

CITY OF DEFUNIAK SPRINGS, FLORIDA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

SEPTEMBER 30, 2019

**CITY OF DEFUNIAK SPRINGS, FLORIDA
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II. FINANCIAL SECTION

- INDEPENDENT AUDITORS' REPORT
- MANAGEMENT'S DISCUSSION AND ANALYSIS
- BASIC FINANCIAL STATEMENTS
 - Government-Wide Financial Statements
 - Fund Financial Statements
 - Notes to the Financial Statements
- REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-11 and the pension plan schedules on pages 60-64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements 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 been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling, such information directly to the underlying accounting and other records used to prepare the basic financial statements or 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 nonmajor fund financial statements are fairly stated in all material respect. In relation to the financial statements as whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Warren Averett, LLC

Destin, Florida

June 29, 2020

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

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, 2019. The analysis provides summary financial information for the City and should be read in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- ❖ Total assets and deferred outflows of the City exceeded total liabilities and deferred inflows by \$29,414,394 (net position). Of this amount, a deficit of \$5,084,012 is unrestricted for governmental activities, and \$4,338,075 is unrestricted for business-type activities. Total net position includes \$14,006,296 of net investment in capital assets in the governmental activities and \$13,064,490 in the business-type activities.
- ❖ Revenues for governmental activities increased by \$224,901 or 9.7%, primarily from an increase in property taxes and sales taxes.
- ❖ Revenues for business-type activities decreased by \$601,582 or 7.5%, primarily as a result of decrease in the amount of capital grant revenues. Expenses increased by \$185,036 or 3%, primarily as a result of increase in change of contract.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are 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 of DeFuniak Springs'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.

The statement of net position presents information on all of 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 of DeFuniak Springs.

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.

FINANCIAL ANALYSIS OF THE CITY

The following table reflects the condensed statement of net position:

	Governmental Activities		Business-type Activities		Total	
	(as restated)				(as restated)	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 2,628,919	\$ 4,280,096	\$ 7,957,831	\$ 4,830,120	\$ 10,586,750	\$ 9,110,216
Capital assets	14,139,391	14,351,666	26,593,917	27,376,839	40,733,308	41,728,505
Total assets	16,768,310	18,631,762	34,551,748	32,206,959	51,320,058	50,838,721
Total deferred outflows of resources	2,275,392	2,295,583	261,594	263,078	2,536,986	2,558,661
Long-term liabilities	7,246,591	6,254,035	13,755,663	14,451,357	21,002,254	20,705,392
Other liabilities	1,276,365	1,382,239	1,407,244	1,436,728	2,683,609	2,818,967
Total liabilities	8,522,956	7,636,274	15,162,907	15,888,085	23,685,863	23,524,359
Total deferred inflows of resources	590,464	751,918	166,323	180,379	756,787	932,297
Net position						
Net investment in capital assets	14,006,296	14,077,590	13,064,490	13,058,708	27,070,786	27,136,298
Restricted	1,007,998	618,842	2,081,547	1,503,047	3,089,545	2,121,889
Unrestricted (deficit)	(5,084,012)	(2,157,279)	4,338,074	1,839,818	(745,938)	(317,461)
Total net position	\$ 9,930,282	\$ 12,539,153	\$ 19,484,111	\$ 16,401,573	\$ 29,414,393	\$ 28,940,726

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 (i.e. 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. This comprises 92% and 94% of the City's total net position in 2019 and 2018, respectively. The restricted net position is comprised of funds required to be used for the retirement of the City's debt obligations, as well as impact fees that can only be used for the expansion of the City's systems.

FINANCIAL ANALYSIS OF THE CITY – CONTINUED

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

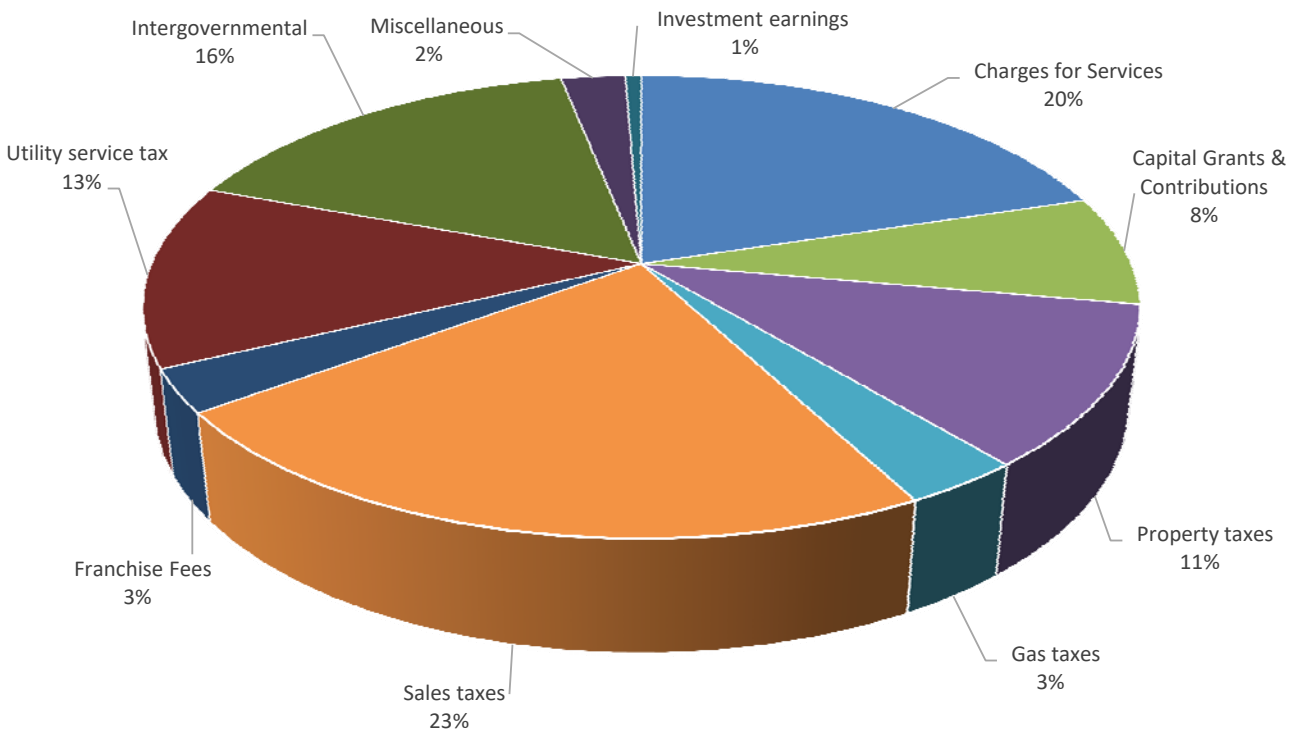
	Governmental Activities		Business-type Activities		Total	
	2019	(as restated) 2018	2019	2018	2019	(as restated) 2018
REVENUES						
Program revenues						
Charges for services	\$ 1,825,871	\$ 1,880,802	\$ 8,238,873	\$ 8,385,703	\$ 10,064,744	\$ 10,266,505
Operating grants and contributions	-	-	-	-	-	-
Capital grants and contributions	692,359	803,764	258,441	901,833	950,800	1,705,597
General revenues						
Property taxes	1,012,406	970,483	-	-	1,012,406	970,483
Gas taxes	296,905	311,937	-	-	296,905	311,937
Sales taxes	2,046,353	1,924,698	-	-	2,046,353	1,924,698
Franchise fees	271,427	271,019	-	-	271,427	271,019
Utility service taxes	1,162,407	1,135,940	-	-	1,162,407	1,135,940
Intergovernmental	1,466,261	1,395,684	-	-	1,466,261	1,395,684
Miscellaneous	224,850	134,289	-	-	224,850	134,289
Investment earnings	56,504	1,826	93,950	4,310	150,454	6,136
TOTAL REVENUES	9,055,343	8,830,442	8,591,264	9,291,846	17,646,607	18,122,288
EXPENSES						
Primary government						
General government	2,290,710	1,943,572	-	-	2,290,710	1,943,572
Public safety	4,205,992	3,578,390	-	-	4,205,992	3,578,390
Physical environment	34,635	41,764	-	-	34,635	41,764
Transportation	2,186,987	1,996,909	-	-	2,186,987	1,996,909
Culture and Recreation	897,580	854,600	-	-	897,580	854,600
Interest on long-term debt	1,957	7,422	-	-	1,957	7,422
Business-type activities						
Utilities	-	-	7,555,079	7,370,042	7,555,079	7,370,042
TOTAL EXPENSES	9,617,861	8,422,657	7,555,079	7,370,042	17,172,940	15,792,699
Change in net position before transfers	(562,518)	407,785	1,036,185	1,921,804	473,667	2,329,589
Transfers	(2,046,353)	(23,049)	2,046,353	23,049	-	-
Change in net position	(2,608,871)	384,736	3,082,538	1,944,853	473,667	2,329,589
Net position at beginning of year	12,539,153	12,154,417	16,401,573	14,456,720	28,940,726	26,611,137
Net position at end of year	<u>\$ 9,930,282</u>	<u>\$ 12,539,153</u>	<u>\$ 19,484,111</u>	<u>\$ 16,401,573</u>	<u>\$ 29,414,393</u>	<u>\$ 28,940,726</u>

For the year ended September 30, 2019, expenses for governmental activities exceeded revenues by \$562,518 before transfers. Revenues for business-type activities exceeded expense by \$1,036,186 before transfers. Total revenues decreased by \$475,681.

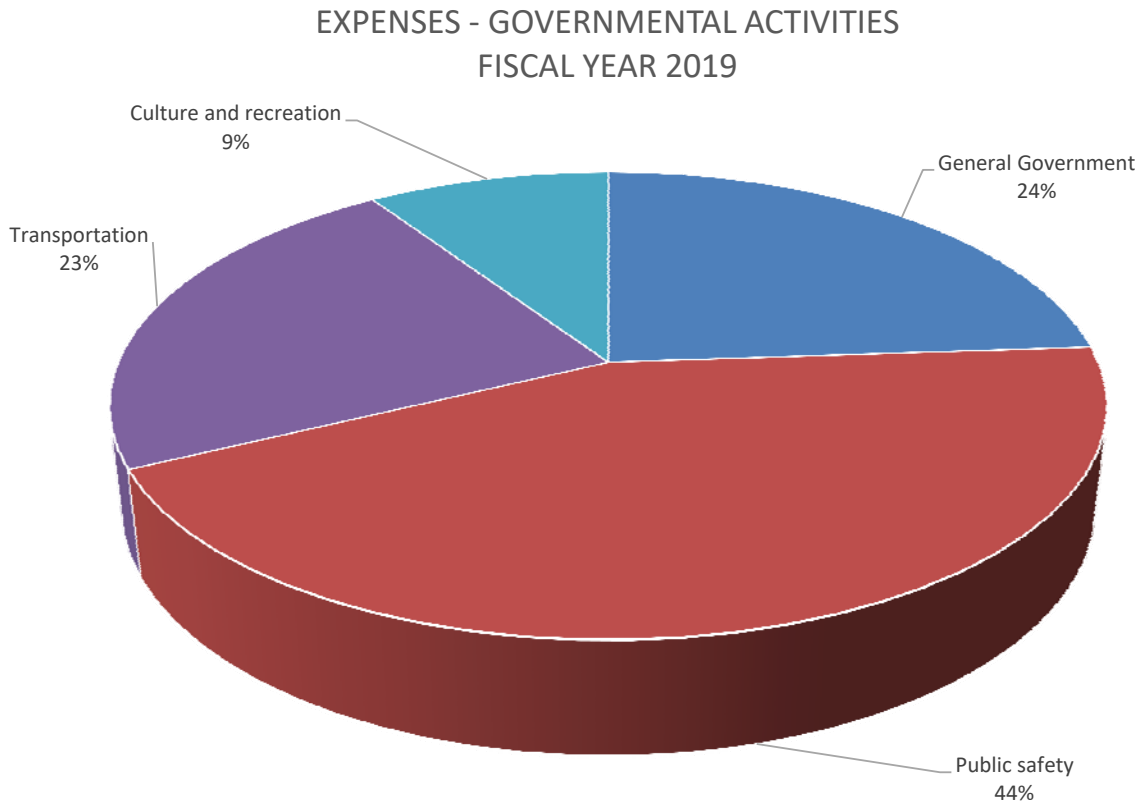
The following pie charts give a breakdown of the revenues and expenses of the governmental-type activities, as well as the business-type activities. Some of the more interesting information contained in these pie charts are:

- ❖ Property taxes account for 11% of the City’s revenues from governmental activities, and sales taxes account for 23%.
- ❖ Public safety accounts for 44% of the total expenses for governmental activities, while General government and Transportation expenses account for 47% of total expenses for governmental activities.
- ❖ 96% of revenues for business-type activities (i.e. water, sewer, gas and sanitation) are derived from charges for services.
- ❖ Revenues from user charges for business-type activities exceeded expenses by \$1,036,186 or 12%.

REVENUES - GOVERNMENTAL ACTIVITIES
FISCAL YEAR 2019



FINANCIAL ANALYSIS OF THE CITY – CONTINUED



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

General Fund

The main operating fund of the City is the General Fund. As of September 30, 2019, total assets for the General Fund were \$6,347,045, and the total liabilities were \$5,077,268. Unassigned fund balance was (\$2,653,830) and total fund balance was \$1,269,777.

Other Governmental Funds

The City has two other governmental funds that are considered "non-major" funds under GASB 34. They are the Cemetery Fund and the Christmas Reflections Fund. As of September 30, 2019, the total assets for the Other Governmental Funds were \$343,908, and the total liabilities were \$152,557. Committed fund balance was \$191,351, which represents 100% of the total fund balance.

FINANCIAL ANALYSIS OF THE CITY’S FUNDS – CONTINUED

Proprietary Funds

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 76.9% of the fund’s total assets. The depreciation expense for this fund was \$1,161,918 for the fiscal year ended September 30, 2019.

During fiscal year 2019, the Utility Fund had an increase in net position of \$3,082,539. The total net position of this fund as of September 30, 2019, was \$19,484,112. Of this amount, \$4,338,075 or 23% was unrestricted.

CAPITAL ASSET ACTIVITY

The City’s total investment in capital assets for both its governmental and business-type activities as of September 30, 2019, was \$40,733,306 (net of accumulated depreciation). This investment in capital assets include land, construction in progress, building, improvements, as well as machinery and equipment.

	Governmental Activities		Business-type Activities		Total	
	(as restated)				(as restated)	
	2019	2018	2019	2018	2019	2018
Land	\$ 2,759,946	\$ 2,759,946	\$ 589,488	\$ 589,488	\$ 3,349,434	\$ 3,349,434
Construction in progress	1,006,562	896,389	1,908,285	1,876,441	2,914,847	2,772,830
Buildings	4,391,281	4,391,281	41,232,579	41,054,898	45,623,860	45,446,179
Improvements other than buildings	11,370,201	11,321,524	-	-	11,370,201	11,321,524
Machinery and equipment	5,014,379	5,186,273	2,857,283	2,995,964	7,871,662	8,182,237
Accumulated depreciation	(10,402,978)	(10,203,747)	(19,993,718)	(19,139,952)	(30,396,696)	(29,343,699)
Total	\$ 14,139,391	\$ 14,351,666	\$ 26,593,917	\$ 27,376,839	\$ 40,733,308	\$ 41,728,505

The major capital asset transaction during fiscal year 2019 was the purchase of a 2020 Freightliner for approximately \$135,000.

DEBT MANAGEMENT

At the end of the current fiscal year, the City had total bond debt, notes payable and capital leases outstanding in the amount of \$13,670,928. This debt amount represents bonds secured solely by specified revenue sources (i.e. revenue bonds payable) and notes payable. Principal repayments during the year on the revenue bonds totaled \$385,609, repayments on notes payable totaled \$245,344 and repayment of capital leases totaled \$290,326. This represents a 6.3% decrease in outstanding debt.

The outstanding debt balance of the City is reflected in the following schedule:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Capital leases	\$ 133,095	\$ 274,076	\$ 184,945	\$ 334,290	\$ 318,040	\$ 608,366
Notes payable	-	-	1,716,455	1,970,205	1,716,455	1,970,205
Revenue bonds payable	-	-	11,628,027	12,013,636	11,628,027	12,013,636
Total	<u>\$ 133,095</u>	<u>\$ 274,076</u>	<u>\$ 13,529,427</u>	<u>\$ 14,318,131</u>	<u>\$ 13,662,522</u>	<u>\$ 14,592,207</u>

OTHER FINANCIAL INFORMATION

The State of Florida, by constitution, does not allow a state personal income tax; therefore, the state operates primarily using sales, gasoline and corporate income taxes. Local governments, such as this city, primarily rely on property and limited array of permitted other taxes such as gasoline and utility service taxes along with fees such as franchise and occupational 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 the services.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City’s finances for all those with an interest. Questions concerning this report or requests for additional information should be addressed to:

Finance Director
P.O. Box 685
DeFuniak Springs, FL 32435

**CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2019**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Cash and cash equivalents	\$ 1,745,025	\$ 1,386,686	\$ 3,131,711
Investments	682,240	2,194,494	2,876,734
Receivables, net	85,673	957,592	1,043,265
Due from other governments	323,290	-	323,290
Internal balances	(1,228,317)	1,228,317	-
Restricted assets			
Cash and cash equivalents	777,304	1,659,572	2,436,876
Investments	243,704	531,170	774,874
Capital assets			
Non-depreciable	3,766,508	2,497,773	6,264,281
Depreciable, net	10,372,883	24,096,144	34,469,027
TOTAL ASSETS	16,768,310	34,551,748	51,320,058
DEFERRED OUTFLOWS OF RESOURCES	2,275,392	261,594	2,536,986
LIABILITIES			
Accounts payable	711,598	16,483	728,081
Accrued liabilities	298,183	28,965	327,148
Due to other governments	145,000	328,604	473,604
Payable from restricted assets			
Accrued interest	150	40,481	40,631
Customer deposits	13,010	192,553	205,563
Non-current liabilities			
Due within one year			
Compensated absences	20,095	3,146	23,241
Capital leases	88,329	104,363	192,692
Notes payable	-	301,649	301,649
Revenue bonds payable	-	391,000	391,000
Due in more than one year			
Compensated absences	381,806	59,771	441,577
Capital leases	44,766	80,582	125,348
Notes payable	-	1,414,806	1,414,806
Revenue bonds payable	-	11,237,027	11,237,027
Other post-employment benefits	172,135	43,303	215,438
Net pension liability	6,647,884	920,174	7,568,058
TOTAL LIABILITIES	8,522,956	15,162,907	23,685,863
DEFERRED INFLOWS OF RESOURCES	590,464	166,323	756,787
NET POSITION			
Net investment in capital assets	14,006,296	13,064,490	27,070,786
Restricted			
Debt service	1,007,998	1,957,708	2,965,706
System improvements	-	123,839	123,839
Unrestricted (deficit)	(5,084,012)	4,338,074	(745,938)
TOTAL NET POSITION	\$ 9,930,282	\$ 19,484,111	\$ 29,414,393

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2019**

Function/program activities	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government	\$ 2,290,710	\$ 1,604,234	\$ -	\$ -	\$ (686,476)	\$ -	\$ (686,476)
Public safety	4,205,992	47,174	-	37,226	(4,121,592)	-	(4,121,592)
Physical environment	34,635	4,050	-	129,123	98,538	-	98,538
Transportation	2,186,987	62,141	-	315,342	(1,809,504)	-	(1,809,504)
Culture and recreation	897,580	108,272	-	210,668	(578,640)	-	(578,640)
Debt service interest	1,957	-	-	-	(1,957)	-	(1,957)
Total governmental activities	9,617,861	1,825,871	-	692,359	(7,099,631)	-	(7,099,631)
Business-type activities							
Utilities	7,555,079	8,238,873	-	258,441	-	942,235	942,235
Total business-type activities	7,555,079	8,238,873	-	258,441		942,235	942,235
Total primary government	\$ 17,172,940	\$ 10,064,744	\$ -	\$ 950,800	(7,099,631)	942,235	(6,157,396)
General revenues							
Taxes							
Ad valorem taxes					1,012,406	-	1,012,406
Local option gas tax					296,905	-	296,905
Local sales taxes					2,046,353	-	2,046,353
Franchise fees					271,427	-	271,427
Utility service tax					1,162,407	-	1,162,407
State shared revenues					1,466,261	-	1,466,261
Miscellaneous					224,850	-	224,850
Investment earnings					56,504	93,950	150,454
Transfers					(2,046,353)	2,046,353	-
Total general revenues and transfers					4,490,760	2,140,303	6,631,063
CHANGE IN NET POSITION					(2,608,871)	3,082,538	473,667
NET POSITION AT BEGINNING OF YEAR					12,227,483	16,401,573	28,629,056
PRIOR PERIOD ADJUSTMENT					311,670	-	311,670
NET POSITION AT BEGINNING OF YEAR AS RESTATED					12,539,153	16,401,573	28,940,726
NET POSITION AT END OF YEAR					\$ 9,930,282	\$ 19,484,111	\$ 29,414,393

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2019**

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 1,640,145	\$ 104,880	\$ 1,745,025
Investments	553,665	128,575	682,240
Receivables	85,673	-	85,673
Due from other governments	323,290	-	323,290
Due from other funds	2,736,274	97,443	2,833,717
Restricted assets			
Cash and cash equivalents	777,304	-	777,304
Investments	230,694	13,010	243,704
TOTAL ASSETS	<u><u>\$ 6,347,045</u></u>	<u><u>\$ 343,908</u></u>	<u><u>\$ 6,690,953</u></u>
LIABILITIES			
Accounts payable	\$ 711,598	\$ -	\$ 711,598
Accrued liabilities	298,183	-	298,183
Due to other governments	145,000	-	145,000
Due to other funds	3,922,487	139,547	4,062,034
Payable from restricted assets			
Customer deposits	-	13,010	13,010
Total liabilities	<u>5,077,268</u>	<u>152,557</u>	<u>5,229,825</u>
FUND BALANCE			
Restricted	1,007,998	-	1,007,998
Committed - utility service taxes	2,915,609	-	2,915,609
Committed - special revenue	-	191,351	191,351
Unassigned	(2,653,830)	-	(2,653,830)
Total fund balances	<u>1,269,777</u>	<u>191,351</u>	<u>1,461,128</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 6,347,045</u></u>	<u><u>\$ 343,908</u></u>	<u><u>\$ 6,690,953</u></u>

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2019**

Fund balance, total governmental funds (page 14) \$ 1,461,128

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Governmental non-depreciable/amortizable assets	3,766,508	
Governmental depreciable/amortizable assets	20,775,861	
Less accumulated depreciation/amortization	<u>(10,402,978)</u>	
		14,139,391

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	2,272,193	
Deferred outflows of resources related to other post employment benefits	3,199	
Deferred inflows of resources related to pension plans	(515,814)	
Deferred inflows of resources related to other post employment benefits	<u>(74,650)</u>	
		1,684,928

Long-term liabilities are not due and payable in the current period

Compensated absences	(401,901)	
Compensated absences	(150)	
Capital leases	(133,095)	
Other post-employment benefits	(172,135)	
Net pension liability	<u>(6,647,884)</u>	
		<u>(7,355,165)</u>

Net position of governmental activities (page 12) \$ 9,930,282

See notes to the financial statements.

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

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 4,789,494	\$ -	\$ 4,789,494
Licenses and permits	43,057	-	43,057
Intergovernmental	2,107,965	-	2,107,965
Charges for services	1,727,572	55,242	1,782,814
Interest	52,810	3,692	56,502
Miscellaneous	198,672	26,177	224,849
Total revenues	<u>8,919,570</u>	<u>85,111</u>	<u>9,004,681</u>
EXPENDITURES			
Current			
General government	2,027,590	-	2,027,590
Public safety	3,415,643	-	3,415,643
Physical environment	-	34,634	34,634
Transportation	1,689,742	-	1,689,742
Culture and recreation	703,898	54,578	758,476
Capital outlay	529,408	5,525	534,933
Debt service	146,190	-	146,190
Total expenditures	<u>8,512,471</u>	<u>94,737</u>	<u>8,607,208</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	407,099	(9,626)	397,473
OTHER FINANCING SOURCES (USES)			
Capital contributions	50,655	-	50,655
Transfers out	(2,046,353)	-	(2,046,353)
Total other financing sources (uses)	<u>(1,995,698)</u>	<u>-</u>	<u>(1,995,698)</u>
NET CHANGE IN FUND BALANCE	(1,588,599)	(9,626)	(1,598,225)
FUND BALANCE AT BEGINNING OF YEAR	<u>2,858,370</u>	<u>200,977</u>	<u>3,059,347</u>
FUND BALANCE AT END OF YEAR	<u>\$ 1,269,771</u>	<u>\$ 191,351</u>	<u>\$ 1,461,122</u>

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Net change in fund balance – governmental funds (page 16) \$ (1,598,225)

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

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

Expenditures for capital assets	534,933	
Less current year depreciation/amortization	<u>(747,208)</u>	
		(212,275)

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

Capital lease repayments	<u>140,981</u>	
		140,981

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

Change in compensated absences	(59,775)	
Change in accrued interest	3,258	
Change in net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions	(890,904)	
Change in other post employment benefits liability, deferred outflows of resources and deferred inflows of resources related to other post employment benefits	<u>8,069</u>	
		<u>(939,352)</u>

Change in net position of governmental activities (page 13) \$ (2,608,871)

See notes to the financial statements.

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 4,931,822	\$ 4,931,822	\$ 4,789,494	\$ (142,328)
Licenses and permits	30,750	30,750	43,057	12,307
Intergovernmental	5,440,459	3,989,235	2,107,965	(1,881,270)
Charges for services	1,775,856	1,775,856	1,727,572	(48,284)
Interest	7,500	7,500	52,810	45,310
Miscellaneous	109,500	109,500	198,672	89,172
Total revenues	<u>12,295,887</u>	<u>10,844,663</u>	<u>8,919,570</u>	<u>(1,925,093)</u>
EXPENDITURES				
Current				
General government	2,088,040	2,088,040	2,027,590	60,450
Public safety	3,416,182	3,416,182	3,415,643	539
Transportation	5,780,550	5,780,550	1,689,742	4,090,808
Culture and recreation	845,840	845,840	703,898	141,942
Capital outlay	-	-	529,408	(529,408)
Debt service	176,487	176,487	146,190	30,297
Total expenditures	<u>12,307,099</u>	<u>12,307,099</u>	<u>8,512,471</u>	<u>3,794,628</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(11,212)</u>	<u>(1,462,436)</u>	<u>407,099</u>	<u>1,869,535</u>
OTHER FINANCING USES				
Capital contributions	-	-	50,655	50,655
Transfers in	-	3,223,347	-	(3,223,347)
Transfers out	(2,321,459)	(2,896,524)	(2,046,353)	850,171
Total other financing uses	<u>(2,321,459)</u>	<u>326,823</u>	<u>(1,995,698)</u>	<u>(2,322,521)</u>
NET CHANGE IN FUND BALANCE	<u>(2,332,671)</u>	<u>(1,135,613)</u>	<u>(1,588,599)</u>	<u>(452,986)</u>
FUND BALANCE - BEGINNING OF YEAR	<u>6,399</u>	<u>6,399</u>	<u>2,858,370</u>	<u>2,851,971</u>
FUND BALANCE - END OF YEAR	<u><u>\$ (2,326,272)</u></u>	<u><u>\$ (1,129,214)</u></u>	<u><u>\$ 1,269,771</u></u>	<u><u>\$ 2,398,985</u></u>

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
 PROPRIETARY FUND
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2019**

	Utilities Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,386,686
Investments	2,194,494
Accounts receivable, net	957,592
Due from other funds	3,922,487
Restricted assets:	
Cash and cash equivalents	1,659,572
Investments	531,170
Total current assets	10,652,001
Non-current assets	
Capital assets	
Non-depreciable	2,497,773
Depreciable, net	24,096,144
Total non-current assets	26,593,917
TOTAL ASSETS	37,245,918
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions	260,789
Related to other post employment benefits	805
TOTAL DEFERRED OUTFLOWS OF RESOURCES	261,594

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
 PROPRIETARY FUND
 STATEMENT OF NET POSITION – CONTINUED
 SEPTEMBER 30, 2019**

	Utilities Fund
LIABILITIES	
Current liabilities	
Accounts payable	\$ 16,483
Accrued liabilities	28,965
Due to other governments	328,604
Due to other funds	2,694,170
Compensated absences	3,146
Capital leases	104,363
Notes payable	301,649
Revenue bonds payable	391,000
Payable from restricted assets	
Accrued interest	40,481
Customer deposits	192,553
Total current liabilities	4,101,414
Non-current liabilities	
Compensated absences	59,771
Capital leases	80,582
Notes payable	1,414,806
Revenue bonds payable	11,237,027
Other post-employment benefits	43,303
Net pension liability	920,174
Total non-current liabilities	13,755,663
TOTAL LIABILITIES	17,857,077
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	147,543
Related to other post employment benefits	18,780
TOTAL DEFERRED INFLOWS OF RESOURCES	166,323
NET POSITION	
Net investment in capital assets	13,064,490
Restricted for system improvements	123,839
Restricted for debt service	1,957,708
Unrestricted	4,338,074
TOTAL NET POSITION	\$ 19,484,111

See notes to the financial statements.

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

	Utilities Fund
OPERATING REVENUES	
Charges for services	\$ 7,611,863
Interlocal agreement	238,153
Other operating income	388,857
Total operating revenues	8,238,873
OPERATING EXPENSES	
Personal services	958,001
Materials and Supplies	716,898
Repairs and Maintenance	568,392
Office and Utilities	661,023
Insurance Expense	39,463
Contractual Services	1,878,452
Billing Fees	1,078,621
Depreciation	1,161,917
Total operating expenses	7,062,767
OPERATING INCOME	1,176,106
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(492,312)
Interest	93,950
Total non-operating expenses	(398,362)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	777,744
Capital contributions	258,441
Transfers in	2,046,353
Total capital contributions and transfers	2,304,794
CHANGE IN NET POSITION	3,082,538
NET POSITION AT BEGINNING OF YEAR	16,401,573
NET POSITION AT END OF YEAR	\$ 19,484,111

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 8,367,553
Payments to employees for services	(882,415)
Payments to suppliers for goods and services	(4,980,869)
Net cash provided by operating activities	2,504,269
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers out	(26,952)
Net cash provided by non-capital financing activities	(26,952)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(378,996)
Interest paid	(509,807)
Proceeds from grants	246,541
Principal payment of notes payable	(261,938)
Principal payment on capital leases	(149,345)
Proceeds from notes payable	28,650
Principal payment on bonds payable	(385,609)
Net cash used in capital and related financing activities	(1,410,504)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,066,813
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,979,443
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 3,046,256
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF	
Current	\$ 1,386,686
Restricted	1,659,572
Total cash and cash equivalents	\$ 3,046,258

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS – CONTINUED
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Utility Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 1,176,106
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	1,161,917
Decrease (increase) in assets:	
Accounts receivable, net	102,224
Inventory	5,935
Deferred outflows of resources	1,484
Increase (decrease) in liabilities:	
Accounts payable	(43,955)
Accrued liabilities	1,236
Compensated absences	7,155
Customer deposits	26,456
Net pension liability	79,595
Other post-employment benefits	172
Deferred inflows of resources	(14,056)
Net cash provided by operating activities	\$ 2,504,269

See notes to the financial statements.

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

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 legally created by Laws of Florida, Chapter 5341 (1903) on July 30, 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 (GAAP) in the United States of America applicable to governmental units and the Uniform Accounting System mandated by Chapter 218.33, Florida Statutes. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

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

The Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the City as the primary government. In evaluating the City as a reporting entity, management has considered all potential component units for which the City may or may not be financially accountable and, as such, be included within the City's financial statements. Management utilized criteria set forth 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.

As of September 30, 2019, the City had no component units, with a significant operational or financial relationship with the City. On September 28, 2018, the City Council approved City Ordinance No. 895 which established a redevelopment trust fund (the CRA) and provides 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. The CRA had no financial activity for the year ended September 30, 2019.

Government-Wide and Fund Financial Statements

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-Wide and Fund Financial Statements – Continued

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

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

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary 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).

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus and Basis of Accounting – Continued

The following is the current property tax calendar:

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

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 2019 ad valorem taxes because property taxes are not legally due until subsequent to the end of the fiscal year.

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

Basis of Presentation

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

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

Governmental

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

Proprietary

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

Utilities Fund – this fund accounts for the operations and activities of the City's utilities 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 years or less when purchased and all highly liquid debt instruments with maturities of three months or less when purchased. The City's cash deposits are held by banks that qualify as public depositories under the Florida Security for Public Deposits Act as required by Chapter 280, Florida Statutes. The City's cash deposits are fully insured by the Public Deposits Trust Fund.

Receivables and Payables

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

All receivables in governmental funds are shown net of an allowance for doubtful accounts. At September 30, 2019, 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Receivables and Payables – Continued

All proprietary fund receivables are shown net of an allowance for 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.

Inventory

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

Restricted Assets

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

Capital Assets

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Capital Assets – Continued

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

<u>Assets</u>	<u>Years</u>
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

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 and other post-employment benefit 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 of 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Unearned Revenue

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

Long-Term Obligations

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

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

Other Postemployment Benefits (OPEB) Liability

For the purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense 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.

The City has reported a total OPEB liability of \$215,438 as of September 30, 2019. This amount is recognized in the government-wide financial statements and in the proprietary fund financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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. The Plans report their investments at fair value. The City reported a total net pension liability of \$7,568,058 as of September 30, 2019. This amount is recognized in the government-wide financial statements and in the proprietary fund financial statements.

GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. See Note 6 for defined timeframes on the Florida Retirement System/Health Insurance Subsidy Plan.

Classification of Fund Balance

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Classification of Fund Balance – Continued

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

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

Subsequent Events

Subsequent events were evaluated through June 29, 2020, which is the date the financial statements were available to be issued.

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

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

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

3. DEPOSITS AND INVESTMENTS

Deposits

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

As of September 30, 2019, the value of the City's deposits was \$6,395,415, all of which was held by qualified public depositories under Chapter 280, Florida Statutes.

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

3. DEPOSITS AND INVESTMENTS – CONTINUED

Certificates of Deposit

The City invests surplus funds into interest-bearing certificates of deposit at qualified public depositories in accordance with Section 218.415, Florida Statutes. Certificates of deposit are recorded at cost plus accrued interest, which approximates fair value. As of September 30, 2019, the total carrying value of certificates of deposit was \$1,558,834 which are reported as investments on the statement of net position.

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 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.

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

3. DEPOSITS AND INVESTMENTS – CONTINUED

Investments – Continued

As of September 30, 2019, 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	1.69	AAAf/S2	\$ 1,013,743
Intermediate High Quality Bond Fund	3.59	AAAf/S3	1,079,031
			<u>2,092,774</u>
Certificates of deposits	n/a	n/a	<u>1,558,834</u>
			<u>\$ 3,651,608</u>
<u>Statement of Net Position</u>			
Investments - unrestricted			\$ 2,876,734
Investments - restricted			<u>774,874</u>
			<u>\$ 3,651,608</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 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

GASB 40 modifies the existing GASB 3 custodial credit risk reporting requirements. Under GASB 3, governments had to categorize their investments into one of three custodial credit risk categories. This is no longer required. Under GASB 40, disclosure 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 3.)

Participants' investments in the FMLvT 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 FMLvT twice a month with a five-business day notice.

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

3. DEPOSITS AND INVESTMENTS – CONTINUED

Investments – Continued

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.

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 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 generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The City's two investment funds in the Florida Municipal Investment Trust invest mainly in US 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.

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

4. RECEIVABLES

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
	<u>General Fund</u>	<u>Utilities Fund</u>	<u>Total</u>
Accounts receivable	\$ 85,673	\$ 1,228,368	\$ 1,314,041
Less allowance for doubtful accounts	-	(270,776)	(270,776)
Total receivables, net	<u>\$ 85,673</u>	<u>\$ 957,592</u>	<u>\$ 1,043,265</u>
Taxes receivable	\$ 316,300	\$ -	\$ 316,300
Grants receivable	<u>6,990</u>	<u>-</u>	<u>6,990</u>
Due from other governments	<u>\$ 323,290</u>	<u>\$ -</u>	<u>\$ 323,290</u>

Due from Other Governments

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

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

5. CHANGES IN CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 2,759,946	\$ -	\$ -	\$ 2,759,946
Construction in progress	896,389	110,173	-	1,006,562
Total capital assets not being depreciated	<u>3,656,335</u>	<u>110,173</u>	<u>-</u>	<u>3,766,508</u>
Capital assets being depreciated				
Buildings	4,391,281	-	-	4,391,281
Improvements other than buildings	11,321,524	48,677	-	11,370,201
Furniture and equipment	5,186,273	376,083	(547,977)	5,014,379
Total capital assets being depreciated	<u>20,899,078</u>	<u>424,760</u>	<u>(547,977)</u>	<u>20,775,861</u>
Less accumulated depreciation				
Buildings	(2,230,559)	(104,838)	-	(2,335,397)
Improvements other than buildings	(3,815,723)	(375,959)	-	(4,191,682)
Furniture and equipment	(4,157,465)	(266,411)	547,977	(3,875,899)
Total accumulated depreciation	<u>(10,203,747)</u>	<u>(747,208)</u>	<u>547,977</u>	<u>(10,402,978)</u>
Total capital assets being depreciated, net	<u>10,695,331</u>	<u>(322,448)</u>	<u>-</u>	<u>10,372,883</u>
Governmental activities, net	<u>\$ 14,351,666</u>	<u>\$ (212,275)</u>	<u>\$ -</u>	<u>\$ 14,139,391</u>

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

5. CHANGES IN CAPITAL ASSETS – CONTINUED

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 589,488	\$ -	\$ -	\$ 589,488
Construction in progress	1,876,441	196,999	(165,155)	1,908,285
Total capital assets not being depreciated	<u>2,465,929</u>	<u>196,999</u>	<u>(165,155)</u>	<u>2,497,773</u>
Capital assets being depreciated				
Buildings	41,054,898	177,681	-	41,232,579
Furniture and equipment	2,995,964	169,470	(308,151)	2,857,283
Total capital assets being depreciated	<u>44,050,862</u>	<u>347,151</u>	<u>(308,151)</u>	<u>44,089,862</u>
Less accumulated depreciation				
Buildings	(16,450,129)	(1,048,303)	-	(17,498,432)
Furniture and equipment	(2,689,823)	(113,614)	308,151	(2,495,286)
Total accumulated depreciation	<u>(19,139,952)</u>	<u>(1,161,917)</u>	<u>308,151</u>	<u>(19,993,718)</u>
Total capital assets being depreciated, net	<u>24,910,910</u>	<u>(814,766)</u>	<u>-</u>	<u>24,096,144</u>
Business-type activities, net	<u>\$ 27,376,839</u>	<u>\$ (617,767)</u>	<u>\$ (165,155)</u>	<u>\$ 26,593,917</u>

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

Governmental activities	
General government	\$ 84,186
Public safety	136,087
Transportation	418,156
Culture and recreation	108,779
Total depreciation expense - governmental activities	<u>\$ 747,208</u>
Business-type activities	
Utilities	1,161,917
Total depreciation expense - business-type activities	<u>\$ 1,161,917</u>

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

6. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM

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

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

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

Pension Plan

Plan Description

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

Benefits Provided

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

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

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

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

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

Pension Plan – Continued

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

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

As provided in Section 121.101, Florida Statutes, if the member 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.

Contributions

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

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

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

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

Pension Plan – Continued

These employer contribution rates include 1.66% for HIS Plan subsidies for the periods October 1, 2016 through September 30, 2019. The City's contributions, including employee contributions, to the pension plan totaled \$550,727, \$487,357 and \$460,073 for the fiscal years ended September 30, 2019, 2018 and 2017, respectively.

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

At September 30, 2019, the City reported a liability of \$6,116,730 for its proportionate share of the pension plan's net pension liability. The City's proportionate share of the net pension liability was based on the City's share of contributions to the FRS, relative to the contributions of all participating governments. At June 30, 2019, the City's proportionate share was 0.017761257%.

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

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

For the fiscal year ended September 30, 2019, the City recognized pension expense of \$912,006. 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 experience	\$ 362,801	\$ 3,796
Change of assumptions	1,571,039	-
Net difference between projected and actual earnings on pension plan investments	-	338,409
Changes in proportion and differences between City pension plan contributions and proportionate share of contributions	173,190	157,250
City pension plan contributions subsequent to the measurement date	133,028	-
	<u>\$ 2,240,058</u>	<u>\$ 499,455</u>

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

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

Pension Plan – Continued

A component of deferred outflows of resources related to the pension plan of \$133,028, resulting from City contributions to the plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2020. Other components reported as deferred outflows of resources and deferred inflows of resources related to the pension plan, except for changes in proportion and related differences in the share of contributions, will be recognized in pension expense as follows:

Fiscal year ending <u>September 30:</u>	Amount
2020	\$ 580,173
2021	177,082
2022	423,666
2023	320,323
2024	84,801
Thereafter	<u>21,530</u>
	<u><u>\$ 1,607,575</u></u>

Actuarial Assumptions

The total pension liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumption, applied to all periods included in the measurement:

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

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

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

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

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

Pension Plan – Continued

Actuarial Assumptions – Continued

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

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

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

Discount Rate

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

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

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

Pension Plan – Continued

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 6.90%, 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 (5.90%)	Current Discount Rate (6.90%)	1% Increase (7.90%)
City's proportionate share of the net pension liability (asset)	\$ 10,573,789	\$ 6,116,730	\$ 2,394,331

Pension Plan Fiduciary Net Position

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

HIS Plan

Plan Description

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

Benefits Provided

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

Contributions

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

CITY OF DEFUNIAK SPRINGS, FLORIDA
FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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

HIS Plan – Continued

Contributions – Continued

The City's contributions to the HIS Plan totaled \$72,027, \$67,349 and 128,364 for the fiscal years ended September 30, 2019, 2018 and 2017, respectively.

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

At September 30, 2019, the City reported a liability of \$1,451,328 for its proportionate share of the HIS Plan's net pension liability. At June 30, 2019, the City's proportionate share was 0.012971022%.

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

For the fiscal year ended September 30, 2019, the City recognized pension expense of \$48,204. In addition, the City reported deferred outflows of resources and deferred in flows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 17,628	\$ 1,777
Change of assumptions	168,050	118,620
Net difference between projected and actual earnings on pension plan investments	937	-
Changes in proportion and differences between City pension plan contributions and proportionate share of contributions	89,740	43,503
City pension plan contributions subsequent to the measurement date	16,567	-
	\$ 292,922	\$ 163,900

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

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

HIS Plan – Continued

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

A component of deferred outflows of resources related to the HIS Plan, totaling \$16,567 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, 2020. Other components reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan, except for changes in the proportion and related differences in the share of contributions will be recognized in pension expense as follows:

Fiscal year ending	Amount
<u>September 30:</u>	
2018	\$ 35,677
2019	30,043
2020	19,821
2021	(1,519)
2022	9,089
Thereafter	19,344
	<u><u>\$ 112,455</u></u>

Actuarial Assumptions

The total pension liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

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

HIS Plan – Continued

Discount Rate

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

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

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

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
City's proportionate share of the net pension liability (asset)	\$ 1,656,765	\$ 1,451,328	\$ 1,280,222

Pension Plan Fiduciary Net Position

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

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

7. LONG-TERM DEBT

Changes in Long-Term Debt Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Compensated absences	\$ 342,126	\$ 334,929	\$ (275,154)	\$ 401,901	\$ 20,095
Capital leases	274,076	-	(140,981)	133,095	88,329
Total governmental activities	<u>\$ 616,202</u>	<u>\$ 334,929</u>	<u>\$ (416,135)</u>	<u>\$ 534,996</u>	<u>\$ 108,424</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities					
Compensated absences	\$ 55,762	\$ 42,426	\$ (35,271)	\$ 62,917	3,146
Capital leases	334,290	-	(149,345)	184,945	104,363
Notes and loans payable	1,970,205	28,650	(282,400)	1,716,455	301,649
Revenue bonds	12,013,636	-	(385,609)	11,628,027	391,000
Total business-type activities	<u>\$ 14,373,893</u>	<u>\$ 71,076</u>	<u>\$ (852,625)</u>	<u>\$ 13,592,344</u>	<u>\$ 800,158</u>

Description of Long-Term Debt Outstanding

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
GOVERNMENTAL ACTIVITIES			
<i>Capital Leases</i>			
Capital lease with U.S. Bancorp for vehicles and various equipment with an original cost of \$430,000; due in annual installments of \$22,534; payments through March 2021; bearing interest at a rate of 1.80%.	\$ 88,329	\$ 44,766	\$ 133,095
Total capital leases	<u>88,329</u>	<u>44,766</u>	<u>133,095</u>
<i>Compensated Absences</i>			
Total long-term portion of accumulated, vested annual and sick leave for governmental funds.	20,095	381,806	401,901
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 108,424</u>	<u>\$ 426,572</u>	<u>\$ 534,996</u>

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

7. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding – Continued

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
BUSINESS-TYPE ACTIVITIES			
<i>Notes and loans payable</i>			
State revolving loan payable (SRF#1) of \$3,883,675, due in semi-annual payments of \$86,384, through September 15, 2020, bearing an interest rate of 2.56%, secured by anticipated net sewer system revenues.	\$ 173,657	\$ -	\$ 173,657
State revolving loan payable (SRF#2) of \$328,411, due in semi-annual payments of \$10,240, through December 15, 2022, bearing an interest rate of 1.535%, secured by anticipated net sewer system revenues.	19,632	40,462	60,094
State revolving loan payable (SRF#3) of \$1,216,117 due in semi-annual payments of \$27,334, through May 15, 2038, bearing no interest, secured by anticipated net sewer system revenues.	45,144	949,814	994,958
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.	41,243	336,630	377,873
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.	21,973	87,900	109,873
Total notes and loans payable	301,649	1,414,806	1,716,455
<i>Capital leases</i>			
Capital lease with SunTrust Equipment Finance & Leasing Corp. for the purchase of meter registers with an original cost of \$685,000; due in quarterly payments of \$26,978; payments through April 2021; bearing an interest rate of 2.75%; secured by the meter registers.	104,363	80,582	184,945
Total capital leases	104,363	80,582	184,945

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

7. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding – Continued

	Current	Long-Term	Total
<i>Revenue Bonds Payable</i>			
<u>Sewer System Revenue Bonds - Series 1997</u>			
Authorized \$5,105,000 issued \$2,826,300 at 4.5%, per annum, principal and interest payable annually on September 1. Payments shall be made from and collateralized by a lien on taxes (utilities service taxes) on the sale of natural and bottled gas. Bonds are also collateralized by a lien on and pledge of net revenues derived from operations of the sewer and gas systems, junior, inferior and subordinate to the lien thereon of the prior obligations, the public service taxes collected on electric, water and telephone service, and the guaranteed entitlement revenue received from the State of Florida.			
	\$ 73,000	\$ 1,735,100	\$ 1,808,100
<u>Water System Junior Lien Revenue Bonds - Series 1991</u>			
Authorized and issued \$1,430,200 at 5% per annum principal and interest payable annually on September 1. Payments shall be made from and secured equally and ratably by a pledge of and a lien on the net revenues derived from the operation of the Water System, junior, inferior and subordinate to the lien thereon of the prior obligations.			
	47,000	703,000	750,000
<u>Water System Junior Lien Revenue Bonds - Series 1996</u>			
Authorized and issued \$663,100 at 5.125% per annum principal and interest payable annually on September 1. Payments shall be made from and secured equally and ratably by a pledge of and a lien on the net revenues derived from the operation of the Water System, junior, inferior and subordinate to the lien thereon of the prior obligations.			
	17,000	422,100	439,100

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

7. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding – Continued

	Current	Long-Term	Total
<i>Revenue Bonds Payable - Continued</i>			
<u>Water System Junior Lien Revenue Bonds - Series 2004</u> Authorized and issued \$2,178,000 at 4.50% per annum principal and interest payable annually on September 1. Payments shall be made from and secured equally and ratably by a pledge of and a lien on the net revenues derived from the operation of the Water System, junior, inferior and subordinate to the lien thereon of the prior obligations.	\$ 40,000	\$ 1,733,000	\$ 1,773,000
<u>Water System Junior Lien Revenue Bonds - Series 2006</u> Authorized and issued \$3,000,000 at 4.25% per annum principal and interest payable annually on September 1. Payments shall be made from and secured equally and ratably by a pledge of and a lien on the net revenues derived from the operation of the Water System, junior, inferior and subordinate to the lien thereon of the prior obligations.	51,000	2,446,000	2,497,000
<u>Water System Junior Lien Revenue Bonds - Series 2012</u> Authorized and issued \$4,454,000 at 2.75% per annum principal and interest payable annually on September 1. Payments shall be made from and secured equally and ratably by a pledge of and a lien on the net revenues derived from the operation of the Water System, junior, inferior and subordinate to the lien thereon of the prior obligations.	78,000	4,016,000	4,094,000

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

7. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding – Continued

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<i>Revenue Bonds Payable - Continued</i>			
<u>Gas System Refunding Revenue Bonds - Series 2012</u>			
Authorized and issued \$885,000 at 2.30% per annum, principal payable annual 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.	\$ 85,000	\$ 181,827	\$ 266,827
Total revenue bonds payable	<u>391,000</u>	<u>11,237,027</u>	<u>11,628,027</u>
<i>Accrued Compensated Absences</i>			
Accumulated, vested annual compensation for Enterprise Funds.	3,146	59,771	62,917
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 800,158</u>	<u>\$ 12,792,186</u>	<u>13,592,344</u>
GRAND TOTAL LONG-TERM DEBT			<u>\$ 14,127,340</u>

Requirement to Amortize all Long-Term Debt

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

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 88,329	\$ 1,809	\$ 803,304	\$ 463,699
2021	44,766	304	626,542	439,036
2022	-	-	557,267	419,200
2023	-	-	462,310	400,322
2024	-	-	475,033	385,965
2024-2028	-	-	2,475,704	1,692,257
2029-2033	-	-	2,501,046	1,241,306
2034-2038	-	-	2,117,438	802,312
2039-2043	-	-	1,872,000	464,393
2044-2048	-	-	1,106,000	161,008
2049-2053	-	-	532,783	29,755
Total	<u>\$ 133,095</u>	<u>\$ 2,113</u>	<u>\$ 13,529,427</u>	<u>\$ 6,499,253</u>

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

8. OTHER POST-EMPLOYMENT 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.

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.

Plan Membership as of September 30, 2019:

Inactive Plan Members or Beneficiaries Current Receiving Benefits	2
Inactive Plan Members Entitled to But Not Yet Receiving Benefits	-
Active Plan Members	88
	90

Net OPEB Liability

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of October 1, 2018, using the following actuarial assumptions:

Measurement date	September 30, 2019
Valuation date	October 1, 2018
Actuarial cost method	Entry Age Normal (AMM)
Inflation	2.5% annually
Salary increase	3% annually
Prior discount rate	3.35%
Discount rate	3.58% annually which is the S&P Municipal bond 20 Year High-Grade Rate Index as of September 30, 2019.
Retirement age	Eligibility is the same as the Florida Retirement System (FRS) pension plan.
Mortality	RP-2014 Combined Annuitant Mortality Table for males and females. The Mortality Table reflects recent rates developed by the Society of Actuaries.
Turnover	Table T-5 from the Pension Actuary's Handbook

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

8. OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

Net OPEB Liability – Continued

Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) – (b)
Balances at September 30, 2018	\$ 214,361	\$ -	\$ 214,361
Changes for the year:			
Service cost	16,202	-	16,202
Interest	7,368	-	7,368
Changes of assumptions	1,370	-	1,370
Benefit payments	<u>(23,863)</u>	<u>-</u>	<u>(23,863)</u>
Net changes	<u>1,077</u>	<u>-</u>	<u>1,077</u>
Reporting period ending September 30, 2019	<u><u>\$ 215,438</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 215,438</u></u>

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

	1% Decrease 2.64%	Current Discount Rate 3.58%	1% Increase 4.64%
Net OPEB liability	\$ 197,780	\$ 215,438	\$ 235,359

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

	1% Decrease 4.00%	Healthcare Cost Trend Rates 5.00%	1% Increase 6.00%
Net OPEB liability	\$ 242,422	\$ 215,438	\$ 192,808

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

8. OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

Net OPEB Liability – Continued

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

For the fiscal year ended September 30, 2019, the City recognized OPEB expense of \$13,684. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual experience	\$ 4,004	\$ (57,335)
Changes of assumptions	-	(36,096)
Total	\$ 4,004	\$ (93,431)

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:

Year ended September 30:

2019	\$ (9,886)
2020	(9,886)
2121	(9,886)
2022	(9,886)
2023	(9,886)
Thereafter	(39,997)
	\$ (89,427)

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

9. INTERFUND BALANCES AND TRANSFERS

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

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>
General	Utilities	\$ 3,922,487
Christmas Reflections	General	\$ 2,374
Cemetery	General	\$ 137,173
Utilities	General	\$ 2,596,727
	Christmas Reflections	23,920
	Cemetery	73,523
		<u>\$ 2,694,170</u>

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

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
General	Utilities	\$ 2,046,353

The City's transfers are routine transfers for debt service, subsidies of various city operations and special revenue requirements.

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.

11. COMMITMENTS AND CONTINGENCIES

Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. 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.

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

11. COMMITMENTS AND CONTINGENCIES – CONTINUED

Interlocal Landfill Agreement

The City entered into an interlocal agreement with Walton County in 1995 whereby the City is charged monthly tipping fees of \$8.50 per residential unit. 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, 2019, the City remitted approximately \$2,000,000 to Walton County and received a check for approximately \$940,000 from Walton County, representing fund 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.

12. CHANGE IN ACCOUNTING PRINCIPLES / RESTATEMENT

Correction of Errors

The City's beginning net position for governmental activities was restated for errors identified relating to year-end close out of the City's books and records over construction in progress expenditures not properly capitalized at the governmental activities level. The resulting effect was an increase of governmental activities net position of \$311,670.

13. SUBSEQUENT EVENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	0.017761257%	0.017100713%	0.018309200%	0.018313000%	0.017258610%	0.017096780%
City's proportionate share of the net pension liability (asset)	\$ 6,116,730	\$ 5,150,823	\$ 5,415,735	\$ 4,624,047	\$ 2,229,181	\$ 1,043,155
City's covered-employee payroll	\$ 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-employee payroll	166.75%	129.52%	135.08%	118.07%	59.34%	28.15%
Plan fiduciary net position as a percentage of the total pension liability	82.61%	84.26%	83.89%	84.88%	92.00%	96.09%

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

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	0.012971022%	0.012419062%	0.012959050%	0.012515520%	0.012221600%	0.012366680%
City's proportionate share of the net pension liability (asset)	\$ 1,451,328	\$ 1,314,447	\$ 1,385,641	\$ 1,458,631	\$ 1,246,411	\$ 1,156,314
City's covered-employee payroll	\$ 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-employee payroll	39.57%	33.05%	34.56%	37.25%	33.18%	31.20%
Plan fiduciary net position as a percentage of the total pension liability	2.63%	2.15%	1.64%	0.97%	0.50%	0.99%

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

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 550,727	\$ 487,357	\$ 460,073	\$ 428,850	\$ 408,301	\$ 381,863
Contributions in relation to the contractually required contribution	<u>(550,727)</u>	<u>(487,357)</u>	<u>(460,073)</u>	<u>(428,850)</u>	<u>(408,301)</u>	<u>(381,863)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 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	15.01%	12.25%	11.48%	10.95%	10.87%	10.30%

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

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 72,027	\$ 67,349	\$ 128,363	\$ 125,628	\$ 90,563	\$ 79,693
Contributions in relation to the contractually required contribution	<u>(72,027)</u>	<u>(67,349)</u>	<u>(128,363)</u>	<u>(125,628)</u>	<u>(90,563)</u>	<u>(79,693)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 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	1.96%	1.69%	3.20%	3.21%	2.41%	2.15%

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

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

**CITY OF DEFUNIAK SPRINGS, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
LAST TEN YEARS**

Reporting date	<u>2019</u>	<u>2018</u>
Total OPEB Liability		
Service cost	\$ 16,202	\$ 17,091
Interest	7,368	10,397
Changes of benefit terms	-	-
Differences between Expected and Actual experience	-	(44,068)
Changes of assumptions ¹	1,370	(66,627)
Benefit payments	<u>(23,863)</u>	<u>(25,556)</u>
Net change in total OPEB liability	1,077	(108,763)
Total OPEB liability - beginning	<u>214,361</u>	<u>323,124</u>
Total OPEB liability - ending (a)	<u>\$ 215,438</u>	<u>\$ 214,361</u>
Covered employee payroll	\$ 3,528,523	\$ 3,528,523
City's net OPEB liability as a percentage of covered employee payroll	6.11%	6.08%

Notes to schedule:

¹ 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
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019**

	Special Revenue		
	Christmas Reflections	Cemetery	Total
ASSETS			
Cash and cash equivalents	\$ 91,350	\$ 13,530	\$ 104,880
Investments	-	128,575	128,575
Receivables	-	-	-
Due from other funds	23,920	73,523	97,443
Restricted assets			
Investments	-	13,010	13,010
TOTAL ASSETS	\$ 115,270	\$ 228,638	\$ 343,908
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	2,374	137,173	139,547
Customer deposits	-	13,010	13,010
Total liabilities	2,374	150,183	152,557
FUND BALANCE			
Committed - special revenue	112,896	78,455	191,351
Total fund balances	112,896	78,455	191,351
TOTAL LIABILITIES AND FUND BALANCE	\$ 115,270	\$ 228,638	\$ 343,908

**CITY OF DEFUNIAK SPRINGS, FLORIDA
 COMBINING STATEMENT OF REVENUES, EXPEDITURES
 AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Special Revenue		
	Christmas Reflections	Cemetery	Total
REVENUES			
Charges for services	\$ 51,342	\$ 3,900	\$ 55,242
Interest	-	3,692	3,692
Miscellaneous	1,036	25,141	26,177
Total revenues	<u>52,378</u>	<u>32,733</u>	<u>85,111</u>
EXPENDITURES			
Current			
Physical environment	-	34,634	34,634
Culture and recreation	54,578	-	54,578
Capital outlay	-	5,525	5,525
Total expenditures	<u>54,578</u>	<u>40,159</u>	<u>94,737</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(2,200)</u>	<u>(7,426)</u>	<u>(9,626)</u>
NET CHANGE IN FUND BALANCE	(2,200)	(7,426)	(9,626)
FUND BALANCE AT BEGINNING OF YEAR	<u>115,096</u>	<u>85,881</u>	<u>200,977</u>
FUND BALANCE AT END OF YEAR	<u>\$ 112,896</u>	<u>\$ 78,455</u>	<u>\$ 191,351</u>

IV. COMPLIANCE SECTION

- COMPLIANCE MATTERS
- MANAGEMENT LETTER
- RESPONSES TO MANAGEMENT LETTER

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

To the Honorable Mayor and
Members of the City Council

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

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

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

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

Warren Averett, LLC
Destin, Florida
June 29, 2020

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

To the Honorable Mayor and
Members of the City Council

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of governmental activities, the business-type activities, 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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 29, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Warren Averett, LLC

Destin, Florida

June 29, 2020

MANAGEMENT LETTER

To the Honorable Mayor and
Members of the City Council

Report on the Financial Statements

We have audited the financial statements of the City of DeFuniak Springs, Florida (the City), as of and for the fiscal year ended September 30, 2019, and have issued our report thereon dated June 28, 2019.

Auditors' Responsibility

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

Other Reporting Requirements

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements in Accordance with *Government Auditing Standards* and our Independent Accountants' Report on an Examination of Compliance Requirements in Accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports, which are dated June 29, 2020, should be considered in conjunction with this management letter.

Prior Audit Findings

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

Official Title and Legal Authority

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

Financial Condition and Management

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

Financial Condition and Management (Continued)

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, 2019.

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

Additional Matters

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

Purpose of this Letter

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

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



Destin, Florida
June 29, 2020