

CITY OF FREEPORT, FLORIDA

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

SEPTEMBER 30, 2022

**CITY OF FREEPORT, FLORIDA
TABLE OF CONTENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	<u>Page</u>
I. FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis	4
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements	
<u><i>Governmental Funds</i></u>	
Balance Sheet	15
Reconciliation of the Balance Sheet to the Statement of Net Position	16
Statement of Revenues, Expenditures and Changes in Fund Balance	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	19
<u><i>Proprietary Funds – Business-Type Activities</i></u>	
Statement of Net Position	20
Statement of Revenues, Expenses and Changes in Net Position	22
Statement of Cash Flows	23
Notes to the Financial Statements	25
II. REQUIRED SUPPLEMENTARY INFORMATION	
Pension Schedules	
Schedule of Proportional Share of Net Pension Liability – Florida Retirement System	55
Schedule of Proportional Share of Net Pension Liability – Health Insurance Subsidy	56
Schedule of Contributions – Florida Retirement System	57
Schedule of Contributions – Health Insurance Subsidy	58

**CITY OF FREEPORT, FLORIDA
TABLE OF CONTENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

III. COMPLIANCE SECTION

Independent Accountants' Report on an Examination of Compliance Requirements in Accordance With Chapter 10.550, <i>Rules Of The Auditor General</i>	59
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	60
Management Letter	62

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Freeport, Florida (the City) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City, as of September 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison information for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Freeport, Florida's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 of Freeport, Florida's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Freeport, Florida's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Freeport, Florida's internal control over financial reporting and compliance.

Warren Averett, LLC

Destin, Florida
May 11, 2023

**CITY OF FREEPORT, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2022**

The City of Freeport, Florida's (the City) discussion and analysis provides an objective overview of the City's financial activities for the fiscal year ended September 30, 2022. The analysis provides summary financial information for the City and should be read in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- ❖ Total assets and deferred outflows of the City exceeded total liabilities and deferred inflows by \$66,948,012 (net position). Of this amount, \$12,064,491 is unrestricted for governmental activities, and \$6,615,022 is a deficit for business-type activities, while \$57,619 is restricted net position for governmental activities and \$2,313,721 is restricted for business-type activities. Total net position includes \$17,656,688 of net investment in capital assets in the governmental activities and \$41,470,515 in the business-type activities.
- ❖ Total net position of the City increased by \$5,085,829. Of this amount, \$3,231,251 is attributable to governmental activities and \$1,854,578 is attributable to business-type activities.
- ❖ As of September 30, 2022, the General Fund's unassigned fund balance was \$12,645,520, which is over 2.60 times more than the General Fund's total expenditures for fiscal year 2022.
- ❖ Revenues for governmental activities increased by \$2,223,399 or 33%, and expenses increased by \$1,026,552 or 24%, between September 30, 2021 and 2022.
- ❖ Assets for business-type activities increased by \$25,882,236 or 68%, and debt increased by \$10,799,472 or 59%. This has contributed to the decrease in the unrestricted net position within the business-type activities by \$10,461,423 or 272%.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

**CITY OF FREEPORT, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2022**

BASIC FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

**CITY OF FREEPORT, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2022**

BASIC FINANCIAL STATEMENTS – CONTINUED

Notes to the Financial Statements

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

FINANCIAL ANALYSIS OF THE CITY

The following table reflects the condensed statement of net position:

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 13,878,444	\$ 9,961,966	\$ 21,105,076	\$ 17,129,949	\$ 34,983,520	\$ 27,091,915
Capital assets	18,450,194	18,958,646	64,092,799	38,210,563	82,542,993	57,169,209
Total assets	32,328,638	28,920,612	85,197,875	55,340,512	117,526,513	84,261,124
Total deferred outflows of resources	409,245	344,705	581,251	486,132	990,496	830,837
Long-term liabilities	1,782,861	1,230,521	29,061,795	18,262,323	30,844,656	19,492,844
Other liabilities	1,152,208	1,001,296	19,485,605	1,506,372	20,637,813	2,507,668
Total liabilities	2,935,069	2,231,817	48,547,400	19,768,695	51,482,469	22,000,512
Total deferred inflows of resources	24,016	485,953	62,512	743,313	86,528	1,229,266
Net position						
Net investment in capital assets	17,656,688	18,147,147	41,470,515	29,149,841	59,127,203	47,296,988
Restricted	57,619	57,578	2,313,721	2,318,394	2,371,340	2,375,972
Unrestricted (deficit)	12,064,491	8,342,822	(6,615,022)	3,846,401	5,449,469	12,189,223
Total net position	\$ 29,778,798	\$ 26,547,547	\$ 37,169,214	\$ 35,314,636	\$ 66,948,012	\$ 61,862,183

The City is able to report positive balances in all three categories of net position for the governmental activities and the city as a whole. The decrease in the unrestricted net position within the business-type activities is attributable to a substantial investment in capital assets relating to their ongoing wastewater improvement project in addition to a large increase in debt relating to the wastewater improvement project.

Capital assets (i.e., land, buildings, infrastructure and equipment) are utilized to provide services to citizens and therefore, are not available for future spending. This investment in capital assets, net of related debt is the largest portion of the City's total net position. This comprises 88% and 76% of the City's total net position as of September 30, 2022 and 2021, respectively. The restricted net position is comprised of funds required to be used for the retirement of the City's debt obligations, as well as impact fees that can only be used for expansion of the City's water and sewer systems.

**CITY OF FREEPORT, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2022**

FINANCIAL ANALYSIS OF THE CITY – CONTINUED

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

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
REVENUES						
Program revenues						
Charges for services	\$ 687,304	\$ 643,337	\$ 5,349,012	\$ 6,553,863	\$ 6,036,316	\$ 7,197,200
Operating grants and contributions	53,288	4,878	-	-	53,288	4,878
Capital grants and contributions	-	-	1,361,066	2,809,439	1,361,066	2,809,439
General revenues						
Property taxes	2,727,433	2,058,628	-	-	2,727,433	2,058,628
Other taxes	4,934,063	3,577,802	-	-	4,934,063	3,577,802
Other revenues	495,046	389,090	(3,209)	93,451	491,837	482,541
TOTAL REVENUES	8,897,134	6,673,735	6,706,869	9,456,753	15,604,003	16,130,488
EXPENSES						
Primary government						
General government	1,995,215	1,532,546	-	-	1,995,215	1,532,546
Physical Environment	1,796,094	1,511,360	-	-	1,796,094	1,511,360
Transportation	584,329	352,437	-	-	584,329	352,437
Culture and Recreation	980,893	932,920	-	-	980,893	932,920
Interest on long-term debt	33,412	34,128	-	-	33,412	34,128
Business-type activities						
Water	-	-	2,163,819	2,105,869	2,163,819	2,105,869
Sewer	-	-	2,964,412	2,145,163	2,964,412	2,145,163
TOTAL EXPENSES	5,389,943	4,363,391	5,128,231	4,251,032	10,518,174	8,614,423
Change in net position before transfers	3,507,191	2,310,344	1,578,638	5,205,721	5,085,829	7,516,065
Transfers	(275,940)	(822,150)	275,940	822,150	-	-
Change in net position	3,231,251	1,488,194	1,854,578	6,027,871	5,085,829	7,516,065
Net position at beginning of year	26,547,547	25,059,353	35,314,636	29,286,765	61,862,183	54,346,118
Net position at end of year	<u>\$ 29,778,798</u>	<u>\$ 26,547,547</u>	<u>\$ 37,169,214</u>	<u>\$ 35,314,636</u>	<u>\$ 66,948,012</u>	<u>\$ 61,862,183</u>

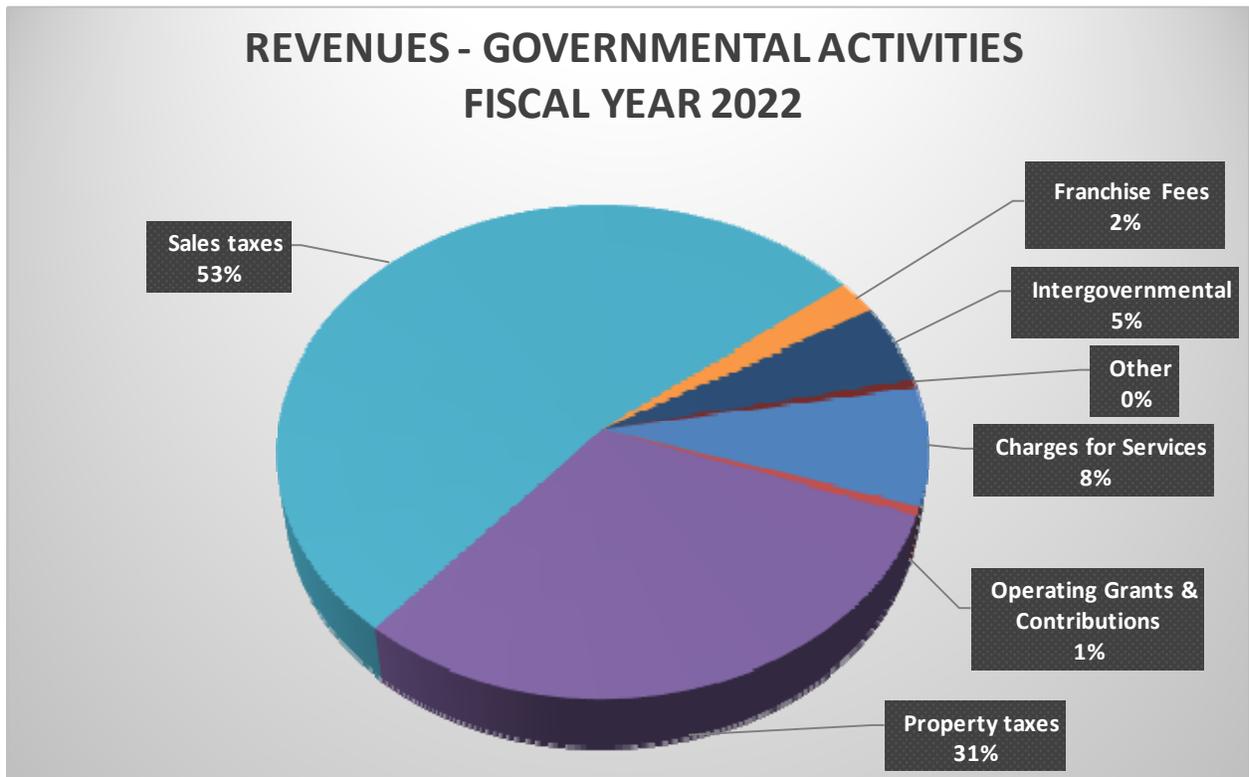
For the year ended September 30, 2022, revenues for governmental activities exceeded expenses and transfers by \$3,231,251, and revenues and transfers for business-type activities exceeded expenses by \$1,854,578. Total revenues decreased by \$526,485, and the expenses increased by \$1,903,751, which has resulted in a smaller positive change in net position between fiscal year ending 2022 and 2021.

**CITY OF FREEPORT, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2022**

FINANCIAL ANALYSIS OF THE CITY – CONTINUED

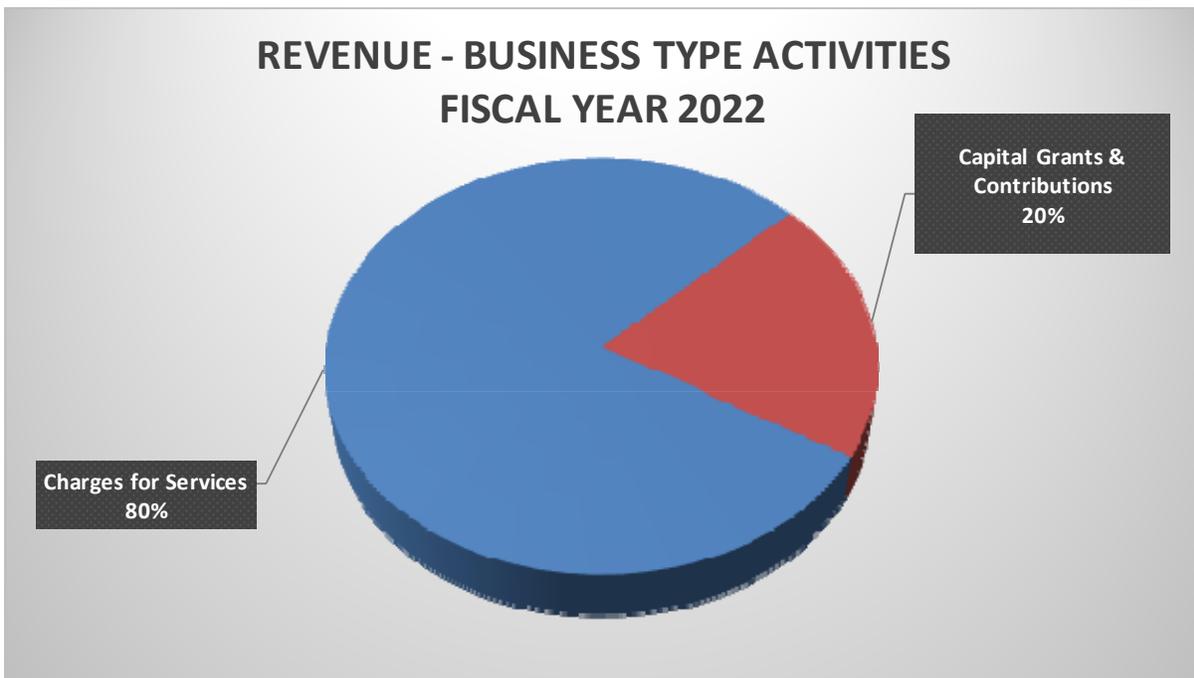
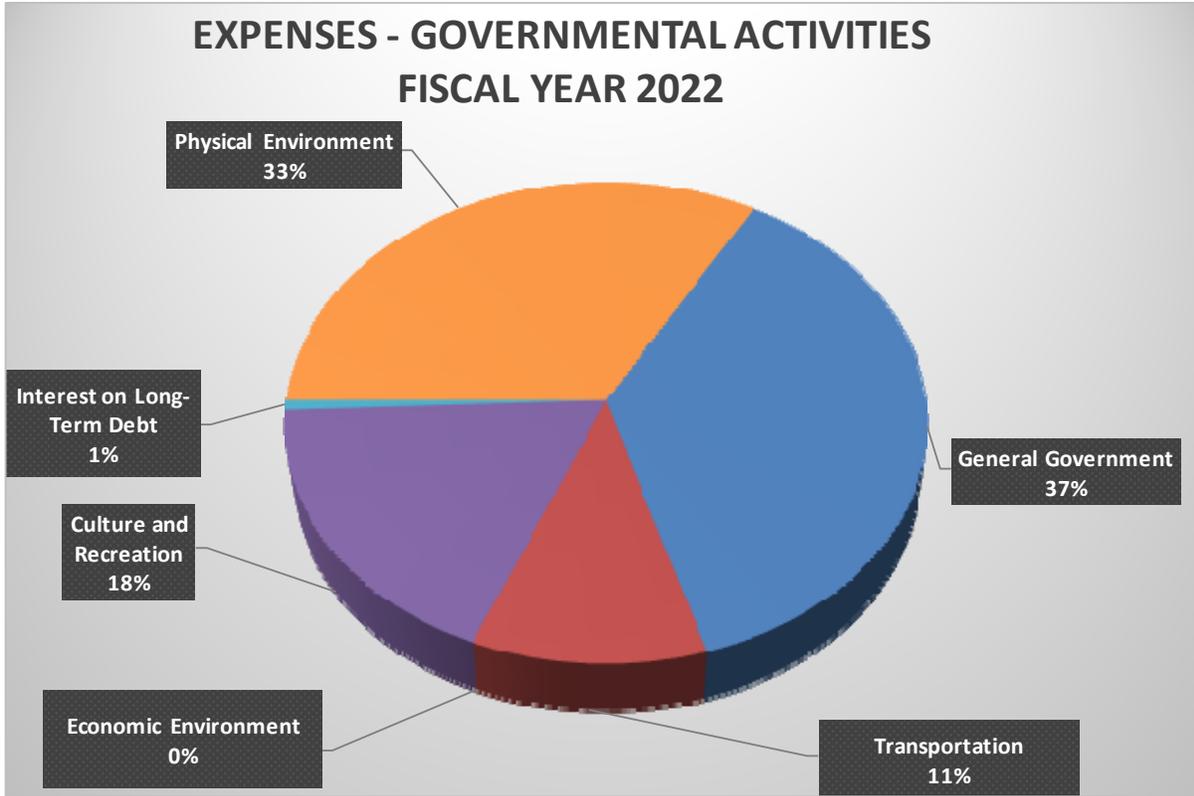
The following pie charts give a breakdown of the revenue and expenses of the governmental activities as well as the business-type activities. Some of the more interesting information contained in these pie charts are:

- ❖ Property taxes account for 31% of the City's revenues from governmental activities, and sales taxes account for 53%.
- ❖ General government, physical environment, and culture and recreation expenses account for 88% of total expenses for governmental activities.
- ❖ 95% of revenues for business-type activities (i.e., water and sewer) are derived from charges for services.



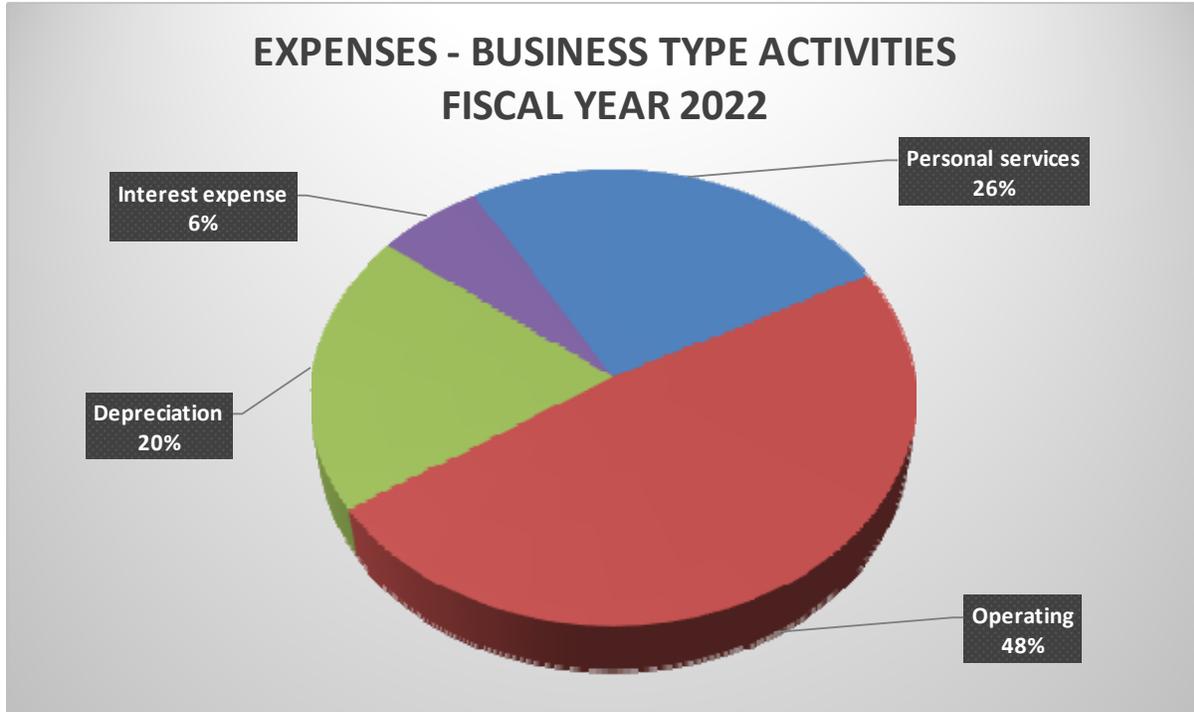
CITY OF FREEPORT, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2022

FINANCIAL ANALYSIS OF THE CITY – CONTINUED



**CITY OF FREEPORT, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2022**

FINANCIAL ANALYSIS OF THE CITY – CONTINUED



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

General Fund

The main operating fund of the City is the General Fund. As of September 30, 2022, total assets of the General Fund were \$13,878,444, and total liabilities were \$1,130,745. Unassigned fund balance was \$12,645,520, which represents 99% of the total fund balance of \$12,747,699.

Proprietary Funds

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

Water Fund

The asset makeup of this fund is very capital intensive with capital assets, net of accumulated depreciation, representing 67% of the fund's total assets. The depreciation expense for this fund was \$483,168 for fiscal year ended September 30, 2022. During fiscal year 2022, the Water Fund had an increase in net position of \$1,023,603. The total net position of this fund as of September 30, 2022, was \$14,261,747. Of this amount, \$1,456,935 or 10% was unrestricted.

**CITY OF FREEPORT, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2022**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS – CONTINUED

Sewer Fund

Just like the Water Fund the asset makeup of this fund is very capital intensive with net capital assets representing 76% of the fund's total assets. The depreciation expense for this fund was \$533,446 for the fiscal year ended September 30, 2022.

During fiscal year 2022, the Sewer Fund had an increase in net position of \$830,975. The total net position of the Sewer Fund, as of September 30, 2022, was \$22,907,467. Of this amount, \$29,126,074 or 127% represents the fund's investment in capital assets, net of related debt.

CAPITAL ASSET ACTIVITY

The City's total investment in capital assets for both its governmental and business-type activities as of September 30, 2022, was \$82,542,993 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, building, improvements, as well as machinery and equipment. Additional information on capital assets of the City can be found in Note 6 of the financial statements.

Major capital asset transactions during fiscal year 2022 included the following:

- Construction fees on upgrading a water main - \$1,897,401
- Construction fees on upgrading sewer lines - \$4,018,255
- Construction fees for a new sewer plant - \$19,187,564

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

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 12,726,809	\$ 12,726,809	\$ 6,233,364	\$ 435,633	\$ 18,960,173	\$ 13,162,442
Construction in progress	17,175	11,000	24,028,595	7,182,726	24,045,770	7,193,726
Buildings	3,026,983	3,026,983	821,891	821,891	3,848,874	3,848,874
Improvements other than buildings	9,310,744	9,303,599	44,078,426	40,284,604	53,389,170	49,588,203
Machinery and equipment	999,915	936,366	2,223,967	1,762,539	3,223,882	2,698,905
Accumulated depreciation	(7,631,432)	(7,046,111)	(13,293,444)	(12,276,830)	(20,924,876)	(19,322,941)
Total	\$ 18,450,194	\$ 18,958,646	\$ 64,092,799	\$38,210,563	\$ 82,542,993	\$ 57,169,209

**CITY OF FREEPORT, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2022**

DEBT MANAGEMENT

At the end of the current fiscal year, the City had total bond debt and notes payable outstanding in the amount of \$22,808,905. This debt amount represents bonds secured solely by specified revenue sources (i.e., revenue bonds payable) and notes payable. Principal repayments during the year on the revenue bonds totaled \$179,993, and repayments on notes payable totaled \$137,537. There is also an additional \$12,949,880 in notes payable for new wastewater transmission lines and a pollution control facility. Additional information on the City's long-term debt can be found in Note 8 of the financial statements.

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenue bonds payable	\$ 793,506	\$ 811,499	\$ 4,145,600	\$4,307,600	\$ 4,939,106	\$ 5,119,099
Notes payable	-	-	17,869,799	5,057,456	17,869,799	5,057,456
Total	\$ 793,506	\$ 811,499	\$22,015,399	\$9,365,056	\$ 22,808,905	\$10,176,555

OTHER FINANCIAL INFORMATION

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

REQUESTS FOR INFORMATION

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

**CITY OF FREEPORT, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2022**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Cash	\$ 11,253,949	\$ 16,637,764	\$ 27,891,713
Investments	238,563	1,278,000	1,516,563
Receivables, net	22,799	792,059	814,858
Internal balances	1,472,449	(1,472,449)	-
Due from other governments	479,896	352,466	832,362
Inventory, at cost	-	538,339	538,339
Prepaid assets	23,679	29,400	53,079
Restricted assets			
Cash	335,383	2,546,496	2,881,879
Certificates of deposit	51,726	349,687	401,413
Investments	-	53,314	53,314
Capital assets			
Non-depreciable	12,743,984	30,261,959	43,005,943
Depreciable, net	5,706,210	33,830,840	39,537,050
TOTAL ASSETS	32,328,638	85,197,875	117,526,513
DEFERRED OUTFLOWS OF RESOURCES	409,245	581,251	990,496
LIABILITIES			
Accounts payable	502,040	1,977,012	2,479,052
Due to other governments	279,979	-	279,979
Accrued liabilities	22,897	22,633	45,530
Retainage payable	-	1,004,599	1,004,599
Unearned revenue	-	36,113	36,113
Payable from restricted assets			
Accrued interest	2,728	47,411	50,139
Customer deposits	325,829	688,963	1,014,792
Non-current liabilities			
Due within one year			
Revenue bonds payable	18,735	168,000	186,735
Notes payable	-	15,540,874	15,540,874
Due in more than one year			
Unearned revenue	-	21,237,361	21,237,361
Compensated absences	65,785	125,454	191,239
Revenue bonds payable	774,771	3,977,600	4,752,371
Notes payable	-	2,328,925	2,328,925
Other post-employment benefits	17,271	29,144	46,415
Net pension liability	925,034	1,363,311	2,288,345
TOTAL LIABILITIES	2,935,069	48,547,400	51,482,469
DEFERRED INFLOWS OF RESOURCES	24,016	62,512	86,528
NET POSITION			
Net investment of capital assets	17,656,688	41,470,515	59,127,203
Restricted			
Debt service	57,619	533,971	591,590
System improvements	-	1,779,750	1,779,750
Unrestricted	12,064,491	(6,615,022)	5,449,469
TOTAL NET POSITION	\$ 29,778,798	\$ 37,169,214	\$ 66,948,012

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

Function/program activities	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental activities							
General government	\$ 1,995,215	\$ 576,715	\$ 11,916	\$ -	\$ (1,406,584)	\$ -	\$ (1,406,584)
Physical environment	1,796,094	-	-	-	(1,796,094)	-	(1,796,094)
Transportation	584,329	-	40,852	-	(543,477)	-	(543,477)
Culture and recreation	980,893	110,589	520	-	(869,784)	-	(869,784)
Debt service interest	33,412	-	-	-	(33,412)	-	(33,412)
Total governmental activities	5,389,943	687,304	53,288	-	(4,649,351)	-	(4,649,351)
Business-type activities							
Water	2,163,819	2,661,985	-	425,108	-	923,274	923,274
Sewer	2,964,412	2,687,027	-	935,958	-	658,573	658,573
Total business-type activities	5,128,231	5,349,012	-	1,361,066	-	1,581,847	1,581,847
Total primary government	\$ 10,518,174	\$ 6,036,316	\$ 53,288	\$ 1,361,066	(4,649,351)	1,581,847	(3,067,504)
General revenues							
Taxes							
Property taxes					2,727,433	-	2,727,433
Sales taxes					4,737,283	-	4,737,283
Franchise fees					196,780	-	196,780
Intergovernmental, unrestricted					447,091	-	447,091
Miscellaneous					71,131	131,351	202,482
Investment losses					(23,176)	(134,560)	(157,736)
Transfers					(275,940)	275,940	-
Total general revenues and transfers					7,880,602	272,731	8,153,333
CHANGE IN NET POSITION					3,231,251	1,854,578	5,085,829
NET POSITION AT BEGINNING OF YEAR					26,547,547	35,314,636	61,862,183
NET POSITION AT END OF YEAR					\$ 29,778,798	\$ 37,169,214	\$ 66,948,012

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
GOVERNMENTAL FUND
BALANCE SHEET
SEPTEMBER 30, 2022**

	General Fund
ASSETS	
Cash	\$ 11,253,949
Receivables	22,799
Investments	238,563
Due from other funds	1,472,449
Due from other governments	479,896
Prepaid items	23,679
Restricted assets	
Cash	335,383
Certificates of deposit	51,726
TOTAL ASSETS	\$ 13,878,444
LIABILITIES	
Accounts payable	\$ 502,040
Due to other governments	279,979
Accrued liabilities	22,897
Payable from restricted assets	
Customer deposits	325,829
Total liabilities	1,130,745
FUND BALANCE	
Nonspendable	23,679
Restricted	57,619
Assigned	20,881
Unassigned	12,645,520
Total fund balance	12,747,699
TOTAL LIABILITIES AND FUND BALANCE	\$ 13,878,444

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
GOVERNMENTAL FUND
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2022**

Fund balance, total governmental funds		\$ 12,747,699
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the		
Governmental non-depreciable/amortizable assets	12,743,984	
Governmental depreciable/amortizable assets	13,337,642	
Less accumulated depreciation/amortization	<u>(7,631,432)</u>	
		18,450,194
Deferred inflows of resources and deferred outflows of resources are not available/receivable or due/payable, respectively, in the current period and therefore are not reported in the governmental funds.		
Deferred outflows of resources related to pension plans	409,245	
Deferred inflows of resources related to pension plans	<u>(24,016)</u>	
		385,229
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Revenue bonds payable	(793,506)	
Accrued interest	(2,728)	
Compensated absences	(65,785)	
Other post-employment benefits	(17,271)	
Net pension liability	<u>(925,034)</u>	
		<u>(1,804,324)</u>
Net position of governmental activities		<u>\$ 29,778,798</u>

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	General Fund
REVENUES	
Taxes	\$ 2,971,059
Intergovernmental	5,187,795
Charges for services	687,304
Fines	10,472
Miscellaneous	40,504
	8,897,134
Total revenues	8,897,134
EXPENDITURES	
Current	
General government	1,889,141
Physical environment	1,796,094
Transportation	520,116
Culture and recreation	521,261
Capital outlay	76,869
Debt service	
Principal	17,993
Interest	33,474
	4,854,948
Total expenditures	4,854,948
EXCESS OF REVENUES OVER EXPENDITURES	4,042,186
OTHER FINANCING USES	
Transfers in	640
Transfers out	(276,580)
	(275,940)
NET CHANGE IN FUND BALANCE	3,766,246
FUND BALANCE AT BEGINNING OF YEAR	8,981,453
FUND BALANCE AT END OF YEAR	\$ 12,747,699

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
GOVERNMENTAL FUND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE TO THE STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2022**

Net change in fund balance – governmental funds \$ 3,766,246

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

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

Expenditures for capital assets	76,869	
Less current year depreciation/amortization	<u>(585,321)</u>	(508,452)

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

Revenue bond principal repayments	17,993	
Change in accrued interest on long-term debt	<u>62</u>	18,055

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

Change in net pension liability	(589,212)	
Change in deferred outflows of resources related to pensions	64,540	
Change in deferred inflows of resources related to pensions	461,937	
Change in long-term compensated absences	<u>18,137</u>	<u>(44,598)</u>

Change in net position of governmental activities \$ 3,231,251

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 2,857,540	\$ 2,857,540	\$ 2,971,059	\$ 113,519
Intergovernmental	4,534,870	4,757,950	5,187,795	429,845
Charges for services	577,510	577,510	687,304	109,794
Fines	3,000	3,000	10,472	7,472
Miscellaneous	68,300	68,800	40,504	(28,296)
Total revenues	8,041,220	8,264,800	8,897,134	632,334
EXPENDITURES				
Current				
General government	1,946,300	1,948,720	1,889,141	59,579
Physical environment	2,141,770	2,141,770	1,796,094	345,676
Transportation	590,230	590,230	520,116	70,114
Culture and recreation	699,460	678,850	521,261	157,589
Capital outlay	147,310	178,910	76,869	102,041
Debt service				
Principal	18,000	18,000	17,993	7
Interest	33,480	33,480	33,474	6
Total expenditures	5,576,550	5,589,960	4,854,948	735,012
EXCESS OF REVENUES OVER EXPENDITURES	2,464,670	2,674,840	4,042,186	1,367,346
OTHER FINANCING USES				
Transfers in	-	-	640	640
Transfers out	(2,351,770)	(2,574,850)	(276,580)	2,298,270
Total other financing uses	(2,351,770)	(2,574,850)	(275,940)	2,298,910
NET CHANGE IN FUND BALANCE	112,900	99,990	3,766,246	3,666,256
FUND BALANCE - BEGINNING OF YEAR	-	-	8,981,453	8,981,453
FUND BALANCE - END OF YEAR	<u>\$ 112,900</u>	<u>\$ 99,990</u>	<u>\$ 12,747,699</u>	<u>\$ 12,647,709</u>

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2022**

	Water Fund	Sewer Fund	Total
ASSETS			
Current assets			
Cash	\$ 5,687,093	\$ 10,950,671	\$ 16,637,764
Investments	46,676	1,231,324	1,278,000
Receivables, net	419,121	372,938	792,059
Due from other funds	775,159	-	775,159
Due from other governments	58,166	294,300	352,466
Inventory	456,537	81,802	538,339
Prepaid items	12,805	16,595	29,400
Restricted assets			
Cash	709,201	1,837,295	2,546,496
Certificates of deposit	333,632	16,055	349,687
Investments	53,314	-	53,314
Total current assets	<u>8,551,704</u>	<u>14,800,980</u>	<u>23,352,684</u>
Non-current assets			
Capital assets			
Non-depreciable	2,047,509	28,214,450	30,261,959
Depreciable, net	<u>15,526,223</u>	<u>18,304,617</u>	<u>33,830,840</u>
Total non-current assets	<u>17,573,732</u>	<u>46,519,067</u>	<u>64,092,799</u>
TOTAL ASSETS	<u>26,125,436</u>	<u>61,320,047</u>	<u>87,445,483</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>308,468</u>	<u>272,783</u>	<u>581,251</u>

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION – CONTINUED
 SEPTEMBER 30, 2022**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 488,942	\$ 1,488,070	\$ 1,977,012
Accrued liabilities - other	8,807	13,826	22,633
Retainage payable	-	1,004,599	1,004,599
Due to other funds	-	2,247,608	2,247,608
Unearned revenue	30,106	6,007	36,113
Revenue bonds payable	160,000	8,000	168,000
Notes payable	76,890	15,463,984	15,540,874
Payable from restricted assets			
Accrued interest	14,632	32,779	47,411
Customer deposits	688,963	-	688,963
Total current liabilities	<u>1,468,340</u>	<u>20,264,873</u>	<u>21,733,213</u>
Non-current liabilities			
Unearned revenue	4,848,033	16,389,328	21,237,361
Compensated absences	90,454	35,000	125,454
Revenue bonds payable	3,806,600	171,000	3,977,600
Notes payable	1,185,801	1,143,124	2,328,925
Total OPEB liability	15,305	13,839	29,144
Net pension liability	724,106	639,205	1,363,311
Total non-current liabilities	<u>10,670,299</u>	<u>18,391,496</u>	<u>29,061,795</u>
TOTAL LIABILITIES	12,138,639	38,656,369	50,795,008
DEFERRED INFLOWS OF RESOURCES	33,518	28,994	62,512
NET POSITION			
Net investment in capital assets	12,344,441	29,126,074	41,470,515
Restricted for system improvements	-	1,779,750	1,779,750
Restricted for debt service	460,371	73,600	533,971
Unrestricted (deficit)	1,456,935	(8,071,957)	(6,615,022)
TOTAL NET POSITION	<u>\$ 14,261,747</u>	<u>\$ 22,907,467</u>	<u>\$ 37,169,214</u>

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
 FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	Water Fund	Sewer Fund	Total
OPERATING REVENUES			
Charges for services	\$ 2,661,985	\$ 2,687,027	\$ 5,349,012
OPERATING EXPENSES			
Personal services	559,167	754,926	1,314,093
Operating	917,918	1,560,652	2,478,570
Depreciation	483,168	533,446	1,016,614
Total operating expenses	<u>1,960,253</u>	<u>2,849,024</u>	<u>4,809,277</u>
OPERATING INCOME	701,732	(161,997)	539,735
NON-OPERATING REVENUES (EXPENSES)			
Interest expense	(203,566)	(115,388)	(318,954)
Investment income	(9,546)	(125,014)	(134,560)
Miscellaneous	110,515	20,836	131,351
Total non-operating expenses	<u>(102,597)</u>	<u>(219,566)</u>	<u>(322,163)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	599,135	(381,563)	217,572
CAPITAL CONTRIBUTIONS AND TRANSFERS			
Capital grants and contributions	88,368	264,097	352,465
Capacity fees	336,740	671,861	1,008,601
Transfers in	-	276,580	276,580
Transfers out	(640)	-	(640)
Total capital contributions and transfers	<u>424,468</u>	<u>1,212,538</u>	<u>1,637,006</u>
CHANGE IN NET POSITION	1,023,603	830,975	1,854,578
NET POSITION AT BEGINNING OF YEAR	<u>13,238,144</u>	<u>22,076,492</u>	<u>35,314,636</u>
NET POSITION AT END OF YEAR	<u><u>\$ 14,261,747</u></u>	<u><u>\$ 22,907,467</u></u>	<u><u>\$ 37,169,214</u></u>

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 5,152,502	\$ 12,759,477	\$ 17,911,979
Payments to suppliers/employees	(1,218,151)	(1,166,665)	(2,384,816)
Miscellaneous income	49,115	20,836	69,951
Net cash provided by operating activities	<u>3,983,466</u>	<u>11,613,648</u>	<u>15,597,114</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Change in interfund balances	(132,563)	1,475,978	1,343,415
Transfers in	(640)	276,580	275,940
Net cash provided by (used in) non-capital financing activities	<u>(133,203)</u>	<u>1,752,558</u>	<u>1,619,355</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from impact fees	336,740	671,861	1,008,601
Acquisitions of capital assets	(2,040,487)	(23,968,864)	(26,009,351)
Proceeds from capital grants and contributions	30,202	(30,203)	(1)
Proceeds from issuance of long-term debt	-	13,011,280	13,011,280
Principal repayments on long-term debt	(230,108)	(69,429)	(299,537)
Interest paid on long-term debt	(204,123)	(86,978)	(291,101)
Net cash used in capital and related financing activities	<u>(2,107,776)</u>	<u>(10,472,333)</u>	<u>(12,580,109)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income, net	697	1,117	1,814
Sale of certificates of deposits	30	94	124
Net cash provided by investing activities	<u>727</u>	<u>1,211</u>	<u>1,938</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,743,214	2,895,084	4,638,298
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>4,653,080</u>	<u>9,892,882</u>	<u>14,545,962</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 6,396,294</u>	<u>\$ 12,787,966</u>	<u>\$ 19,184,260</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF			
Current	\$ 5,687,093	\$ 10,950,671	\$ 16,637,764
Restricted	709,201	1,837,295	2,546,496
Total cash and cash equivalents	<u>\$ 6,396,294</u>	<u>\$ 12,787,966</u>	<u>\$ 19,184,260</u>

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS – CONTINUED
 FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 701,732	\$ (161,997)	\$ 539,735
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	483,168	533,446	1,016,614
Miscellaneous revenue	49,115	20,836	69,951
Decrease (increase) in assets:			
Accounts receivable, net	(141,209)	(79,138)	(220,347)
Inventory	(230,319)	(35,737)	(266,056)
Prepaid items	136	195	331
Deferred outflows of resources	(50,521)	(44,598)	(95,119)
Increase (decrease) in liabilities:			
Customer deposits	75,173	-	75,173
Accounts payable	428,325	1,164,398	1,592,723
Accrued liabilities	2,895	5,062	7,957
Compensated absences	8,761	(6,583)	2,178
Unearned revenue	2,556,553	10,129,792	12,686,345
Net pension liability	461,256	407,174	868,430
Deferred inflows of resources	(361,599)	(319,202)	(680,801)
Net cash provided by operating activities	<u>\$ 3,983,466</u>	<u>\$ 11,613,648</u>	<u>\$ 15,597,114</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS			
Principal forgiveness on long-term debt	\$ (61,400)	\$ -	\$ (61,400)
Capital grant receivable	<u>58,166</u>	<u>294,300</u>	<u>352,466</u>
Total noncash transactions	<u>\$ (3,234)</u>	<u>\$ 294,300</u>	<u>\$ 291,066</u>

See notes to the financial statements.

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of City

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

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

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

The Reporting Entity

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

As of September 30, 2022, the City had no component units.

Government-Wide and Fund Financial Statements

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

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-Wide and Fund Financial Statements – Continued

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

Separate fund financial statements are provided for governmental funds and proprietary funds. Major enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus and Basis of Accounting

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

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

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

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

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

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus and Basis of Accounting – Continued

The following is the current property tax calendar:

Property Tax Calendar

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

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

Revenue recognition criteria for property taxes requires that property taxes expected to be collected within 60 days of the current period be accrued. No accrual has been made for 2022 ad valorem taxes because property taxes are not legally due until subsequent to the end of the fiscal year.

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

Basis of Presentation

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

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

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

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Contributions

Capital contributions in the proprietary funds arise from grants or outside contributions of resources, such as impact fees, restricted to capital acquisition or construction.

Basis of Presentation – Continued

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

Governmental

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

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

Proprietary

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

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

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

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

Cash and Cash Equivalents

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

Investments

The City does not have a written investment policy but has adopted the policy provided by Florida Statutes, Section 218.415(17), which authorizes the City to invest surplus funds in the following:

1. The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act.
2. Securities and Exchange Commissions registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
3. Interest-bearing time deposits or savings accounts in qualified public depositories.
4. Direct obligations of the U.S. Treasury.

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Investments – Continued

The Florida Municipal Investment Trust (FMIvT) is an authorized investment under Section 218.415, Florida Statutes. It was created to offer diversified and professionally managed portfolios for the investment of the assets of participating municipalities. The FMIvT operates as a fiduciary trust fund under governmental accounting rules that require the FMIvT to prepare a series of financial statements. The FMIvT is a Local Government Investment Pool (LGIP), and therefore considered an external investment pool for GASB reporting purposes. The City's investment is in the FMIvT portfolio, not the individual securities held within the portfolio. A copy of the FMIvT financial statements can be obtained from the Florida League of Cities website (www.floridaleagueofcities.com).

Receivables and Payables

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

All receivables in governmental funds are typically shown net of an allowance for uncollectibles at September 30, 2022, the City considers all governmental fund receivables collectible and accordingly, does not have an allowance.

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

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

Inventory

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

Restricted Assets

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

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Capital Assets

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

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

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed.

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

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

Deferred Inflows/Outflows of Resources

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

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

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Compensated Absences

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

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

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

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

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

Unearned Revenue

Unearned revenues are reported in connection with resources that have been received but not yet earned. See Note 5 for additional information about the City's unearned revenues.

Long-Term Obligations

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

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

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Other Postemployment Benefits (OPEB) Liability

For the purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, the City recognizes benefit payments when due and payable in accordance with the benefit terms.

The City reports a total OPEB liability of \$46,415 as of September 30, 2022. This amount is recognized in the government-wide financial statements and in the proprietary funds financial statements. Due to the insignificant amounts involved, management has elected not to provide the detailed footnotes as required by GASB.

Net Pension Liability

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

Classification of Fund Balance

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

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

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Classification of Fund Balance – Continued

- Assigned – includes spendable fund balance amounts that are intended to be used by the City for specific purposes that are neither restricted nor committed. *Intent* is expressed by the City Council to assign amounts to be used for specific purposes. Only the City Council has the authority to establish fund balance assignments.

- Unassigned – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

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

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

Net Position

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

Estimates

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

Change in Accounting Principle

The City implemented GASB Statement No. 87, Leases, during the fiscal year ended September 30, 2022. GASB Statement No. 87 enhances the relevance and consistency of information of the government's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right-to-use an underlying asset. A lessor is required to recognize a lease receivable and a deferred inflow of resources. A lessee is required to recognize a right-of-use asset and a corresponding lease liability. These changes were incorporated in the City's fiscal year 2022 financial statements, but had no effect on the beginning net position.

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reclassifications

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

Subsequent Events

Subsequent events were evaluated through May 11, 2023, which is the date the financial statements were available to be issued.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

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

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

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

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. As stated above, encumbrance accounting is employed in governmental funds. Any purchase orders or contracts outstanding at year-end do not constitute expenditures, but instead are reported as assignments of fund balance. Total encumbrances reported as assigned fund balance in the accompanying financial statements were \$20,881 at September 30, 2022.

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

3. DEPOSITS AND INVESTMENTS

Deposits

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

As of September 30, 2022, the value of the City's deposits was \$35,641,716, all of which was held by qualified public depositories under Chapter 280, Florida Statutes.

Certificates of Deposit

The City invests surplus funds into interest-bearing certificates of deposit at qualified public depositories in accordance with Section 218.415, Florida Statutes. Certificates of deposit are recorded at cost plus accrued interest, which approximates fair value. As of September 30, 2022, the total carrying value of certificates of deposit was \$401,413. These certificates have maturity dates in December 2022.

Investments

As of September 30, 2022, the City held the following investment:

<u>Investment Type</u>	<u>Weighted Average Maturity (years)</u>	<u>Rating</u>	<u>Fair Value</u>
Florida Municipal Investment Trust			
Intermediate High Quality Bond Fund	4.7	AAAf/S3	\$ 1,569,877

Credit Risk

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to meet its obligations. The City is required to disclose the credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed-income securities. Investments may be aggregated by rating categories within the disclosure. Ratings are set by nationally recognized statistical rating organizations (Fitch, S&P).

Custodial Credit Risk

The City is required to disclose if investments are uninsured, unregistered and held by either the counterparty or the counterparty's trust department or agent but not in the City's name. The City's investment in FMIvT is with the investment pool, not the securities that make up the pool; therefore, no disclosure is required. The City may make redemptions of its investments in the FMIvT twice a month with five-business days of notice.

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

3. DEPOSITS AND INVESTMENTS – CONTINUED

Investments – Continued

Concentration Risk

The City is required to disclose the concentration of credit risk when five percent or more of the total assets of the portfolio are invested with a single issuer. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investments pools and other pooled investments are excluded from the concentration of credit risk disclosure requirements. The City has no limit on the amount it may invest in any one issuer. The FMIvT is a pooled investment; therefore, no additional disclosure is required.

Interest Rate Risk

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk disclosures are required for all debt instruments as well as investment in mutual funds, external investment pools and other pooled investments that do not meet the definition of a "2a-7 like" pool.

Additionally, the City is required to disclose the interest rate risk using one of the five approved methods. The five methods are: segmented time distribution, specific identification, weighted average maturity (WAM), duration and simulation model. Different methods may be presented for different types of investments. The City's investment policy is limited to complying with the State's investment statutes. The State law has not addressed an interest rate risk and therefore, the City has not adopted an investment policy on that point. It is the City's intention to make investment to provide sufficient liquidity to pay obligations as they become due. The City uses the WAM for its investment in the FMIvT as previously presented.

Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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; and Level 3 inputs are significant unobservable inputs.

The FMIvT Intermediate High Quality Bond Fund invests mainly in U.S. government and agency securities, asset-backed securities and corporate bonds and notes. The underlying securities have observable level 1 quoted pricing inputs or observable level 2 significant other observable pricing inputs. While the underlying asset values are based on quoted prices or market-corroborated inputs, the net asset value of the portfolio is not publicly quoted. The City considers their shares in this fund as level 2, since the value is based on market-corroborated data.

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

4. RECEIVABLES

Receivables and amounts due from other governments at September 30, 2022, were as follows:

	Governmental		Total	
	Activities	Business-Type Activities		
	General Fund	Water Fund		Sewer Fund
Accounts	\$ 22,799	\$ 432,605	\$ 388,773	\$ 844,177
Less allowance for doubtful accounts	-	(13,484)	(15,835)	(29,319)
Total receivables, net	<u>\$ 22,799</u>	<u>\$ 419,121</u>	<u>\$ 372,938</u>	<u>\$ 814,858</u>
Taxes	\$ 439,044	\$ -	\$ -	\$ 439,044
Grants	40,852	58,166	294,300	393,318
Due from other governments	<u>\$ 479,896</u>	<u>\$ 58,166</u>	<u>\$ 294,300</u>	<u>\$ 832,362</u>

Due from Other Governments

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

5. UNEARNED REVENUE

The composition of unearned revenues as of September 30, 2022, was as follows:

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
Customer prepayments	\$ 30,106	\$ 6,007	\$ 36,113
Federal grant funding received in advance	1,285,191	-	1,285,191
Connection fees	830,279	1,508,681	2,338,960
Capacity fees	2,732,563	14,880,647	17,613,210
Total receivables, net	<u>\$ 4,878,139</u>	<u>\$ 16,395,335</u>	<u>\$ 21,273,474</u>

The American Rescue Plan Act (ARPA) does not require unspent funds to be held in a separate bank account, and since the revenue is not earned, it is not a component of net position at either the fund or government-wide level. The terms of the grant require the funds to be expended by specific dates, and unspent grant funds are not typically considered restricted assets of the governmental unit. Therefore, the City has not reported the unspent proceeds as restricted assets as of September 30, 2022.

CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

5. UNEARNED REVENUE – CONTINUED

In 2019, the City adopted an ordinance that abolished existing connection (tap) fees and established capacity fees for all development that connects to the City’s water and wastewater systems. The collection of these fees shall be allocated to reserves for the purpose of funding future expansions, maintenance, repair, and upgrades to the systems for which the funds are collected. Unearned revenue from connection fees represents unspent fees collected from developers prior to the establishment of capacity fees in 2019.

Unearned revenues from capacity fees are attributable to amounts collected in advance from developers to connect specific lots or parcels to the City’s water or wastewater system. The City’s obligation for capacity fees is satisfied when the designated unit is connected to the water or wastewater system, at which point, revenue is recognized by the City.

6. CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2022, was as follows:

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 12,726,809	\$ -	\$ -	\$ 12,726,809
Construction in progress	11,000	6,175	-	17,175
Total capital assets not being depreciated	<u>12,737,809</u>	<u>6,175</u>	<u>-</u>	<u>12,743,984</u>
Capital assets being depreciated				
Buildings	3,026,983	-	-	3,026,983
Improvements other than buildings	9,303,599	7,145	-	9,310,744
Machinery and equipment	936,366	63,549	-	999,915
Total capital assets being depreciated	<u>13,266,948</u>	<u>70,694</u>	<u>-</u>	<u>13,337,642</u>
Less accumulated depreciation				
Buildings	(948,072)	(61,940)	-	(1,010,012)
Improvements other than buildings	(5,570,963)	(440,975)	-	(6,011,938)
Machinery and equipment	(527,076)	(82,406)	-	(609,482)
Total accumulated depreciation	<u>(7,046,111)</u>	<u>(585,321)</u>	<u>-</u>	<u>(7,631,432)</u>
Total capital assets being depreciated, net	<u>6,220,837</u>	<u>(514,627)</u>	<u>-</u>	<u>5,706,210</u>
Governmental activities, net	<u>\$ 18,958,646</u>	<u>\$ (508,452)</u>	<u>\$ -</u>	<u>\$ 18,450,194</u>

CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

6. CHANGES IN CAPITAL ASSETS – CONTINUED

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 435,633	\$ 5,797,731	\$ -	\$ 6,233,364
Construction in progress	7,182,726	20,202,392	(3,356,523)	24,028,595
Total capital assets not being depreciated	<u>7,618,359</u>	<u>26,000,123</u>	<u>(3,356,523)</u>	<u>30,261,959</u>
Capital assets being depreciated				
Buildings	821,891	-	-	821,891
Improvements other than buildings	40,284,604	437,299	3,356,523	44,078,426
Machinery and equipment	1,762,539	461,428	-	2,223,967
Total capital assets being depreciated	<u>42,869,034</u>	<u>898,727</u>	<u>3,356,523</u>	<u>47,124,284</u>
Less accumulated depreciation				
Buildings	(238,700)	(18,134)	-	(256,834)
Improvements other than buildings	(10,904,820)	(862,039)	-	(11,766,859)
Machinery and equipment	(1,133,310)	(136,441)	-	(1,269,751)
Total accumulated depreciation	<u>(12,276,830)</u>	<u>(1,016,614)</u>	<u>-</u>	<u>(13,293,444)</u>
Total capital assets being depreciated, net	<u>30,592,204</u>	<u>(117,887)</u>	<u>3,356,523</u>	<u>33,830,840</u>
Business-type activities, net	<u><u>\$ 38,210,563</u></u>	<u><u>\$ 25,882,236</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 64,092,799</u></u>

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

Governmental activities	
General government	\$ 82,988
Transportation	64,213
Culture and recreation	438,120
Total depreciation expense - governmental activities	<u><u>\$ 585,321</u></u>
Business-type activities	
Water	\$ 483,168
Sewer	533,446
Total depreciation expense - business-type activities	<u><u>\$ 1,016,614</u></u>

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

7. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM

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

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

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

Pension Plan

Plan Description

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

Benefits Provided

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

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

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

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

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

Pension Plan – Continued

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

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

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

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

Contributions

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Regular Class:	10.82%	10.00%	8.47%
Special Risk:	25.89%	24.45%	25.48%
Senior Management Class:	29.01%	27.29%	25.41%
DROP:	18.34%	16.98%	14.60%

These employer contribution rates include 1.66% for HIS Plan subsidies for the periods October 1, 2016 through September 30, 2022. The City’s contributions, including employee contributions, to the pension plan totaled \$224,193, \$185,222 and \$133,201 for the fiscal years ended September 30, 2022, 2021 and 2020, respectively.

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

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

Pension Plan – Continued

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

At September 30, 2022, the City reported a liability of \$1,828,234 for its proportionate share of the pension plan’s net pension liability. The City’s proportionate share of the net pension liability was based on the City’s share of contributions to the FRS relative to the contributions of all participating governments. At June 30, 2022, the City’s proportionate share was 0.004913545%.

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2022.

For the fiscal year ended September 30, 2022, the City recognized a pension expense of \$366,488. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 86,831	\$ -
Change of assumptions	225,155	-
Net difference between projected and actual earnings on pension plan investments	120,718	-
Changes in proportion and differences between City pension plan contributions and proportionate share of contributions	349,342	11,266
City pension plan contributions subsequent to the measurement date	66,831	-
	\$ 848,877	\$ 11,266

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

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

Pension Plan – Continued

A component of deferred outflows of resources related to the pension plan of \$66,831, resulting from City contributions to the plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2023. Other components reported as deferred outflows of resources and deferred inflows of resources related to the pension plan, except for changes in proportion and related differences in the share of contributions, will be recognized in pension expense (income) as follows:

Fiscal year ending <u>September 30:</u>	<u>Amount</u>
2023	\$ 166,110
2024	100,955
2025	26,130
2026	368,939
2027	77,910
Thereafter	<u>30,736</u>
	<u><u>\$ 770,780</u></u>

Actuarial Assumptions

The total pension liability in the July 1, 2022 actuarial valuation was determined using the following actuarial assumption, applied to all periods included in the measurement:

Inflation	2.40%
Salary increases	3.25%, average, including inflation
Investment rate of return	6.70%, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational PUB-2010 table with Projection Scale MP-2018.

The actuarial assumptions used in the July 1, 2022 valuation were based on the results of a 2019 actuarial experience study for the period July 1, 2013 through June 30, 2018.

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

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

Pension Plan – Continued

Actuarial Assumptions – Continued

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

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.00%	2.60%	2.60%	1.10%
Fixed income	19.80%	4.40%	4.40%	3.20%
Global equity	54.00%	8.80%	7.30%	17.80%
Real estate (property)	10.30%	7.40%	6.30%	15.70%
Private equity	11.10%	12.00%	8.90%	26.30%
Strategic investments	<u>3.80%</u>	6.20%	5.90%	7.80%
Total	<u>100.00%</u>			
Assumed inflation-mean			2.40%	1.30%

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

Discount Rate

The discount rate used to measure the total pension liability was 6.70%. The Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

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

The following represents the City's proportionate share of the net pension liability calculated using the discount rate of 6.70%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount 1.00% higher or 1.00% lower than the current discount rate at June 30, 2022.

	1% Decrease 5.70%	Current Discount Rate 6.70%	1% Increase 7.70%
City's proportionate share of the net pension liability	\$ 3,161,807	\$ 1,828,234	\$ 713,210

CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

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

Pension Plan – Continued

Pension Plan Fiduciary Net Position

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

HIS Plan

Plan Description

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

Benefits Provided

For the fiscal year ended September 30, 2022, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month. To be eligible to receive these benefits, a retiree under a state-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Contributions

The HIS Plan is funded by required contributions from FRS participating employers, as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2022, the HIS contribution for the plan was 1.66%. The City contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

The City's contributions to the HIS Plan totaled \$27,972, \$25,070 and \$22,589 for the fiscal years ended September 30, 2022, 2021 and 2020, respectively.

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

At September 30, 2022, the City reported a liability of \$460,111 for its proportionate share of the HIS Plan's net pension liability. At June 30, 2022, the City's proportionate share was .00434416%.

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2022.

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

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

HIS Plan – Continued

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

For the fiscal year ended September 30, 2022, the City recognized pension expense of \$40,957. In addition, the City reported deferred outflows of resources and deferred in flows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 13,965	\$ 2,025
Change of assumptions	26,374	71,179
Net difference between projected and actual earnings on pension plan investments	666	
Changes in proportion and differences between City pension plan contributions and proportionate share of contributions	92,396	2,058
City pension plan contributions subsequent to the measurement date	8,218	
	\$ 141,619	\$ 75,262

A component of deferred outflows of resources related to the HIS Plan totaling \$8,218, resulting from City contributions to the HIS Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending September 30, 2023. Other components reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan, except for changes in the proportion and related differences in the share of contributions will be recognized in pension expense as follows:

Fiscal year ending September 30:	Amount
2023	\$ 6,404
2024	9,957
2025	12,214
2026	9,907
2027	4,347
Thereafter	15,310
	\$ 58,139

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

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

HIS Plan – Continued

Actuarial Assumptions

The total pension liability in the July 1, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.40%
Salary increases	3.25%, average, including inflation
Investment rate of return	3.54%

Mortality rates were based on the Generational PUB-2010 table with Projection Scale MP-2018.

The actuarial assumptions used in the July 1, 2022 valuation was based on the results of a 2019 actuarial experience study for the period July 1, 2013 through June 30, 2018.

Discount Rate

The discount rate used to measure the total pension liability was 3.54%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

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

The following represents the City's proportionate share of the net pension liability calculated using the discount rate 3.54%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower one percentage point higher than the current rate:

Inflation	2.40%
Salary increases	3.25%, average, including inflation
Investment rate of return	3.54%

Pension Plan Fiduciary Net Position

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

	<u>1% Decrease</u> <u>2.54%</u>	<u>Current</u> <u>Discount</u> <u>Rate</u> <u>3.54%</u>	<u>1% Increase</u> <u>4.54%</u>
City's proportionate share of the net pension liability	\$ 526,405	\$ 460,111	\$ 405,255

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

8. LONG-TERM DEBT

Changes in Long-Term Debt Liabilities

Long-term debt activity for the year ended September 30, 2022, is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Direct placements					
Revenue bonds payable	\$ 811,499	\$ -	\$ (17,993)	\$ 793,506	\$ 18,735
Compensated absences	83,921	49,136	(67,272)	65,785	-
Total governmental activities	<u>\$ 895,420</u>	<u>\$ 49,136</u>	<u>\$ (85,265)</u>	<u>\$ 859,291</u>	<u>\$ 18,735</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities					
Direct placements					
Revenue bonds payable	\$ 4,307,600	\$ -	\$ (162,000)	\$ 4,145,600	\$ 168,000
Direct borrowings					
Notes payable	5,057,456	12,949,880	(137,537)	17,869,799	15,540,874
Compensated absences	123,276	92,242	(90,064)	125,454	-
Total business-type activities	<u>\$ 9,488,332</u>	<u>\$ 13,042,122</u>	<u>\$ (389,601)</u>	<u>\$ 22,140,853</u>	<u>\$ 15,708,874</u>

Description of Long-Term Debt Outstanding

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
GOVERNMENTAL ACTIVITIES			
<i>Revenue Bonds - Direct Placement</i>			
\$1,000,000 City of Freeport, Florida Capital Improvement Revenue Bonds, Series 2007, 4.125% interest and principal due in annual installments of \$51,467 through September 2047. Franchise fees and local communications service tax revenues are pledged for payment of the note. Proceeds were used for the construction of a new administration building.	\$ 18,735	\$ 774,771	\$ 793,506
Total revenue bonds	<u>18,735</u>	<u>774,771</u>	<u>793,506</u>
<i>Compensated Absences</i>			
Total long-term portion of accumulated, vested annual and sick leave for governmental funds.	-	65,785	65,785
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 18,735</u>	<u>\$ 840,556</u>	<u>\$ 859,291</u>

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

8. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding – Continued

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
BUSINESS-TYPE ACTIVITIES			
<i>Revenue Bonds - Direct Placements</i>			
\$1,014,000 City of Freeport, Florida, Water System Junior Lien Revenue Bonds, Series 1996, 4.5% interest and principal due in annual installments of \$55,505 to \$61,655 through October 2036. Proceeds were used to fund improvements to the water distribution system.	\$ 30,000	\$ 542,000	\$ 572,000
Revenue Bonds, Series 2003, 4.5% interest and principal due in annual installments of \$59,197 to \$89,452 through October 2042. Proceeds were used to fund improvements to the water distribution system.	37,000	1,121,600	1,158,600
\$1,977,000 City of Freeport, Florida, Water System Revenue Bonds, Series 2012, 2.75% interest and principal due in annual installments of \$70,898 to \$70,928 through October 2035. Proceeds were used to fund improvements to the North Bay water distribution system.	43,000	1,425,000	1,468,000
\$1,200,000 City of Freeport, Florida, Water System Revenue Bonds, Series 2004, 4.5% interest and principal due in annual installments of \$109,280 to \$110,770 through October 2043. Proceeds were used to fund improvements to the North Bay water distribution system.	50,000	718,000	768,000
\$280,000 City of Freeport, Florida, Sewer System Revenue Bonds, Series 2000, 4.5% interest and principal due in annual installments of \$8,360 to \$15,530 through October 2039. Proceeds were used to fund improvements to the wastewater treatment plant.	8,000	171,000	179,000
Total revenue bonds	168,000	3,977,600	4,145,600
<i>Notes Payable - Direct Borrowings</i>			
\$2,380,106 Florida Department of Transportation Promissory Note dated January 2012, unsecured, noninterest bearing with principal payments due in annual installments of \$36,706 to \$39,668 through October 2042. Proceeds were used to relocate and expand utility services along US Highway 331.	39,668	512,722	552,390

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

8. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding – Continued

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<i>Notes Payable - Direct Borrowings – Continued</i>			
\$1,400,000 Commercial Promissory Note dated May 2015, of which \$872,652 was allocated to the Water Fund, 4.85% interest and principal due in monthly installments of \$5,688 through July 2035. Proceeds were used to refund two outstanding bond issuances and are secured by future water, sewer revenues.	37,222	611,679	648,901
\$1,400,000 Commercial Promissory Note dated May 2015, of which \$527,348 was allocated to the Sewer Fund, 4.85% interest and principal due in monthly installments of \$3,437 through July 2035. Proceeds were used to refund two outstanding bond issuances and are secured by future water, sewer revenues.	22,814	374,900	397,714
\$3,511,799 State of Florida Department of Environmental Protection Revolving Loan Fund; due in semi-annual installments of \$70,643 through 7/15/40 at 0.78%. Proceeds were used to fund the engineering & construction of a wastewater pollution control facility and is secured by future water, sewer revenues.	37,820	711,807	749,627
\$122,800 State of Florida Department of Environmental Protection Revolving Loan Fund; due in semi-annual installments of \$2,728 through 7/15/41 at 1.88%. Proceeds were used to fund the design of water distribution mains and are secured by future water revenues.	-	61,400	61,400
\$23,060,000 Bond Anticipation Note; all advances due in full on 7/30/2023, with interest of 0.93%. Interest is payable quarterly starting November 1, 2021. Proceeds were used to fund the engineering and construction of a wastewater pollution control facility.	15,400,120	-	15,400,120
\$67,694 State of Florida Department of Environmental Protection Revolving Loan Fund; semi annual payments of \$2,791 including interest at 1.43% beginning June 2019 through June 2032. Proceeds were used to fund the engineering and construction of a wastewater pollution control facility and are secured by future water, sewer revenues.	3,230	56,417	59,647
Total notes payable	15,540,874	2,328,925	17,869,799
<i>Accrued Compensated Absences</i>			
Accumulated, vested annual compensation for Enterprise Funds.	-	125,454	125,454
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 15,708,874</u>	<u>\$ 6,431,979</u>	<u>\$ 22,140,853</u>
GRAND TOTAL LONG-TERM DEBT			<u><u>\$ 23,000,144</u></u>

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

8. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding – Continued

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

Pledged Revenue

The City has pledged certain revenues to repay certain bonds and notes outstanding as of September 30, 2022. The following table reports the revenues pledged for each debt issue, the amount of such revenues received in the current year, the current year principal and interest paid on the debt, the approximate percentage of each revenue, which is pledged to meet the debt obligation, the date through which the revenue is pledged under the debt agreement, and the total pledged future revenues for each debt, which is the amount of principal and interest on the debt at year end.

Governmental Activities						
Debt Outstanding	Pledged Revenue(s)	Current Year Total Pledged Revenue	Current Year Principal & Interest Paid	Percentage Portion of Pledged Revenue	Remaining Principal & Interest	Maturity Calendar Year
Capital Improvement Revenue Bonds, Series 2007	Franchise fees and local communications service tax	\$ 232,713	\$ 51,467	22%	\$1,286,680	2047
Business-Type Activities						
Water System Junior Lien Revenue Bonds, Series 1996	Water and sewer revenues	\$5,349,012	\$ 56,045	1%	\$ 784,760	2036
Sewer System Revenue Bonds, Series 2000	Water and sewer revenues	\$5,349,012	\$ 15,370	0%	\$ 257,255	2039
Water System Revenue Bonds, Series 2003	Water and sewer revenues	\$5,349,012	\$ 88,712	2%	\$1,781,760	2042
Water System Revenue Bonds (North Bay Project), Series 2004	Water and sewer revenues	\$5,349,012	\$109,950	2%	\$2,300,500	2043
Water System Revenue Bonds (North Bay Project), Series 2012	Water and sewer revenues	\$5,349,012	\$ 71,468	1%	\$ 923,843	2035

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

8. LONG-TERM DEBT – CONTINUED

Requirement to Amortize all Long-Term Debt

The annual requirements to amortize all debt outstanding except accrued annual leave as of September 30, 2022, follows:

Governmental Activities

<u>Year Ending September 30</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2023	\$ 18,735	\$ 32,732
2024	19,508	31,959
2025	20,313	31,155
2026	21,150	30,317
2027	22,023	29,444
2028-2032	124,514	132,822
2033-2037	152,403	104,933
2038-2042	186,538	70,797
2043-2047	228,322	29,016
Total	<u>\$ 793,506</u>	<u>\$ 493,175</u>

Business-Type Activities

<u>Year Ending September 30</u>	<u>Revenue Bonds</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 168,000	\$ 173,112	\$ 15,540,874	\$ 175,179
2024	174,000	166,427	158,736	51,759
2025	181,000	159,490	156,077	48,109
2026	189,000	152,272	159,915	44,421
2027	197,000	144,712	163,927	40,561
2028-2032	1,105,000	599,007	860,726	138,933
2033-2037	1,152,000	359,133	673,301	27,663
2038-2042	873,600	143,595	156,243	1,263
2043-2047	106,000	4,770	-	-
Total	<u>\$ 4,145,600</u>	<u>\$ 1,902,518</u>	<u>\$ 17,869,799</u>	<u>\$ 527,888</u>

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

9. RISK MANAGEMENT

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

10. INTERFUND BALANCES AND TRANSFERS

The following is a summary of interfund balances at September 30, 2022:

Due to Fund	Due from Sewer Fund
General Fund	\$ 1,472,449
Water Fund	775,159
	\$ 2,247,608

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

The following is a summary of interfund transfers for the year ended September 30, 2022:

Transfers Out	Transfers In		
	General Fund	Sewer Fund	Total
General Fund	\$ -	\$ 276,580	\$ 276,580
Water Fund	640	-	640
	\$ 640	\$ 276,580	\$ 277,220

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

**CITY OF FREEPORT, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

11. GOVERNMENTAL FUND BALANCES

At September 30, 2022, the City's governmental fund balances were classified as follows:

	<u>General Fund</u>
Nonspendable	
Prepaid items	\$ 23,679
Restricted for	
Debt service	57,619
Assigned to	
Parks building project	13,711
Other purposes	<u>7,170</u>
Total assigned	20,881
Unassigned	<u>12,645,520</u>
	<u><u>\$ 12,747,699</u></u>

12. COMMITMENTS AND CONTINGENCIES

Grants

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

Construction Commitments

The City has active construction projects as of September 30, 2022 which include infrastructure upgrades, wastewater transmission facilities and wastewater infrastructure expansions. As of September 30, 2022, the City has contractual commitments on uncompleted construction contracts of approximately \$15,000,000. These contracts will be funded through United States Department of Agriculture loans and grants, as well as City sewer funds.

Interlocal Landfill Agreement

In 1995, the City entered into an interlocal agreement with Walton County for solid waste disposal services. Under the terms of the agreement, the County provides a landfill and solid waste collection services to the City's residents. In lieu of tipping fees, the City remits its 1% small county surtax receipts to the County as payment for the solid waste disposal services. At the end of each fiscal year, any funds remaining from the aforementioned small county surtaxes remitted to the County throughout the year are redistributed to the local governments participating in the agreement pursuant to the Florida Department of Revenue's sales tax distribution formula in effect at the time of distribution. The City remitted \$3,099,927 to Walton County for solid waste collection and disposal services and received a refund of surplus operating funds from the County totaling \$1,303,833 for the fiscal year ended September 30, 2022.

REQUIRED SUPPLEMENTARY INFORMATION

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

	2022	2021	2020	2019	2018	2017	2016	2015	2014
City's proportion of the net pension liability (asset)	0.004913545%	0.004426895%	0.003876841%	0.003876841%	0.003101888%	0.001868061%	0.001502455%	0.003019949%	0.004024554%
City's proportionate share of the net pension liability	\$ 1,828,234	\$ 334,402	\$ 1,641,321	\$ 1,335,130	\$ 934,305	\$ 552,749	\$ 379,371	\$ 390,067	\$ 245,557
City's covered-employee payroll	\$ 1,583,494	\$ 1,432,590	\$ 1,347,771	\$ 1,278,395	\$ 1,202,318	\$ 969,153	\$ 803,112	\$ 862,866	\$ 1,082,584
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	115.46%	23.34%	121.78%	104.44%	77.71%	57.03%	47.24%	45.21%	22.68%
Plan fiduciary net position as a percentage of the total pension liability	82.89%	96.40%	78.85%	82.61%	84.26%	83.89%	84.88%	92.00%	96.09%

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

** This schedule is intended to show information for 10 years. Additional years will be displayed as it becomes available.

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

	2022	2021	2020	2019	2018	2017	2016	2015	2014
City's proportion of the net pension liability (asset)	0.004344113%	0.004045701%	0.003882554%	0.003726934%	0.003101369%	0.002972526%	0.002440516%	0.003229403%	0.003672819%
City's proportionate share of the net pension liability	\$ 460,111	\$ 496,266	\$ 474,054	\$ 417,007	\$ 328,252	\$ 317,836	\$ 284,432	\$ 329,348	\$ 343,418
City's covered-employee payroll	\$ 1,583,494	\$ 1,432,590	\$ 1,347,771	\$ 1,278,395	\$ 1,202,318	\$ 969,153	\$ 803,112	\$ 862,866	\$ 1,082,584
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	29.06%	34.64%	35.17%	32.62%	27.30%	32.80%	35.42%	38.17%	31.72%
Plan fiduciary net position as a percentage of the total pension liability	4.81%	3.56%	3.56%	2.63%	2.15%	1.64%	0.97%	0.50%	0.99%

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

** This schedule is intended to show information for 10 years. Additional years will be displayed as it becomes available.

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 224,193	\$ 185,222	\$ 133,201	\$ 131,130	\$ 111,502	\$ 56,985	\$ 57,958	\$ 71,193	\$ 106,547
Contributions in relation to the contractually required contribution	<u>(224,193)</u>	<u>(185,222)</u>	<u>(133,201)</u>	<u>(131,130)</u>	<u>(111,502)</u>	<u>(56,985)</u>	<u>(57,958)</u>	<u>(71,193)</u>	<u>(106,547)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				
City's covered-employee payroll	\$ 1,685,060	\$ 1,510,241	\$ 1,360,783	\$ 1,278,395	\$ 1,202,318	\$ 969,153	\$ 803,112	\$ 862,866	\$ 1,082,584
Contributions as a percentage of covered-employee payroll	13.30%	12.26%	9.79%	10.26%	9.27%	5.88%	7.22%	8.25%	9.84%

* Information prior to 2014 is not available.

** This schedule is intended to show information for 10 years. Additional years will be displayed as it becomes available.

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 27,972	\$ 25,070	\$ 22,589	\$ 21,016	\$ 19,958	\$ 16,087	\$ 13,332	\$ 14,323	\$ 17,971
Contributions in relation to the contractually required contribution	<u>(27,972)</u>	<u>(25,070)</u>	<u>(22,589)</u>	<u>(21,016)</u>	<u>(19,958)</u>	<u>(16,087)</u>	<u>(13,332)</u>	<u>(14,323)</u>	<u>(17,971)</u>
Contribution deficiency (excess)	<u>\$ -</u>								
City's covered-employee payroll	\$ 1,685,060	\$ 1,510,241	\$ 1,360,783	\$ 1,278,395	\$ 1,202,318	\$ 969,153	\$ 803,112	\$ 862,866	\$ 1,082,584
Contributions as a percentage of covered-employee payroll	1.66%	1.66%	1.66%	1.64%	1.66%	1.66%	1.66%	1.66%	1.66%

*Information prior to 2014 is not available.

** This schedule is intended to show information for 10 years. Additional years will be displayed as it becomes available.

III. COMPLIANCE SECTION

- COMPLIANCE MATTERS
- MANAGEMENT LETTER
- RESPONSES TO MANAGEMENT LETTER

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

To the Honorable Mayor and
Members of the City Council

We have examined the City of Freeport, Florida's (the City), compliance with Section 218.415, Florida Statutes, in regard to investments for the year ended September 30, 2022.

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

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

We are required to be independent and to meet our ethical responsibilities in accordance with relevant ethical requirements relating to the examination engagement.

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

In our opinion, the City of Freeport, Florida complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2022.

Warren Averett, LLC

Destin, Florida
May 11, 2023

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

To the Honorable Mayor and
Members of the City Council

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of governmental activities, the business-type activities, and each major fund of the City of Freeport, Florida (the City), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 11, 2023

Internal Control over Financial Reporting

In planning and performing our audit, 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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Warren Averett, LLC

Destin, Florida
May 11, 2023

MANAGEMENT LETTER

To the Honorable Mayor and
Members of the City Council

Report on the Financial Statements

We have audited the financial statements of the City of Freeport, Florida (the City), as of and for the fiscal year ended September 30, 2022, and have issued our report thereon dated May 11, 2023.

Auditors' Responsibility

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

Other Reporting Requirements

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements in Accordance with *Government Auditing Standards*; and our Independent Accountants' Report on an Examination of Compliance Requirements in Accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports, which are dated May 11, 2023, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether corrective actions have been taken to address findings and recommendations made in the preceding annual financial report. Corrective actions have been taken to address the findings and recommendations made in the preceding financial audit report.

Official Title and Legal Authority

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

Financial Condition and Management

Sections 10.554(1)(i)5.a. and 10.556(7), *Rules of the Auditor General*, require 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.

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

Section 10.554(1)(i)2., *Rules of Auditor General*, requires that we communicate any recommendations to improve financial management.

We recommend a reconciliation of accounts payable from the general ledger to the outstanding accounts payable register be prepared to determine that all additions to and payments of accounts payable are correctly recorded and to determine whether there are any disputed items.

Additional Matters

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

Purpose of this Letter

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

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

Warren Averett, LLC

Destin, Florida
May 11, 2023