

CITY OF DEFUNIAK SPRINGS, FLORIDA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

SEPTEMBER 30, 2021

**CITY OF DEFUNIAK SPRINGS, FLORIDA
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FINANCIAL SECTION

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(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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of 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, 2021, 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, schedules of the City's proportional share of net pension liability, schedules of the City's contributions and schedule of changes in the City's total OPEB liability and related ratios, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing 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 accompanying schedule of expenditures of state financial assistance is presented for the purposes of additional analysis as required by Chapter 10.550, *Rules of the Auditor General*, and is also not a required part of the basic financial statements of the City.

The combining nonmajor fund financial statements and the schedule of expenditures of state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has 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 nonmajor fund financial statements are fairly stated in all material respects 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 July 27, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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

July 27, 2022, except for our report on the required supplementary information for which the date is September 26, 2022.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2021**

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, 2021. 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 \$39,501,177 (net position). Of this amount, a deficit of \$4,124,947 is unrestricted for governmental activities, and \$2,638,747 is unrestricted for business-type activities. Total net position includes \$14,824,675 of net investment in capital assets in the governmental activities and \$15,488,496 in the business-type activities.
- ❖ Revenues for governmental activities increased by \$1,416,811 or 15%, primarily from an increase in sales tax revenues of \$947,610.
- ❖ Revenues for business-type activities increased by \$6,982,374 or 73%, primarily from an increase in capital grants of \$6,977,515.

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'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.

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)	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 4,600,075	\$ 909,695	\$ 14,067,003	\$ 10,535,652	\$ 18,667,078	\$ 11,445,347
Capital assets	15,332,019	14,403,230	29,740,558	27,912,787	45,072,577	42,316,017
Total assets	19,932,094	15,312,925	43,807,561	38,448,439	63,739,655	53,761,364
Total deferred outflows of resources	1,534,199	2,653,941	210,960	292,318	1,745,159	2,946,259
Long-term liabilities	3,406,632	9,021,708	14,946,574	13,765,875	18,353,206	22,787,583
Other liabilities	1,430,464	1,499,621	1,094,311	1,788,842	2,524,775	3,288,463
Total liabilities	4,837,096	10,521,329	16,040,885	15,554,717	20,877,981	26,076,046
Total deferred inflows of resources	4,636,504	271,553	469,152	155,738	5,105,656	427,291
Net position						
Net investment						
in capital assets	14,824,675	14,297,368	15,488,496	14,645,887	30,313,171	28,943,255
Restricted	1,292,965	1,100,852	9,381,241	2,766,226	10,674,206	3,867,078
Unrestricted (deficit)	(4,124,947)	(8,722,736)	2,638,747	5,618,189	(1,486,200)	(3,104,547)
Total net position	\$ 11,992,693	\$ 6,675,484	\$ 27,508,484	\$ 23,030,302	\$ 39,501,177	\$ 29,705,786

The City is able to report positive balances in all three categories of net position for the business-type activities. However, for the governmental activities, the unrestricted net position reflects a deficit balance. Capital assets (e.g., land, buildings and equipment) are utilized to provide services to citizens and therefore are not available for future spending. This investment in capital assets, net of related debt, is the largest portion of the City's total net position, comprising 77% and 97% in 2021 and 2020, 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	
	(as restated)				(as restated)	
	2021	2020	2021	2020	2021	2020
REVENUES						
Program revenues						
Charges for services	\$ 1,462,993	\$ 1,549,355	\$ 8,479,352	\$ 8,399,240	\$ 9,942,345	\$ 9,948,595
Operating grants and contributions	140,562	-	-	-	140,562	-
Capital grants and contributions	682,422	1,120,214	8,113,094	1,135,579	8,795,516	2,255,793
General revenues						
Property taxes	1,219,632	1,039,460	-	-	1,219,632	1,039,460
Gas taxes	297,153	260,132	-	-	297,153	260,132
Sales taxes	2,836,421	1,888,811	-	-	2,836,421	1,888,811
Franchise fees	270,607	262,514	-	-	270,607	262,514
Utility services taxes	1,181,622	1,144,653	-	-	1,181,622	1,144,653
Intergovernmental	1,910,493	1,397,955	-	-	1,910,493	1,397,955
Miscellaneous	567,397	462,100	-	-	567,397	462,100
Investment earnings	821	28,118	1,272	76,525	2,093	104,643
TOTAL REVENUES	10,570,123	9,153,312	16,593,718	9,611,344	27,163,841	18,764,656
EXPENSES						
Primary government						
General government	2,793,249	3,372,493	-	-	2,793,249	3,372,493
Public safety	3,734,017	4,529,936	-	-	3,734,017	4,529,936
Physical environment	77,673	33,312	-	-	77,673	33,312
Transportation	1,915,262	2,322,666	-	-	1,915,262	2,322,666
Culture and recreation	1,156,998	699,607	-	-	1,156,998	699,607
Interest on long-term debt	6,800	3,385	-	-	6,800	3,385
Business-type activities						
Utilities	-	-	8,182,951	7,241,088	8,182,951	7,241,088
TOTAL EXPENSES	9,683,999	10,961,399	8,182,951	7,241,088	17,866,950	18,202,487
Change in net position before transfers	886,124	(1,808,087)	8,410,767	2,370,256	9,296,891	562,169
Transfers	3,932,585	(948,211)	(3,932,585)	948,211	-	-
Change in net position	4,818,709	(2,756,298)	4,478,182	3,318,467	9,296,891	562,169
Net position at beginning of year	7,173,984	9,930,282	23,030,302	19,711,835	30,204,286	29,642,117
Net position at end of year	\$ 11,992,693	\$ 7,173,984	\$ 27,508,484	\$ 23,030,302	\$ 39,501,177	\$ 30,204,286

For the year ended September 30, 2021, expenses for governmental activities exceeded revenues by \$886,124 before transfers. Revenues for business-type activities exceeded expense by \$8,410,767 before transfers. Total revenues increased by \$8,399,185.

The following gives a breakdown of the revenues and expenses of the governmental activities. Some of the more interesting information is:

- ❖ Property taxes account for 12% and Sales taxes for 27% of the City's revenues from governmental activities.
- ❖ Public safety accounts for 39% of the total expenses for governmental activities, while General government and Transportation expenses account for 49% of total expenses for governmental activities.
- ❖ 51% of revenues for business-type activities (i.e., water, sewer, gas and sanitation) are derived from charges for services.

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, 2021, total assets for the General Fund were \$4,680,293, and the total liabilities were \$1,830,045. Unassigned fund balance was \$1,672,550, and total fund balance was \$2,850,248.

Other Governmental Funds

The City has three other governmental funds that are considered "non-major" funds. They are the CRA Fund, the Cemetery Fund and the Christmas Reflections Fund. As of September 30, 2021, the total assets for the Other Governmental Funds were \$355,228, and the total liabilities were \$29,889. Committed fund balance was \$210,072, which represents 65% of the total fund balance.

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 68% of the fund's total assets. The depreciation expense for this fund was \$1,156,590 for the fiscal year ended September 30, 2021.

During fiscal year 2021, the Utility Fund had an increase in net position of \$4,478,182. The total net position of this fund as of September 30, 2021, was \$27,508,484. Of this amount, \$2,638,747 or 10% was unrestricted.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS – CONTINUED

CAPITAL ASSET ACTIVITY

The City's total investment in capital assets for both its governmental and business-type activities as of September 30, 2021, was \$45,072,577 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress (CIP), building, improvements, as well as machinery and equipment.

	Governmental Activities		Business-type Activities		Total	
	(as restated)				(as restated)	
	2021	2020	2021	2020	2021	2020
Land	\$ 2,790,878	\$ 2,759,946	\$ 589,488	\$ 589,488	\$ 3,380,366	\$ 3,349,434
Construction in progress	1,578,418	1,096,190	4,343,180	2,593,959	5,921,598	3,690,149
Buildings	4,975,800	4,889,781	43,375,399	42,509,687	48,351,199	47,399,468
Improvements other than buildings	11,370,201	11,370,201	-	-	11,370,201	11,370,201
Machinery and equipment	6,549,935	5,462,441	3,668,290	3,298,862	10,218,225	8,761,303
Accumulated depreciation	(11,933,213)	(11,175,329)	(22,235,799)	(21,079,209)	(34,169,012)	(32,254,538)
Total	<u>\$ 15,332,019</u>	<u>\$ 14,403,230</u>	<u>\$ 29,740,558</u>	<u>\$ 27,912,787</u>	<u>\$ 45,072,577</u>	<u>\$ 42,316,017</u>

The major capital asset transactions during fiscal year 2021 were:

- The purchase of a fire truck for approximately \$473,000.
- The construction of the wastewater facility for approximately \$2,500,000.
- Completion of several CIP projects.

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 \$14,759,406. This debt is secured solely by specified revenue sources.

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

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Capital leases	\$ 507,344	\$ 105,861	\$ -	\$ 80,581	\$ 507,344	\$ 186,442
Notes payable	-	-	3,426,252	1,949,901	3,426,252	1,949,901
Revenues bonds payable	-	-	10,825,810	11,236,418	10,825,810	11,236,418
Total	<u>\$ 507,344</u>	<u>\$ 105,861</u>	<u>\$ 14,252,062</u>	<u>\$ 13,266,900</u>	<u>\$ 14,759,406</u>	<u>\$ 13,372,761</u>

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OTHER FINANCIAL INFORMATION

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

REQUEST FOR INFORMATION

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

City Manager
P.O. Box 685
DeFuniak Springs, FL 32435

CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,570,582	\$ 582,681	\$ 2,153,263
Investments	700,121	2,257,145	2,957,266
Receivables, net	91,199	1,183,264	1,274,463
Due from other governments	1,363,328	51,045	1,414,373
Internal balances	(315,863)	315,863	-
Restricted assets			
Cash and cash equivalents	936,452	9,130,691	10,067,143
Investments	254,256	546,314	800,570
Capital assets			
Non-depreciable	4,369,296	4,932,668	9,301,964
Depreciable, net	10,962,723	24,807,890	35,770,613
TOTAL ASSETS	19,932,094	43,807,561	63,739,655
DEFERRED OUTFLOWS OF RESOURCES	1,534,199	210,960	1,745,159
LIABILITIES			
Accounts payable	995,695	378,916	1,374,611
Accrued liabilities	264,657	30,175	294,832
Due to other governments	144,709	389,456	534,165
Unearned revenue	6,417	-	6,417
Payable from restricted assets			
Accrued interest	5,976	35,493	41,469
Customer deposits	13,010	260,271	273,281
Non-current liabilities			
Due within one year			
Compensated absences	21,341	2,817	24,158
Capital leases	118,549	-	118,549
Notes payable	-	141,638	141,638
Revenue bonds payable	-	421,000	421,000
Due in more than one year			
Compensated absences	405,477	53,510	458,987
Capital leases	388,795	-	388,795
Notes payable	-	3,284,614	3,284,614
Revenue bonds payable	-	10,404,810	10,404,810
Other post-employment benefits	111,789	28,122	139,911
Net pension liability	2,360,681	610,063	2,970,744
TOTAL LIABILITIES	4,837,096	16,040,885	20,877,981
DEFERRED INFLOWS OF RESOURCES	4,636,504	469,152	5,105,656
NET POSITION			
Net investment in capital assets	14,824,675	15,488,496	30,313,171
Restricted			
Debt service	1,177,698	7,480,045	8,657,743
System improvements	-	1,901,196	1,901,196
Economic environment	115,267	-	115,267
Unrestricted (deficit)	(4,124,947)	2,638,747	(1,486,200)
TOTAL NET POSITION	\$ 11,992,693	\$ 27,508,484	\$ 39,501,177

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2021**

Function/Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental activities							
Governmental activities							
General government	\$ 2,793,249	\$ 1,021,214	\$ -	\$ 2,613	\$ (1,769,422)	\$ -	\$ (1,769,422)
Public safety	3,734,017	34,466	140,562	50,407	(3,508,582)	-	(3,508,582)
Physical environment	77,673	4,569	-	44,539	(28,565)	-	(28,565)
Transportation	1,915,262	297,180	-	584,863	(1,033,219)	-	(1,033,219)
Culture and recreation	1,156,998	105,564	-	-	(1,051,434)	-	(1,051,434)
Debt service interest	6,800	-	-	-	(6,800)	-	(6,800)
Total governmental activities	9,683,999	1,462,993	140,562	682,422	(7,398,022)	-	(7,398,022)
Business-type activities							
Utilities	8,182,951	8,479,352	-	8,113,094	-	8,409,495	8,409,495
Total primary government	\$ 17,866,950	\$ 9,942,345	\$ 140,562	\$ 8,795,516	(7,398,022)	8,409,495	1,011,473
General revenues							
Taxes							
Ad valorem taxes					1,219,632	-	1,219,632
Local option gas tax					297,153	-	297,153
Local sales taxes					2,836,421	-	2,836,421
Franchise fees					270,607	-	270,607
Utility service tax					1,181,622	-	1,181,622
State shared revenues					1,910,493	-	1,910,493
Miscellaneous					567,397	-	567,397
Investment earnings					821	1,272	2,093
Transfers					3,932,585	(3,932,585)	-
Total general revenues and transfers					12,216,731	(3,931,313)	8,285,418
CHANGE IN NET POSITION					4,818,709	4,478,182	9,296,891
NET POSITION AT BEGINNING OF YEAR					6,675,484	23,030,302	29,705,786
PRIOR PERIOD ADJUSTMENT TO CORRECT ERROR					498,500	-	498,500
NET POSITION AT BEGINNING OF YEAR AS RESTATED					7,173,984	23,030,302	30,204,286
NET POSITION AT END OF YEAR					\$ 11,992,693	\$ 27,508,484	\$ 39,501,177

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2021**

	<u>General Fund</u>	<u>Nonmajor Governmental Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 1,360,063	\$ 210,519	\$ 1,570,582
Investments	568,422	131,699	700,121
Receivables	91,199	-	91,199
Due from other governments	1,363,328	-	1,363,328
Due from other funds	119,583	-	119,583
Restricted assets			
Cash and cash equivalents	936,452	-	936,452
Investments	241,246	13,010	254,256
TOTAL ASSETS	<u><u>\$ 4,680,293</u></u>	<u><u>\$ 355,228</u></u>	<u><u>\$ 5,035,521</u></u>
LIABILITIES			
Accounts payable	\$ 984,114	\$ 11,581	\$ 995,695
Accrued liabilities	260,520	4,137	264,657
Due to other governments	144,709	-	144,709
Due to other funds	434,285	1,161	435,446
Unearned revenue	6,417	-	6,417
Payable from restricted assets			
Customer deposits	-	13,010	13,010
Total liabilities	1,830,045	29,889	1,859,934
FUND BALANCE			
Restricted - debt service	1,177,698	-	1,177,698
Restricted - economic environment		115,267	115,267
Committed – special revenue	-	210,072	210,072
Unassigned	1,672,550	-	1,672,550
Total fund balance	<u>2,850,248</u>	<u>325,339</u>	<u>3,175,587</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 4,680,293</u></u>	<u><u>\$ 355,228</u></u>	<u><u>\$ 5,035,521</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, 2021**

Fund balance, total governmental funds		\$ 3,175,587
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Amounts reported for governmental activities in the statement of net position are different because:

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

Governmental non-depreciable/non-amortizable assets	4,369,296	
Governmental depreciable/amortizable assets	22,895,936	
Less accumulated depreciation/amortization	<u>(11,933,213)</u>	
		15,332,019

Deferred inflows of resources and deferred outflows of resources are not available/receivable or due/payable, respectively, in the current period and therefore are not reported in the governmental funds.

Deferred outflows of resources related to pension plans	1,514,519	
Deferred outflows of resources related to other post employment benefits	19,680	
Deferred inflows of resources related to pension plans	(4,504,962)	
Deferred inflows of resources related to other post employment benefits	<u>(131,542)</u>	
		(3,102,305)

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

Compensated absences	(426,818)	
Accrued interest	(5,976)	
Capital leases	(507,344)	
Other post-employment benefits	(111,789)	
Net pension liability	<u>(2,360,681)</u>	
		<u>(3,412,608)</u>

Net position of governmental activities		<u><u>\$ 11,992,693</u></u>
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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, 2021**

	<u>General Fund</u>	<u>Nonmajor Governmental Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 5,725,664	\$ 79,771	\$ 5,805,435
Licenses and permits	30,946	4,569	35,515
Intergovernmental	2,733,477	-	2,733,477
Charges for services	1,348,999	78,479	1,427,478
Interest	717	104	821
Miscellaneous	493,262	68,234	561,496
Total revenues	<u>10,333,065</u>	<u>231,157</u>	<u>10,564,222</u>
EXPENDITURES			
Current			
General government	2,847,762	254	2,848,016
Public safety	3,937,345	-	3,937,345
Physical environment	-	81,131	81,131
Transportation	1,553,755	-	1,553,755
Culture and recreation	1,035,050	84,675	1,119,725
Capital outlay	1,686,998	-	1,686,998
Debt service	71,447	-	71,447
Total expenditures	<u>11,132,357</u>	<u>166,060</u>	<u>11,298,417</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(799,292)	65,097	(734,195)
OTHER FINANCING SOURCES (USES)			
Proceeds from capital leases	472,930	-	472,930
Transfers in	8,240,419	172,923	8,413,342
Transfers out	(4,392,234)	(88,523)	(4,480,757)
Total other financing sources	<u>4,321,115</u>	<u>84,400</u>	<u>4,405,515</u>
NET CHANGE IN FUND BALANCE	3,521,823	149,497	3,671,320
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	<u>(671,575)</u>	<u>175,842</u>	<u>(495,733)</u>
FUND BALANCE, END OF YEAR	<u>\$ 2,850,248</u>	<u>\$ 325,339</u>	<u>\$ 3,175,587</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, 2021**

Net change in fund balance – governmental funds \$ 3,671,320

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	1,686,998	
Less current year depreciation/amortization	<u>(757,884)</u>	
		929,114

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.

Proceeds from capital lease	(472,930)	
Capital lease repayments	<u>71,447</u>	
		(401,483)

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	24,566	
Change in accrued interest	(6,124)	
Change in net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions	589,706	
Change in other post employment benefits liability, deferred outflows of resources and deferred inflows of resources related to other post employment benefits	<u>11,610</u>	
		<u>619,758</u>

Change in net position of governmental activities		<u><u>\$ 4,818,709</u></u>
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See notes to the financial statements.

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**CITY OF DEFUNIAK SPRINGS, FLORIDA
GENERAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 4,773,372	\$ 4,773,372	\$ 5,725,664	\$ 952,292
Licenses and permits	17,700	17,700	30,946	13,246
Intergovernmental	2,916,293	2,916,293	2,733,477	(182,816)
Charges for services	1,687,063	1,687,063	1,348,999	(338,064)
Interest	10,000	10,000	717	(9,283)
Miscellaneous	742,740	742,740	493,262	(249,478)
Total revenues	10,147,168	10,147,168	10,333,065	185,897
EXPENDITURES				
Current				
General government	2,951,648	2,861,648	2,847,762	13,886
Public safety	4,317,516	4,247,516	3,937,345	310,171
Transportation	3,867,168	3,560,849	1,553,755	2,007,094
Culture and recreation	1,507,103	1,315,326	1,035,050	280,276
Capital outlay	3,513,300	3,048,317	1,686,998	1,361,319
Debt service	73,178	73,178	71,447	1,731
Total expenditures	16,229,913	15,106,834	11,132,357	3,974,477
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	(6,082,745)	(4,959,666)	(799,292)	4,160,374
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	4,063,000	4,100,617	472,930	(3,627,687)
Transfers in	2,091,225	2,091,225	8,240,419	6,149,194
Transfers out	(71,480)	(1,232,176)	(4,392,234)	(3,160,058)
Total other financing sources (uses)	6,082,745	4,959,666	4,321,115	(638,551)
NET CHANGE IN FUND BALANCE				
	-	-	3,521,823	3,521,823
FUND BALANCE (DEFICIT), BEGINNING OF YEAR				
	-	-	(671,575)	(671,575)
FUND BALANCE, END OF YEAR				
	\$ -	\$ -	\$ 2,850,248	\$ 2,850,248

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
 PROPRIETARY FUND
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2021**

	Utilities Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 582,681
Investments	2,257,145
Accounts receivable, net	1,183,264
Due from other funds	435,446
Due from other governments	51,045
Restricted assets:	
Cash and cash equivalents	9,130,691
Investments	546,314
Total current assets	14,186,586
Non-current assets	
Capital assets	
Non-depreciable	4,932,668
Depreciable, net	24,807,890
Total non-current assets	29,740,558
TOTAL ASSETS	43,927,144
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions	206,008
Related to other post employment benefits	4,952
TOTAL DEFERRED OUTFLOWS OF RESOURCES	210,960

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
 PROPRIETARY FUND
 STATEMENT OF NET POSITION – CONTINUED
 SEPTEMBER 30, 2021**

	Utilities Fund
LIABILITIES	
Current liabilities	
Accounts payable	\$ 378,916
Accrued liabilities	30,175
Due to other governments	389,456
Due to other funds	119,583
Compensated absences	2,817
Notes payable	141,638
Revenue bonds payable	421,000
Payable from restricted assets	
Accrued interest	35,493
Customer deposits	260,271
Total current liabilities	1,779,349
Non-current liabilities	
Compensated absences	53,510
Notes payable	3,284,614
Revenue bonds payable	10,404,810
Other post-employment benefits	28,122
Net pension liability	610,063
Total non-current liabilities	14,381,119
TOTAL LIABILITIES	16,160,468
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	436,061
Related to other post employment benefits	33,091
TOTAL DEFERRED INFLOWS OF RESOURCES	469,152
NET POSITION	
Net investment in capital assets	15,488,496
Restricted for system improvements	7,480,045
Restricted for debt service	1,901,196
Unrestricted	2,638,747
TOTAL NET POSITION	\$ 27,508,484

See notes to the financial statements.

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**CITY OF DEFUNIAK SPRINGS, FLORIDA
 PROPRIETARY FUND
 STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
 FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	Utilities Fund
OPERATING REVENUES	
Charges for services	\$ 8,479,352
Interlocal agreement	208,451
Other operating income	504,224
Total operating revenues	9,192,027
OPERATING EXPENSES	
Personal services	811,366
Materials and supplies	870,434
Repairs and maintenance	316,134
Office and utilities	415,887
Insurance expense	45,814
Contractual services	3,218,346
Billing fees	945,916
Depreciation	1,156,590
Total operating expenses	7,780,487
OPERATING INCOME	1,411,540
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(402,464)
Interest	1,272
Total non-operating expenses	(401,192)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	1,010,348
Capital contributions	7,400,419
Transfers in	4,307,834
Transfers out	(8,240,419)
Total capital contributions and transfers	3,467,834
CHANGE IN NET POSITION	4,478,182
NET POSITION AT BEGINNING OF YEAR	23,030,302
NET POSITION AT END OF YEAR	\$ 27,508,484

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 8,956,837
Payments to employees for services	(850,992)
Payments to suppliers for goods and services	(5,670,384)
Net cash provided by operating activities	2,435,461
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers out	(3,015,988)
Transfers in	2,269,922
Net cash used in non-capital financing activities	(746,066)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(2,984,361)
Interest paid	(404,938)
Impact fees and capital received	6,682,825
Proceeds from grants	354,244
Principal payments on notes payable	(135,561)
Proceeds from notes payable	2,006,602
Principal payments on capital leases	(80,581)
Principal payments on bonds payable	(410,608)
Net cash provided by capital and related financing activities	5,027,622
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,717,017
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,996,355
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 9,713,372
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF:	
Unrestricted	\$ 582,681
Restricted	9,130,691
Total cash and cash equivalents	\$ 9,713,372

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS – CONTINUED
 FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	Utility Fund
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 1,411,540
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,156,590
Decrease (increase) in assets:	
Accounts receivable, net	(274,396)
Due from other governments	274,815
Deferred outflows of resources	81,358
Increase (decrease) in liabilities:	
Accounts payable	(132,668)
Accrued liabilities	(924)
Compensated absences	6,934
Customers deposits	39,206
Net pension liability	(440,249)
Other post-employment benefits	(159)
Deferred inflows of resources	313,414
Net cash provided by operating activities	\$ 2,435,461
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS	
Forgiveness of debt	\$ 394,690

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of City

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

The financial statements of the City have been prepared in accordance with accounting principles generally accepted (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.

In September 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.

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, 2021**

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 is the proprietary fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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

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

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

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

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 2021 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, 2021**

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. The City's one proprietary fund is an enterprise fund, as fees are charged to external users for services.

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

Receivables and Payables

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

All receivables in governmental funds are shown net of an allowance for doubtful accounts. At September 30, 2021, 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, 2021**

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.

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, 2021**

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:

Assets	Years
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, 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether 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 \$139,911 as of September 30, 2021. This amount is recognized in the government-wide financial statements and in the proprietary fund financial statements.

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 \$2,970,744 as of September 30, 2021. 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.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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 (1) not in spendable form, or (2) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, deposits, prepaid items and advances to other funds.
- Restricted – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- Committed – includes amounts that can only be used for the specific purposes determined by a formal action (an Ordinance) of the City's highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action (an Ordinance) that imposed the constraint originally.
- Assigned – includes spendable fund balance amounts that are intended to be used by the City for specific purposes that are neither restricted nor committed. *Intent* is expressed by the City Council to assign amounts to be used for specific purposes. The City's fund balance policy does not explicitly specify who is authorized to establish fund balance assignments. Only the City Council has the authority to establish fund balance assignments.
- Unassigned – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

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

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 July 27, 2022, which is the date the financial statements were available to be issued.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

Budgets are adopted on a basis consistent with GAAP. Annual appropriated budgets are adopted by resolution for all governmental funds and the proprietary fund. However, a budget for the proprietary fund is not legally required to be reported on and is not included in 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 funds and the proprietary fund of the City is legally enacted through passage of a resolution. Budget amendments are periodically passed via resolutions throughout the fiscal year. Budgeted beginning fund balance in the accompanying financial statements reflects planned utilization of prior years' unassigned fund balance to the level required to accomplish current year objectives.

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, 2021, the value of the City's deposits was \$13,438,057, 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, 2021**

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, 2021, the total carrying value of certificates of deposit was \$1,575,459, 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, 2021**

3. DEPOSITS AND INVESTMENTS – CONTINUED

Investments – Continued

As of September 30, 2021, 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	1.5	AAAf/S2	\$ 1,049,937
Intermediate High Quality Bond Fund	3.9	AAAf/S3	<u>1,132,440</u>
			2,182,377
Certificates of deposits	n/a	n/a	<u>1,575,459</u>
			<u>\$ 3,757,836</u>
<u>Statement of Net Position</u>			
Investments – unrestricted			\$ 2,957,266
Investments – restricted			<u>800,570</u>
			<u>\$ 3,757,836</u>

Credit Risk

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to meet its obligations. GASB Statement No. 40, requires disclosure of credit quality ratings for investments in debt securities, as well as investments in external investment pools, money market funds and other pooled investments of fixed-income securities. Investments may be aggregated by rating categories within the disclosure. Ratings are set by nationally recognized statistical rating organizations (Fitch, S&P).

Custodial Credit Risk

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 FMIvT are evidenced by shares of the pool. Investments in pools should be disclosed, but not categorized because they are not evidenced by securities that exist in physical or book-entry form. The City's investment is with the pool, not the securities that make up the pool; therefore, no disclosure is required. The City may make redemptions of its investment in the FMIvT twice a month with a five-business day notice.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

3. DEPOSITS AND INVESTMENTS – CONTINUED

Investments – Continued

Concentration Risk

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

The City's two investment funds in the Florida Municipal Investment Trust invest mainly in U.S. government and agency securities and asset-backed securities. The underlying securities have observable Level 1 quoted pricing inputs or observable Level 2 significant other observable pricing inputs. Most of the security prices were obtained from a pricing service, Interactive Data Corporation (IDC). While the underlying asset values are based on quoted prices or market corroborated inputs, the net asset value of the portfolio is not publicly quoted. The City considers their shares in these funds as Level 2 since the value is based on market-corroborated data.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

4. RECEIVABLES

Receivables and amounts due from other governments at September 30, 2021, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>General Fund</u>	<u>Utilities Fund</u>	
Accounts receivable	\$ 91,199	\$ 1,499,034	\$ 1,590,233
Less allowance for doubtful accounts	-	(315,770)	(315,770)
Total receivables, net	<u>\$ 91,199</u>	<u>1,183,264</u>	<u>\$ 1,274,463</u>
Taxes receivables	\$ 481,820	\$ -	\$ 481,820
Grants receivables	<u>881,508</u>	<u>51,045</u>	<u>932,553</u>
Due from other governments	<u>\$ 1,363,328</u>	<u>\$ 51,045</u>	<u>\$ 1,414,373</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, 2021**

5. CHANGES IN CAPITAL ASSETS

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

	Beginning Balance (as Restated)	Increases	Decreases / Transfers	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 2,759,946	\$ 30,932	\$ -	\$ 2,790,878
Construction in progress	1,096,190	571,857	(89,629)	1,578,418
Total capital assets not being depreciated	3,856,136	602,789	(89,629)	4,369,296
Capital assets being depreciated				
Buildings	4,889,781	86,019	-	4,975,800
Improvements other than buildings	11,370,201	-	-	11,370,201
Machinery and equipment	5,462,441	998,190	89,304	6,549,935
Total capital assets being depreciated	21,722,423	1,084,209	89,304	22,895,936
Less accumulated depreciation				
Buildings	(2,630,501)	(140,766)	-	(2,771,267)
Improvements other than buildings	(4,524,377)	(280,123)	-	(4,804,500)
Machinery and equipment	(4,020,451)	(336,995)	-	(4,357,446)
Total accumulated depreciation	(11,175,329)	(757,884)	-	(11,933,213)
Total capital assets being depreciated, net	10,547,094	326,325	89,304	10,962,723
Governmental activities, net	\$ 14,403,230	\$ 929,114	\$ (325)	\$ 15,332,019

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

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	2,593,959	2,531,320	(782,099)	\$ 4,343,180
Total capital assets not being depreciated	3,183,447	2,531,320	(782,099)	4,932,668
Capital assets being depreciated				
Buildings	42,509,687	437,541	428,171	43,375,399
Machinery and equipment	3,298,862	15,500	353,928	3,668,290
Total capital assets being depreciated	45,808,549	453,041	782,099	47,043,689
Less accumulated depreciation				
Buildings	(18,471,536)	(1,008,173)	-	(19,479,709)
Machinery and equipment	(2,607,673)	(148,417)	-	(2,756,090)
Total accumulated depreciation	(21,079,209)	(1,156,590)	-	(22,235,799)
Total capital assets being depreciated, net	24,729,340	(703,549)	782,099	24,807,890
Business-type activities, net	<u>\$ 27,912,787</u>	<u>\$ 1,827,771</u>	<u>\$ -</u>	<u>\$ 29,740,558</u>

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

Governmental Activities	
General government	\$ 108,016
Public safety	169,508
Transportation	406,558
Culture and recreation	73,802
Total depreciation expense – governmental activities	<u>\$ 757,884</u>
Business-type activities	
Utilities	1,156,590
Total depreciation expense – business-type activities	<u>\$ 1,156,590</u>

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

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, 2021**

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:

	07/01/2021 - 09/30/2021	07/01/2020 - 06/30/2021	07/01/2019 - 06/30/2020	07/01/2018 - 06/30/2019
Regular Class	10.82%	10.00%	8.47%	8.26%
Special Risk	25.89%	24.45%	25.48%	24.50%
Senior Management Class	29.01%	27.29%	25.41%	24.06%
DROP	18.34%	16.98%	14.60%	14.03%

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

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, 2021. The City's contributions, including employee contributions, to the Pension Plan totaled \$641,713, \$601,584 and \$550,727 for the fiscal years ended September 30, 2021, 2020 and 2019, respectively.

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

At September 30, 2021, the City reported a liability of \$1,272,431 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, 2021, the City's proportionate share was 0.016844762%.

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2021.

For the fiscal year ended September 30, 2021, the City recognized a reduction to pension expense of \$695,523. 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 experiences	\$ 218,097	\$ -
Change of assumptions	870,154	-
Net difference between projected and actual earnings on Pension Plan investments	-	4,439,656
Changes in proportion and differences between City Pension Plan contributions and proportionate share of contributions	138,048	406,005
City Pension Plan contributions subsequent to the measurement date	159,573	-
	<u>\$ 1,385,872</u>	<u>\$ 4,845,661</u>

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

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 \$159,573, 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, 2022. 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:

Actuarial Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using the following actuarial assumption, applied to all periods included in the measurement:

Inflation	2.40%
Salary increases	3.25%, average, including inflation
Investment rate of return	6.80%, net of Pension Plan investment expense, including inflation

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

The actuarial assumptions that determined the total pension liability as of June 30, 2021, were based on the results of an actuarial experience study for the period of July 1, 2013 – June 30, 2018.

Fiscal year ending September 30:	Amount:
2022	\$ (639,717)
2023	(737,728)
2024	(961,097)
2025	(1,217,614)
2026	(42,386)
Thereafter	(20,820)
	<u><u>\$ (3,619,362)</u></u>

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

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%	2.10%	2.10%	1.10%
Fixed income	20.00%	3.80%	3.70%	3.30%
Global equity	54.20%	8.20%	6.70%	17.80%
Private equity	10.80%	11.70%	8.50%	26.40%
Strategic investments	3.70%	5.70%	5.40%	8.40%
Real estate (property)	10.30%	7.10%	6.20%	13.80%
Total	<u>100.00%</u>			
Assumed inflation – mean			2.40%	1.20%

(1) As outlined in the Pension Plan's investment policy

Discount Rate

The discount rate used to measure the total pension liability was 6.80%. 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, 2021**

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 6.80%, 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 5.80%	Current Discount Rate 6.80%	1% Increase 7.80%
City's proportionate share of the net pension liability	\$ 5,690,394	\$ 1,272,431	\$ (2,420,492)

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, 2021, 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, 2021, 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
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

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

HIS Plan – Continued

Contributions – Continued

The City's contributions to the HIS Plan totaled \$62,292, \$77,860, and \$72,027 for the fiscal years ended September 30, 2021, 2020 and 2019, respectively.

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

At September 30, 2021, the City reported a liability of \$1,698,313 for its proportionate share of the HIS Plan's net pension liability. At June 30, 2021, the City's proportionate share was 0.013845127%.

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2021.

For the fiscal year ended September 30, 2021, the City recognized pension expense of \$62,292. 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	\$ 56,830	\$ 711
Change in assumptions	133,449	69,975
Net difference between projected actual earnings on Pension Plan investments	1,770	-
Changes in proportion and differences between City Pension Plan contributions and proportionate share of contributions	124,300	24,675
City Pension Plan contributions subsequent to the measurement date	18,307	-
	<u>\$ 334,656</u>	<u>\$ 95,361</u>

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

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 \$18,307 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, 2022. Other components reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan, except for changes in the proportion and related differences in the share of contributions will be recognized in pension expense as follows:

Fiscal year ending September 30:	Amount
2022	\$ 49,497
2023	26,718
2024	38,041
2025	45,234
2026	37,881
Thereafter	23,617
	\$ 220,988

Actuarial Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using the following actuarial assumption, applied to all periods included in the measurement:

Inflation		2.40%
Salary increases	3.25%, average, including inflation	
Investment rate of return		2.16%

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

The actuarial assumptions that determined the total pension liability as of June 30, 2021, were based on the results of an actuarial experience study for the period of July 1, 2013 – June 30, 2018.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

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 2.16%. 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 2.16%, 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 1.16%	Current Discount Rate 2.16%	1% Increase 3.16%
City's proportionate share of the net pension liability	\$ 1,963,414	\$ 1,698,313	\$ 1,467,277

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, 2021**

7. LONG-TERM DEBT

Changes in Long-Term Debt Liabilities

Long-term debt activity for the year ended September 30, 2021, 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	\$ 451,384	\$ 113,081	\$ (137,647)	\$ 426,818	\$ 21,341
Capital leases	105,861	472,930	(71,447)	507,344	118,549
Total governmental activities	\$ 557,245	\$ 586,011	\$ (209,094)	\$ 934,162	\$ 139,890
Business-type activities					
Compensated absences	\$ 49,393	\$ 41,115	\$ (34,181)	\$ 56,327	\$ 2,817
Capital leases	80,581	-	(80,581)	-	-
Notes and loans payable	1,949,901	2,006,602	(530,251)	3,426,252	141,638
Revenue bonds	11,236,418	-	(410,608)	10,825,810	421,000
Total business-type activities	\$ 13,316,293	\$ 2,047,717	\$ (1,055,621)	\$ 14,308,389	\$ 565,455

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 \$80,628; due in quarterly installments of \$7,027; payments through November 2022; bearing interest at a rate of 2.79%.	\$ 27,435	\$ 6,979	\$ 34,414
Capital lease with U.S. Bancorp for a fire truck with an original cost of \$472,929; due in annual installments of \$99,958; payments through January 2026; bearing interest at a rate of 1.87%.	91,114	381,816	472,930
<i>Total Capital Leases</i>	118,549	388,795	507,344
<i>Compensated Absences</i>			
Total current and long-term portion of accumulated, vested, annual and sick leave for governmental funds.	21,341	405,477	426,818
TOTAL GOVERNMENTAL ACTIVITIES	\$ 139,890	\$ 794,272	\$ 934,162

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

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>Loans Payable</i>			
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.	\$ 25,613	\$ 2,698	\$ 28,311
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.	52,809	842,139	894,948
State revolving loan payable (SRF#4) of \$500,180; due in semi-annual payments of \$13,098, through April 15, 2041; bearing 0.41% interest; secured by anticipated net sewer system revenues.	-	100,522	100,522
State revolving loan payable (SRF#5) of \$2,006,602; due in semi-annual payments of \$18,566, through November 15, 2041; bearing no interest; secured by anticipated net sewer system revenues.	-	2,006,602	2,006,602
<i>Notes Payable</i>			
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	288,699	329,942
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	43,954	65,927
<i>Total Notes and Loans Payable</i>	<u>141,638</u>	<u>3,284,614</u>	<u>3,426,252</u>

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

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</i>			
Sewer System Revenue Bonds – Series 1997			
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.	\$ 80,000	\$ 1,578,100	\$ 1,658,100
Water System Junior Lien Revenue Bonds – Series 1991			
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.	52,000	601,000	653,000
Water System Junior Lien Revenue Bonds – Series 1996			
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.	18,000	386,100	404,100

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

7. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding – Continued

	Current	Long-Term	Total
<i>Revenue Bonds Payable – Continued</i>			
Water System Junior Lien Revenue Bonds – Series 2004			
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.	\$ 43,000	\$ 1,648,000	\$ 1,691,000
Water System Junior Lien Revenue Bonds – Series 2006			
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.	56,000	2,337,000	2,393,000
Water System Junior Lien Revenue Bonds – Series 2012			
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.	82,000	3,854,000	3,936,000

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

7. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding – Continued

	Current	Long-Term	Total
<i>Revenue Bonds Payable – Continued</i>			
Gas System Refunding Revenue Bonds – Series 2012			
Authorized and issued \$885,000 at 2.30% per annum, principal payable annually on May 1, interest payable semi-annually on November 1 and May 1. Bonds are collateralized by a pledge of the local government half-cent sales tax pursuant to Florida Statutes.	\$ 90,000	\$ 610	\$ 90,610
Total Revenue Bonds Payable	421,000	10,404,810	10,825,810
Accrued Compensated Absences			
Total current and long-term portion of accumulated, vested, annual and sick leave for Enterprise Funds.	2,817	53,510	56,327
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 565,455	\$ 13,742,934	\$ 14,308,389
GRAND TOTAL LONG-TERM DEBT			\$ 15,242,551

Requirement to Amortize all Long-Term Debt

The annual requirements to amortize all debt outstanding except compensated absences as of September 30, 2021, follows:

Year Ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2022	\$ 118,549	\$ 9,518	\$ 562,638	\$ 416,528
2023	99,796	7,189	525,337	400,622
2024	94,553	5,404	538,161	386,158
2025	96,322	3,636	534,785	371,159
2026	98,124	1,835	522,184	355,160
2027 - 2031	-	-	2,786,434	1,518,404
2032 - 2036	-	-	2,683,906	1,057,995
2037 - 2041	-	-	1,968,278	659,788
2042 - 2046	-	-	3,053,528	326,508
2047 - 2051	-	-	855,000	96,828
2052 - 2056	-	-	221,811	5,005
Total	\$ 507,344	\$ 27,582	\$ 14,252,062	\$ 5,594,155

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

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, 2021

Inactive plan members or beneficiaries currently receiving benefits	1
Inactive plan members entitled to but not yet receiving benefits	-
Active plan members	103
	104

Net OPEB Liability

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of October 1, 2020, using the following actuarial assumptions:

Measurement date	September 30, 2021
Valuation date	October 1, 2020
Actuarial cost method	Entry Age Normal (AMM)
Inflation	3.0% annually
Salary increase	4.0% annually
Prior discount rate	2.14%
Discount rate	2.43% annually which is the S&P Municipal Bond 20-Year, High-Grade Rate Index as of September 30, 2020.
Retirement age	Eligibility is the same as the Florida Retirement System (FRS) pension plan.
Mortality	Special Risk: PubS.H-2010 Mortality Table – Safety All Others: PubG.H-2010 Mortality Table – General

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

8. OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

Net OPEB Liability – Continued

Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balance at September 30, 2020	\$ 140,701	\$ -	\$ 140,701
Changes of the year:			
Service cost	10,290	-	10,290
Interest	2,891	-	2,891
Differences between expected and actual experience	-	-	-
Changes of assumptions	(2,773)	-	(2,773)
Benefit payments	(11,198)	-	(11,198)
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	(790)	-	(790)
Balance at September 30, 2021	<u>\$ 139,911</u>	<u>\$ -</u>	<u>\$ 139,911</u>

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

	1% Decrease	Current Discount Rate	1% Increase
	1.43%	2.43%	3.43%
	Net OPEB liability	\$ 130,348	\$ 139,911

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

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
	6.50%	7.50%	8.50%
	Net OPEB liability	\$ 163,654	\$ 139,911

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

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, 2021, the City recognized OPEB expense of \$(791). 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	\$ 9,266	\$ 28,124
Change of assumptions	15,365	136,510
Total	\$ 24,631	\$ 164,634

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,

2022	\$ (16,514)
2023	(16,514)
2024	(16,514)
2025	(16,514)
2026	(16,514)
Thereafter	(57,433)
	\$ (140,003)

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

9. INTERFUND BALANCES AND TRANSFERS

The following is a summary of interfund balances at September 30, 2021:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>
General	Utilities	\$ 434,285
Cemetery	Utilities	\$ 1,161
Utilities	General	\$ 119,583

The following is a summary of interfund transfers for the year ended September 30, 2021:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
Utilities	General	\$ 8,240,419
General	Cemetery	\$ 137,173
	CRA	35,750
	Utilities	4,219,311
		\$ 4,392,234
Christmas Reflections	Utilities	\$ 15,000
Cemetery	Utilities	\$ 73,523

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.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

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.

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, 2021, the City remitted approximately \$2,800,000 to Walton County and received a check for approximately \$990,000 from Walton County, representing funds remaining from the prior year's remittance.

Legal Matters

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

12. PRIOR PERIOD ADJUSTMENT

Correction of an Error

The City's beginning net position for governmental activities was restated for errors identified relating to year-end closeout of the City's books and records over capital asset expenditures not properly capitalized. The resulting effect was an increase of governmental activities net position of \$498,500.

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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.016844762%	0.018106068%	0.017761257%	0.01700713%	0.018309200%	0.018313000%	0.017258610%
City's proportionate share of the net pension liability (asset)	\$ 1,272,431	\$ 7,846,637	\$ 6,116,730	\$ 5,150,823	\$ 5,415,735	\$ 4,624,047	\$ 2,229,181
City's covered-employee payroll	\$ 4,632,781	\$ 4,457,236	\$ 3,668,160	\$ 3,976,920	\$ 4,009,182	\$ 3,916,251	\$ 3,756,488
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	27.47%	176.04%	166.75%	129.52%	135.08%	118.07%	59.34%
Plan fiduciary net position as a percentage of the total pension liability	96.40%	78.85%	82.61%	84.26%	83.89%	84.88%	92.00%

*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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.013845127	0.013511504%	0.012971022%	0.012419062%	0.012959050%	0.012515520%	0.012221600%
City's proportionate share of the net pension liability (asset)	\$ 1,698,313	\$ 1,649,733	\$ 1,451,328	\$ 1,314,447	\$ 1,385,641	\$ 1,458,631	\$ 1,246,411
City's covered-employee payroll	\$ 4,632,781	\$ 4,457,236	\$ 3,668,160	\$ 3,976,920	\$ 4,009,182	\$ 3,916,251	\$ 3,756,488
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	36.66%	37.01%	39.57%	33.05%	34.56%	37.25%	33.18%
Plan fiduciary net position as a percentage of the total pension liability	3.56%	2.63%	2.15%	1.64%	0.97%	0.50%	0.99%

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

** This schedule is intended to show information for 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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 641,713	\$ 601,584	\$ 550,727	\$ 487,357	\$ 460,073	\$ 428,850	\$ 408,301
Contributions in relation to the contractually required contribution	<u>(641,713)</u>	<u>(601,584)</u>	<u>(550,727)</u>	<u>(487,357)</u>	<u>(460,073)</u>	<u>(428,850)</u>	<u>(408,301)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 4,632,781	\$ 4,457,236	\$ 3,668,160	\$ 3,976,920	\$ 4,009,182	\$ 3,916,251	\$ 3,756,488
Contributions as a percentage of covered-employee payroll	13.85%	13.50%	15.01%	12.25%	11.48%	10.95%	10.87%

* 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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 81,382	\$ 77,860	\$ 72,027	\$ 67,349	\$ 128,363	\$ 125,628	\$ 90,563
Contributions in relation to the contractually required contribution	<u>(81,382)</u>	<u>(77,860)</u>	<u>(72,027)</u>	<u>(67,349)</u>	<u>(128,363)</u>	<u>(125,628)</u>	<u>(90,563)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 4,632,781	\$ 4,457,236	\$ 3,668,160	\$ 3,976,920	\$ 4,009,182	\$ 3,916,251	\$ 3,756,488
Contributions as a percentage of covered-employee payroll	1.76%	1.75%	1.96%	1.69%	3.20%	3.21%	2.41%

* 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 (UNAUDITED)
LAST TEN YEARS**

Reporting date	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability				
Service cost	\$ 10,290	\$ 8,043	\$ 16,202	\$ 17,091
Interest	2,891	7,532	7,368	10,397
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	-	11,020	-	(44,068)
Changes of assumptions ¹	(2,773)	(84,088)	1,370	(66,627)
Other changes	-	(7,548)	-	-
Benefit payments	<u>(11,198)</u>	<u>(9,695)</u>	<u>(23,863)</u>	<u>(25,556)</u>
Net change in total OPEB liability	(790)	(74,736)	1,077	(108,763)
Total OPEB liability – beginning	<u>140,701</u>	<u>215,438</u>	<u>214,361</u>	<u>323,124</u>
Plan fiduciary net position – ending (b)	<u>\$ 139,911</u>	<u>\$ 140,702</u>	<u>\$ 215,438</u>	<u>\$ 214,361</u>
Covered employee-payroll	\$ 4,632,781	\$ 4,457,236	\$ 3,528,523	\$ 3,528,523
City's net OPEB liability as a percentage of covered employee-payroll	3.02%	3.16%	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, 2021**

	<u>CRA</u>	<u>Christmas Reflections</u>	<u>Cemetery</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 115,267	\$ 58,221	\$ 37,031	\$ 210,519
Investments	-	-	131,699	131,699
Restricted assets				
Investments	-	-	13,010	13,010
TOTAL ASSETS	<u>\$ 115,267</u>	<u>\$ 58,221</u>	<u>\$ 181,740</u>	<u>\$ 355,228</u>
LIABILITIES				
Accounts payable	\$ -	\$ 11,581	\$ -	\$ 11,581
Accrued liabilities	-	1,694	2,443	4,137
Due to other funds	-	-	1,161	1,161
Payable from restricted assets				
Customer deposits	-	-	13,010	13,010
Total liabilities	-	13,275	16,614	29,889
FUND BALANCE				
Restricted	115,267	-	-	115,267
Committed - special revenue	-	44,946	165,126	210,072
Total fund balance	<u>115,267</u>	<u>44,946</u>	<u>165,126</u>	<u>325,339</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 115,267</u>	<u>\$ 58,221</u>	<u>\$ 181,740</u>	<u>\$ 355,228</u>

**CITY OF DEFUNIAK SPRINGS, FLORIDA
 COMBINING STATEMENT OF REVENUES, EXPEDITURES
 AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	<u>CRA</u>	<u>Christmas Reflections</u>	<u>Cemetery</u>	<u>Total</u>
REVENUES				
Taxes	\$ 79,771	\$ -	\$ -	\$ 79,771
Licenses and permits	-	-	4,569	4,569
Charges for services	-	78,479	-	78,479
Interest	-	-	104	104
Miscellaneous	-	14,084	54,150	68,234
Total revenues	<u>79,771</u>	<u>92,563</u>	<u>58,823</u>	<u>231,157</u>
EXPENDITURES				
Current				
General government	254	-	-	254
Physical environment	-	-	81,131	81,131
Culture and recreation	-	84,675	-	84,675
Total expenditures	<u>254</u>	<u>84,675</u>	<u>81,131</u>	<u>166,060</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	79,517	7,888	(22,308)	65,097
OTHER FINANCING SOURCES (USES)				
Transfers in	35,750	-	137,173	172,923
Transfers out	-	(15,000)	(73,523)	(88,523)
Total other financing sources (uses)	<u>35,750</u>	<u>(15,000)</u>	<u>63,650</u>	<u>84,400</u>
NET CHANGE IN FUND BALANCE	115,267	(7,112)	41,342	149,497
FUND BALANCE, BEGINNING OF YEAR	<u>-</u>	<u>52,058</u>	<u>123,784</u>	<u>175,842</u>
FUND BALANCE, END OF YEAR	<u>\$ 115,267</u>	<u>\$ 44,946</u>	<u>\$ 165,126</u>	<u>\$ 325,339</u>

**CITY OF DEFUNIAK SPRINGS, FLORIDA
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

State Agency Pass-Through Entity State Project	CSFA Number	Contract / Grant Number	Expenditures	Passed Through to Subrecipients
Florida Department of Environmental Protection				
Direct projects				
Small Community Wastewater Facility Grant	37.075	SG660241	\$ 394,690	\$ -
Wastewater Treatment Facility Construction	37.077	SG660243	<u>2,006,602</u>	<u>-</u>
Total Florida Department of Environmental Protection			<u>2,401,292</u>	<u>-</u>
Florida Department of Transportation				
Direct project				
Aviation Grant Program	55.004	G0G55	330,229	-
Aviation Grant Program	55.004	G1696	<u>241,628</u>	<u>-</u>
Total Florida Department of Transportation			<u>571,857</u>	<u>-</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u>\$ 2,973,149</u>	<u>\$ -</u>

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO THE SCHEDULE OF EXPENDITURES
OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of State Financial Assistance (the Schedule) includes the state grant activity of the City of DeFuniak Springs, Florida (the City) for the year ended September 30, 2021. The information in this schedule is presented in accordance with the requirements of Chapter 69I-5, *Schedule of Expenditures of State Financial Assistance*, Rules of the Department of Financial Services and Chapter 10.550, *Rules of the Auditor General*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

COMPLIANCE SECTION

- COMPLIANCE MATTERS
- 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 regard to investments for the year ended September 30, 2021.

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, 2021.

Warren Averett, LLC

Destin, Florida
July 27, 2022

**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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 27, 2022.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2021-002.

City's Response to Findings

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

Purpose of this Report

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



Destin, Florida
July 27, 2022

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

To the Honorable Mayor and
Members of the City Council

Report on Compliance of Each Major State Project

We have audited the City of DeFuniak Springs, Florida's (the City), compliance with the types of requirements described in the Department of Financial Services' *State Projects Compliance Supplement*, that could have a direct and material effect on each of the City's major state projects for the year ended September 30, 2021. The City's major state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with state statutes, regulations and the terms and conditions of its State assistance applicable to its state projects.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major state projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Chapter 10.550, *Rules of the Auditor General*. Those standards and Chapter 10.550, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above occurred and whether it had a direct and material effect on a major state project. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state project. However, our audit does not provide legal determination of the City's compliance.

Opinion on Each Major State Project

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state projects for the year ended September 30, 2021.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each of the major state projects to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each of the major State projects and to test and report on internal control over compliance in accordance with Chapter 10.550, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Warren Averett, LLC

Destin, Florida
July 27, 2022

**CITY OF DEFUNIAK SPRINGS, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2021**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified			
Internal control over financial reporting:				
• Material weakness(es) identified?	<u> X </u>	Yes	<u> </u>	No
• Significant deficiency(ies) identified that is/are not considered to be material weakness(es)?	<u> </u>	Yes	<u> X </u>	None Reported
Noncompliance material to financial statements noted?	<u> X </u>	Yes	<u> </u>	No

State Projects

Internal control over financial reporting:				
• Material weakness(es) identified?	<u> </u>	Yes	<u> X </u>	No
• Significant deficiency(ies) identified that is/are not considered to be material weakness(es)?	<u> </u>	Yes	<u> X </u>	None Reported
Type of auditors' report issued on compliance for major projects:	Unmodified			
• Any audit finding disclosed that are required to be reported in accordance with Chapter 10.550, <i>Rules of the Auditor General</i> ?	<u> </u>	Yes	<u> X </u>	No

Identification of major state projects:

<u>State Project Name</u>	<u>State CSFA No.</u>
Wastewater Treatment Facility Construction	37.077
Dollar threshold used to distinguish between Type A and Type B state projects:	<u>\$750,000</u>

**CITY OF DEFUNIAK SPRINGS, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
SEPTEMBER 30, 2021**

II. FINDINGS – FINANCIAL STATEMENTS

FINDING 2021-001 – MATERIAL ADJUSTMENTS

Criteria

The City's internal control over financial reporting is designed to allow for management and employees, in the normal course of performing their assigned functions, to prevent, or detect and correct a material misstatement on a timely basis.

Condition

Several audit adjustments were necessary to properly reflect account balance as follows:

- Adjustments to restate opening net position of governmental activities (detected and provided to us by the City's Finance Director).
- Adjustments to debt for state revolving loan funds received in the current year.
- Accruing payables that related to FY 2021 that were recorded as expenditures in FY 2022.
- Adjustments to interfund balances and activities.

Cause

Certain year end entries were not posted in advance of the audit.

Effect

The auditors proposed material correcting entries, either individually or in the aggregate, which were reviewed and accepted by management to correct certain account balances at year end.

Recommendation

The City should ensure a year end closing checklist is developed.

Management's Response

Concur. In June 2022, the City's finance director resigned to take a new position and the City is in currently looking for their replacement. Once hired, the new finance director will work to ensure a year end checklist is developed.

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**CITY OF DEFUNIAK SPRINGS, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
SEPTEMBER 30, 2021**

II. FINDINGS – FINANCIAL STATEMENTS – CONTINUED

FINDING 2021-002 – ANNUAL FINANCIAL REPORT

Criteria

Section 218.32, Florida Statutes, requires the City to submit its annual financial report to the Florida Department of Financial Services within 45 days after delivery of the audit report, but no later than 9 months after the end of the fiscal year of the government entity. In addition, Section 218.39, Florida Statutes, requires the City's audited financial statements to be submitted to the Auditor General within 45 days after delivery of the audit report but not later than 9 months after the end of the fiscal year of the governmental entity.

Condition

The City did not meet the filing requirements for the fiscal year ended September 30, 2021.

Cause

During audit fieldwork, the City's finance director resigned to take a new position, which resulted in delays in completing the audit. We would like to acknowledge the City's finance and management team who worked diligently to overcome the challenges associated with the Finance Director's departure and we appreciate their assistance in completing the audit.

Effect

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

Recommendation

We recommend the City hire a new finance director.

Management's Response

Concur. The City is in the process of searching for a new finance director. Once hired, they will work with the auditors to ensure compliance with the audit filing deadlines.

III. FINDINGS – MAJOR STATE PROJECTS

The results of the audit of the City did not disclose any findings required to be reported under Chapter 10.550, *Rules of the Auditor General*.

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, 2021, and have issued our report thereon dated July 27, 2022.

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*; our Independent Auditors' Report on Compliance for Each Major State Project and Report on Internal Control Over Compliance Required by Chapter 10.550, *Rules of the Auditor General*; our Schedule of Findings and Questioned Costs, and our Independent 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 July 27, 2022, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether corrective actions have been taken to address findings and recommendations made in the preceding annual financial report. There were no findings or recommendations in the preceding annual 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, 2021.

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
July 27, 2022