

**CITY OF DEFUNIAK SPRINGS, FLORIDA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2022**

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
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FOR THE YEAR ENDED SEPTEMBER 30, 2022**

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## **FINANCIAL SECTION**

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

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council

### ***Qualified and Unmodified Opinions***

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

### *Summary of Opinions*

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-type Activities	Unmodified
General Fund	Qualified
Utilities Fund	Unmodified

### *Qualified Opinion on the General Fund and Governmental Activities*

In our opinion, except for the effects of the matter described in the Basis for Qualified and Unmodified Opinions section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund and Governmental Activities of the City as of September 30, 2022, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Unmodified Opinions on Business-type Activities, Utility Fund and Aggregate Remaining Fund Information*

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

### ***Basis for Qualified and Unmodified Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

*Matter Giving Rise to the Qualified Opinion on the General Fund and Governmental Activities*

Because of inadequacies in the City's accounting records and key staff transition, we were unable to obtain sufficient appropriate audit evidence regarding an amount recorded as miscellaneous revenue, totaling approximately \$307,000, in the General Fund and in Governmental Activities for the year ended September 30, 2022.

***Responsibilities of Management for the Financial Statements***

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

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

***Auditors' Responsibility for the Audit of the Financial Statements***

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

#### ***Required Supplementary Information***

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

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual 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 not been subjected to the auditing procedures that would have been applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling, such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of state financial assistance are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2024, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Warren Averett, LLC*

Destin, Florida  
February 20, 2024



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

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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, 2022. The analysis provides summary financial information for the City and should be read in conjunction with the City's financial statements.

**FINANCIAL HIGHLIGHTS**

- ❖ Total assets and deferred outflows of the City exceeded total liabilities and deferred inflows by approximately \$42 million (net position). Of this amount, a deficit of approximately \$4 million is unrestricted for governmental activities, and approximately \$3 million is unrestricted for business-type activities. Total net position includes approximately \$16 million of net investment in capital assets in the governmental activities and approximately \$16 million in the business-type activities.
- ❖ Revenues for governmental activities increased by approximately \$2 million or 18%, primarily from an increase in sales tax and grants revenue.
- ❖ Revenues for business-type activities decreased by approximately \$7 million or 41%, primarily from a decrease in capital grants related to impact fees received in the prior year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

**BASIC FINANCIAL STATEMENTS**

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

*Government-Wide Financial Statements*

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

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

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

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

#### *Fund Financial Statements*

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

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

#### *Notes to Financial Statements*

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

## FINANCIAL ANALYSIS OF THE CITY

The following table reflects the condensed statement of net position:

	Governmental Activities		Business-type Activities		Total	
	2022	2021 (Restated)	2022	2021	2022	2021 (Restated)
Current and other assets	\$ 10,707,623	\$ 4,675,075	\$ 14,158,320	\$ 14,067,003	\$ 24,865,943	\$ 18,742,078
Capital assets	18,731,103	15,332,019	29,832,345	29,740,558	48,563,448	45,072,577
Total assets	29,438,726	20,007,094	43,990,665	43,807,561	73,429,391	63,814,655
Total deferred outflows of resources	1,905,138	1,534,199	214,993	210,960	2,120,131	1,745,159
Long-term liabilities	10,410,331	3,406,632	14,999,332	14,946,574	25,409,663	18,353,206
Other liabilities	6,301,384	1,016,672	879,401	1,094,311	7,180,785	2,110,983
Total liabilities	16,711,715	4,423,304	15,878,733	16,040,885	32,590,448	20,464,189
Total deferred inflows of resources	664,294	4,636,504	74,964	469,152	739,258	5,105,656
Net position						
Net investment						
in capital assets	15,842,309	14,824,675	15,689,974	15,488,496	31,532,283	30,313,171
Restricted	1,921,790	1,292,965	9,605,428	9,381,241	11,527,218	10,674,206
Unrestricted (deficit)*	(3,796,244)	(3,636,155)	2,956,559	2,638,747	(839,685)	(997,408)
Total net position	\$ 13,967,855	\$ 12,481,485	\$ 28,251,961	\$ 27,508,484	\$ 42,219,816	\$ 39,989,969

\*Net position has been restated for a prior period adjustment.

The City is able to report positive balances in all three categories of net position for the business-type activities. However, for the governmental activities, the unrestricted net position reflects a deficit balance. Capital assets (e.g., land, buildings and equipment) are utilized to provide services to citizens and therefore are not available for future spending. This investment in capital assets, net of related debt, is the largest portion of the City's total net position. The restricted net position is comprised of funds required to be used for the retirement of the City's debt obligations, as well as impact fees that can only be used for the expansion of the City's systems.

## FINANCIAL ANALYSIS OF THE CITY – CONTINUED

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

	Governmental Activities		Business-type Activities		Total	
	2022	2021 (Restated)	2022	2021	2022	2021 (Restated)
<b>REVENUES</b>						
Program revenues						
Charges for services	\$ 1,918,492	\$ 1,462,993	\$ 9,603,320	\$ 8,479,352	\$ 11,521,812	\$ 9,942,345
Operating grants and contributions	145,458	140,562	-	-	145,458	140,562
Capital grants and contributions	1,403,818	682,422	344,780	8,113,094	1,748,598	8,795,516
General revenues						
Property taxes	1,448,177	1,219,632	-	-	1,448,177	1,219,632
Gas taxes	307,573	297,153	-	-	307,573	297,153
Sales taxes	2,938,766	2,836,421	-	-	2,938,766	2,836,421
Franchise fees	296,207	270,607	-	-	296,207	270,607
Utility services taxes	1,257,403	1,181,622	-	-	1,257,403	1,181,622
Intergovernmental	2,055,159	1,910,493	-	-	2,055,159	1,910,493
Miscellaneous	746,898	567,397	-	-	746,898	567,397
Investment earnings (loss)	(38,134)	821	(112,694)	1,272	(150,828)	2,093
<b>TOTAL REVENUES</b>	<b>12,479,817</b>	<b>10,570,123</b>	<b>9,835,406</b>	<b>16,593,718</b>	<b>22,315,223</b>	<b>27,163,841</b>
<b>EXPENSES</b>						
Primary government						
General government	3,098,787	2,718,249	-	-	3,098,787	2,718,249
Public safety	4,759,547	3,734,017	-	-	4,759,547	3,734,017
Physical environment	146,895	77,673	-	-	146,895	77,673
Transportation	2,616,653	1,915,262	-	-	2,616,653	1,915,262
Culture and recreation	1,230,340	1,156,998	-	-	1,230,340	1,156,998
Interest on long-term debt	84,527	6,800	-	-	84,527	6,800
Business-type activities						
Utilities	-	-	8,148,627	8,182,951	8,148,627	8,182,951
<b>TOTAL EXPENSES</b>	<b>11,936,749</b>	<b>9,608,999</b>	<b>8,148,627</b>	<b>8,182,951</b>	<b>20,085,376</b>	<b>17,791,950</b>
Change in net position before transfers	543,068	961,124	1,686,779	8,410,767	2,229,847	9,371,891
Transfers	943,302	3,932,585	(943,302)	(3,932,585)	-	-
Change in net position	1,486,370	4,893,709	743,477	4,478,182	2,229,847	9,371,891
Net position at beginning of year	12,481,485	7,587,776	27,508,484	23,030,302	39,989,969	30,618,078
Net position at end of year	<u>\$ 13,967,855</u>	<u>\$ 12,481,485</u>	<u>\$ 28,251,961</u>	<u>\$ 27,508,484</u>	<u>\$ 42,219,816</u>	<u>\$ 39,989,969</u>

- ❖ Property taxes account for 12% and Sales taxes for 24% of the City's revenues from governmental activities. Increases were noted during the year due to overall improvement of local economy.
- ❖ Public safety accounts for 40% of the total expenses for governmental activities, while General government and Transportation expenses account for 48% of total expenses for governmental activities. Overall increases were noted in expenses related to personnel costs as well as operating costs, such as fuel costs during the year.
- ❖ Capital grants and contributions decreased for the Utility Fund based on a new City Ordinance implementing capacity fees versus impact fees in the prior year. Several large contractors' prepaid fees related to upcoming projects in the prior year, causing the decrease in fees in the current year.

## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

### **Governmental Funds**

#### ***General Fund***

The main operating fund of the City is the General Fund. As of September 30, 2022, total assets for the General Fund were approximately \$10 million, and the total liabilities were approximately \$6 million. Unassigned fund balance was approximately \$2 million, and total fund balance was approximately \$4 million.

### **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 67% of the fund's total assets.

During fiscal year 2022, the Utility Fund had an increase in net position of approximately \$700 thousand. The total net position of this fund as of September 30, 2022, was approximately \$28 million.

## **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, 2022, was approximately \$49 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress (CIP), building, improvements, as well as machinery and equipment. See Note 5 for further details.

### **DEBT MANAGEMENT**

At the end of the current fiscal year, the City had total bond debt and notes payable outstanding in the amount of approximately \$17 million. See Note 7 for further details.

### **OTHER FINANCIAL INFORMATION**

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

### **REQUEST FOR INFORMATION**

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

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

**CITY OF DEFUNIAK SPRINGS, FLORIDA**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2022**

	<b>Primary Government</b>		<b>Total</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 4,728,245	\$ 2,006,972	\$ 6,735,217
Investments	684,932	2,167,960	2,852,892
Receivables, net	88,762	1,157,175	1,245,937
Due from other governments	1,704,182	-	1,704,182
Internal balances	1,057,124	(1,057,124)	-
Restricted assets			
Cash and cash equivalents	2,213,068	9,360,532	11,573,600
Investments	231,310	522,805	754,115
Capital assets			
Non-depreciable	4,856,749	3,141,908	7,998,657
Depreciable, net	13,874,354	26,690,437	40,564,791
<b>TOTAL ASSETS</b>	<b>29,438,726</b>	<b>43,990,665</b>	<b>73,429,391</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>1,905,138</b>	<b>214,993</b>	<b>2,120,131</b>
<b>LIABILITIES</b>			
Accounts payable	1,945,739	202,366	2,148,105
Accrued liabilities	691,385	14,506	705,891
Due to other governments	147,376	384,620	531,996
Unearned revenue	3,489,948	-	3,489,948
Payable from restricted assets			
Accrued interest	13,926	863	14,789
Customer deposits	13,010	277,046	290,056
Non-current liabilities			
Due within one year			
Compensated absences	21,341	2,817	24,158
Notes payable	227,197	131,153	358,350
Revenue bonds payable	-	395,000	395,000
Due in more than one year			
Compensated absences	405,477	53,510	458,987
Notes payable	2,661,597	3,640,958	6,302,555
Revenue bonds payable	-	9,975,260	9,975,260
Other post-employment benefits	108,835	12,282	121,117
Net pension liability	6,985,884	788,352	7,774,236
<b>TOTAL LIABILITIES</b>	<b>16,711,715</b>	<b>15,878,733</b>	<b>32,590,448</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>664,294</b>	<b>74,964</b>	<b>739,258</b>
<b>NET POSITION</b>			
Net investment in capital assets	15,842,309	15,689,974	31,532,283
Restricted			
Debt service	218,300	7,678,193	7,896,493
Capital improvements	1,420,084	1,927,235	3,347,319
Economic environment	283,406	-	283,406
Unrestricted (deficit)	(3,796,244)	2,956,559	(839,685)
<b>TOTAL NET POSITION</b>	<b>\$ 13,967,855</b>	<b>\$ 28,251,961</b>	<b>\$ 42,219,816</b>

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
STATEMENT OF ACTIVITIES  
SEPTEMBER 30, 2022**

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	\$ 3,098,787	\$ 997,506	\$ 145,458	\$ -	\$ (1,955,823)	\$ -	\$ (1,955,823)
Public safety	4,759,547	28,567	-	-	(4,730,980)	-	(4,730,980)
Physical environment	146,895	82,300	-	-	(64,595)	-	(64,595)
Transportation	2,616,653	652,081	-	1,403,818	(560,754)	-	(560,754)
Culture and recreation	1,230,340	158,038	-	-	(1,072,302)	-	(1,072,302)
Debt service interest	84,527	-	-	-	(84,527)	-	(84,527)
Total governmental activities	11,936,749	1,918,492	145,458	1,403,818	(8,468,981)	-	(8,468,981)
Business-type activities							
Utilities	8,148,627	9,603,320	-	344,780	-	1,799,473	1,799,473
<b>Total primary government</b>	<b>\$ 20,085,376</b>	<b>\$ 11,521,812</b>	<b>\$ 145,458</b>	<b>\$ 1,748,598</b>	<b>(8,468,981)</b>	<b>1,799,473</b>	<b>(6,669,508)</b>
General revenues							
Taxes							
Ad valorem taxes					1,448,177	-	1,448,177
Local option gas tax					307,573	-	307,573
Local sales taxes					2,938,766	-	2,938,766
Franchise fees					296,207	-	296,207
Utility service tax					1,257,403	-	1,257,403
State shared revenues					2,055,159	-	2,055,159
Miscellaneous					746,898	-	746,898
Investment loss					(38,134)	(112,694)	(150,828)
Transfers					943,302	(943,302)	-
Total general revenues and transfers					9,955,351	(1,055,996)	8,899,355
<b>CHANGE IN NET POSITION</b>					1,486,370	743,477	2,229,847
<b>NET POSITION AT BEGINNING OF YEAR, RESTATED</b>					12,481,485	27,508,484	39,989,969
<b>NET POSITION AT END OF YEAR</b>					<b>\$ 13,967,855</b>	<b>\$ 28,251,961</b>	<b>\$ 42,219,816</b>

See notes to the financial statements.



**CITY OF DEFUNIAK SPRINGS, FLORIDA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
SEPTEMBER 30, 2022**

	<u>General Fund</u>	<u>Nonmajor Governmental Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 4,666,736	\$ 61,509	\$ 4,728,245
Investments	555,686	129,246	684,932
Receivables	88,762	-	88,762
Due from other governments	1,704,182	-	1,704,182
Due from (to) other funds	1,060,025	(2,901)	1,057,124
Lease receivable	47,277	-	47,277
Restricted assets			
Cash and cash equivalents	1,929,662	283,406	2,213,068
Investments	218,300	13,010	231,310
<b>TOTAL ASSETS</b>	<u><u>\$ 10,270,630</u></u>	<u><u>\$ 484,270</u></u>	<u><u>\$ 10,754,900</u></u>
<b>LIABILITIES</b>			
Accounts payable	\$ 1,944,545	\$ 1,194	\$ 1,945,739
Accrued liabilities	689,123	2,262	691,385
Due to other governments	147,376	-	147,376
Unearned revenue	3,489,948	-	3,489,948
Payable from restricted assets			
Customer deposits	-	13,010	13,010
Total liabilities	6,270,992	16,466	6,287,458
<b>DEFERRED INFLOWS - LEASES</b>	47,277	-	47,277
<b>FUND BALANCE</b>			
Restricted –debt service	218,300	-	218,300
Restricted – capital improvements	1,420,084	-	1,420,084
Restricted – economic environment	-	283,406	283,406
Committed – special revenue	-	184,398	184,398
Unassigned	2,313,977	-	2,313,977
Total fund balance	<u><u>3,952,361</u></u>	<u><u>467,804</u></u>	<u><u>4,420,165</u></u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE</b>	<u><u>\$ 10,270,630</u></u>	<u><u>\$ 484,270</u></u>	<u><u>\$ 10,754,900</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, 2022**

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Fund balance, total governmental funds		\$ 4,420,165
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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	4,856,749	
Governmental depreciable/amortizable assets	26,451,555	
Less accumulated depreciation/amortization	<u>(12,577,201)</u>	
		18,731,103

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	1,857,636	
Deferred outflows of resources related to other post employment benefits	47,502	
Deferred inflows of resources related to pension plans	(499,002)	
Deferred inflows of resources related to other post employment benefits	<u>(165,292)</u>	
		1,240,844

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	(13,926)	
Notes payable	(2,888,794)	
Other post-employment benefits	(108,835)	
Net pension liability	<u>(6,985,884)</u>	
		<u>(10,424,257)</u>

Net position of governmental activities		<u>\$ 13,967,855</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, 2022**

	<u>General Fund</u>	<u>Nonmajor Governmental Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes	\$ 6,061,218	\$ 186,908	\$ 6,248,126
Licenses and permits	30,196	30,800	60,996
Intergovernmental	3,604,435	-	3,604,435
Charges for services	1,659,980	197,514	1,857,494
Investment loss	(35,681)	(2,453)	(38,134)
Miscellaneous	733,638	13,260	746,898
Total revenues	<u>12,053,786</u>	<u>426,029</u>	<u>12,479,815</u>
<b>EXPENDITURES</b>			
Current			
General government	2,836,451	7,509	2,843,960
Public safety	4,413,635	-	4,413,635
Physical environment	-	141,993	141,993
Transportation	2,138,982	-	2,138,982
Culture and recreation	1,042,386	112,867	1,155,253
Capital outlay	4,257,188	21,195	4,278,383
Debt service	195,125	-	195,125
Total expenditures	<u>14,883,767</u>	<u>283,564</u>	<u>15,167,331</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(2,829,981)	142,465	(2,687,516)
<b>OTHER FINANCING SOURCES</b>			
Proceeds from debt	2,500,000	-	2,500,000
Net transfers	943,302	-	943,302
Total other financing sources	<u>3,443,302</u>	<u>-</u>	<u>3,443,302</u>
<b>NET CHANGE IN FUND BALANCE</b>	613,321	142,465	755,786
<b>FUND BALANCE, BEGINNING OF YEAR (RESTATED)</b>	<u>3,339,040</u>	<u>325,339</u>	<u>3,664,379</u>
<b>FUND BALANCE, END OF YEAR</b>	<u><u>\$ 3,952,361</u></u>	<u><u>\$ 467,804</u></u>	<u><u>\$ 4,420,165</u></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, 2022**

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Net change in fund balance – governmental funds	\$	755,786
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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.

Disposals of capital assets	(2,623)	
Expenditures for capital assets	4,278,383	
Less current year depreciation/amortization	<u>(876,676)</u>	
		3,399,084

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.

Proceeds from notes payable	(2,500,000)	
Debt service payments	<u>118,550</u>	
		(2,381,450)

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 accrued interest	(7,950)	
Change in net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB	<u>(279,100)</u>	
		<u>(287,050)</u>

Change in net position of governmental activities	\$	<u><u>1,486,370</u></u>
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See notes to the financial statements.

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 5,425,859	\$ 5,425,859	\$ 6,061,218	\$ 635,359
Licenses and permits	30,700	30,700	30,196	(504)
Intergovernmental	8,604,101	8,604,101	3,604,435	(4,999,666)
Charges for services	1,640,339	1,640,339	1,659,980	19,641
Interest	15,000	15,000	(35,681)	(50,681)
Miscellaneous	1,360,654	1,360,654	733,638	(627,016)
Total revenues	17,076,653	17,076,653	12,053,786	(5,022,867)
<b>EXPENDITURES</b>				
Current				
General government	2,840,868	2,840,868	2,836,451	4,417
Public safety	4,265,853	4,265,853	4,413,635	(147,782)
Transportation	3,277,759	3,277,759	2,138,982	1,138,777
Culture and recreation	480,435	480,435	1,042,386	(561,951)
Capital outlay	7,173,966	7,173,966	4,257,188	2,916,778
Debt service	330,153	330,153	195,125	135,028
Total expenditures	18,369,034	18,369,034	14,883,767	3,485,267
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	(1,292,381)	(1,292,381)	(2,829,981)	(1,537,600)
<b>OTHER FINANCING SOURCES</b>				
Proceeds from debt	2,500,000	2,500,000	2,500,000	-
Net transfers	2,258,769	2,258,769	943,302	(1,315,467)
Total other financing sources	4,758,769	4,758,769	3,443,302	(1,315,467)
<b>NET CHANGE IN FUND BALANCE</b>	3,466,388	3,466,388	613,321	(2,853,067)
<b>FUND BALANCE, BEGINNING OF YEAR (RESTATED)</b>	-	-	3,339,040	3,339,040
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 3,466,388</u>	<u>\$ 3,466,388</u>	<u>\$ 3,952,361</u>	<u>\$ 485,973</u>

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
 PROPRIETARY FUND  
 STATEMENT OF NET POSITION  
 SEPTEMBER 30, 2022**

	<u>Utilities Fund</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 2,006,972
Investments	2,167,960
Accounts receivable, net	1,157,175
Restricted assets:	
Cash and cash equivalents	9,360,532
Investments	<u>522,805</u>
Total current assets	15,215,444
Non-current assets	
Capital assets	
Non-depreciable	3,141,908
Depreciable, net	<u>26,690,437</u>
Total non-current assets	<u>29,832,345</u>
<b>TOTAL ASSETS</b>	<u>45,047,789</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Related to pensions	209,632
Related to other post employment benefits	<u>5,361</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>214,993</u>

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
 PROPRIETARY FUND  
 STATEMENT OF NET POSITION – CONTINUED  
 SEPTEMBER 30, 2022**

	<b>Utilities Fund</b>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 202,366
Accrued liabilities	14,506
Due to other governments	384,620
Due to other funds	1,057,124
Compensated absences	2,817
Notes payable	131,153
Revenue bonds payable	395,000
Payable from restricted assets	
Accrued interest	863
Customer deposits	277,046
	2,465,495
Total current liabilities	
Non-current liabilities	
Compensated absences	53,510
Notes payable	3,640,958
Revenue bonds payable	9,975,260
Other post-employment benefits	12,282
Net pension liability	788,352
	14,470,362
Total non-current liabilities	
<b>TOTAL LIABILITIES</b>	<b>16,935,857</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Related to pensions	56,311
Related to other post employment benefits	18,653
	74,964
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	
<b>NET POSITION</b>	
Net investment in capital assets	15,689,974
Restricted for system improvements	7,678,193
Restricted for debt service	1,927,235
Unrestricted	2,956,559
	\$ 28,251,961

See notes to the financial statements.

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

	<b>Utilities Fund</b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 9,603,320
Interlocal agreement	208,174
Other operating income	66,248
Total operating revenues	9,877,742
<b>OPERATING EXPENSES</b>	
Personal services	512,145
Materials and supplies	661,945
Repairs and maintenance	348,450
Office and utilities	485,879
Insurance expense	50,537
Contractual services	3,784,778
Billing fees	692,548
Depreciation	1,220,151
Total operating expenses	7,756,433
<b>OPERATING INCOME</b>	2,121,309
<b>NON-OPERATING EXPENSES</b>	
Interest and debt issue costs	(392,194)
Investment loss	(112,694)
Total non-operating expenses	(504,888)
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	1,616,421
Capital contributions	70,358
Net transfers	(943,302)
Total capital contributions and transfers	(872,944)
<b>CHANGE IN NET POSITION</b>	743,477
<b>NET POSITION AT BEGINNING OF YEAR</b>	27,508,484
<b>NET POSITION AT END OF YEAR</b>	\$ 28,251,961

See notes to the financial statements.



**CITY OF DEFUNIAK SPRINGS, FLORIDA  
 PROPRIETARY FUND  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	<b>Utility Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 9,920,606
Payments to employees for services	(763,586)
Payments to suppliers for goods and services	<u>(6,149,642)</u>
Net cash provided by operating activities	<u>3,007,378</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Transfers in	429,685
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(1,311,938)
Interest paid	(426,824)
Impact fees and capital received	65,522
Proceeds from notes and bonds payable	7,410,001
Principal payments on notes and bonds payable	<u>(7,519,692)</u>
Net cash used in capital and related financing activities	<u>(1,782,931)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,654,132
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>9,713,372</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 11,367,504</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF:</b>	
Unrestricted	\$ 2,006,972
Restricted	<u>9,360,532</u>
Total cash and cash equivalents	<u><u>\$ 11,367,504</u></u>

See notes to the financial statements.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
PROPRIETARY FUND  
STATEMENT OF CASH FLOWS – CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

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**RECONCILIATION OF OPERATING INCOME TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ 2,121,309
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,220,151
Decrease (increase) in assets:	
Accounts receivable, net	26,089
Due from other governments	51,045
Deferred outflows of resources	(4,033)
Increase (decrease) in liabilities:	
Accounts payable	(176,550)
Accrued liabilities	(15,669)
Customers deposits	16,775
Net pension liability	178,289
Other post-employment benefits	(15,840)
Deferred inflows of resources	(394,188)
Net cash provided by operating activities	<u>\$ 3,007,378</u>

See notes to the financial statements.

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

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**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 provided for funding within the community redevelopment area via tax increments. The governing body of the CRA is the City Council, and it is considered a component unit of the City.

**Government-Wide and Fund Financial Statements**

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

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

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**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, 2022**

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**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 2022 ad valorem taxes because property taxes are not legally due until subsequent to the end of the fiscal year.

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

**Basis of Presentation**

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for utility services. The City considers 75% of capacity fee revenue as capital contributions for the water and sewer system; therefore, only 25% of capacity fee revenues are included in operating revenue. Operating expenses for enterprise funds include the cost of service, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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**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 utility systems, which comprise the City's water system, sewer system, gas system and sanitation system.

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

*Cash and Cash Equivalents*

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

*Receivables and Payables*

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

All receivables in governmental funds are shown net of an allowance for doubtful accounts. At September 30, 2022, 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, 2022**

**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 collected in prior years, 75% of capacity fees collected and debt service.

*Capital Assets*

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

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings and utility systems	35-75 years
Public domain infrastructure	50 years
Furniture and fixtures	10 years
Vehicles	5 years
Office equipment	5 years
Computer equipment	5 years

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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

*Deferred Inflows/Outflows of Resources*

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

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

*Compensated Absences*

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

*Long-Term Obligations*

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

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

*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.



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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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

*Net Pension Liability*

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

*Classification of Fund Balance*

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

- **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, 2022**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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

**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.

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

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## **2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **Budgets**

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% of the average daily balance of public deposits greater than capital. In the event of default by a qualified public depository, excess losses over insurance and collateral will be recovered through assessments to all qualified public depositories of the same type as the depository in default. Under this method, all City deposits, including certificates of deposit, are considered fully insured.

As of September 30, 2022, the value of the City's deposits was \$15,281,011, all of which was held by qualified public depositories under Chapter 280, Florida Statutes.

### **Certificates of Deposit**

The City invests surplus funds into interest-bearing certificates of deposit at qualified public depositories in accordance with Section 218.415, Florida Statutes. Certificates of deposit are recorded at cost plus accrued interest, which approximates fair value.

### **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.

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

**3. DEPOSITS AND INVESTMENTS – CONTINUED**

**Investments – Continued**

The Florida Municipal Investment Trust (FMIvT) is an authorized investment under Section 218.415, Florida Statutes. It was created to offer diversified and professionally managed portfolios for the investment of the assets of participating municipalities. The 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.

As of September 30, 2022, 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	\$ 1,010,567
Intermediate High Quality Bond Fund	4.7	AAAf/S3	1,020,982
			<u>2,031,549</u>
Certificates of deposits	n/a	n/a	<u>1,575,458</u>
			<u>\$ 3,607,007</u>
 <u>Statement of Net Position</u>			
Investments – unrestricted			\$ 2,852,892
Investments – restricted			<u>754,115</u>
			<u>\$ 3,607,007</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).

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

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### **3. DEPOSITS AND INVESTMENTS – CONTINUED**

#### **Investments – Continued**

##### *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.

##### *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.

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

**3. DEPOSITS AND INVESTMENTS – CONTINUED**

**Fair Value Measurements – Continued**

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.

**4. RECEIVABLES**

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

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	
	<b>General Fund</b>	<b>Utilities Fund</b>	<b>Total</b>
Accounts receivable	\$ 88,762	\$ 1,426,683	\$ 1,515,445
Less allowance for doubtful accounts	-	(269,508)	(269,508)
Total receivables, net	<u>\$ 88,762</u>	<u>1,157,175</u>	<u>\$ 1,245,937</u>
Taxes receivables	\$ 485,275	\$ -	\$ 485,275
Grants receivables	1,218,907	-	1,218,907
Due from other governments	<u>\$ 1,704,182</u>	<u>\$ -</u>	<u>\$ 1,704,182</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.

**Lease Receivable**

In 2022, the City implemented GASB Statement No. 87, Leases. GASB Statement No. 87 enhances the relevance and consistency of information of the government’s leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right-to-use and underlying asset. A lessor is required to recognize a lease receivable and a deferred inflow of resources. These changes were incorporated in the City’s 2022 financial statements but had no effect on the beginning net position of the General Fund since the deferred inflows equal the amount of the lease receivable at inception.

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

**4. RECEIVABLES – CONTINUED**

The City leases space to an unrelated party for a supercharger station. The City's lease receivable is measured at the present value of lease payments expected to be received during the lease term, including options reasonably certain to be exercised. The City recognized lease revenue of \$6,597 recorded in charges for services revenues in the Statement of Revenues, Expenditures and Changes in Fund Balance for the year ended September 30, 2022.

**5. CHANGES IN CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases / Transfers</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 2,790,878	\$ 268,317	\$ (660,580)	\$ 2,398,615
Construction in progress	1,578,418	1,464,434	(584,718)	2,458,134
Total capital assets not being depreciated	4,369,296	1,732,751	(1,245,298)	4,856,749
Capital assets being depreciated				
Buildings	4,975,800	2,165,137	560,943	7,701,880
Improvements other than buildings	11,370,201	-	(2,292,166)	9,078,035
Machinery and equipment	6,549,935	380,495	2,741,210	9,671,640
Total capital assets being depreciated	22,895,936	2,545,632	1,009,987	26,451,555
Less accumulated depreciation	(11,933,213)	(876,676)	232,688	(12,577,201)
Total capital assets being depreciated, net	10,962,723	1,668,956	1,242,675	13,874,354
<b>Governmental activities, net</b>	<u>\$ 15,332,019</u>	<u>\$ 3,401,707</u>	<u>\$ (2,623)</u>	<u>\$ 18,731,103</u>

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

**5. CHANGES IN CAPITAL ASSETS – CONTINUED**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases / Transfers</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 589,488	\$ -	\$ -	\$ 589,488
Construction in progress	4,343,180	1,042,550	(2,833,310)	2,552,420
Total capital assets not being depreciated	4,932,668	1,042,550	(2,833,310)	3,141,908
Capital assets being depreciated				
Buildings	43,375,399	141,141	3,090,580	46,607,120
Machinery and equipment	3,668,290	137,703	(1,114,707)	2,691,286
Total capital assets being depreciated	47,043,689	278,844	1,975,873	49,298,406
Less accumulated depreciation	(22,235,799)	(1,220,151)	847,981	(22,607,969)
Total capital assets being depreciated, net	24,807,890	(941,307)	2,823,854	26,690,437
<b>Business-type activities, net</b>	<u>\$ 29,740,558</u>	<u>\$ 101,243</u>	<u>\$ (9,456)</u>	<u>\$ 29,832,345</u>

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

**Depreciation/Amortization Expense**

**Governmental Activities**

General government	\$ 179,976
Public safety	212,086
Transportation	431,438
Culture and recreation	53,176
Total depreciation expense – governmental activities	<u>\$ 876,676</u>

**Business-type activities**

Utilities	1,220,151
Total depreciation expense – business-type activities	<u>\$ 1,220,151</u>



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

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

All 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](http://www.dms.myflorida.com/workforce_operations/retirement/publications).

**Pension Plan**

*Plan Description*

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

*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, 2022**

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

**Pension Plan – Continued**

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

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

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

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

**Contributions**

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

	<u>07/01/2022 - 09/30/2022</u>	<u>07/01/2021 - 6/30/2022</u>	<u>07/01/2020 - 06/30/2021</u>	<u>07/01/2019 - 06/30/2020</u>
Regular Class	9.10%	10.82%	10.00%	8.47%
Special Risk	24.17%	25.89%	24.45%	25.48%
Senior Management Class	27.29%	29.01%	27.29%	25.41%
DROP	16.68%	18.34%	16.98%	14.60%

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

**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, 2022. The City's contributions, including employee contributions, to the Pension Plan totaled \$721,814, \$641,713 and \$601,584 for the fiscal years ended September 30, 2022, 2021 and 2020, respectively.

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

At September 30, 2022, the City reported a liability of \$6,293,921 for its proportionate share of the Pension Plan's net pension liability. The City's proportionate share of the net pension liability was based on the City's share of contributions to the FRS, relative to the contributions of all participating governments. At June 30, 2022, the City's proportionate share was 0.016915465%.

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

For the fiscal year ended September 30, 2022, the City recognized pension expense of \$829,936. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experiences	\$ 298,924	\$ -
Change of assumptions	775,122	-
Net difference between projected and actual earnings on Pension Plan investments	415,586	-
Changes in proportion and differences between City Pension Plan contributions and proportionate share of contributions	108,958	303,079
City Pension Plan contributions subsequent to the measurement measurement date	209,140	-
	<b>\$ 1,807,730</b>	<b>\$ 303,079</b>

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
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**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 \$209,140, resulting from City contributions to the plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2023. Other components reported as deferred outflows of resources and deferred inflows of resources related to the Pension Plan, except for changes in proportion and related differences in the share of contributions, will be recognized in pension expense as follows:

*Actuarial Assumptions*

The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumption, applied to all periods included in the measurement:

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

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

The actuarial assumptions that determined the total pension liability as of June 30, 2022, were based on the results of an actuarial experience study for the period of July 1, 2013 – June 30, 2018.

<b>Fiscal year ending September 30:</b>	<b>Amount:</b>
2023	\$ 324,949
2024	100,642
2025	(156,951)
2026	1,023,209
2027	21,307
Thereafter	(17,645)
	<u>\$ 1,295,511</u>

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
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**6. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM – CONTINUED**

**Pension Plan – 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:

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

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

**Discount Rate**

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

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following represents the City's proportionate share of the net pension liability calculated using the discount rate of 6.70%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

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

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

**Pension Plan – Continued**

	<b>1% Decrease 5.70%</b>	<b>Current Discount Rate 6.70%</b>	<b>1% Increase 7.70%</b>
City's proportionate share of the net pension liability	\$ 10,884,889	\$ 6,293,921	\$ 2,455,310

*Pension Plan Fiduciary Net Position*

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

**HIS Plan**

*Plan Description*

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

*Benefits Provided*

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

*Contributions*

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

The City's contributions to the HIS Plan totaled \$84,569, \$62,292 and \$77,860 for the fiscal years ended September 30, 2022, 2021 and 2020, respectively.

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

At September 30, 2022, the City reported a liability of \$1,480,324 for its proportionate share of the HIS Plan's net pension liability. At June 30, 2022, the City's proportionate share was 0.0139764%.

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

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

**HIS Plan – Continued**

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

For the fiscal year ended September 30, 2022, the City recognized pension expense of \$102,618. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 44,931	\$ 6,514
Change in assumptions	84,853	229,005
Net difference between projected actual earnings on Pension Plan investments	2,143	-
Changes in proportion and differences between City Pension Plan contributions and proportionate share of contributions	105,257	16,715
City Pension Plan contributions subsequent to the measurement date	22,355	-
	<b>\$ 259,539</b>	<b>\$ 252,234</b>

A component of deferred outflows of resources related to the HIS Plan, totaling \$22,355, 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, 2023.

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

<b>Fiscal year ending September 30, 2023</b>	<b>Amount</b>
2023	\$ (10,973)
2024	457
2025	7,718
2026	296
2027	(17,592)
Thereafter	5,044
	<b>\$ (15,050)</b>

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

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

**HIS Plan – Continued**

*Actuarial Assumptions*

The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumption, applied to all periods included in the measurement:

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

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

The actuarial assumptions that determined the total pension liability as of June 30, 2022, were based on the results of an actuarial experience study for the period of July 1, 2013 – June 30, 2018.

*Discount Rate*

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

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

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

	<b>1% Decrease 2.54%</b>	<b>Current Discount Rate 3.54%</b>	<b>1% Increase 4.54%</b>
City's proportionate share of the net pension liability	\$ 1,693,612	\$ 1,480,324	\$ 1,303,832

*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, 2022**

**7. LONG-TERM DEBT**

**Changes in Long-Term Debt Liabilities**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Compensated absences	\$ 426,818	\$ 506,472	\$ (506,472)	\$ 426,818	\$ 21,341
Notes payable	507,344	2,500,000	(118,550)	2,888,794	227,197
Total governmental activities	<u>\$ 934,162</u>	<u>\$ 3,006,472</u>	<u>\$ (625,022)</u>	<u>\$ 3,315,612</u>	<u>\$ 248,538</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities					
Compensated absences	\$ 56,327	\$ 54,457	\$ (54,457)	\$ 56,327	\$ 2,817
Notes and loans payable	3,426,252	513,001	(167,142)	3,772,111	131,153
Revenue bonds	10,825,810	6,897,000	(7,352,550)	10,370,260	395,000
Total business-type activities	<u>\$ 14,308,389</u>	<u>\$ 7,464,458</u>	<u>\$ (7,574,149)</u>	<u>\$ 14,198,698</u>	<u>\$ 528,970</u>

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

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<b>GOVERNMENTAL ACTIVITIES</b>			
<b><i>Notes payable</i></b>			
Note payable 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%.	\$ 6,979	\$ -	\$ 6,979
Note payable 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%.	92,818	288,997	381,815
Revenue note payable for the purchase of City Hall totaling \$2,500,000, due in annual payments from \$127,400 to \$194,500 through December 2026 at a rate of 2.2%.	<u>127,400</u>	<u>2,372,600</u>	<u>2,500,000</u>
<b><i>Total Note payable</i></b>	227,197	2,661,597	2,888,794
<b><i>Compensated Absences</i></b>			
Total current and long-term portion of accumulated, vested, annual and sick leave for governmental funds.	<u>21,341</u>	<u>405,477</u>	<u>426,818</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u><u>\$ 248,538</u></u>	<u><u>\$ 3,067,074</u></u>	<u><u>\$ 3,315,612</u></u>

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

**7. LONG-TERM DEBT – CONTINUED**

**Description of Long-Term Debt Outstanding – Continued**

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<b>BUSINESS-TYPE ACTIVITIES</b>			
<b><i>Loans Payable</i></b>			
State revolving loan payable (SRF#2) 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.	\$ 9,737	\$ -	\$ 9,737
State revolving loan payable (SRF#3) due in semi-annual payments of \$27,334, through May 15, 2038; bearing no interest; secured by anticipated net sewer system revenues.	52,809	767,329	820,138
State revolving loan payable (SRF#4) due in semi-annual payments of \$13,098, through April 15, 2041; bearing 0.41% interest; secured by anticipated net sewer system revenues.	5,392	95,110	100,502
State revolving loan payable (SRF#5) due in semi-annual payments of \$14,182, through November 15, 2041; bearing no interest; secured by anticipated net sewer system revenues. See note 13 disclosure as \$1.98 million was forgiven after year end.	-	2,500,341	2,500,341
State revolving loan payable (SRF#6) due in semi-annual payments of \$5,687 through 2043 bearing interest at 0.93%; secured by anticipated net sewer system revenues.	-	8,750	8,750
<b><i>Notes Payable</i></b>			
Note payable with the State of Florida, Department of Transportation for the relocation of water and sewer utilities with an original cost of \$625,925; annual payments of \$41,728; payments through March 2028; bearing no interest rate.	41,243	247,456	288,699
Note payable with the State of Florida, Department of Transportation for the drain replacement at Juniper Creek with an original cost of \$212,000; annual payments of \$21,200; payments through March 2024; bearing no interest rate.	21,972	21,972	43,944
<b><i>Total Notes and Loans Payable</i></b>	<u>\$ 131,153</u>	<u>\$ 3,640,958</u>	<u>\$ 3,772,111</u>

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

**7. LONG-TERM DEBT – CONTINUED**

**Description of Long-Term Debt Outstanding – Continued**

	<b>Current</b>	<b>Long-Term</b>	<b>Total</b>
<b><i>Revenue Bonds Payable</i></b>			
<b>Water and Sewer System Revenue Refunding Bonds – Series 2021</b>			
Authorized and issued \$6,897,700 at 2.29% per annum, principal and interest payable annually on September 1. Bonds are collateralized by a pledge of net revenues of the water and sewer system.	\$ 311,000	\$ 6,195,900	\$ 6,506,900
<b>Gas System Refunding Revenue Bonds – Series 2012</b>			
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.	84,000	3,779,360	3,863,360
<b><i>Total Revenue Bonds Payable</i></b>	395,000	9,975,260	10,370,260
<b><i>Accrued Compensated Absences</i></b>			
Total current and long-term portion of accumulated, vested, annual and sick leave for Enterprise Funds.	2,817	53,510	56,327
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	\$ 528,970	\$ 13,669,728	\$ 14,198,698
<b>GRAND TOTAL LONG-TERM DEBT</b>			<b>\$ 17,514,310</b>

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

**7. LONG-TERM DEBT – CONTINUED**

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

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

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 227,196	\$ 60,787	\$ 526,153	\$ 255,198
2024	241,053	55,990	525,540	245,753
2025	246,122	50,962	534,227	236,088
2026	251,222	45,829	552,874	226,155
2027	156,400	40,590	561,897	215,988
2028 - 2032	835,400	149,202	2,776,191	918,896
2033 - 2037	931,400	52,123	2,495,183	652,453
2038 - 2042	-	-	1,863,083	427,593
2043 - 2047	-	-	1,454,282	219,363
2048 - 2052	-	-	868,299	73,315
Total	<u>\$ 2,888,794</u>	<u>\$ 455,483</u>	<u>\$ 12,157,729</u>	<u>\$ 3,470,803</u>
Amount forgiven in fiscal year 2023, see note 13			<u>\$ 1,984,642</u>	
Total principal outstanding			<u>\$ 14,142,371</u>	

**Debt Refunding**

In January 2022, the City issued its \$6,897,700 Sales Tax Refunding and Improvement Revenue Bonds, Series 2021 ("Series 2021 Bonds") to provide for an advance refunding of the outstanding principal and interest balance of the Junior Lien Revenue Bond, Series 1991, 1996, 2004 and 2006 ("Junior Lien Bonds"), as well as to refund the outstanding principal and interest balance of the Sales Tax Revenue Bond, Series 1997A ("Series 1997A Bonds").

Proceeds of \$6,897,700 were deposited into an irrevocable trust fund with an escrow agent to provide for all future debt payments on the refunded debt until such bonds meet the redemption date of September 1, 2046. As a result, the Junior Lien and Series 1997A Bonds are considered to be defeased and the liability for those bonds have been removed. The City entered into the advance refunding in order to reduce its total debt service over the life of the bonds. The economic gain resulting from the refunding transaction, calculated on a present value basis, total \$1,349,062, and the cash flow savings totaled \$1,817,610. The outstanding par amount of the Junior Lien and Series 1997A Bonds was \$6,506,900 and had stated interest rates ranging from 4.26 percent to 5.13 percent.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
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**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, 2022

Inactive plan members or beneficiaries currently receiving benefits	2
Active plan members	105
	107
	107

**Net OPEB Liability**

*Actuarial Assumptions*

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

Measurement date	September 30, 2022
Valuation date	October 1, 2021
Actuarial cost method	Entry Age Normal (AMM)
Inflation	3.0% annually
Salary increase	4.0% annually
Prior discount rate	2.43%
Discount rate	4.77% annually, which is the S&P Municipal Bond 20-Year, High-Grade Rate Index as of September 30, 2023.
Retirement age	Eligibility is the same as the Florida Retirement System (FRS) pension plan.
Mortality	Special Risk: PubS.H-2010 Mortality Table – Safety All Others: PubG.H-2010 Mortality Table – General

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
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**8. OTHER POST-EMPLOYMENT BENEFITS – CONTINUED**

**Net OPEB Liability – Continued**

*Changes in Net OPEB Liability*

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
<b>Balance at September 30, 2021</b>	\$ 139,910	\$ -	\$ 139,910
Changes of the year:			
Service cost	10,197	-	10,197
Interest	3,110	-	3,110
Differences between expected and actual experience	10,915	-	-
Changes of assumptions	(19,197)	-	(19,197)
Benefit payments	(23,818)	-	(23,818)
Net changes	(18,793)	-	(18,793)
<b>Balance at September 30, 2022</b>	<u>\$ 121,117</u>	<u>\$ -</u>	<u>\$ 121,117</u>

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

	Current		
	1% Decrease	Discount Rate	1% Increase
Net OPEB liability	\$ 129,952	\$ 121,117	\$ 113,713

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

	Healthcare Cost		
	1% Decrease	Trend Rates	1% Increase
Net OPEB liability	\$ 109,377	\$ 121,117	\$ 135,619

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

For the fiscal year ended September 30, 2022, the City recognized OPEB expense of \$(18,793). In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
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**8. OTHER POST-EMPLOYMENT BENEFITS – CONTINUED**

**Net OPEB Liability – Continued**

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 18,398	\$ 24,138
Change of assumptions	34,465	159,807
Total	\$ 52,863	\$ 183,945

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,**

2023	\$ (17,202)
2024	(17,202)
2025	(17,202)
2026	(17,202)
2027	(17,202)
Thereafter	(45,072)
	\$ (131,082)

**9. INTERFUND BALANCES AND TRANSFERS**

At September 30, 2022, the Utility Fund owed the General Fund \$1,057,124, and a non-major governmental fund owed the General Fund \$2,901 related to operational services and shared costs provided by the General Fund for those funds. During the year ended September 30, 2022, the Utility Fund transferred \$2,945,951 to the General Fund and the General Fund transferred \$2,002,649 to the Utility Fund.

**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, 2022**

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**11. COMMITMENTS AND CONTINGENCIES**

**Grants**

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

**Interlocal Landfill Agreement**

The City entered into an interlocal agreement 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, 2022, the City remitted approximately \$3 million to Walton County and received a check for approximately \$1.6 million from Walton County, representing funds remaining from the prior year's remittance.

**Legal Matters**

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

**Environmental Settlement**

In 2023, the Florida Department of Environmental Protection (FDEP) issued a consent order related to alleged noncompliance with state environmental regulations for wastewater overflows. In lieu of paying the fines levied in the consent order, the City is in the process of negotiating an in-kind penalty project to make various improvements that exceed the assessed penalty totaling approximately \$26,000.

**12. PRIOR PERIOD ADJUSTMENT**

**Correction of an Error**

The City's beginning net position for governmental activities and fund balance for the general fund was restated for errors identified relating to year-end closeout of the health reimbursement liability account which was not properly reconciled at September 30, 2021, and correcting an error related to accounting for a land deposit. The resulting effect was an increase of governmental activities net position and fund balance of approximately \$488,000.

**13. SUBSEQUENT EVENT**

In March 2023, the State of Florida Department of Environmental Protection amended the loan and grant agreement for the state revolving loan payable (SRF#5) and converted approximately \$1.98 million of the loan payable to grant revenue through forgiveness of the loan, and this revenue will be recognized in fiscal year 2023.

**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>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	0.016915465%	0.016844762%	0.018106068%	0.017761257%	0.01700713%	0.018309200%	0.018313000%	0.017258610%	0.017096780%
City's proportionate share of the net pension liability (asset)	\$ 6,293,912	\$ 1,272,431	\$ 7,846,637	\$ 6,116,730	\$ 5,150,823	\$ 5,415,735	\$ 4,624,047	\$ 2,229,181	\$ 1,043,155
City's covered-employee payroll	\$ 5,094,518	\$ 4,632,781	\$ 4,457,236	\$ 3,668,160	\$ 3,976,920	\$ 4,009,182	\$ 3,916,251	\$ 3,756,488	\$ 3,705,926
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	123.54%	27.47%	176.04%	166.75%	129.52%	135.08%	118.07%	59.34%	28.15%
Plan fiduciary net position as a percentage of the total pension liability	82.89%	96.40%	78.85%	82.61%	84.26%	83.89%	84.88%	92.00%	96.09%

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

\*\*This schedule is intended to show information for 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>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	0.013976400%	0.013845127%	0.013511504%	0.012971022%	0.012419062%	0.012959050%	0.012515520%	0.012221600%	0.012366680%
City's proportionate share of the net pension liability (asset)	\$ 1,480,324	\$ 1,698,313	\$ 1,649,733	\$ 1,451,328	\$ 1,314,447	\$ 1,385,641	\$ 1,458,631	\$ 1,246,411	\$ 1,156,314
City's covered-employee payroll	\$ 5,094,518	\$ 4,632,781	\$ 4,457,236	\$ 3,668,160	\$ 3,976,920	\$ 4,009,182	\$ 3,916,251	\$ 3,756,488	\$ 3,705,926
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	29.06%	36.66%	37.01%	39.57%	33.05%	34.56%	37.25%	33.18%	31.20%
Plan fiduciary net position as a percentage of the total pension liability	4.81%	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>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 721,814	\$ 641,713	\$ 601,584	\$ 550,727	\$ 487,357	\$ 460,073	\$ 428,850	\$ 408,301	\$ 381,863
Contributions in relation to the contractually required contribution	<u>(721,814)</u>	<u>(641,713)</u>	<u>(601,584)</u>	<u>(550,727)</u>	<u>(487,357)</u>	<u>(460,073)</u>	<u>(428,850)</u>	<u>(408,301)</u>	<u>(381,863)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 5,094,518	\$ 4,632,781	\$ 4,457,236	\$ 3,668,160	\$ 3,976,920	\$ 4,009,182	\$ 3,916,251	\$ 3,756,488	\$ 3,705,926
Contributions as a percentage of covered-employee payroll	14.17%	13.85%	13.50%	15.01%	12.25%	11.48%	10.95%	10.87%	10.30%

\* The amounts presented for each fiscal year were determined as of 6/30. 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>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 84,569	\$ 81,382	\$ 77,860	\$ 72,027	\$ 67,349	\$ 128,363	\$ 125,628	\$ 90,563	\$ 79,693
Contributions in relation to the contractually required contribution	<u>(84,569)</u>	<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>	<u>(79,693)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 5,094,518	\$ 4,632,781	\$ 4,457,236	\$ 3,668,160	\$ 3,976,920	\$ 4,009,182	\$ 3,916,251	\$ 3,756,488	\$ 3,705,926
Contributions as a percentage of covered-employee payroll	1.66%	1.76%	1.75%	1.96%	1.69%	3.20%	3.21%	2.41%	2.15%

\* The amounts presented for each fiscal year were determined as of 6/30. 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>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Total OPEB Liability</b>					
Service cost	\$ 10,197	\$ 10,290	\$ 8,043	\$ 16,202	\$ 17,091
Interest	3,110	2,891	7,532	7,368	10,397
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	10,915	-	11,020	-	(44,068)
Changes of assumptions <sup>1</sup>	(19,197)	(2,773)	(84,088)	1,370	(66,627)
Other changes	-	-	(7,548)	-	-
Benefit payments	<u>(23,818)</u>	<u>(11,198)</u>	<u>(9,695)</u>	<u>(23,863)</u>	<u>(25,556)</u>
Net change in total OPEB liability	(18,793)	(790)	(74,736)	1,077	(108,763)
Total OPEB liability – beginning	<u>139,911</u>	<u>140,701</u>	<u>215,438</u>	<u>214,361</u>	<u>323,124</u>
Plan fiduciary net position – ending	<u>\$ 121,118</u>	<u>\$ 139,911</u>	<u>\$ 140,702</u>	<u>\$ 215,438</u>	<u>\$ 214,361</u>
Covered employee – payroll	\$ 5,094,518	\$ 4,632,781	\$ 4,457,236	\$ 3,528,523	\$ 3,528,523
City's net OPEB liability as a percentage of covered employee – payroll	2.38%	3.02%	3.16%	6.11%	6.08%

Notes to schedule:

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

\* This schedule is not available for earlier years.

**SUPPLEMENTARY INFORMATION**



**CITY OF DEFUNIAK SPRINGS, FLORIDA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2022**

	<u>CRA</u>	<u>Christmas Reflections</u>	<u>Cemetery</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 49,233	\$ 12,276	\$ 61,509
Investments	-	-	129,246	129,246
Due to from other funds	-	-	(2,901)	(2,901)
Restricted assets				
Cash and cash equivalents	283,406	-	-	283,406
Cash and investments	-	-	13,010	13,010
<b>TOTAL ASSETS</b>	<u>\$ 283,406</u>	<u>\$ 49,233</u>	<u>\$ 151,631</u>	<u>\$ 484,270</u>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ 319	\$ 875	\$ 1,194
Accrued liabilities	-	-	2,262	2,262
Payable from restricted assets				
Customer deposits	-	-	13,010	13,010
Total liabilities	-	319	16,147	16,466
<b>FUND BALANCE</b>				
Restricted	283,406	-	-	283,406
Committed - special revenue	-	48,914	135,484	184,398
Total fund balance	<u>283,406</u>	<u>48,914</u>	<u>135,484</u>	<u>467,804</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 283,406</u>	<u>\$ 49,233</u>	<u>\$ 151,631</u>	<u>\$ 484,270</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, 2022**

	<u>CRA</u>	<u>Christmas Reflections</u>	<u>Cemetery</u>	<u>Total</u>
<b>REVENUES</b>				
Taxes	\$ 186,908	\$ -	\$ -	\$ 186,908
Licenses and permits	-	-	30,800	30,800
Charges for services	-	113,510	84,004	197,514
Investment loss	-	-	(2,453)	(2,453)
Miscellaneous	-	13,260	-	13,260
Total revenues	186,908	126,770	112,351	426,029
<b>EXPENDITURES</b>				
Current				
General government	7,509	-	-	7,509
Physical environment	-	-	141,993	141,993
Culture and recreation	-	112,867	-	112,867
Capital outlay	11,260	9,935	-	21,195
Total expenditures	18,769	122,802	141,993	283,564
<b>NET CHANGE IN FUND BALANCE</b>	168,139	3,968	(29,642)	142,465
<b>FUND BALANCE, BEGINNING OF YEAR</b>	115,267	44,946	165,126	325,339
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 283,406</u>	<u>\$ 48,914</u>	<u>\$ 135,484</u>	<u>\$ 467,804</u>

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

State Agency Pass-Through Entity State Project	CSFA Number	Contract / Grant Number	Expenditures	Passed Through to Subrecipients
<b>Florida Department of Environmental Protection</b>				
Direct projects				
Wastewater Treatment Facility Construction	37.077	SG660243	314,256	-
<b>Total Florida Department of Environmental Protection</b>			<u>314,256</u>	<u>-</u>
<b>Florida Department of Economic Opportunity</b>				
Direct projects				
Community Planning Technical Assistance	40.024	P0434	45,000	-
<b>Total Florida Department of Economic Opportunity</b>			<u>45,000</u>	<u>-</u>
<b>Florida Department of State and Secretary of State</b>				
Direct projects				
Historic Preservation Grants	45.031	22.h.sm.100.065	50,000	-
<b>Total Florida Department of State and Secretary of State</b>			<u>50,000</u>	<u>-</u>
<b>Florida Department of Transportation</b>				
Direct project				
Aviation Grant Program	55.004	G1696	1,040,596	-
<b>Total Florida Department of Transportation</b>			<u>1,040,596</u>	<u>-</u>
<b>Florida Department of Law Enforcement</b>				
Direct projects				
DeFuniak Springs P.D.	71.043	007	2,289	-
<b>Total Florida Department of Law Enforcement</b>			<u>2,289</u>	<u>-</u>
<b>Florida Department of Management Services</b>				
Direct projects				
E911 State Grant Program	77.002	S18-21-05-17	33,018	-
E911 State Grant Program	77.002	S18-21-05-18	10,337	-
<b>Total Florida Department of Management Services</b>			<u>43,355</u>	<u>-</u>
<b>TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE</b>			<u>\$ 1,495,496</u>	<u>\$ -</u>

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
NOTES TO THE SCHEDULE OF EXPENDITURES  
OF STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

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**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, 2022. 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, 2022. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the specified requirements 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 reasonable basis for our opinion.

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

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

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

*Warren Averett, LLC*

Destin, Florida  
February 20, 2024

**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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 20, 2024.

**Report on Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001, that we consider to be a material weakness.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 instances of non-compliance that is required to be reported under *Government Auditing Standards* and that is described in the accompanying schedule of findings and questioned costs as items 2022-002 and 2022-003.

**City's Response to Findings**

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

**Purpose of this Report**

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

*Warren Averett, LLC*

Destin, Florida  
February 20, 2024



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE  
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 the Major State Project**

***Qualified Opinion***

We have audited the City of DeFuniak Springs, Florida (the City), compliance with the types of compliance requirements identified as subject to audit in the Florida Department of Financial Services' *State Projects Compliance Supplement*, that could have a direct and material effect on the City's major state project for the year ended September 30, 2022. The City's major state project is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Qualified Opinion on the Aviation Grant Program***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion section of our report, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major state project for the year ended September 30, 2022.

***Basis for Qualified Opinion***

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

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion on compliance for the major state project. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

***Matter(s) Giving Rise to Qualified Opinion on the Aviation Grant Program***

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding equipment and real property management as described in Finding 2022-004.

Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that project.

### **Responsibilities of Management for Compliance**

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

### **Auditors' Responsibilities for the Audit of Compliance**

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with Chapter 10.550, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

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

### **Report on Internal Control Over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a material weakness.

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 program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material 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 a type of compliance requirement of a state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a material weakness.

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

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

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

*Warren Averett, LLC*

Destin, Florida  
February 20, 2024

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
SEPTEMBER 30, 2022**

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**I. SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

Type of auditors' report issued: Qualified

Internal control over financial reporting:

- Material weakness(es) identified?  X  Yes       No
- Significant deficiency(ies) identified that is/are not considered to be material weakness(es)?       Yes  X  None Reported

Noncompliance material to financial statements noted?       Yes  X  No

***State Projects***

Internal control over state projects:

- Material weakness(es) identified?  X  Yes       No
- Significant deficiency(ies) identified that is/are not considered to be material weakness(es)?       Yes  X  None Reported

Type of auditors' report issued on compliance for major projects: Qualified

- Any audit finding disclosed that is required to be reported in accordance with Chapter 10.550, *Rules of the Auditor General*?  X  Yes       No

Identification of major state projects:

<u>State Project Name</u>	<u>State CSFA No.</u>
Aviation Grant Program	55.004

Dollar threshold used to distinguish between Type A and Type B projects: \$448,649

**CITY OF DEFUNIAK SPRINGS, FLORIDA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**  
**SEPTEMBER 30, 2022**

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**II. FINDINGS – FINANCIAL STATEMENTS AND COMPLIANCE**

**Material Weakness**

***FINDING 2022-001 – Material Adjustments and Weaknesses In Internal Controls Over Financial Reporting***

***Criteria***

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

***Condition***

During audit fieldwork we identified multiple discrepancies with information provided as support documentation for amounts recorded in the City's general ledger as well as weaknesses in internal control design as summarized as follows:

- The City's previous finance director resigned in June of 2022. The current structure of the City's finance function is not sufficient for the complexity and volume of transactions required to be accounted for based on the services and programs provided to citizens.
- During testing of cash, we observed bank accounts had not been reconciled accurately or timely during the year ended September 30, 2022. Multiple aged, uncleared transactions required audit adjustments. Failure to prepare, review and make necessary adjustments to bank reconciliations/general ledger activity in a timely manner could allow misappropriation of assets and or material misstatements to go undetected by management.
- During testing of capital assets, we observed a complete inventory/subsidiary ledger for fixed assets was not maintained during the year ended September 30, 2022. Audit adjustments were necessary to correct and record certain capital asset activity during the year.
- The accounting system is not designed to properly track and record restricted revenues associated with water and sewer capacity fees. Exceptions were identified in posting of capacity fees during audit testing as further described in Finding 2022-003.
- Material audit adjustments, totaling approximately \$1.7 million, were necessary to record known grant receivables and related revenue. City personnel could not produce complete and accurate schedules of expenditures of State Financial Assistance and Federal Expenditures.
- Material audit adjustments were necessary to record known governmental receivables and related revenue and resulted in an accumulated difference of approximately \$145 thousand of unclassified (miscellaneous) revenue in the General Fund for the year ended September 30, 2022.
- During our testing of accounts payable, we observed the City did not complete an analysis of vendor payables which resulted in proposed audit entries of approximately \$1.7 million to properly record accounts payable at year end.

**CITY OF DEFUNIAK SPRINGS, FLORIDA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**  
**SEPTEMBER 30, 2022**

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- During our testing of journal entries, we observed the City did not maintain adequate support for journal entries posted during the year. Management was unable to provide adequate audit evidence for key journal entries that resulted in an accumulated difference of approximately \$251 thousand of unclassified (miscellaneous) revenue in the General Fund for the year ended September 30, 2022.

***Cause***

An appropriate system of internal control was not in place during the year ended September 30, 2022, due to finance department vacancies. In addition, the current finance functions lack necessary skills, knowledge and experience for the complexity and volume of transactions required to be accounted for based on the services and programs provided to citizens.

***Effect***

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

***Recommendation***

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

***Management's Response***

As stated, the finance director position was vacated in June of 2022. During the absence of a finance director, the city contracted with an outside firm to complete bank account reconciliations. Due to the outsourcing of certain functions, and staff shortages in the finance department, internal controls were weak. During fiscal year 2024, additional staffing was approved through the budget process, as well as department restructuring, to accommodate the needs of the city's finance department. With enhanced staffing, it is the goal of the city to establish and implement policies and procedures to ensure internal controls are continuous during key position vacancies.

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED  
SEPTEMBER 30, 2022**

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**Compliance Findings**

***FINDING 2022-002 – 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 nine months after the end of the fiscal year of the government entity. In addition, Section 218.39, Florida Statutes, requires the City's audited financial statements to be submitted to the Auditor General within 45 days after delivery of the audit report but not later than nine months after the end of the fiscal year of the governmental entity.

***Condition***

The filing requirements for the fiscal year ended September 30, 2022, was not met.

***Cause***

As stated in Finding 2022-001, the City lacks adequate staffing within the Finance Department to effectively implement the necessary internal control system to provide timely and accurate financial reporting.

***Effect***

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

***Recommendation***

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

***Management's Response***

As acknowledged, staffing of the finance department was limited during the field work for audit under review. Staffing has since been enhanced and key positions have been filled.

It should also be noted that a Member of the audit firm, with five years of historical knowledge and past audit engagements to the City, departed the firm in July of 2023 during the conclusion of field work and testing for the audit year under review.

***FINDING 2022-003 – Accounting for Capacity Fees***

***Criteria***

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

***Condition***

The City has established a segregated reserve bank account to deposit 75% of the capacity fees collected as well as to track related uses of such funds. Cash transfers from the

**CITY OF DEFUNIAK SPRINGS, FLORIDA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED  
SEPTEMBER 30, 2022**

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Operating bank account to the Reserve bank account representing 75% of capacity fees collected during the year ended September 30, 2022 were not consistently made during the period from December 2021 to September 2022.

***Cause***

An appropriate system of internal control was not in place during the year ended September 30, 2022, due to finance department vacancies coupled with a lack of written policies surrounding accounting for the sources and uses of the funds per City Ordinance.

***Effect***

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

***Recommendation***

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

***Management's Response***

A written process will be established to ensure the appropriate cash transfers are made consistently in accordance with Ordinance 925, Sec 23-180.



**CITY OF DEFUNIAK SPRINGS, FLORIDA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED  
SEPTEMBER 30, 2022**

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**II. FINDINGS – MAJOR STATE PROJECT**

***FINDING 2022-004 – Equipment and Real Property Management  
CSFA 55.004 - Aviation Grant Program***

***Criteria***

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

***Condition***

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

***Cause***

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

***Effect***

The City may not be in compliance with the equipment and real property management requirements in the grant agreement.

***Recommendation***

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

***Management's Response***

The city has created and implemented the use of separate general ledgers for referenced expenditures. Going forward, each grant will be accounted for separately to comply with state and federal guidelines and reporting requirements.

## 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, 2022, and have issued our report thereon dated February 20, 2024.

### 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 February 20, 2024, should be considered in conjunction with this management letter.

### Prior Audit Findings

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether corrective actions have been taken to address findings and recommendations made in the preceding annual financial report. Finding 2022-001 and Finding 2022-002 are repeated as reported in the City's 2021 audit.

### 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 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, 2022.

Section 10.554(1)(i)2., *Rules of Auditor General*, requires that we communicate any recommendations to improve financial management. In connection with our audit, we have reported audit finding 2022-001.

**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 have reported audit finding 2022-002 and finding 2022-003.

**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.

*Warren Averett, LLC*

Destin, Florida  
February 20, 2024