

# 2023

City of DeFuniak Springs, Florida

Financial Statements and  
Independent Auditor's Report

September 30, 2023

**PURVIS GRAY**  
CERTIFIED PUBLIC ACCOUNTANTS

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT**

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
DEFUNIAK SPRINGS, FLORIDA**

**SEPTEMBER 30, 2023**

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR’S REPORT**

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
DEFUNIAK SPRINGS, FLORIDA**

**SEPTEMBER 30, 2023**

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of DeFuniak Springs  
DeFuniak Springs, Florida

### Report on the Financial Statements

#### ***Opinions***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of DeFuniak Springs (the City) as of and for the year ended September 30, 2023, 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, each major fund, and the aggregate remaining fund information of the City as of September 30, 2023, and the respective changes in financial position, and where applicable, cash flows thereof and the budgetary comparisons for the General Fund for the year then ended in conformity 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 Auditor's 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's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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DeFuniak Springs, Florida

## INDEPENDENT AUDITOR'S REPORT

### ***Auditor's 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 auditor's 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'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'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, schedules of the City's proportional share of net pension liability, schedules of the City's contributions and schedule of changes in the City's total OPEB liability and related ratios, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing

Honorable Mayor and City Council  
City of DeFuniak Springs  
DeFuniak Springs, Florida

## INDEPENDENT AUDITOR'S REPORT

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.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of state financial assistance is presented for the purposes of additional analysis as required by Chapter 10.550, *Rules of the Auditor General*, and is also not a required part of the basic financial statements of the City.

The combining non-major fund financial statements and the schedule of expenditures of state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has not been subjected to the auditing procedures that would have been applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling, such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of state financial assistance are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2024, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



September 16, 2024  
Tallahassee, Florida

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2023**

The City of DeFuniak Springs, Florida’s (the City) discussion and analysis provides an objective overview of the City’s financial activities for the fiscal year ended September 30, 2023. 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 approximately \$48.3 million (net position). Of this amount, a deficit of approximately \$4.6 million is unrestricted for governmental activities, and approximately \$5.2 million is unrestricted for business-type activities. Total net position includes approximately \$19.2 million of net investment in capital assets in the governmental activities and approximately \$17.6 million in the business-type activities.
- Revenues for governmental activities increased by approximately \$2.0 million or 15.8%, primarily from an increase in grant revenues.
- Revenues for business-type activities increased by approximately \$2.8 million or 28.2%, primarily from an increase in capital grants and charges for services.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The 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 the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

**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**

Designed to be corporate-like, the government-wide financial statements consolidate governmental and business-type activities into two columns, which sum to a total for Primary Government. This provides readers with a broad overview of the City’s finances in a manner similar to a private-sector business. Two statements, the statement of net position and the statement of activities, are utilized to provide information on a government-wide basis.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2023**

The statement of net position presents information on all the City’s assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between them reported as net position. This statement combines and consolidates the governmental funds’ current financial resources (short-term available resources) with capital assets and long-term obligations. Over time, increases or decreases in net position may serve as a useful indicator of the financial position of the City.

The statement of activities presents information showing how the government’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flow in future fiscal periods.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government (city council, city manager, administration, public works and billing), public safety (planning, police and fire), physical environment (cemetery), transportation (streets, airport, and fleet maintenance), culture and recreation (parks and recreation, grounds maintenance, facilities maintenance, cultural services, and Christmas reflections), and debt service interest. The business-type activities of the City include the utilities (water, sewer, gas, and sanitation).

**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 fund financial statements provide information on all assets and liabilities of the fund, 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 fund, a statement of net position, statement of revenues, expenses, and changes in net position, as well as a statement of cash flows are provided.

**Notes to Financial Statements**

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

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2023**

**FINANCIAL ANALYSIS OF THE CITY**

The following table reflects the condensed statement of net position:

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Current and Other Assets	\$ 10,906,161	\$ 10,707,623	\$ 15,768,015	\$ 14,158,320	\$ 26,674,176	\$ 24,865,943
Capital Assets	21,833,201	18,731,103	29,343,197	29,832,345	51,176,398	48,563,448
Total Assets	32,739,362	29,438,726	45,111,212	43,990,665	77,850,574	73,429,391
Deferred Outflows of Resources	1,893,182	1,905,138	250,611	214,993	2,143,793	2,120,131
Long-Term Liabilities	11,044,213	10,410,331	12,366,382	14,999,332	23,410,595	25,409,663
Other Liabilities	6,412,218	6,301,384	1,226,691	879,401	7,638,909	7,180,785
Total liabilities	17,456,431	16,711,715	13,593,073	15,878,733	31,049,504	32,590,448
Deferred Inflows of Resources	545,937	664,294	66,828	74,964	612,765	739,258
Net Position						
Net Investment in Capital Assets	19,171,604	15,842,309	17,610,233	15,689,974	36,781,837	31,532,283
Restricted	2,075,092	1,921,790	8,919,578	9,605,428	10,994,670	11,527,218
Unrestricted	(4,616,519)	(3,796,244)	5,172,111	2,956,559	555,592	(839,685)
Total Net Position	\$ 16,630,177	\$ 13,967,855	\$ 31,701,922	\$ 28,251,961	\$ 48,332,099	\$ 42,219,816

The City is able to report positive balances in all three categories of net position for the business-type activities. However, for the governmental activities, the unrestricted net position reflects a deficit balance. Capital assets (e.g., land, buildings 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. 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 the expansion of the City's systems.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2023**

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

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 1,867,996	\$ 1,918,492	\$ 10,393,411	\$ 9,603,320	\$ 12,261,407	\$ 11,521,812
Operating Grants and Contributions	342,924	145,458	-	-	342,924	145,458
Capital Grants and Contributions	3,480,206	1,403,818	2,148,109	344,780	5,628,315	1,748,598
General Revenues:						
Property Taxes	1,658,894	1,448,177	-	-	1,658,894	1,448,177
Gas Taxes	310,766	307,573	-	-	310,766	307,573
Sales Taxes	2,985,462	2,938,766	-	-	2,985,462	2,938,766
Franchise and Utility Taxes	1,655,419	1,553,610	-	-	1,655,419	1,553,610
State-Shared Revenues	2,081,264	2,055,159	-	-	2,081,264	2,055,159
Miscellaneous	42,044	746,898	-	-	42,044	746,898
Investment Earnings (Losses)	30,585	(38,134)	72,120	(112,694)	102,705	(150,828)
<b>Total Revenues</b>	<b>14,455,560</b>	<b>12,479,817</b>	<b>12,613,640</b>	<b>9,835,406</b>	<b>23,187,768</b>	<b>22,315,223</b>
<b>Expenses</b>						
Primary Government:						
General Government	3,405,334	3,098,787	-	-	3,405,334	3,098,787
Public Safety	4,987,098	4,759,547	-	-	4,987,098	4,759,547
Physical Environment	246,327	146,895	-	-	246,327	146,895
Transportation	2,959,844	2,616,653	-	-	2,959,844	2,616,653
Culture and recreation	1,436,439	1,230,340	-	-	1,436,439	1,230,340
Interest on Long-Term Debt	64,211	84,527	-	-	64,211	84,527
Business-Type Activities:						
Utilities	-	-	7,857,664	8,148,627	7,857,664	8,148,627
<b>Total Expenses</b>	<b>13,099,253</b>	<b>11,936,749</b>	<b>7,857,664</b>	<b>8,148,627</b>	<b>20,956,917</b>	<b>20,085,376</b>
Change in Net Position Before Transfers	1,356,307	543,068	4,755,976	1,686,779	2,230,851	2,229,847
Transfers	1,306,015	943,302	(1,306,015)	(943,302)		
Change in Net Position	2,662,322	1,486,370	3,449,961	743,477	2,230,851	2,229,847
<b>Net Position at Beginning of Year</b>	<b>13,967,855</b>	<b>12,481,485</b>	<b>28,251,961</b>	<b>27,508,484</b>	<b>42,219,816</b>	<b>39,989,969</b>
<b>Net Position at End of Year</b>	<b>\$ 16,630,177</b>	<b>\$ 13,967,855</b>	<b>\$ 31,701,922</b>	<b>\$ 28,251,961</b>	<b>\$ 44,450,667</b>	<b>\$ 42,219,816</b>

- Property Taxes and Sales Taxes account for 11.5% and 20.7%, respectively, of the City's revenues from governmental activities. Increases were noted during the year due to overall improvement of local economy.
- Public safety accounts for 38.1% of the total expenses for governmental activities, while General government and Transportation expenses account for 48.6% of total expenses for governmental activities. Overall increases were noted in expenses related to personnel costs as well as operating costs, such as fuel costs during the year.
- Capital grants and contributions increased by approximately \$2.1 million in governmental activities, primarily because of grant funding related to airport improvements. Capital grants and contributions increased by \$1.8 million in business-type activities, primarily because of the City receiving \$2 million in Debt forgiveness on a State Revolving Fund Loan.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2023**

**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, 2023, total assets for the General Fund were approximately \$10.3 million, and the total liabilities were approximately \$6.1 million. Unassigned fund balance was approximately \$2.4 million, and total fund balance was approximately \$4.1 million.

**Proprietary Fund**

The City's Proprietary Fund is the business-type fund reported in the government-wide financial statements. The City has combined the four services water, sewer, natural gas, and sanitation into a Utilities Fund. The same type of information is presented in both financial statements concerning this City fund. The asset makeup is very capital intensive with capital assets, net of accumulated depreciation, representing 65.0% of the fund's total assets.

During fiscal year 2023, the Utility Fund had an increase in net position of approximately \$3.4 million. The total net position of this fund as of September 30, 2023, was approximately \$31.7 million.

**Capital Asset Activity**

The City's total investment in capital assets for both its governmental and business-type activities as of September 30, 2023, was approximately \$51.2 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress (CIP), building, improvements, as well as machinery and equipment. See Note 5 for further details.

**Debt Management**

At the end of the current fiscal year, the City had total bond debt and notes payable outstanding in the amount of approximately \$14.4 million. See Note 7 for further details.

**OTHER FINANCIAL INFORMATION**

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

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances for all those with an interest. Questions concerning this report or requests for additional information should be addressed to City Manager P.O. Box 685 DeFuniak Springs, Florida 32435.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF DEFUNIAK SPRINGS, FLORIDA**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2023**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and Cash Equivalents	\$ 5,275,947	\$ 3,676,766	\$ 8,952,713
Investments	430,128	1,364,018	1,794,146
Accounts Receivable, Net	96,105	1,522,806	1,618,911
Lease Receivable	41,112	-	41,112
Due from Other Governments	1,923,429	-	1,923,429
Internal Balances	406,542	(406,542)	-
Prepaid Items	39,789	-	39,789
Restricted Assets:			
Cash and Cash Equivalents	2,472,406	9,240,592	11,712,998
Investments	220,704	370,375	591,079
Capital Assets:			
Assets Not Being Depreciated	8,205,570	1,327,527	9,533,097
Assets Being Depreciated, Net	13,627,631	28,015,670	41,643,301
<b>Total Assets</b>	<b>32,739,363</b>	<b>45,111,212</b>	<b>77,850,575</b>
<b>Deferred Outflows of Resources</b>			
Pension Related	1,851,133	245,044	2,096,177
OPEB Related	42,049	5,567	47,616
<b>Total Deferred Outflows of Resources</b>	<b>1,893,182</b>	<b>250,611</b>	<b>2,143,793</b>
<b>Liabilities</b>			
Accounts Payable	1,982,530	20,103	2,002,633
Accrued Liabilities	682,186	15,056	697,242
Due to Other Governments	2,134	328,538	330,672
Unearned Revenue	3,453,594	-	3,453,594
Payable from Restricted Assets:			
Accrued Interest	17,399	863	18,262
Customer Deposits	13,010	327,026	340,036
Non-Current Liabilities:			
Due Within One Year:			
Compensated Absences	20,312	3,901	24,213
Notes Payable	241,053	127,104	368,157
Revenue Bonds Payable	-	404,100	404,100
Due in More Than One Year:			
Compensated Absences	385,937	74,155	460,092
Notes Payable	2,420,544	1,639,960	4,060,504
Revenue Bonds Payable	-	9,561,800	9,561,800
Other Postemployment Benefits	92,530	12,249	104,779
Net Pension Liability	8,145,202	1,078,218	9,223,420
<b>Total Liabilities</b>	<b>17,456,431</b>	<b>13,593,073</b>	<b>31,049,504</b>
<b>Deferred Inflows of Resources</b>			
Pension Related	361,538	47,859	409,397
OPEB Related	143,287	18,969	162,256
Leases	41,112	-	41,112
<b>Total Deferred Inflows of Resources</b>	<b>545,937</b>	<b>66,828</b>	<b>612,765</b>
<b>Net Position</b>			
Net Investment in Capital Assets	19,171,604	17,610,233	36,781,837
Restricted for:			
Debt Service	220,705	811,197	1,031,902
Capital Improvements	1,459,665	8,108,381	9,568,046
Redevelopment	394,722	-	394,722
Unrestricted (Deficit)	(4,616,519)	5,172,111	555,592
<b>Total Net Position</b>	<b>\$ 16,630,177</b>	<b>\$ 31,701,922</b>	<b>\$ 48,332,099</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2023**

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	
<b>Governmental Activities</b>							
General Government	\$ 3,405,334	\$ 754,502	\$ 27,569	\$ 36,354	\$ (2,586,909)	\$ -	\$ (2,586,909)
Public Safety	4,987,098	139,407	96,399	148,741	(4,602,551)	-	(4,602,551)
Physical Environment	246,327	81,875	-	-	(164,452)	-	(164,452)
Transportation	2,959,844	729,570	201,555	3,295,111	1,266,392	-	1,266,392
Culture and Recreation	1,436,439	162,642	17,401	-	(1,256,396)	-	(1,256,396)
Debt Service Interest	64,211	-	-	-	(64,211)	-	(64,211)
<b>Total Governmental Activities</b>	<b>13,099,253</b>	<b>1,867,996</b>	<b>342,924</b>	<b>3,480,206</b>	<b>(7,408,127)</b>	<b>-</b>	<b>(7,408,127)</b>
<b>Business-Type Activities</b>							
Utilities	7,857,664	10,393,411	-	2,148,109	-	4,683,856	4,683,856
<b>Total Business-Type Activities</b>	<b>7,857,664</b>	<b>10,393,411</b>	<b>-</b>	<b>2,148,109</b>	<b>-</b>	<b>4,683,856</b>	<b>4,683,856</b>
<b>Total</b>	<b>\$ 20,956,917</b>	<b>\$ 12,261,407</b>	<b>\$ 342,924</b>	<b>\$ 5,628,315</b>	<b>(7,408,127)</b>	<b>4,683,856</b>	<b>(2,724,271)</b>
<b>General Revenues</b>							
Taxes:							
					1,658,894	-	1,658,894
					310,766	-	310,766
					2,985,462	-	2,985,462
					1,655,419	-	1,655,419
					2,081,264	-	2,081,264
					42,044	-	42,044
					30,585	72,120	102,705
					1,306,015	(1,306,015)	-
					<b>10,070,449</b>	<b>(1,233,895)</b>	<b>8,836,554</b>
					<b>2,662,322</b>	<b>3,449,961</b>	<b>6,112,283</b>
					<b>13,967,855</b>	<b>28,251,961</b>	<b>42,219,816</b>
					<b>\$ 16,630,177</b>	<b>\$ 31,701,922</b>	<b>\$ 48,332,099</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2023**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 5,124,011	\$ 151,936	\$ 5,275,947
Investments	365,320	64,808	430,128
Accounts Receivable	96,105	-	96,105
Due from Other Governments	1,923,429	-	1,923,429
Due from Other Funds	409,427	9,805	419,232
Prepaid Items	39,789	-	39,789
Lease Receivable	41,112	-	41,112
Restricted Assets:			
Cash and Cash Equivalents	2,036,963	435,443	2,472,406
Investments	220,704	-	220,704
<b>Total Assets</b>	<u>\$ 10,256,860</u>	<u>\$ 661,992</u>	<u>\$ 10,918,852</u>
<b>Liabilities</b>			
Accounts Payable	\$ 1,951,030	\$ 31,500	\$ 1,982,530
Accrued Liabilities	676,787	5,399	682,186
Due to Other Governments	2,134	-	2,134
Due to Other Funds	-	12,690	12,690
Unearned Revenue	3,453,594	-	3,453,594
Customer Deposits	-	13,010	13,010
<b>Total Liabilities</b>	<u>6,083,545</u>	<u>62,599</u>	<u>6,146,144</u>
<b>Deferred Inflows of Resources</b>			
Leases	41,112	-	41,112
<b>Fund Balances</b>			
Non-Spendable - Prepaid Items	39,789	-	39,789
Restricted - Debt Service	220,705	-	220,705
Restricted - Capital Improvements	1,459,665	-	1,459,665
Restricted - Redevelopment	-	394,722	394,722
Committed - Special Revenue	-	204,671	204,671
Unassigned	2,412,044	-	2,412,044
<b>Total Fund Balances</b>	<u>4,132,203</u>	<u>599,393</u>	<u>4,731,596</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u>\$ 10,256,860</u>	<u>\$ 661,992</u>	<u>\$ 10,918,852</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2023**

Total Funds Balances - Governmental Funds \$ 4,731,596

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 funds.

Capital Assets	\$ 36,024,748	
Less Accumulated Depreciation/Amortization	<u>(14,191,547)</u>	21,833,201

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	1,851,133	
Deferred Outflows of Resources Related to Other Postemployment Benefits	42,049	
Deferred Inflows of Resources Related to Pension Plans	(361,538)	
Deferred Inflows of Resources Related to Other Postemployment Benefits	<u>(143,287)</u>	1,388,357

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

Compensated Absences	(406,249)	
Accrued Interest	(17,399)	
Notes Payable	(2,661,597)	
Other Postemployment Benefits	(92,530)	
Net Pension Liability	<u>(8,145,202)</u>	<u>(11,322,977)</u>

Total Net Position - Governmental Activities \$ 16,630,177

The accompanying notes are an integral part of these financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2023**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Taxes	\$ 6,235,652	\$ 374,889	\$ 6,610,541
License and Permits	30,540	37,896	68,436
Intergovernmental	5,821,337	-	5,821,337
Charges for Services	1,587,593	147,955	1,735,548
Investment Income	21,996	5,150	27,146
Miscellaneous	176,084	16,468	192,552
<b>Total Revenues</b>	<u>13,873,202</u>	<u>582,358</u>	<u>14,455,560</u>
<b>Expenditures</b>			
Current:			
General Government	2,718,085	266,073	2,984,158
Public Safety	4,489,905	-	4,489,905
Physical Environment	-	142,054	142,054
Transportation	2,234,774	-	2,234,774
Culture and Recreation	1,246,279	103,525	1,349,804
Capital Outlay	3,873,974	-	3,873,974
Debt Service:			
Principal	227,197	-	227,197
Interest	60,738	-	60,738
<b>Total Expenditures</b>	<u>14,850,952</u>	<u>511,652</u>	<u>15,362,604</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(977,750)</u>	<u>70,706</u>	<u>(907,044)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In	5,514,152	60,883	5,575,035
Transfer Out	(4,356,560)	-	(4,356,560)
<b>Total Other Financing Sources (Uses)</b>	<u>1,157,592</u>	<u>60,883</u>	<u>1,218,475</u>
<b>Net Changes in Fund Balances</b>	179,842	131,589	311,431
<b>Fund Balance, Beginning of Year</b>	<u>3,952,361</u>	<u>467,804</u>	<u>4,420,165</u>
<b>Fund Balance, End of Year</b>	<u>\$ 4,132,203</u>	<u>\$ 599,393</u>	<u>\$ 4,731,596</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2023**

**Net Change in Fund Balances - Governmental Funds** \$ 311,431

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.

Transfers of Capital Assets	\$ 87,843	
Expenditures for Capital Assets	4,112,212	
Less Current Year Depreciation/Amortization	<u>(1,097,957)</u>	3,102,098

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.

Debt Service Payments	<u>227,197</u>	227,197
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Change in Accrued Interest	(3,473)	
Change in Compensated Absences	20,569	
Change in Net Pension Liability, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pension	(1,028,357)	
Change in Net Pension Liability, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB	<u>32,857</u>	<u>(978,404)</u>

**Change in Net Position - Governmental Activities** \$ 2,662,322

The accompanying notes are an integral part of these financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND**  
**YEAR ENDED SEPTEMBER 30, 2023**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>Revenues</b>				
Taxes	\$ 6,463,844	\$ 6,463,844	\$ 6,235,652	\$ (228,192)
License and Permits	23,500	23,500	30,540	7,040
Intergovernmental	13,010,369	13,179,180	5,821,337	(7,357,843)
Charges for Services	1,499,150	1,499,150	1,587,593	88,443
Interest	-	-	21,996	21,996
Miscellaneous	294,638	314,661	176,084	(138,577)
<b>Total Revenues</b>	<u>21,291,501</u>	<u>21,480,335</u>	<u>13,873,202</u>	<u>(7,607,133)</u>
<b>Expenditures</b>				
Current:				
General Government	3,012,999	3,012,999	2,718,085	294,914
Public Safety	4,646,434	4,815,245	4,489,905	325,340
Transportation	2,242,543	2,242,543	2,234,774	7,769
Culture and Recreation	1,410,040	1,410,040	1,246,279	163,761
Capital Outlay	11,348,008	11,540,538	3,873,974	7,666,564
Debt Service:				
Principal	227,197	227,197	227,197	-
Interest	60,739	60,739	60,738	1
<b>Total Expenditures</b>	<u>22,947,960</u>	<u>23,309,301</u>	<u>14,850,952</u>	<u>8,458,349</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(1,656,459)</u>	<u>(1,828,966)</u>	<u>(977,750)</u>	<u>851,216</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Debt	100,000	272,507	-	(272,507)
Transfers In	3,441,566	3,441,566	5,514,152	2,072,586
Transfer Out	(3,539,181)	(3,539,181)	(4,356,560)	(817,379)
<b>Total Other Financing Sources (Uses)</b>	<u>2,385</u>	<u>174,892</u>	<u>1,157,592</u>	<u>982,700</u>
<b>Net Change in Fund Balances</b>	(1,654,074)	(1,654,074)	179,842	1,833,916
<b>Fund Balance, Beginning of Year</b>	<u>1,744,974</u>	<u>1,744,974</u>	<u>3,952,361</u>	<u>2,207,387</u>
<b>Fund Balance, End of Year</b>	<u>\$ 90,900</u>	<u>\$ 90,900</u>	<u>\$ 4,132,203</u>	<u>\$ 4,041,303</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2023**

	<b>Utilities Fund</b>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 3,676,766
Investments	1,364,018
Accounts Receivable, Net	1,522,806
Restricted Assets:	
Cash and Cash Equivalents	9,240,592
Investments	370,375
<b>Total Current Assets</b>	<b>16,174,557</b>
Non-Current Assets:	
Capital Assets:	
Assets Not Being Depreciated	1,327,527
Assets Being Depreciated, Net	28,015,670
<b>Total Non-Current Assets</b>	<b>29,343,197</b>
<b>Total Assets</b>	<b>45,517,754</b>
<b>Deferred Outflows of Resources</b>	
Related to Pensions	245,044
Related to Other Postemployment Benefits	5,567
<b>Total Deferred Outflows of Resources</b>	<b>250,611</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2023**

	<b>Utilities Fund</b>
<b>Liabilities</b>	
Current Liabilities:	
Accounts Payable	\$ 20,103
Accrued Liabilities	15,056
Due to Other Governments	328,538
Due to Other Funds	406,542
Compensated Absences	3,901
Notes Payable	127,104
Revenue Bonds Payable	404,100
Payable from Restricted Assets:	
Accrued Interest	863
Customer Deposits	327,026
Total Current Liabilities	1,633,233
Non-Current Liabilities:	
Compensated Absences	74,155
Notes Payable	1,639,960
Revenue Bonds Payable	9,561,800
Other Postemployment Benefits	12,249
Net Pension Liability	1,078,218
Total Non-Current Liabilities	12,366,382
<b>Total Liabilities</b>	13,999,615
<b>Deferred Inflows of Resources</b>	
Related to Pensions	47,859
Related to Other Postemployment Benefits	18,969
<b>Total Deferred Inflows of Resources</b>	66,828
<b>Net Position</b>	
Net Investment in Capital Assets	17,610,233
Restricted for Capital Improvements	8,108,381
Restricted for Debt Service	811,197
Unrestricted	5,172,111
<b>Total Net Position</b>	\$ 31,701,922

The accompanying notes are an integral part of these financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2023**

	<b>Utilities Fund</b>
<b>Operating Revenue</b>	
Charges for Service	\$ 9,958,096
Interlocal Agreement	213,427
Other Operating Income	221,888
<b>Total Operating Revenue</b>	<b>10,393,411</b>
<b>Operating Expenses</b>	
Personal Services	1,185,150
Materials and Supplies	325,584
Repairs and Maintenance	265,429
Office and Utilities	418,874
Insurance Expense	77,343
Contractual Services	3,284,604
Billing Fees	647,623
Depreciation	1,334,296
Other Expenses	49,951
<b>Total Operating Expenses</b>	<b>7,588,854</b>
<b>Operating Income</b>	<b>2,804,557</b>
<b>Non-Operating Expense</b>	
Interest Expense	(268,810)
Investment Income	72,120
<b>Total Non-Operating Expenses</b>	<b>(196,690)</b>
<b>Income Before Capital Contributions and Transfers</b>	<b>2,607,867</b>
<b>Capital Grants and Contributions</b>	
Capital Grants and Contributions	2,148,109
<b>Transfers</b>	
Transfers In	2,985,461
Transfers Out	(4,291,476)
<b>Total Transfers</b>	<b>(1,306,015)</b>
<b>Change in Net Position</b>	3,449,961
<b>Net Position, Beginning of Year</b>	28,251,961
<b>Net Position, End of Year</b>	<b>\$ 31,701,922</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2023**

	<b>Utilities Fund</b>
<b>Cash Flows from Operating Activities</b>	
Receipts from Customers and Users	\$ 10,021,678
Payments to Employees for Services	(917,342)
Payments to Suppliers for Goods and Services	(5,251,121)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>3,853,215</b>
<b>Cash Flows from Non-Capital Financing Activities</b>	
Transfers In	2,985,461
Transfers Out	(4,164,984)
Interfund Borrowings	(650,582)
<b>Net Cash Provided by (Used in) Non-Capital Financing Activities</b>	<b>(1,830,105)</b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Acquisition and Construction of Capital Assets	(971,640)
Interest Paid	(268,810)
Principal Payments on Notes and Bonds Payable	(261,298)
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>	<b>(1,501,748)</b>
<b>Cash Flows from Investing Activities</b>	
Proceeds from Maturities of Investments	956,372
Interest Received on Investments	72,120
<b>Net Cash Flows Provided by (Used in) Investing Activities</b>	<b>1,028,492</b>
<b>Net Change in Cash and Cash Equivalents</b>	1,549,854
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>11,367,504</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 12,917,358</b>
<b><u>Cash and Cash Equivalents at End of Year Consist of</u></b>	
Unrestricted	\$ 3,676,766
Restricted	9,240,592
<b>Total Cash and Cash Equivalents</b>	<b>\$ 12,917,358</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2023**

	<b>Utilities Fund</b>
<b><u>Reconciliation of Operating Income to Net Cash</u></b>	
<b><u>Provided by Operating Activities</u></b>	
Operating Income	\$ 2,804,557
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities:	
Depreciation	1,334,296
Decrease (Increase) in Assets:	
Accounts Receivable, Net	(365,631)
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Liabilities	(181,713)
Customers Deposits	49,980
Due to Other Governments	(106,295)
Net Pension Liability and Related Deferred Inflows and Outflows	246,002
Compensated Absences	71,942
Other Postemployment Benefits and Related Deferred Inflows and Outflows	77
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 3,853,215</b>

The accompanying notes are an integral part of these financial statements.

## **NOTES TO BASIC FINANCIAL STATEMENTS**

**CITY OF DEFUNIAK SPRINGS, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2023**

**Note 1 - Summary of Significant Accounting Policies**

**Description of City**

The City of DeFuniak Springs, Florida (the City) is a political subdivision of the State and was created by Laws of Florida, Chapter 5341 in 1901. The City provides police and fire protection, general government, parks and recreation, and public works services to its residents. In addition, the City operates water, sewer, gas, and sanitation enterprises.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) 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 GAAP, the 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 in GASB standards for determining financial accountability of potential component units in evaluating all potential component units. In accordance with these standards, 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.

In September 2018, the City Council approved City Ordinance No. 895, which established a redevelopment trust fund (the CRA) and provided for funding within the community redevelopment area via tax increments. The governing body of the CRA is the City Council, and it is considered a component unit of the City.

**Government-Wide and Fund Financial Statements**

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

**CITY OF DEFUNIAK SPRINGS, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2023**

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

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

**Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is 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 are recognized as revenues of the current fiscal period. Sales taxes, gasoline taxes, and other intergovernmental revenues collected and held by the state at year-end on behalf of the 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).

The following is the current property tax calendar:

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

**CITY OF DEFUNIAK SPRINGS, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2023**

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

Revenue recognition criteria for property taxes under the GASB requires that property taxes expected to be collected within 60 days of the current period be accrued. No accrual has been made for 2023 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 75% of capacity fee revenue as capital contributions for the water and sewer system; therefore, only 25% of capacity fee revenues 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.

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 major governmental fund:

General Fund – This 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.

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*Proprietary*

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

Utilities Fund – This fund accounts for the operations and activities of the City's utility systems, which comprise the City's water system, sewer system, gas system, and sanitation system.

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

*Cash and Cash Equivalents*

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

*Receivables and Payables*

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

All receivables in governmental funds are shown net of an allowance for doubtful accounts. At September 30, 2023, the City considers all governmental fund receivables collectible and, accordingly, does not have an allowance.

Services provided, deemed to be at market or near market rates, 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 doubtful accounts. 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.

*Restricted Assets*

Certain resources of the City are restricted for specific purposes and are not available to be used for general operations. The City's restricted assets consist of cash held for customer deposits, impact fees collected in prior years, 75% of capacity fees collected, and debt service.

*Capital Assets*

Capital assets, which include construction in process, property, plant, equipment, and infrastructure assets (roads, bridges, curbs and sidewalks, drainage systems, lighting systems, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial cost of more than \$1,000 and an estimated useful life of more than one year.

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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 acquisition value on the date of donation.

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

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

<b>Assets</b>	<b>Years</b>
Buildings and Utility Systems	35-75 Years
Public Domain Infrastructure	50 Years
Furniture and Fixtures	10 Years
Vehicles	5 Years
Office Equipment	5 Years
Computer Equipment	5 Years

*Leases when the City is Lessee*

From time to time, the City enters into lease agreements where the City is lessee. The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide and proprietary fund financial statements. At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of the lease payments made at or before the lease commencement date, plus initial direct costs. The lease asset is amortized on a straight-line basis over the shorter of the lease term or its useful life. The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability. The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the non-cancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise, if any.

*Leases when the City is Lessor*

In situations where the City is lessor in a lease agreement the City recognizes a lease receivable and a deferred inflow of resources in the government-wide, governmental fund, and enterprise fund financial statements. At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease

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receivable is reduced by the principal portion of the lease payments received. The deferred inflow or resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term. Key estimates and judgments include how the City determines: (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts. The City uses the stated interest rate in the lease agreement if available and if not, utilizes its estimated rate of return on investments nearest to the date of lease commencement. The lease term includes the non-cancellable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee. The City monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease asset, receivable, liability, and/or deferred inflows of resources if certain changes occur that are expected to significantly affect the lease amounts.

*Deferred Inflows/Outflows of Resources*

In addition to assets, the statement of financial position will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so 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 and other post-employment benefit related items.

In addition to liabilities, the statement of financial position will report 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) and so 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, other post-employment benefit and lease-related items.

*Compensated Absences*

The City accrues accumulated unpaid vacation and sick leave when earned (or estimated to be earned) by the employee. For proprietary funds and the government-wide statements, the current portion is the amount estimated to be used in the following year. In the fund financial statements, all the governmental-related compensated absences are considered long-term and, therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

*Long-Term Obligations*

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether withheld from the actual debt proceeds received, are reported as debt service expenditures.

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*Other Postemployment Benefits (OPEB) Liability*

For the purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense have been determined on the same basis as they are reported by the plan. For this purpose, the plan recognizes benefit payments when due and payable in accordance with the benefit terms.

*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 the Florida Retirement System (FRS) plans (Plans), and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by FRS. For this purpose, benefit payments (including refunds of employee contributions, if any) are recognized when due and payable in accordance with the benefit terms. GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes.

*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:

- Non-Spendable – includes amounts that are: (1) not in spendable form, or (2) 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.
- 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. The City’s fund balance policy does not explicitly specify who is authorized to establish fund balance assignments. 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.

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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 net investment in capital assets, restricted, or unrestricted. Net investment in capital assets 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 GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

**Implementation of New Accounting Standard: GASB Statement No. 96**

The GASB issued Statement No. 96 (GASB No. 96), *Subscription-Based Information Technology Arrangements* (SBITAs), in June of 2020. This statement is effective for the current fiscal year ended September 30, 2023. The City reviewed the provisions of GASB No. 96 and compiled an inventory of agreements that would potentially be impacted by the implementation of this statement. An evaluation of each agreement was made, based on materiality to the City's financial statements. Based on this evaluation, the impact of the provisions of GASB No. 96 to the City was deemed not significant for SBITAs to which the City is a party and acts as an end user. All agreements were evaluated as of the implementation date of October 1, 2022. As such, no restatement of prior period balances related to affected agreements was required and no current year financial impact occurred.

**Note 2 - Stewardship, Compliance, and Accountability**

**Budgets**

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

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Prior to October 1, the budget for all governmental funds and the proprietary fund 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.

**Note 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% 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, 2023, the value of the City's cash deposits was \$20,795,196, all of which was held by qualified public depositories under Chapter 280, Florida Statutes. The book balance of these deposits at September 30, 2023, was \$20,665,711, and is included in cash and cash equivalents in the accompanying statement of net position.

**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.

**Investments**

The City does not have a written investment policy but has adopted the policy provided by Florida Statutes, Section 218.15, 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 Commission 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.

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 Trustees of the Trust are designated as having official custody of the funds, which are invested by the purchase of shares of beneficial interest in the Trust. The Trust operates as a fiduciary trust fund under governmental accounting rules that require

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the Trust 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 the FMIvT portfolio, not the individual securities held within each portfolio. A copy of the FMIvT financial statements can be obtained from Florida Municipal Investment Trust, 301 S. Bronough Street, Suite 300, Tallahassee, Florida 32301.

As of September 30, 2023, the City held the following investments:

<u>Investment Type</u>	<u>Weighted Average Maturity</u>	<u>Rating</u>	<u>Fair Value</u>
Florida Municipal Investment Trust:			
1-3 Year High Quality Bond Fund	1.60	AAAf/S2	\$ 1,040,183
Intermediate High Quality Bond Fund	4.90	AAAf/S3	<u>1,031,085</u>
			2,071,268
Certificates of Deposit	n/a	n/a	<u>313,957</u>
			<u>\$ 2,385,225</u>
<b>Statement of Net Position</b>			
Investments – Unrestricted			\$ 1,794,146
Investments – Restricted			<u>591,079</u>
			<u>\$ 2,385,225</u>

*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. GASB Statement No. 40 requires disclosure of 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*

Under GASB Statement No. 40, disclosure of categorization by custodial credit risk is only required if investments are uninsured, unregistered, and held by either the counterparty or the counterparty's trust department or agent, but not in the government's name (this was "Category 3" in GASB Statement No. 3). Participants' investments in the FMIvT are evidenced by shares of the pool. Investments in pools should be disclosed, but not categorized because they are not evidenced by securities that exist in physical or book-entry form. The City's investment is with the pool, not the securities that make up the pool; therefore, no disclosure is required. The City may make redemptions of its investment in the FMIvT twice a month with a five-business day notice.

*Concentration Risk*

GASB Statement No. 40 requires disclosure of the concentration of credit risk when five or more percent 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 investment 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.

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*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, GASB Statement No. 40 requires that interest rate risk be disclosed 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 investments to provide sufficient liquidity to pay obligations as they become due. The City uses the WAM for its two investments with the FMIvT as previously presented.

**Fair Value Measurements**

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

The City's two investment funds in the FMIvT invest mainly in U.S. government and agency securities and asset-backed securities. The underlying securities have observable Level 1 quoted pricing inputs or observable Level 2 significant other observable pricing inputs. Most of the security prices were obtained from a pricing service, Interactive Data Corporation (IDC). 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 these funds as Level 2 since the value is based on market-corroborated data.

**Note 4 - Receivables**

Receivables and amounts due from other governments at year-end, were as follows:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	
	<b>General Fund</b>	<b>Utilities Fund</b>	<b>Total</b>
Accounts Receivable	\$ 96,105	\$ 1,792,884	\$ 1,888,989
Less Allowance for Doubtful Accounts	-	(270,078)	(270,078)
Total Receivables, Net	<u>\$ 96,105</u>	<u>\$ 1,522,806</u>	<u>\$ 1,618,911</u>
Taxes Receivables	\$ 456,411	\$ -	\$ 456,411
Grants Receivables	<u>1,467,017</u>	-	<u>1,467,017</u>
Due from Other Governments	<u>\$ 1,923,428</u>	<u>\$ -</u>	<u>\$ 1,923,428</u>

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**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.

**Lease Receivable**

The City leases space to an unrelated party for a supercharger station. The City's lease receivable is measured at the present value of lease payments expected to be received during the lease term, including options reasonably certain to be exercised. The City recognized lease revenue of \$6,077 recorded in charges for services revenues in the statement of revenues, expenditures and changes in fund balance for the year ended September 30, 2023.

**Note 5 - Changes in Capital Assets**

Capital asset activity for the year ended September 30, 2023, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated Being:				
Land	\$ 2,398,615	\$ 15,000	\$ (37,257)	\$ 2,376,358
Construction in Progress	2,458,134	3,371,078	-	5,829,212
Total Capital Assets Not Being Depreciated	<u>4,856,749</u>	<u>3,386,078</u>	<u>(37,257)</u>	<u>8,205,570</u>
Capital Assets Being Depreciated:				
Buildings	7,701,880	265,713	4,273,726	12,241,319
Improvements Other Than Buildings	9,078,035	-	(3,169,261)	5,908,774
Machinery and Equipment	9,671,640	460,421	(462,976)	9,669,085
Total Capital Assets Being Depreciated	<u>26,451,555</u>	<u>726,134</u>	<u>641,489</u>	<u>27,819,178</u>
Less Accumulated Depreciation	<u>(12,577,201)</u>	<u>(1,097,957)</u>	<u>(516,389)</u>	<u>(14,191,547)</u>
Total Capital Assets Being Depreciated, Net	<u>13,874,354</u>	<u>(371,823)</u>	<u>125,100</u>	<u>13,627,631</u>
<b>Governmental Activities, Net</b>	<u>\$ 18,731,103</u>	<u>\$ 3,014,255</u>	<u>\$ 87,843</u>	<u>\$ 21,833,201</u>
<b>Business-Type Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 589,488	\$ -	\$ -	\$ 589,488
Construction in Progress	2,552,420	747,660	(2,562,041)	738,039
Total Capital Assets Not Being Depreciated	<u>3,141,908</u>	<u>747,660</u>	<u>(2,562,041)</u>	<u>1,327,527</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	46,607,120	2,743,732	366,210	49,717,062
Machinery and Equipment	2,691,286	11,671	(885,386)	1,817,571
Total Capital Assets Being Depreciated	<u>49,298,406</u>	<u>2,755,403</u>	<u>(519,176)</u>	<u>51,534,633</u>
Less Accumulated Depreciation	<u>(22,607,969)</u>	<u>(1,334,296)</u>	<u>423,302</u>	<u>(23,518,963)</u>
Total Capital Assets Being Depreciated, Net	<u>26,690,437</u>	<u>1,421,107</u>	<u>(95,874)</u>	<u>28,015,670</u>
<b>Business-Type Activities, Net</b>	<u>\$ 29,832,345</u>	<u>\$ 2,168,767</u>	<u>\$ (2,657,915)</u>	<u>\$ 29,343,197</u>

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

**Depreciation/Amortization Expense**

**Governmental Activities**

General Government	\$ 196,479
Public Safety	248,795
Physical Environment	6,442
Transportation	559,606
Culture and Recreation	86,635
<b>Total Depreciation Expense – Governmental Activities</b>	<b><u>\$ 1,097,957</u></b>

**Business-Type Activities**

Utilities	\$ 1,334,296
<b>Total Depreciation Expense – Business-Type Activities</b>	<b><u>\$ 1,334,296</u></b>

**Note 6 - Defined Benefit Pension Plan – FRS**

All the City’s employees can participate in the 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](http://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.

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*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.

*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 is 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 is 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.

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*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>07/01/2023 - 09/30/2023</u>	<u>07/01/2022 - 06/30/2023</u>	<u>07/01/2021 - 06/30/2022</u>	<u>07/01/2020 - 06/30/2021</u>
Regular Class	13.57%	11.91%	10.82%	10.00%
Special Risk	32.67%	27.83%	25.89%	24.45%
Senior Management Class	34.52%	31.57%	29.01%	27.29%
DROP	21.13%	18.60%	18.34%	16.98%

These employer contribution rates include 1.66% for HIS Plan subsidies for the periods October 1, 2016 through June 30, 2023, and 2.00% for the period July 1, 2023 through September 30, 2023. The rates also include the fee of 0.06% for administration of the FRS Investment Plan and provision of education tools for both for all periods presented for all classes except DROP. The City's contributions, including employee contributions, to the Pension Plan totaled \$907,495 and \$721,814 for the fiscal years ended September 30, 2023, and 2022, respectively.

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

At September 30, 2023, the City reported a liability of \$6,975,454 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, 2023, the City's proportionate share was 0.017505666%, representing an increase of 0.00059020100% from June 30, 2022.

The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2023.

For the fiscal year ended September 30, 2023, the City recognized pension expense of \$1,412,684. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experiences	\$ 654,935	\$ -
Change of Assumptions	454,718	-
Net Difference Between Projected and Actual Earnings of Pension Plan Investments	291,314	-
Changes in Proportion and Differences Between City Pension Plan Contributions and Proportionate Share of Contributions	205,747	200,210
City Pension Plan Contributions Subsequent to the Measurement Date	274,500	-
	<u>\$ 1,881,214</u>	<u>\$ 200,210</u>

**CITY OF DEFUNIAK SPRINGS, FLORIDA**  
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A component of deferred outflows of resources related to the Pension Plan of \$274,500, 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, 2024. Other components reported as deferred outflows of resources and deferred inflows of resources related to the Pension Plan will be recognized in pension expense as follows:

<b>Fiscal Year Ending September 30:</b>	<b>Amount</b>
2024	\$ 179,141
2025	(87,937)
2026	1,132,432
2027	142,223
2028	40,645
Thereafter	-
	<b>\$ 1,406,504</b>

*Actuarial Assumptions*

The total pension liability in the June 30, 2023 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 Generational PUB-2010 with projections scale.

The actuarial assumptions that determined the total pension liability as of June 30, 2023, were based on the results of an actuarial experience study for the period of July 1, 2013 – June 30, 2018.

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:

<b>Asset Class</b>	<b>Target Allocation (1)</b>	<b>Annual Arithmetic Return</b>	<b>Compound Annual (Geometric) Return</b>	<b>Standard Deviation</b>
Cash	1.00%	2.90%	2.90%	1.10%
Fixed Income	19.80%	4.50%	4.50%	3.40%
Global Equity	54.00%	8.70%	7.10%	18.10%
Private Equity	11.10%	11.90%	8.80%	26.30%
Strategic Investments	3.80%	6.30%	6.10%	7.70%
Real Estate (Property)	10.30%	7.60%	6.60%	14.80%
<b>Total</b>	<b>100.00%</b>			
Assumed Inflation – Mean			2.40%	1.40%

(1) As outlined in the Pension Plan's Investment Policy.

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*Discount Rate*

The discount rate used to measure the total pension liability was 6.7%. 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 the calculation of the total pension liability is equal to the long-term expected rate of return.

*Sensitivity of the Net Pension 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 rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease 5.70%	Current Discount Rate 6.70%	1% Increase 7.70%
City’s Proportionate Share of the Net Pension Liability	<u>\$ 11,915,496</u>	<u>\$ 6,975,454</u>	<u>\$ 2,842,518</u>

*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 Annual Comprehensive 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, 2023, eligible retirees and beneficiaries received a monthly HIS payment of \$7.50 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$45 and a maximum HIS payment of \$225 per month, pursuant to Section 112.363, Florida Statutes. 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 plan fiscal years ended June 30, 2024 and 2023, the HIS contribution for the plan was 2.00% and 1.66%, respectively. 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.

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The City’s contributions to the HIS Plan totaled \$100,219, \$84,569, and \$62,292 for the fiscal years ended September 30, 2023, 2022, and 2021, respectively.

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

At September 30, 2023, the City reported a liability of \$2,247,966 for its proportionate share of the HIS Plan’s net pension liability. At June 30, 2023, the City’s proportionate share was 0.014154767%.

The net pension liability was measured as of June 30, 2023, 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, 2023, the City recognized pension expense of \$870,391. In addition, the City reported deferred outflows of resources and deferred in flows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences Between Expected and Actual Experiences	\$ 32,909	\$ 5,276
Change of Assumptions	59,098	194,794
Net Difference Between Projected and Actual Earnings of Pension Plan Investments	1,161	-
Changes in Proportion and Differences Between City Pension Plan Contributions and Proportionate Share of Contributions	91,334	9,117
City Pension Plan Contributions Subsequent to the Measurement Date	<u>30,461</u>	<u>-</u>
	<u><u>\$ 214,963</u></u>	<u><u>\$ 209,187</u></u>

A component of deferred outflows of resources related to the HIS Plan, totaling \$30,461, 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 ended September 30, 2024. Other components reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan will be recognized in pension expense as follows:

<b>Fiscal Year Ending September 30:</b>	<b>Amount</b>
2024	\$ 2,241
2025	14,460
2026	2,100
2027	(27,494)
2028	(15,434)
Thereafter	(558)
	<u><u>\$ (24,685)</u></u>

*Actuarial Assumptions*

The total pension liability in the June 30, 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		3.65%

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Mortality rates were based on Generational PUB-2010 with projections scale.

The actuarial assumptions that determined the total pension liability as of June 30, 2023, were based on the results of an actuarial experience study for the period of July 1, 2013 – June 30, 2018.

*Discount Rate*

The discount rate used to measure the total pension liability was 3.65%. 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 of 3.65%, 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 or one percentage point higher than the current rate:

	<b>1% Decrease 2.65%</b>	<b>Current Discount Rate 3.65%</b>	<b>1% Increase 4.65%</b>
City's Proportionate Share of the Net Pension Liability	\$ 2,564,578	\$ 2,247,966	\$ 1,985,515

*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 Annual Comprehensive Financial Report.

**Note 7 - Long-Term Debt**

**Changes in Long-Term Debt Liabilities**

Long-term debt activity for the year ended September 30, 2023, is summarized as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>Governmental Activities</b>					
Compensated Absences	\$ 426,818	\$ -	\$ (20,569)	\$ 406,249	\$ 20,312
Notes Payable	2,888,794	-	(227,197)	2,661,597	241,053
<b>Total Governmental Activities</b>	<b>\$ 3,315,612</b>	<b>\$ -</b>	<b>\$ (247,766)</b>	<b>\$ 3,067,846</b>	<b>\$ 261,365</b>
<b>Business-Type Activities</b>					
Compensated Absences	\$ 56,327	\$ 21,729	\$ -	\$ 78,056	\$ 3,901
Notes and Loans Payable	3,772,111	249,406	(2,254,453) *	1,767,064	127,104
Revenue Bonds	10,370,260	-	(404,360)	9,965,900	404,100
<b>Total Business-Type Activities</b>	<b>\$ 14,198,698</b>	<b>\$ 271,135</b>	<b>\$ (2,658,813)</b>	<b>\$ 11,811,020</b>	<b>\$ 535,105</b>

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\*Reductions include loan amendments. In March of 2023, the State of Florida Department of Environmental Protection amended the loan and grant agreement for the state revolving loan payable (SRF#5) and converted \$1,984,642 of the loan payable to grant revenue through forgiveness of the loan. This revenue has been recognized in capital grants and contributions on the accompanying Statement of Activities for fiscal year 2023.

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<b>GOVERNMENTAL ACTIVITIES</b>			
<b>Notes Payable</b>			
Note payable with PNC Bank for a fire truck with an original cost of \$472,929; due in annual installments of \$99,958; payments through January 2026; bearing interest at a rate of 1.87%.	\$ 94,553	\$ 194,444	\$ 288,997
Revenue note payable for the purchase of City Hall totaling \$2,500,000; due in annual payments from \$127,400 to \$194,500 through December 2026; bearing interest at a rate of 2.2%.	146,500	2,226,100	2,372,600
<b>Total Note Payable</b>	<u>241,053</u>	<u>2,420,544</u>	<u>2,661,597</u>
<b>Compensated Absences</b>			
Total current and long-term portion of accumulated, vested, annual and sick leave for governmental funds.	20,312	385,937	406,249
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>\$ 261,365</u>	<u>\$ 2,806,481</u>	<u>\$ 3,067,846</u>
<b>BUSINESS-TYPE ACTIVITIES</b>			
<b>Loans Payable</b>			
State revolving loan payable (SRF#3) due in semi-annual payments of \$27,334, through May 15, 2038; bearing no interest; secured by anticipated net sewer system revenues.	\$ 52,809	\$ 739,329	\$ 792,138
State revolving loan payable (SRF#4) due in semi-annual payments of \$13,098, through April 15, 2041; bearing an interest rate of 0.41%; secured by anticipated net sewer system revenues.	5,414	89,696	95,110
State revolving loan payable (SRF#5) due in semi-annual payments of \$14,182, through November 15, 2041; bearing no interest; secured by anticipated net sewer system revenues. See Note 13 disclosure as \$1.98 million was forgiven after year-end.	-	515,699	515,699
State revolving loan payable (SRF#6) due in semi-annual payments of \$5,687 through 2043; bearing interest at 0.93%; secured by anticipated net sewer system revenues.	5,665	89,024	94,689
<b>Notes Payable</b>			
Note payable with the State of Florida, Department of Transportation for the relocation of water and sewer utilities with an original cost of \$625,925; annual payments of \$41,728; payments through March 2028; bearing no interest rate.	41,244	206,212	247,456
Note payable with the State of Florida, Department of Transportation for the drain replacement at Juniper Creek with an original cost of \$212,000; annual payments of \$21,200; payments through March 2024; bearing no interest rate.	21,972	-	21,972
<b>Total Notes and Loans Payable</b>	<u>127,104</u>	<u>1,639,960</u>	<u>1,767,064</u>

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	<b>Current</b>	<b>Long-Term</b>	<b>Total</b>
<b>Revenue Bonds Payable</b>			
<i><b>Water and Sewer System Revenue Refunding Bonds - Series 2021</b></i>			
Authorized and issued \$6,897,700 at 2.29% per annum, principal and interest payable annually on September 1. Bonds are collateralized by a pledge of net revenues of the water and sewer system.	\$ 317,100	\$ 5,878,800	\$ 6,195,900
<i><b>Gas System Refunding Revenue Bonds - Series 2012</b></i>			
Authorized and issued \$885,000 at 2.30% per annum, principal payable annually on May 1, interest payable semi-annually on November 1 and May 1. Bonds are collateralized by a pledge of the local government half-cent sales tax pursuant to Florida Statutes.	87,000	3,683,000	3,770,000
<b>Total Revenue Bonds Payable</b>	404,100	9,561,800	9,965,900
<b>Accrued Compensated Absences</b>			
Total current and long-term portion of accumulated, vested, annual and sick leave for Enterprise Funds.	3,901	74,155	78,056
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	\$ 535,105	\$ 11,275,915	11,811,020
<b>GRAND TOTAL LONG-TERM DEBT</b>			\$ 14,878,866

**Requirement to Amortize All Long-Term Debt**

The annual requirements to amortize all debt outstanding except compensated absences as of September 30, 2023, is as follows:

<b>Year Ending September 30</b>	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2024	\$ 241,053	\$ 55,990	\$ 531,204	\$ 261,004
2025	246,122	50,962	543,756	246,101
2026	251,222	45,829	562,491	227,042
2027	156,400	40,590	571,603	216,774
2028	159,900	37,111	584,015	206,290
2029-2033	853,700	130,621	2,762,636	866,598
2034-2038	753,200	33,593	2,386,103	602,786
2039-2044	-	-	1,831,156	386,706
2045-2048	-	-	1,251,000	182,859
2049-2053	-	-	709,000	49,253
<b>Total</b>	\$ 2,661,597	\$ 394,696	\$ 11,732,964	\$ 3,245,413

**Note 8 - Other Postemployment Benefits**

**OPEB Plan**

*Plan Description*

The City provides certain continuing health care and life insurance benefits for its retired employees. The plan is a single, employer-defined benefit OPEB plan administered by the City. The authority to establish and/or amend the obligation of the City, employees and retirees, rests with the City Council in accordance with requirements of Florida State Statutes, Section 112.0801. The plan does not issue a separate report.

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*Benefits Provided*

Medical benefits are provided through comprehensive plans and are made available to employees upon actual retirement. For employees participating in the FRS pension Plan, eligibility is the same as that of the Pension Plan. For non-FRS Pension Plan participants, employees are eligible to receive full benefits after 30 years.

<b>Plan Membership as of September 30, 2022</b>	
Inactive Plan Members or Beneficiaries Currently Receiving Benefits	2
Active Plan Members	105
	107

**Net OPEB Liability**

*Actuarial Assumptions*

The total OPEB liability was determined by an actuarial valuation as of October 1, 2021, using the following actuarial assumptions:

Measurement Date	September 30, 2023
Valuation Date	October 1, 2021
Actuarial Cost Method	Entry Age Normal (AMM)
Inflation	3.0% Annually
Salary Increase	4.0% Annually
Prior Discount Rate	4.77%
Discount Rate	4.87% Annually, Which is the S&A Municipal Bond 20-Year, High-Grade Rate Index as of September 30, 2023.
Retirement Age	Eligibility is the Same as the Florida Retirement System (FRS) Pension Plan
Mortality	Special Risk: PubS.H-2010 Mortality Table – Safety All Others: PubG.H-2010 Monthly Table – General

*Changes in Net OPEB Liability*

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
<b>Balance at September 30, 2022</b>	\$ 121,117	\$ -	\$ 121,117
Changes of the Year:			
Service Cost	6,973	-	6,973
Interest	5,119	-	5,119
Changes of Assumptions	(827)	-	(827)
Benefit Payments	(27,603)	-	(27,603)
Net Changes	(16,338)	-	(16,338)
<b>Balance at September 30, 2023</b>	\$ 104,779	\$ -	\$ 104,779

*Sensitivity of Net OPEB Liability to Changes in the Discount Rate:*

	1% Decrease	Current Discount Rate	1% Increase
Net OPEB Liability	\$ 113,239	\$ 104,779	\$ 96,781

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*Sensitivity of Net OPEB Liability to Changes in the Healthcare Trend Rate:*

	<b>1% Decrease</b>	<b>Healthcare Cost Trend Rates</b>	<b>1% Increase</b>
Net OPEB Liability	\$ 91,836	\$ 104,779	\$ 120,833

*OPEB Liabilities, OPEB Expense, and Deferred Inflows/Outflows of Resources*

For the fiscal year ended September 30, 2023, the City recognized OPEB expense of \$(16,338). In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences Between Expected and Actual Experiences	\$ 16,614	\$ 20,152
Change of Assumptions	31,002	142,104
	\$ 47,616	\$ 162,256

Components of deferred outflows of resources and deferred inflows of resources related to the OPEB plan will be recognized in OPEB expense (income) as follows:

<b>Fiscal Year Ending September 30:</b>	<b>Amount</b>
2024	\$ (17,268)
2025	(17,268)
2026	(17,268)
2027	(17,268)
2028	(17,268)
Thereafter	(28,300)
	\$ (114,640)

**Note 9 - Interfund Balances and Transfers**

At September 30, 2023, interfund transfers relate to operational services and shared costs provided by the General Fund on behalf of other funds. Interfund receivables and payables represent such amounts that have not yet been reimbursed at year-end.

Interfund receivables and payables include the following at September 30, 2023:

	<b>Interfund Receivable</b>	<b>Interfund Payable</b>
General Fund	\$ 409,427	\$ -
Utilities Fund	-	406,542
Other Non-Major Governmental Funds:		
CRA	-	6,634
Christmas Reflections	-	6,056
Cemetery	9,805	-
	\$ 419,232	\$ 419,232

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023**

Interfund transfers include the following at September 30, 2023:

	<b>Transfers In</b>	<b>Transfers Out</b>
General Fund	\$ 5,514,152	\$ 4,356,560
Utilities Fund	2,985,461	4,291,476
Governmental Activities - Fixed Assets	87,540	-
Other Non-Major Governmental Funds:		
Cemetery	60,883	-
	\$ 8,648,036	\$ 8,648,036

**Note 10 - Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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.

**Note 11 - Commitments and Contingencies**

**Grants**

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

**Interlocal Landfill Agreement**

The City entered into an interlocal agreement (the Agreement) with Walton County in 1995, as amended in 2013, whereby the City provides basic residential refuse collection and disposal services to residents of the City. The City will, in turn, receive from the County a sum of \$8.50 per residential unit collection. Additionally, the Agreement exempts the City from assessment of County Landfill tipping fees for disposal of solid waste, with the exception of construction and demolition debris and tires. Under the agreement, the City remits 100% of the City's one-cent sales tax proceeds to Walton County, and at the end of the fiscal year, a true-up calculation is performed by Walton County, with any remaining funds being remitted back to the City. During the year ended September 30, 2023, the City remitted approximately \$3 million to Walton County and received a check for approximately \$2 million from Walton County, representing funds remaining from the prior year's remittance.

**Legal Matters**

The City is involved in pending and threatened litigation. In the opinion of City Management, after consulting with legal counsel, the range of potential loss from all claims and actions should not materially affect the financial condition of the City.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023**

**Note 12 - Subsequent Event**

On November 13, 2023, the City entered into an agreement with CCB Community Bank to sell the former City Hall property for \$1,875,000. The due diligence period has been extended by the parties to November 15, 2024.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (UNAUDITED)  
FLORIDA RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS**

	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
City's Proportion of the Net Pension Liability (Asset)	0.017505666%	0.016915465%	0.016844762%	0.018106068%	0.017761257%	0.017007130%	0.018309200%	0.018313000%	0.017258610%	0.017096780%
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 6,975,454	\$ 6,293,912	\$ 1,272,431	\$ 7,846,637	\$ 6,116,730	\$ 5,150,823	\$ 5,415,735	\$ 4,624,047	\$ 2,229,181	\$ 1,043,155
City's Covered-Employee Payroll	5,609,217	5,094,518	4,632,781	4,457,236	3,668,160	3,976,920	4,009,182	3,916,251	3,756,488	3,705,926
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Payroll	124.36%	123.54%	27.47%	176.04%	166.75%	129.52%	135.08%	118.07%	59.34%	28.15%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.38%	82.89%	96.40%	78.85%	82.61%	84.26%	83.89%	84.88%	92.00%	96.09%

\* The amounts for each fiscal year were determined as of 6/30.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (UNAUDITED)  
HEALTH INSURANCE SUBSIDY  
LAST 10 FISCAL YEARS**

	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
City's Proportion of the Net Pension Liability (Asset)	0.014154767%	0.013976400%	0.013845127%	0.013511504%	0.012971022%	0.012419062%	0.012959050%	0.012515520%	0.012221600%	0.012366680%
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 2,247,966	\$ 1,480,324	\$ 1,698,313	\$ 1,649,733	\$ 1,451,328	\$ 1,314,447	\$ 1,385,641	\$ 1,458,631	\$ 1,246,411	\$ 1,156,314
City's Covered-Employee Payroll	5,609,217	5,094,518	4,632,781	4,457,236	3,668,160	3,976,920	4,009,182	3,916,251	3,756,488	3,705,926
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Payroll	40.08%	29.06%	36.66%	37.01%	39.57%	33.05%	34.56%	37.25%	33.18%	31.20%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	4.12%	4.81%	3.56%	3.00%	2.63%	2.15%	1.64%	0.97%	0.50%	0.99%

\* The amounts for each fiscal year were determined as of 6/30.

N/A - information not available

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS (UNAUDITED)  
FLORIDA RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS**

	<u>2023</u>	<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	\$ 907,495	\$ 721,814	\$ 641,713	\$ 601,584	\$ 550,727	\$ 487,357	\$ 460,073	\$ 428,850	\$ 408,301	\$ 381,863
Contributions in Relation to the Contractually Required Contribution	<u>(907,495)</u>	<u>(721,814)</u>	<u>(641,713)</u>	<u>(601,584)</u>	<u>(550,727)</u>	<u>(487,357)</u>	<u>(460,073)</u>	<u>(428,850)</u>	<u>(408,301)</u>	<u>(381,863)</u>
Contributions Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 5,725,339	\$ 5,094,518	\$ 4,632,781	\$ 4,457,236	\$ 3,668,160	\$ 3,976,920	\$ 4,009,182	\$ 3,916,251	\$ 3,756,488	\$ 3,705,926
Contributions as a Percentage of Covered-Employee Payroll	15.85%	14.17%	13.85%	13.50%	15.01%	12.25%	11.48%	10.95%	10.87%	10.30%

\* The amounts presented for each fiscal year were determined as of 6/30.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS (UNAUDITED)  
HEALTH INSURANCE SUBSIDY  
LAST 10 FISCAL YEARS**

	<u>2023</u>	<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	\$ 100,219	\$ 84,569	\$ 81,382	\$ 77,860	\$ 72,027	\$ 67,349	\$ 128,363	\$ 125,628	\$ 90,563	\$ 79,693
Contributions in Relation to the Contractually Required Contribution	(100,219)	(84,569)	(81,382)	(77,860)	(72,027)	(67,349)	(128,363)	(125,628)	(90,563)	(79,693)
Contributions Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 5,725,339	\$ 5,094,518	\$ 4,632,781	\$ 4,457,236	\$ 3,668,160	\$ 3,976,920	\$ 4,009,182	\$ 3,916,251	\$ 3,756,488	\$ 3,705,926
Contributions as a Percentage of Covered-Employee Payroll	1.75%	1.66%	1.76%	1.75%	1.96%	1.69%	3.20%	3.21%	2.41%	2.15%

\* The amounts presented for each fiscal year were determined as of 6/30.

**CITY OF DEFUNIAK SPRINGS, FLORIDA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS**  
**SEPTEMBER 30, 2023**  
**LAST 10 FISCAL YEARS\***

Reporting Date	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Total OPEB Liability</b>						
Service Cost	\$ 6,973	\$ 10,197	\$ 10,290	\$ 8,043	\$ 16,202	\$ 17,091
Interest	5,119	3,110	2,891	7,532	7,368	10,397
Differences Between Expected and Actual Experience	-	10,915	-	11,020	-	(44,068)
Changes of Assumptions <sup>1</sup>	(827)	(19,197)	(2,773)	(84,088)	1,370	(66,627)
Other Changes	-	-	-	(7,548)	-	-
Benefit Payments	(27,605)	(23,818)	(11,198)	(9,695)	(23,863)	(25,556)
<b>Net Change in Total OPEB Liability</b>	<b>(16,340)</b>	<b>(18,793)</b>	<b>(790)</b>	<b>(74,736)</b>	<b>1,077</b>	<b>(108,763)</b>
<b>Total OPEB Liability, Beginning of Year</b>	<b>121,119</b>	<b>139,912</b>	<b>140,702</b>	<b>215,438</b>	<b>214,361</b>	<b>323,124</b>
<b>Total OPEB Liability, End of Year</b>	<b>\$ 104,779</b>	<b>\$ 121,119</b>	<b>\$ 139,912</b>	<b>\$ 140,702</b>	<b>\$ 215,438</b>	<b>\$ 214,361</b>
<b>Covered-Employee Payroll</b>	<b>\$ 5,725,339</b>	<b>\$ 5,094,518</b>	<b>\$ 4,632,781</b>	<b>\$ 4,457,236</b>	<b>\$ 3,528,523</b>	<b>\$ 3,528,523</b>
<b>City's Net OPEB Liability as a Percentage of Covered- Employee Payroll</b>	<b>1.83%</b>	<b>2.38%</b>	<b>3.02%</b>	<b>3.16%</b>	<b>6.11%</b>	<b>6.08%</b>

**Notes to Schedule:**

<sup>1</sup> As a result of Chapter 2015-157, Laws of Florida, the assumed rates of mortality were changed to the assumptions used by the Florida Retirement System to match the pension plan assumptions.

\* This schedule is not available for earlier years.

## **SUPPLEMENTARY INFORMATION**

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2023**

	<u>CRA</u>	<u>Christmas Reflections</u>	<u>Cemetery</u>	<u>Total</u>
<b>Assets</b>				
Cash and Cash Equivalents	\$ -	\$ 67,875	\$ 84,061	\$ 151,936
Investments	-	-	64,808	64,808
Due from Other Funds	-	-	9,805	9,805
Restricted Assets:				
Cash and Cash Equivalents	435,443	-	-	435,443
<b>Total Assets</b>	<u>435,443</u>	<u>67,875</u>	<u>158,674</u>	<u>661,992</u>
<b>Liabilities</b>				
Accounts Payable	31,500	-	-	31,500
Accrued Liabilities	2,587	788	2,024	5,399
Due to Other Funds	6,634	6,056		12,690
Customer Deposits	-	-	13,010	13,010
<b>Total Liabilities</b>	<u>40,721</u>	<u>6,844</u>	<u>15,034</u>	<u>62,599</u>
<b>Fund Balances</b>				
Restricted - Redevelopment	394,722	-	-	394,722
Committed - Special Revenue	-	61,031	143,640	204,671
<b>Total Fund Balances</b>	<u>394,722</u>	<u>61,031</u>	<u>143,640</u>	<u>599,393</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 435,443</u>	<u>\$ 67,875</u>	<u>\$ 158,674</u>	<u>\$ 661,992</u>

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
YEAR ENDED SEPTEMBER 30, 2023**

	<u>CRA</u>	<u>Christmas Reflections</u>	<u>Cemetery</u>	<u>Total</u>
<b>Revenues</b>				
Taxes	\$ 374,889	\$ -	\$ -	\$ 374,889
Licenses and Permits	-	-	37,896	37,896
Charges for Services	-	103,976	43,979	147,955
Investment Loss	-	-	5,150	5,150
Miscellaneous	2,500	11,666	2,302	16,468
<b>Total Revenues</b>	<u>377,389</u>	<u>115,642</u>	<u>89,327</u>	<u>582,358</u>
<b>Expenditures</b>				
Current:				
General Government	266,073	-	-	266,073
Physical Environment	-	-	142,054	142,054
Culture and Recreation	-	103,525	-	103,525
<b>Total Expenditures</b>	<u>266,073</u>	<u>103,525</u>	<u>142,054</u>	<u>511,652</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>111,316</u>	<u>12,117</u>	<u>(52,727)</u>	<u>70,706</u>
<b>Other Financing Sources</b>				
Transfers In	-	-	60,883	60,883
<b>Net Change in Fund Balances</b>	111,316	12,117	8,156	131,589
<b>Fund Balances, Beginning of Year</b>	<u>283,406</u>	<u>48,914</u>	<u>135,484</u>	<u>467,804</u>
<b>Fund Balances, End of Year</b>	<u>\$ 394,722</u>	<u>\$ 61,031</u>	<u>\$ 143,640</u>	<u>\$ 599,393</u>

## **COMPLIANCE SECTION**

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
SCHEDULE OF EXPENDITURES OF  
STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

<u>State Agency Pass-Through Entity State Project</u>	<u>CSFA Number</u>	<u>Contract/Grant Number</u>	<u>Expenditures</u>	<u>Passed Through to Subrecipients</u>
<b>Florida Department of Transportation</b>				
Direct Projects:				
Aviation Grant Programs	55.004	G1696	\$ 2,150,569	\$ -
Intermodal Access Development Program	55.014	G1696	<u>1,084,038</u>	<u>-</u>
<b>Total Department of Transportation</b>			<u>3,234,607</u>	<u>-</u>
<b>Florida Department of Law Enforcement</b>				
Direct Projects:				
DeFuniak Springs P.D.	71.043	2021-FBSFA-F2-054	<u>148,741</u>	<u>-</u>
<b>Total Department of Law Enforcement</b>			<u>148,741</u>	<u>-</u>
<b>Florida Department of Management Services</b>				
Direct Projects:				
Local Government Cybersecurity Grant Program	77.009	N/A	<u>171,422</u>	<u>-</u>
<b>Total Department of Management Services</b>			<u>171,422</u>	<u>-</u>
<b>Total Expenditures of State Financial Assistance</b>			<u>\$ 3,554,770</u>	<u>\$ -</u>

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE SCHEDULE OF EXPENDITURES OF  
STATE FINANCIAL ASSISTANCE  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2023**

**Note 1 - General**

The accounting policies and presentation of the accompanying schedule of expenditures of state financial assistance of the City of DeFuniak Springs, Florida (the City) have been designed to conform with generally accepted accounting principles applicable to governmental units, including the reporting and compliance requirements of Chapter 10.550, *Rules of the Auditor General* of the State of Florida.

The City reporting entity is defined in Note 1 to the City's basic financial statements for the year ended September 30, 2023. All state financial assistance received directly from state agencies, as well as state financial assistance passed through other governmental agencies, are included in the schedule.

**Note 2 - Basis of Presentation**

The accompanying Schedule of Expenditures of State Financial Assistance (the Schedule) includes the state grant activity of the City for the year ended September 30, 2023. The information in this Schedule is presented in accordance with the requirements of Chapter 69I-5, *Schedule of Expenditures of State Financial Assistance*, Rules of the Department of Financial Services and Chapter 10.550, *Rules of the Auditor General*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

**Note 3 - Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Chapter 69I-5, *Schedule of Expenditures of State Financial Assistance*, Rules of the Department of Financial Services and Chapter 10.550, *Rules of the Auditor General*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**INDEPENDENT ACCOUNTANT’S REPORT ON AN EXAMINATION OF  
COMPLIANCE REQUIREMENTS IN ACCORDANCE WITH CHAPTER 10.550,  
RULES OF THE AUDITOR GENERAL**

Honorable Mayor and City Council  
City of DeFuniak Springs  
DeFuniak Springs, Florida

We have examined the City of DeFuniak Springs, Florida’s (the City) compliance with Section 218.415, Florida Statutes during the fiscal year ended September 30, 2023. City management is responsible for the City’s compliance with those requirements. Our responsibility is to express an opinion on the City’s compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including the assessment of the risks of material non-compliance, whether due to fraud or error. We believe 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 other ethical responsibilities in accordance with relevant ethical requirements relating to the examination engagement.

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

In our opinion, the City complied, in all material respects, with the aforementioned requirements during the fiscal year ended September 30, 2023.

This report is intended solely for the information and use of the Florida Auditor General, the Mayor and City Council of the City of DeFuniak Springs, Florida, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.



September 16, 2024  
Tallahassee, Florida

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

Honorable Mayor and City Council  
City of DeFuniak Springs  
DeFuniak Springs, Florida

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of DeFuniak Springs, Florida (the City) as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 16, 2024.

**Report on 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a material weakness.

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. We did not identify any deficiencies in internal control that we would consider to be significant deficiencies.

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Honorable Mayor and City Council  
City of DeFuniak Springs  
DeFuniak Springs, Florida

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

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as items 2023-002 and 2023-003.

**City's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the engagement to audit of and, accordingly, we express no opinion on the response.

**Purpose of this Report**

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



September 16, 2024  
Tallahassee, Florida

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

Honorable Mayor and City Council  
City of DeFuniak Springs  
DeFuniak Springs, Florida

**Report on Compliance of the Major State Project**

***Opinion on the Major State Project***

We have audited the City of DeFuniak Springs, Florida’s (the City), compliance with the types of compliance requirements identified as subject to audit in the Florida Department of Financial Services’ *State Projects Compliance Supplement*, that could have a direct and material effect on the City’s major state project for the year ended September 30, 2023. The City’s major state project is identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major state project for the year ended September 30, 2023.

***Basis for Opinion on the Major State Project***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Chapter 10.550, *Rules of the Auditor General*. Our responsibilities under those standards and Chapter 10.550 are further described in the Auditors’ Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for the major state project. Our audit does not provide a legal determination of the City’s compliance with the compliance requirements referred to above.

**Responsibilities of Management for Compliance**

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City’s state projects.

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Honorable Mayor and City Council  
City of DeFuniak Springs  
DeFuniak Springs, Florida

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

**Auditors’ Responsibilities for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material non-compliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City’s compliance based on our audit. 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; *Government Auditing Standards*; and Chapter 10.550, *Rules of the Auditor General* will always detect material non-compliance when it exists. The risk of not detecting material non-compliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Non-compliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City’s compliance with the requirements of each major state project as a whole.

In performing an audit in accordance with generally accepted auditing standards; *Government Auditing Standards*; and Chapter 10.550, *Rules of the Auditor General*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material non-compliance, 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 City’s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with Chapter 10.550, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

**Other Matters**

The results of our auditing procedures disclosed one instance of non-compliance, which is required to be reported in accordance with Chapter 10.550, *Rules of the Auditor General*, and which is described in the accompanying schedule of findings and questioned costs as item 2023-004. Our opinion on the major state project is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on the City’s response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The City’s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Honorable Mayor and City Council  
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DeFuniak Springs, Florida

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

**Report on Internal Control Over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and results of that testing based on the requirements of Chapter 10.550, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.



September 16, 2024  
Tallahassee, Florida

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2023  
CITY OF DEFUNIAK SPRINGS, FLORIDA**

**SECTION I - SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of Auditor’s Report Issued on Whether the Financial Statements Audited Were Prepared in Accordance with GAAP:	Unmodified
Internal Control Over Financial Reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	None Reported
Non-compliance material to financial statements noted?	Yes

**State Projects**

Internal Control Over Major State Projects:	
Material weakness(es) identified?	No
Significant deficiencies identified?	None Reported

Type of Auditor’s Report Issued on Compliance for Major State Projects:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with Chapter 10.550, <i>Rules of the Auditor General</i> ?	Yes
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Identification of Major State Projects:	<b><u>State CSFA No.</u></b>
Aviation Grant Program	55.004
Intermodal	55.014
Dollar threshold used to distinguish between type A and type B programs:	\$750,000

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Material Weakness**

***FINDING 2023-001 – Material Adjustments and Weaknesses In Internal Controls Over Financial Reporting***

***Criteria***

The City’s internal control over financial reporting should be designed to allow for management and employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, a material misstatement on a timely basis. An effective system of internal control is the responsibility of management. Management should establish an internal control system that ensures strong financial accountability and safeguarding of assets. A critical aspect of financial management is the maintenance of accurate accounting records.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2023  
CITY OF DEFUNIAK SPRINGS, FLORIDA**

***Condition***

During audit fieldwork we identified multiple discrepancies with information provided as support documentation for amounts recorded in the City's general ledger as well as weaknesses in internal control design as summarized as follows, including current year status of prior year issues noted:

Items included in Prior Year Finding 2022-001; Considered Resolved in 2023:

- The City's previous finance director resigned in June of 2022. The current structure of the City's finance function is not sufficient for the complexity and volume of transactions required to be accounted for based on the services and programs provided to citizens.
- During testing of cash, we observed bank accounts had not been reconciled accurately or timely during the year ended September 30, 2022. Multiple aged, uncleared transactions required audit adjustments. Failure to prepare, review, and make necessary adjustments to bank reconciliations/general ledger activity in a timely manner could allow misappropriation of assets and or material misstatements to go undetected by management.
- Material audit adjustments, totaling approximately \$1.7 million, were necessary to record known grant receivables and related revenue. City personnel could not produce complete and accurate schedules of expenditures of State Financial Assistance and Federal Expenditures.
- During our testing of accounts payable, we observed the City did not complete an analysis of vendor payables, which resulted in proposed audit entries of approximately \$1.7 million to properly record accounts payable at year-end.
- During our testing of journal entries, we observed the City did not maintain adequate support for journal entries posted during the year. Management was unable to provide adequate audit evidence for key journal entries that resulted in an accumulated difference of approximately \$251 thousand of unclassified (miscellaneous) revenue in the General Fund for the year ended September 30, 2022.

Items Included in Prior Year Finding 2022-001; Repeated for 2023 with modifications:

- During testing of capital assets, we observed a complete inventory/subsidiary ledger for fixed assets was not maintained during the year ended September 30, 2022. Audit adjustments were necessary to correct and record certain capital asset activity during the year.
  - For 2023, it was noted that while an inventory and subledger of fixed assets was maintained, the fiscal year close was not performed until approximately 8 months after fiscal year-end, and the subledger was not able to be appropriately reconciled to the general ledger, resulting in multiple audit adjustments. Additionally, the previous Finance Director transferred numerous assets between funds retroactively after the close of the fiscal year, resulting in incorrect beginning balances of assets and related accumulated depreciation, which also required significant adjustments. We also noted that Construction in Progress (CIP) accounts were not being maintained by individual construction project. The CIP subsidiary records by project had to be recreated. This resulted in the discovery that some projects had not been properly capitalized and depreciated that were completed in a previous year.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2023  
CITY OF DEFUNIAK SPRINGS, FLORIDA**

- Material audit adjustments were necessary to record known governmental receivables and related revenue and resulted in an accumulated difference of approximately \$145 thousand of unclassified (miscellaneous) revenue in the General Fund for the year ended September 30, 2022.
  - For 2023, it was noted that the majority of necessary adjustments were able to be identified and prepared by the client, including those related to incorrectly applied estimates. The total net unclassified (miscellaneous) revenue/expense was not significant for each fund. However, the adjustments were not identified or posted in a timely manner, resulting in substantial changes in balances throughout the entirety of the audit and leading to delays in financial reporting, as described in Finding 2023-002.
- The accounting system is not designed to properly track and record restricted revenues associated with water and sewer capacity fees. Exceptions were identified in posting of capacity fees during audit testing as further described in Finding 2022-003.
  - For 2023, it was also noted that Restricted Cash account balances have not been updated to current balances for other types of restrictions as well. This would include bond sinking fund requirements, other bond reserve requirements, customer deposits, etc.

New Items Noted for 2023:

- During testing of the health retirement account (HRA) subsidiary ledger, we noted a difference of approximately \$41,000 between the ledger and the bank reconciliation, which may be the result of timing differences. Full reconciliation may require assistance of the HRA Plan Administrator.
- During testing of interfund due to/due from balances, it was noted that there are multiple balances that have been outstanding for several fiscal years without full liquidation occurring. Interfund balances should reflect short-term obligations between funds and should only be reported as interfund due to/due from if they are expected to be liquidated within a reasonable period of time.
- During testing of the City's budget, it was noted that the account-level original budget per the financial reporting system did not agree to the budget as adopted by the City Council. The exact account-level differences were unable to be determined, but the majority of the revenue variance was noted to be in charges for services revenues, and the expenditures variances were allocated across multiple financial statement categories.

***Cause***

An appropriate system of internal control was not in place during the year ended September 30, 2023, due to finance department vacancies and turnover. The personnel assigned to finance functions at the time lacked necessary skills, knowledge, and experience for the complexity and volume of transactions required to be accounted for based on the services and programs provided to citizens. It should be noted that the City has since hired an interim Finance Director who has made significant improvements in financial reporting and reconciliation processes and procedures.

***Effect***

Without a proper internal control system to ensure timely and accurate financial reporting and maintenance of accounting records, there is increased risk that the financial statements could contain material misstatements and or misappropriation of assets could go undetected. Management and governance also need accurate and timely financial information for informed decision making.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2023  
CITY OF DEFUNIAK SPRINGS, FLORIDA**

***Recommendation***

Although some improvements have been made from the prior year, the City should continue to implement policies and procedures to establish an internal control system that will ensure strong financial accountability, proper safeguarding of assets, and accurate accounting records. The City should continue to enhance the finance department to ensure personnel have necessary skills, knowledge, and experience to account for the complexity and volume of transactions as well as maintenance of accurate accounting records.

***Management's Response***

During fiscal year 2024, additional staffing was approved through the budget process, as well as department restructuring, to accommodate the needs of the City's Finance Department. An accountant, with prior governmental accounting experience, was hired and a number of the noted deficiencies were corrected. Staff continues to implement policies and procedures to strengthen internal controls and correct the remaining unresolved findings.

**Compliance Findings**

***FINDING 2023-002 – Annual Financial Report (Repeat of 2022-002)***

***Criteria***

Section 218.32, Florida Statutes, requires the City to submit its annual financial report to the Florida Department of Financial Services within 45 days after delivery of the audit report, but no later than nine months after the end of the fiscal year of the government entity. In addition, Section 218.39, Florida Statutes, requires the City's audited financial statements to be submitted to the Auditor General within 45 days after delivery of the audit report but not later than nine months after the end of the fiscal year of the governmental entity.

***Condition***

The filing requirements for the fiscal year ended September 30, 2023, was not met.

***Cause***

As stated in Finding 2023-001, the City lacks adequate staffing within the Finance Department to effectively implement the necessary internal control system to provide timely and accurate financial reporting.

***Effect***

The City may not be in compliance with Florida Statute requirements.

***Recommendation***

The City should implement policies and procedures to establish an internal control system that will ensure strong financial accountability, proper safeguarding of assets, and accurate accounting records. The City's finance department should be enhanced to ensure personnel have necessary skills, knowledge, and experience to account for the complexity and volume of transactions as well as maintenance of accurate accounting records.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2023  
CITY OF DEFUNIAK SPRINGS, FLORIDA**

***Management's Response***

The City's engagement with the prior audit firm had reached the end of the five (5) year term and the City was required to issue an RFQ for services. The process to engage a new audit firm was not completed until March 2024, which hindered the ability to complete the audit by June 30<sup>th</sup>. It should also be noted that the Finance Director vacated their position in May 2024, shortly after the audit began, which limited Staff's ability to provide all of the necessary documentation for the audit in a timely manner. Staff is prepared to begin the 2024 audit in a timely manner with the expectation that the audit will be completed in accordance with Florida Statute requirements.

***FINDING 2023-003 – Accounting for Capacity Fees (Repeat of 2022-003)***

***Criteria***

The City should establish internal policies that provide for the accurate accounting of the sources and uses of the capacity fee funding to ensure compliance with City Ordinance 925, Section 23-180, which states 75% of the revenue generated should be placed into a reserve account for the purpose of funding future expansions, maintenance, repair, and upgrades to the systems for which the monies are collected.

***Condition***

The City has established a segregated reserve bank account to deposit 75% of the capacity fees collected as well as to track related uses of such funds. Cash transfers from the Operating bank account to the Reserve bank account representing 75% of capacity fees collected during the year ended September 30, 2023, were not consistently made during the period from October 2022 to September 2023.

***Cause***

An appropriate system of internal control was not in place during the year ended September 30, 2023, due to finance department vacancies coupled with a lack of written policies surrounding accounting for the sources and uses of the funds per City Ordinance.

***Effect***

The City may not be in compliance with City Ordinance 925, Section 23-180.

***Recommendation***

The City should implement written policies and procedures regarding the accounting for the capacity fee funding.

***Management's Response***

Subsequent to year-end, a written process was established to ensure the appropriate cash transfers are made consistently in accordance with Ordinance 925, Section 23-180.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2023  
CITY OF DEFUNIAK SPRINGS, FLORIDA**

**SECTION III - MAJOR STATE PROJECT**

***FINDING 2023-004 – CSFA 55.004 - Aviation Grant Program and CSFA 55.014 – Intermodal; Separate Reporting (Repeat of 2022-004 with Current Year modification)***

***Criteria***

The City's grant agreement with the Florida Department of Transportation requires the City to: 1) create and maintain separate accounts to document all financial transactions related to the airport as a distinct entity and 2) maintain accounting records in accordance with U.S. GAAP in an accounting system that will facilitate an effective audit in accordance with Section 215.97, Florida Statutes. Furthermore, Section 215.97, Florida Statutes, requires a nonstate entity to maintain internal controls over state projects through processes and procedures designed to provide reasonable assurance regarding the reliability of financial operations.

***Condition***

**Items included in Prior Year Finding 2022-004:**

Based on audit testing, the City did not separately identify grant specific expenditures by funding source within the general ledger during the year ended September 30, 2022. The City is using a combination of federal and state grant funds for certain airport project improvements during the year ended September 30, 2022.

**Specific Items noted in 2023:**

Non-compliance related to real property management requirements under CSFA 55.004 and failure to segregate federal and state awards in financial reporting were considered to be remedied for 2023. However, based on audit testing, it was noted that the City was not aware that a portion of the grant proceeds related to CSFA 55.004 expended in fiscal year 2022-2023 were required to be reported under a separate project, CSFA 55.014 – Intermodal. As a result, expenditures for each project were not being tracked and reported appropriately as separate projects.

***Cause***

The City's internal controls over compliance for state projects are not designed to facilitate segregation and tracking of costs incurred for capital projects by separate state funding sources.

***Effect***

In the absence of project-specific tracking of expenditures, the City may not appropriately identify all major projects as required to be tested under the *Florida Single Audit Act*.

***Recommendation***

We recommend the City separately identify grant-related property and equipment expenditures, including segregation at the individual state project level, to comply with grant reporting and compliance.

***Management's Response***

The City has hired a Grant Coordinator to manage grants internally. The centralization of all grant funding will enable the City to properly track all grants and ensure all funds are appropriately accounted for.

**MANAGEMENT LETTER**

Honorable Mayor and City Council  
 City of DeFuniak Springs  
 DeFuniak Springs, Florida

**Report on the Financial Statements**

We have audited the financial statements of the City of DeFuniak Springs, Florida (the City), as of and for the fiscal year ended September 30, 2023, and have issued our report thereon dated September 16, 2024.

**Auditor’s Responsibility**

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

**Other Reporting Requirements**

We have issued our Independent Auditor’s 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*; our Independent Auditors’ Report on Compliance for Each Major State Project and Report on Internal Control Over Compliance Required by Chapter 10.550, *Rules of the Auditor General*; our Schedule of Findings and Questioned Costs, and our Independent Accountant’s Report on an Examination conducted in accordance with AICPA Professional Standards, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports and schedule, which are dated September 16, 2024, 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. The current status of prior findings is as follows:

<u>2023</u>	<u>2022</u>	<u>2021</u>
2023-001*	2022-001	2021-001
2023-002	2022-002	2021-002
2023-003	2022-003	
2023-004*	2022-004	

\* Finding is not a direct repeat and includes modifications for 2023, as documented in the Schedule

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## MANAGEMENT LETTER

### **Official Title and Legal Authority**

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

### **Financial Condition and Management**

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

Pursuant to Sections 10.554(1)(i)5.b., and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures for the City. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. Our assessment was performed as of September 30, 2023.

Section 10.554(1)(i)2., *Rules of Auditor General*, requires that we communicate any recommendations to improve financial management. In connection with our audit, we have reported audit finding 2023-001, which is considered to be a material weakness, in the Schedule of Findings and Questioned Costs. Additionally, the following items were noted:

#### **2023-005 - Water Line Loss**

It was noted during the testing of proprietary fund revenues that for fiscal year 2022-2023, only approximately 23% of the gallons of water documented as pumped by City wells were either billed or otherwise tracked through fire department usage, line flushing, etc. We recommend the City investigate their tracking reports for usage and production to ensure the figures reported are accurate and complete, and if they are, research options to mitigate the excessive line loss of approximately 74%.

#### ***Management's Response:***

The City Manager has tasked staff and consultants with identifying the City's water loss and work to provide options to address the issue. The City will investigate tracking reports and production to ensure that the figures reported are accurate and complete.

#### **2023-006 - Utility Billing**

It was noted during the testing of utility billing that for fiscal year 2022-2023, natural gas rates were not being calculated in accordance with the applicable rate ordinance, resulting in an over-recovery of natural gas costs. We recommend the City regularly review natural gas rates for appropriate calculation in accordance with applicable ordinances, including verifying correct formulas within any spreadsheets used to assist in the calculation.

Honorable Mayor and City Council  
City of DeFuniak Springs  
DeFuniak Springs, Florida

## MANAGEMENT LETTER

In addition, it was noted during our sample testing of utility bills that for fiscal year 2022-2023, multiple accounts were being charged in-city-limit rates for some services and outside-city-limits rates for others. We recommend the City regularly review utilities accounts to ensure customers are being charged appropriate rates based on their geographic locations.

### ***Management's Response:***

On May 15, 2024, the City Council approved Resolution 2024-02 that adjusted the formula used to calculate Natural Gas billing. The new formula was created with the assistance of Florida Gas Utility. Staff believes that this adjustment should correct any miscalculations moving forward. Staff will regularly review calculations and any spreadsheets to ensure accuracy.

The City Manager, working with the Finance Director, will have staff review all utility customer accounts to identify any discrepancies and verify location of address to ensure that all customer accounts are being billed accurately. Any accounts with a discrepancy will be reviewed and adjusted by utility billing to accurately reflect the customer's correct location.

### ***2023-007 - Sanitation Fund Reporting and Reconciliation***

It was noted during testing of the Sanitation Fund revenues that no reconciliation between amounts billed by Waste Management to the City, County customers being serviced, and amounts reimbursed by the County was being performed. Additionally, no rate study has been performed to determine whether costs of service to the City are being fully recovered by rates charged to customers and/or the County. Finally, it was noted that surtax proceeds meant to offset costs of residential sanitation pickup are being transferred to the General Fund rather than allocated to sanitation to cure deficits, resulting in an accumulated deficit fund balance in the Sanitation Fund. We recommend the City perform an assessment of current rates to determine whether all costs of service are being recovered, which may involve assessment of the sufficiency of the current County per-residential-unit reimbursement based on the Interlocal Landfill Agreement (See Note 11). Additionally, we recommend that the City consider the need to cure accumulated fund balance deficits in the Sanitation fund as necessary in anticipation of future separate fund-level reporting of enterprise funds.

### ***Management's Response:***

The City Manager, City Attorney, and Finance Director will work with the Walton County Board of County Commissioners (BOCC) administrative and finance staff to update the Interlocal Landfill Agreement and address the cost for residential services rate to ensure that the amount reimbursed per-residential-unit from Walton County BOCC is equal to the amount per-residential-unit charged by Waste Management to the City. Staff will utilize surtax proceeds to cure any deficit prior to transferring any residual surtax funds to the General Fund. The City Manager and Finance Director will work together over the next fiscal year to identify options to cure the prior accumulated fund balance deficit and then present to the City Council for corrective action.

### **Additional Matters**

Section 10.554(1)(i)3., *Rules of Auditor General*, requires us to communicate non-compliance with provisions of contracts or grant agreements or abuse that have occurred or are likely to have occurred, that have an effect on the financial statements that is less than material, but which warrants the attention of those charged with governance. In connection with our audit, we have reported audit finding 2023-002 and finding 2023-003 in the accompanying Schedule of Findings and Questioned Costs.

Honorable Mayor and City Council  
City of DeFuniak Springs  
DeFuniak Springs, Florida

## MANAGEMENT LETTER

### **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.



September 16, 2024  
Tallahassee, Florida

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