. The City's response was not subjected to the other auditing procedures applied to the audit of the financial statements and, accordingly, we express no opinion on the response.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



September 14, 2022
Sarasota, Florida

INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH FLORIDA STATUTE SECTION 218.415 - INVESTMENTS OF PUBLIC FUNDS

The Honorable Mayor and
Members of the City Commission
City of Frostproof
Frostproof, Florida

We have examined the City of Frostproof, Florida's (the City) compliance with Section 218.415, Florida Statutes, during the fiscal year ended September 30, 2021. City 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 requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material non-compliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

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

In our opinion, the City complied, in all material respects, with the aforementioned requirements during the fiscal year ended September 30, 2021.

This report 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, the Honorable Mayor and Members of the City Commission, and applicable management, and is not intended to be, and should not be, used by anyone other than these specified parties.



September 14, 2022
Sarasota, Florida

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MANAGEMENT LETTER

The Honorable Mayor and
Members of the City Commission
City of Frostproof
Frostproof, Florida

Report on the Financial Statements

We have audited the financial statements of the City of Frostproof, Florida (the City) as of and for the fiscal year ended September 30, 2021, and have issued our report thereon dated September 14, 2022.

Auditor's 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 Auditor's 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*; and Independent Accountant's Report on an examination conducted in accordance with American Institute of Certified Public Accountants *Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports, which are dated September 14, 2022, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There was one audit finding noted in the prior year audit report for which corrective action has been taken.

Official Title and Legal Authority

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

Financial Condition and Management

Sections 10.554(1)(i)5.a. and 10.556(7), *Rules of the Auditor General*, require us to apply appropriate procedures and communicate the results of our determination as to whether or not the City has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific 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.

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The Honorable Mayor and
Members of the City Commission
City of Frostproof
Frostproof, Florida

MANAGEMENT LETTER

Pursuant to Sections 10.554(1)(i)5.b. 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 review of financial information provided by same.

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

■ **2021-02 Timely Completion of Bank Reconciliations**

Due to turnover in the finance department during and after year end, bank reconciliations were not completed on a monthly basis. Timely and accurate bank reconciliations are a key component of internal control over multiple financial reporting processes, including cash receipting, cash disbursements, and payroll functions, as a means of detecting potential errors or irregularities. We recommend the City review its processes to ensure bank reconciliations are performed within 30 days of month-end.

Special District Component Units

Section 10.554(1)(i)5.c., *Rules of the Auditor General*, requires, if appropriate, that we communicate the failure of a special district that is a component unit of a municipality to provide the financial information necessary for proper reporting of the component unit within the audited financial statements of the municipality in accordance with Section 218.39(3)(b), Florida Statutes. In connection with our audit, we did not note any special district component units.

Additional Matters

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires us to communicate non-compliance 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 warrants the attention of those charged with governance. In connection with our audit, we noted no such items.

Purpose of this Letter

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

We would like to take this opportunity to express our appreciation for the professionalism and courtesies which were extended to our staff. If you have any questions or comments about the contents of this letter, or the information accompanying this letter, please do not hesitate to contact us.



September 14, 2022
Sarasota, Florida



City of Frostproof
The Friendly City

OTHER INFORMATION



September 14, 2022

City of Frostproof City Council
111 West 1st Street
Frostproof, FL 33843

Honorable Mayor and Council Members:

City Management agrees with the following Audit Findings and are addressing the items and implementing corrections as needed to minimize recurring findings.

2021-01 Tracking of Construction Work in Progress

During the audit it was noted that the City does not have a process in place to ensure timely capitalization and depreciation of completed projects. As a result certain assets reported as construction work in progress in prior years were completed and placed in service but were not reclassified to other capital asset categories and depreciated as of the date placed in service.

Management Response: *Management is going to perform a historic review of all items in construction-in-progress and adjust the records accordingly.*

2021-02 Timely Completion of Bank Reconciliations

During the audit it was noted that due to turnover in the finance department during and after year end, bank reconciliations were not completed on a monthly basis. Timely and accurate bank reconciliations are a key component of internal control over multiple financial reporting processes, including cash receipting, cash disbursements, and payroll functions, as a means of detecting potential errors or irregularities. We recommend the City review its processes to ensure bank reconciliations are performed within 30 days of month-end.

Management Response: *The Finance Director position is now filled, and the bank reconciliations are currently up to date.*

Noting that 2020 and 2021 were turbulent years for the City considering the continued effects of COVID-19 and staff transitions, specifically in the Finance Department. Management will continue to work diligently to address all concerns expressed by the external auditors.

Sincerely,

A handwritten signature in blue ink that reads "Nicole McDowell". The signature is written in a cursive, flowing style.

Nicole McDowell
City Manager