

CITY OF DEFUNIAK SPRINGS, FLORIDA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

CITY OF DEFUNIAK SPRINGS, FLORIDA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the
City Council
City of DeFuniak Springs, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, and the respective budgetary comparison for the General Fund and Utility Service Tax Fund of the City of DeFuniak Springs, Florida (the City), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of DeFuniak Springs, Florida, as of September 30, 2015, the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Utility Service Tax Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the City's basic financial statements, the City adopted an accounting standard that required retrospective application, resulting in recognition of net pension liabilities or assets and related pension amounts, and restatement of net position as of October 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Funding Progress, the Schedule of Proportionate Share of Net Pension Liability and the Schedule of Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

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

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards and state projects are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards and state projects are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2017, 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 that testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.



Fort Walton Beach, Florida
April 24, 2017

**CITY OF DEFUNIAK SPRINGS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015**

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, 2015. This analysis should be read in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- Transfers as reported in the Statement of Activities appear to indicate that the City's governmental activities supported the business-type activities by \$443,174. The reason this amount is reported in the Statement of Activities is because Walton County established a 1- Cent Sales Tax in fiscal year 1995 and the City entered into an inter-local agreement with the County to turn over the portion of sales tax generated within the City limits. In return, the County would no longer charge the City a tipping fee for the use of the county's landfill and the County would pay the City for the collection of residential garbage at the rate of \$8.50 per residential unit. During fiscal year 2015 the City transferred to the Sanitation fund \$1,634,726 of the 1-Cent Sales Tax and subsequently paid \$1,645,585 to the County from the City's sanitation fund. The difference between these two amounts is due to accruing an estimated increase in the receipt of the 1-Cent Sales Tax. Because this money is a tax the City's general fund receipts for this revenue and then transfers it to the City's sanitation fund for the payment to the County. If the \$1,634,726 transfer of the 1-cent sales tax amount is removed from the transfers, the effect would be a transfer occurring in the amount of \$1,191,552 to the governmental activities from the business-type activities.
- As reported in the Statement of Activities total net position of the city increased by \$96,054 with the governmental activities decreasing by \$135,462 and the business type activities increasing the City's net position by \$231,516. After adjustment for the above-mentioned 1-cent sales tax issue as well as all other inter-fund transfers, the governmental activities contributed a reduction of \$1,327,014 and the business-type activities contributed an increase of \$1,423,068 toward the overall net increase in total net position.
- The revenues of the governmental activities increased by \$54,369 from fiscal year ending 2014. This increase came from a \$85,524 increase in general revenues, a \$6,819 increase in grant revenue and a \$37,974 decrease in charges for services.
- Expenses of the governmental activities increased by \$424,951 with the most significant increase being in the transportation category when comparing 2014 to fiscal year 2015.
- The total operating revenues of the City's business-type activities was \$7,378,974 in fiscal year 2015 and \$6,790,786 in fiscal year 2014. Ninety-one percent of this increase came from the water fund.

CITY HIGHLIGHTS

- The City received slightly over \$460,000 from the US Department of Agriculture for the replacement of water mains in 2015. This grant is part of a loan/grant the City received to not only replace water lines but to also install a new well and elevated storage tank.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015
(Continued)**

- The City secured a \$230,288 Federal grant for hazard mitigation for the installation of generators at five lift stations. This is a 75% grant with a 25% match that ran through December 2016. The match portion, \$76,762, is included in the 2016 City budget.
- The City began and update to the airport fuel farm with a fuel tank replacement which was completed in December 2015, with the Florida Department of Transportation providing 80% of the funding.
- The City has approximately \$133,500 remaining out of a Florida Department of Transportation grant that will be used to obtain an avigation easement in order to remove some obstructions. The total match required for this project is slightly over \$33,000. In 2014, the City had the property surveyed over which the desired easement will be located and, in 2015, the easement appraised for approximately \$88,000.
- The City also received a \$10,000 grant from the Walton County Tourist Development Council for advertising the City's Marvel of Flight event. This is an annual event that began in 2011 to not only spot light the City's airport but to also bring in pilots to help showcase the City and all it has to offer. This two day event has grown over the years and host approximately 6,000 visitors.

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, 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements - The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City'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 this statement for some items that will only result in cash flows in future fiscal periods.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015
(Continued)**

BASIC FINANCIAL STATEMENTS

The basic financial statements of the City, under GASB 34, 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

GASB Statement 34 provides for a Statement of Net Position and Statement of Activities on the City as a whole. These statements are designed to provide the user of the financial statements a combined overview of the City's financial position and results of operations in a manner similar to private-sector companies by utilizing the economic resources measurement focus and accrual basis of accounting. This method better matches revenues and expenses to the period in which the revenue is earned and the expense attributed.

The focus of the Statement of Net Position is designed to be similar to a bottom line for the City's governmental and business-type activities. This is accomplished by presenting the governmental financial activity information in one column and the business-type financial activity information in another column with a third column representing a combination of the two columns or in other words the City as a whole. The net assets of the City (total assets less total liabilities) are segregated into (1) invested in capital assets, net of related debt, (2) restricted (defined as outside and enabling legislation), and (3) unrestricted. This segregation provides further assistance by designating the net assets between capital assets, restricted assets and unrestricted assets available to the City.

The Statement of Activities is focused on both the gross and net cost of the various governmental and business-type activities of the City. This statement is intended to summarize and simplify the user's analysis of cost of various governmental and business-type activities and the local taxing effort as well as user fees and charges required to sustain each of these activities. The governmental activities expenditures include general government services, public safety, transportation, and culture/recreation. The business-type activities expenditures include sewer, natural gas, water and sanitation services.

Fund Financial Statements

The fund financial statements provide more detailed information than the government-wide financial statements. However, this more detailed information is first presented on the City's "major" funds. After the notes to the basic financial statements the financial detail is reported on each of the City's "non-major" funds. The general fund is always a major fund. The following criteria are used to determine what other funds are "major" funds:

- The total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type (i.e. total governmental or total enterprise funds) and

**CITY OF DEFUNIAK SPRINGS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015
(Continued)**

- Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total of all governmental and enterprise funds combined.

The establishment of some funds is required by state law and/or bond covenants. The City Council can also establish many other funds to help it control and manage money for particular purposes (e.g. Cemetery Fund) or to show that it is meeting its legal responsibilities for using grants, certain taxes and other money (e.g. grants received from Community Development Block Grants). The City has two kinds of funds that use different accounting approaches.

- Governmental Funds - A majority of the City's basic services are reported in governmental funds. Under the fund financial statements the governmental funds use what is called modified accrual accounting which measures cash and all other financial assets that can readily be converted to cash. By using this accounting method the financial statement reader can determine if the City can meet its immediate or short-term needs. This is opposed to the long-term financial view presented in the government-wide financial statements. Because of the different accounting methods used between the government-wide financial statements and the fund financial statements, reconciliations between the two are provided on pages 26 and 28.
- Proprietary Funds - These types of funds generally consist of enterprise funds and fiduciary or trust funds. Enterprise funds encompass user fees and charges for services provided by the City. The City of DeFuniak Springs has four such funds (1) Sewer Fund, (2) Natural Gas Fund, (3) Water Fund and (4) Sanitation Fund. Each of these funds accounts for their individual functions. These enterprise funds report the same functions presented as business-type activities in the government-wide financial statements. Although more financial detail of these funds is provided under the fund financial statements than under the government-wide financial statements the same full accrual accounting method is used in both statements, therefore, no reconciliation is needed.

NOTES TO THE FINANCIAL STATEMENTS

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

**CITY OF DEFUNIAK SPRINGS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015
(Continued)**

FINANCIAL ANALYSIS OF THE CITY

The following table reflects the condensed Statement of Net Assets:

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Total assets and deferred outflows, excluding capital assets	\$ 2,883,709	\$ 2,708,409	\$ 5,201,555	\$ 6,202,979	\$ 8,085,264	\$ 8,911,388
Capital assets, net of depreciation	14,241,971	13,938,568	25,827,222	25,124,088	40,069,193	39,062,656
Total assets and deferred outflows	<u>\$ 17,125,680</u>	<u>\$ 16,646,977</u>	<u>\$ 31,028,777</u>	<u>\$ 31,327,067</u>	<u>\$ 48,154,457</u>	<u>\$ 47,974,044</u>
Total liabilities and deferred inflows, excluding long-term liabilities	\$ 2,257,542	\$ 1,140,947	\$ 1,930,533	\$ 827,665	\$ 4,188,075	\$ 1,968,612
Long-term liabilities	3,350,791	715,995	15,577,225	16,546,040	18,928,016	17,262,035
Total liabilities and deferred inflows	<u>5,608,333</u>	<u>1,856,942</u>	<u>17,507,758</u>	<u>17,373,705</u>	<u>23,116,091</u>	<u>19,230,647</u>
Net position:						
Net investment in capital assets	13,942,688	13,561,269	10,115,702	8,745,515	24,058,390	22,306,784
Restricted	-	-	780,567	792,775	780,567	792,775
Unrestricted	(2,425,341)	1,228,766	2,624,750	4,415,072	199,409	5,643,838
Total net position	<u>11,517,347</u>	<u>14,790,035</u>	<u>13,521,019</u>	<u>13,953,362</u>	<u>25,038,366</u>	<u>28,743,397</u>
Total liabilities and net position	<u>\$ 17,125,680</u>	<u>\$ 16,646,977</u>	<u>\$ 31,028,777</u>	<u>\$ 31,327,067</u>	<u>\$ 48,154,457</u>	<u>\$ 47,974,044</u>

The City is able to report positive balances in all three categories of net position (i.e. for the government as a whole as well as the City's governmental activities and business-type activities). Capital assets (i.e. land, buildings and equipment) are utilized to provide services to citizens and therefore are not available for future spending. This investment in capital assets, net of related debt is the largest portion of the City's total net position. This comprises 96% and 78% of the City's total net position in 2015 and 2014, respectively. The restricted net position is for the retirement of the City's debt obligations as well as for police automation, police training and transportation within the governmental activities. Infrastructure expansion caused by new growth is also part of the restricted net position within both the governmental and business-type activities.

The following table provides a summary of the changes in net assets. The figures contained in this table do not include the pass through 1-cent sales tax collected by the City and then remitted to the County per the existing inter-local agreement. Also excluded is the transfer of this 1-cent sales tax from the general fund to the sanitation fund.

CITY OF DEFUNIAK SPRINGS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015
(Continued)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Program revenues:						
Charges for services	\$ 1,618,798	\$ 1,656,772	\$ 6,524,753	\$ 6,437,196	\$ 8,143,551	\$ 8,093,968
Operating grants and contributions	-	-	-	-	-	-
Capital grants and contributions	731,019	724,200	823,089	353,590	1,554,108	1,077,790
General revenues:						
Taxes	2,542,162	2,347,541	-	-	2,542,162	2,347,541
State shared revenue	1,218,474	1,140,831	-	-	1,218,474	1,140,831
Other	491,273	678,013	31,142	-	522,415	678,013
Total revenues	<u>6,601,726</u>	<u>6,547,357</u>	<u>7,378,984</u>	<u>6,790,786</u>	<u>13,980,710</u>	<u>13,338,143</u>
Expenses:						
General government	1,148,978	1,388,298	-	-	1,148,978	1,388,298
Public safety	3,206,400	3,100,168	-	-	3,206,400	3,100,168
Transportation	2,653,729	2,170,214	-	-	2,653,729	2,170,214
Human services	-	-	-	-	-	-
Culture and recreation	919,633	845,109	-	-	919,633	845,109
Interest on long-term debt	-	-	-	-	-	-
Water fund	-	-	2,282,523	2,134,701	2,282,523	2,134,701
Sewer fund	-	-	1,761,611	1,737,133	1,761,611	1,737,133
Natural gas fund	-	-	1,191,658	1,303,233	1,191,658	1,303,233
Sanitation fund	-	-	720,124	714,318	720,124	714,318
Total expenses	<u>7,928,740</u>	<u>7,503,789</u>	<u>5,955,916</u>	<u>5,889,385</u>	<u>13,884,656</u>	<u>13,393,174</u>
Increase (decrease) in net position before transfers	(1,327,014)	(956,432)	1,423,068	901,401	96,054	(55,031)
Transfers	<u>1,191,552</u>	<u>911,961</u>	<u>(1,191,552)</u>	<u>(911,961)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	<u><u>\$ (135,462)</u></u>	<u><u>\$ (44,471)</u></u>	<u><u>\$ 231,516</u></u>	<u><u>\$ (10,560)</u></u>	<u><u>\$ 96,054</u></u>	<u><u>\$ (55,031)</u></u>

With the exclusion of the pass through 1-cent sales tax the revenues of the City's governmental activities expenses exceeded its revenues by \$135,462 after the City's governmental activities transferred \$1,191,552 to the business-type activities. The activities of the business-type funds produced income of \$1,423,068 before transfers. When the transfer of \$1,191,552 is taken into account, the business-type activities experienced income of \$231,516.

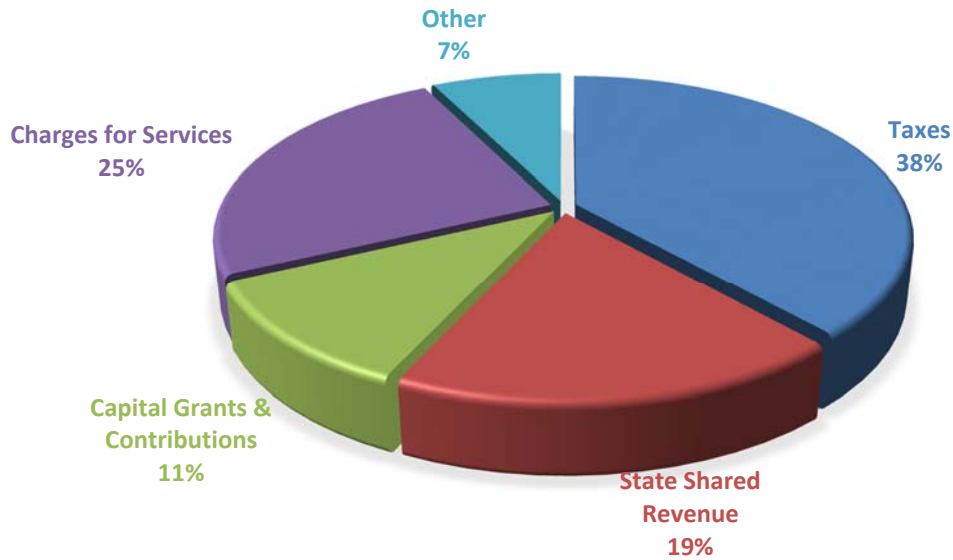
**CITY OF DEFUNIAK SPRINGS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015
(Continued)**

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

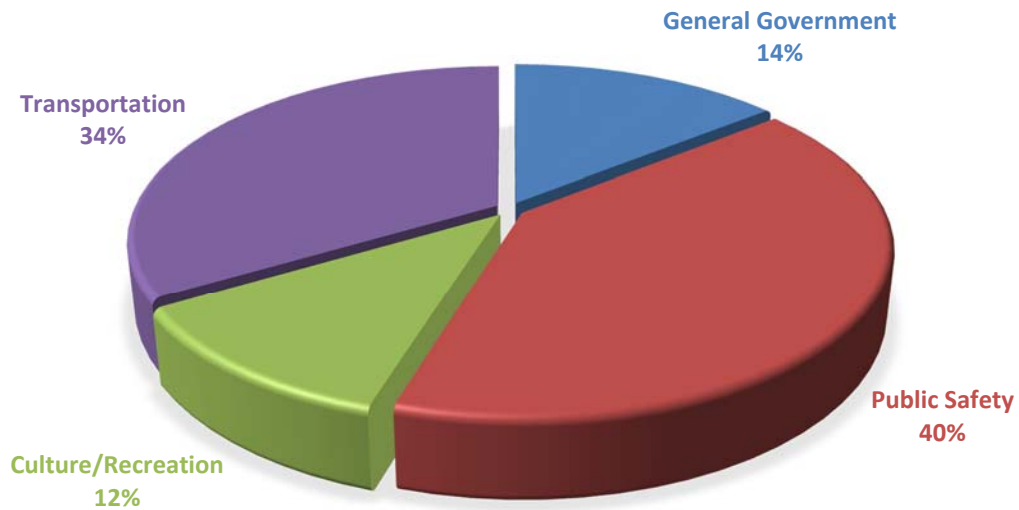
- Public safety, which consists of the police, fire, and building inspection departments, accounted for approximately 40% (\$3,206,400) of the City's governmental expenses. The City has to rely on several different revenue streams to provide these services to its citizens. A few of these revenue streams are (1) ad-valorem taxes of \$904,777, (2) franchise fees of \$259,951, (3) utility service taxes of \$878,825, (4) miscellaneous revenue of \$672,047, (5) state shared revenues of \$1,140,831. In fiscal year 2014, public safety expenditure accounted for 41% (\$3,100,168). In fiscal year 2013, public safety expenditure accounted for 38% (\$3,132,825) of the City's governmental expenditures. In fiscal years ending 2012, 2011, and 2010 public safety expenditures accounted for 40% (\$3,245,223), 42% (\$3,268,488), and 42% (\$3,042,482) respectively of the City's governmental expenses.
- The City's general governmental expenditures now account for 14% of the total governmental expenditures. This expenditure category has decreased from \$1,388,298 in fiscal year 2014 to \$1,148,978. This represents an approximately 17% decrease from fiscal year 2014 to 2015.
- Behind total tax revenue, the City's second largest governmental revenue source (25%) for fiscal year 2015 came from the City's charges for services. Utility services tax is now the City's third largest stand-alone source of regularly recurring revenue from its governmental activities. This tax is collected on the City's charges for water and natural gas services as well as electricity charges for customers located inside the City limits. This fund also receipts for the telecommunications tax levied on all communication services received by the City's citizens.
- Local Option Gas Tax (LOGT) is used exclusively for roadway, drainage and sidewalk improvements within the City's rights-of-way. LOGT of \$390,504 was received in fiscal year 2015. The City has historically accumulated these monies in order to accomplish economies of scale before spending this money on street improvements. In other words, bids are requested on larger paving projects in order to keep the per unit cost as low as possible.
- The revenues of the water system and sewer system accounted for approximately 57% of the City's business-type revenues. The expenditures within these funds accounted for approximately 68% of the business-type expenditures. With the exclusion of the 1-cent sales tax transfer the City's business-type activities produced income of \$1,423,068 in 2015 compared to income of \$901,401 in fiscal year 2014.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015
(Continued)**

**REVENUES - GOVERNMENTAL ACTIVITIES
FISCAL YEAR 2015**

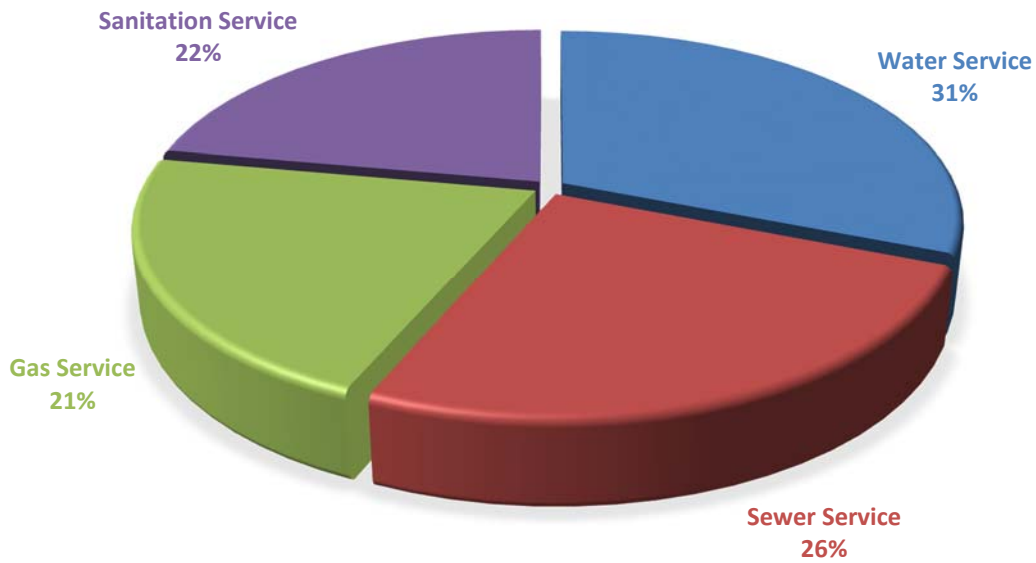


**EXPENSES - GOVERNMENTAL ACTIVITIES
FISCAL YEAR 2015**

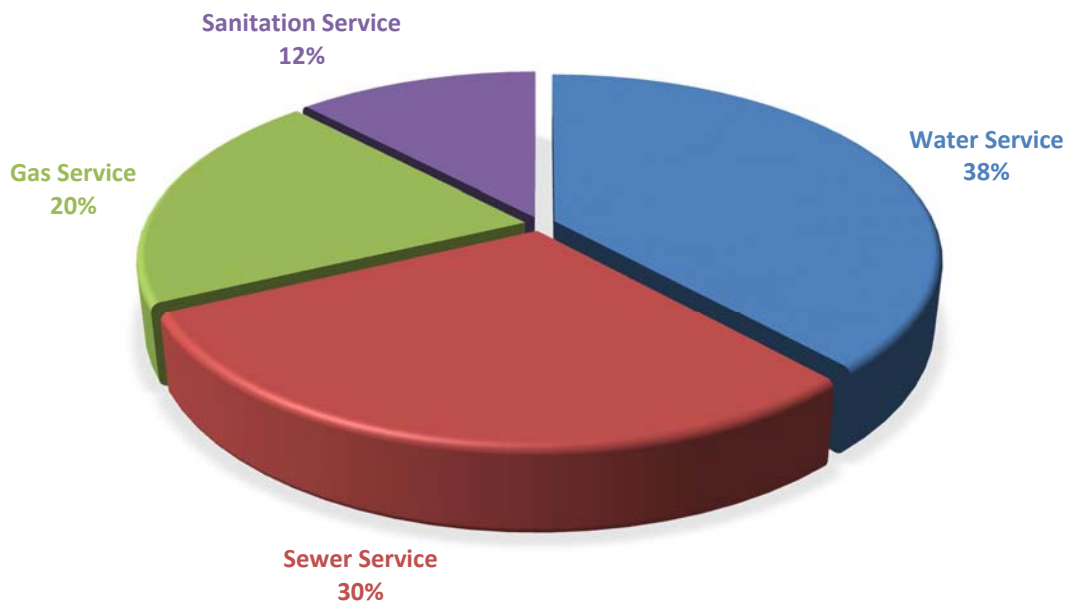


**CITY OF DEFUNIAK SPRINGS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015
(Continued)**

**REVENUES - BUSINESS TYPE ACTIVITIES
FISCAL YEAR 2015**



**EXPENSES - BUSINESS TYPE ACTIVITIES
FISCAL YEAR 2015**



**CITY OF DEFUNIAK SPRINGS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015
(Continued)**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

General Fund

As of September 30, 2015, the general fund had total assets of \$3,930,860 with total liabilities of \$3,552,517. These numbers equate to a fund balance of \$378,343 of which \$221,823 is unassigned. The general fund's revenues increased by 12% or \$676,213 over fiscal year ended September 30, 2014, and its expenses increased by 2% or \$192,854. This caused the general fund to experience a \$1,766,907 negative net change before other financing sources (uses) in its fund balance during fiscal year 2015 and a \$2,250,266 decrease was experienced in fiscal year 2014 before other financing sources (uses). Relative to this information, after other financing sources (uses) are taken into account the general fund had a \$567,025 negative net change in 2015 and a \$342,460 negative net change in 2014.

Utility Service Tax Fund

This fund receipts for all utility tax levied on the citizens of the City of DeFuniak Springs. The utilities taxed are the City's water and natural gas utilities, electrical utilities and propane gas. This fund also receipts for the telecommunication tax levied on all communication services received by the City's citizens. These funds are used to support the general fund in providing citizen services. During fiscal year 2015, the Utility Service Tax Fund transferred \$1,079,040 to the general fund. This represents an increase of 17% in support over the \$924,290 transferred in fiscal year 2014.

Other Governmental Funds

The City has two other governmental funds that are considered "non-major" funds under GASB 34. They are the Cemetery Fund and the Christmas Reflections Fund.

The Cemetery Fund provides the perpetual care of the City's cemetery. The main revenue source of this fund is from the sale of burial plots. Unfortunately, this revenue along with the interest earnings of this fund are not sufficient to provide for all of its expenses. Therefore, the City's general fund supports the cemetery fund each year.

CITY OF DEFUNIAK SPRINGS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015
(Continued)

The City's Christmas Reflections Fund began in 1998 from the vision of a few citizens to provide Christmas lights around Lake DeFuniak. A majority of this fund's revenues are obtained through a charge to view the lights. Currently \$3.00 per person is the charge or a season pass per vehicle can be obtained for \$35.00. Each year the light extravaganza starts on the Friday after Thanksgiving and runs through December 31. This fund has been self-supporting since fiscal year 2001.

Proprietary Funds

The City's proprietary funds are the business-type funds reported in the government-wide financial statements. The City has four such funds (1) Sewer, (2) Natural Gas, (3) Water and (4) Sanitation. Each of these is major funds under the fund financial statements. The same type of information is presented in both financial statements concerning these city funds. However, more detailed reporting of these funds is provided under the fund financial statements than under the government-wide financial statements.

Sewer Fund

The asset makeup of this fund is very capital intensive with capital assets net of accumulated depreciation representing 76% of the fund's total assets. In addition to several miles of distribution lines the City's sewer system consist of thirty-eight lift stations, a sewer processing plant and an upland irrigation spray field. With net capital assets totaling \$9,039,511, the depreciation expense for this fund was \$389,876 for fiscal year ending 2015.

The sewer fund ultimately experienced a negative change in net position of \$136,559. This provided the sewer fund with a total net position value of \$7,154,758 of which \$1,167,814 is unrestricted. Without the depreciation expense (a non-cash expense) and the \$55,695 transfer to the general fund the change in net position would have been a positive \$309,012.

Provided for this fund, as well as the City's water fund, is an automatic 4.3% rate increase in the charges for service that take affect at the beginning of each fiscal year unless over turned by a majority vote of the City Council. The rate structure in effect for fiscal year 2015 is as follows:

	<u>Residential Customer</u>	<u>Commercial I Customer</u>	<u>Commercial II Customer</u>
Minimum monthly fee	\$ 23.63	\$ 47.27	\$ 307.21
Rate per 1,000 gallons of usage as measured through the cumtomer's water meter	\$ 4.70	\$ 4.70	\$ 4.70

**CITY OF DEFUNIAK SPRINGS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015
(Continued)**

Commercial I classification is based on a monthly water consumption below twelve thousand (12,000) gallons and Commercial II classification is based on a monthly water consumption of twelve thousand (12,000) gallons or more. A twenty-five (25) percent surcharge is added to the above rates on all sewer users outside the city limits.

The outstanding debt and their corresponding balances of the sewer fund as of September 30, 2015 are as follows:

	<u>Balance</u>	<u>Debt Service Requirement</u>	<u>Actual Debt Service Balance</u>	<u>Rate</u>
State Revolving Fund (SRF #1)	\$ 806,015	\$ 182,932	\$ 223,327	2.56%
State Revolving Fund (SRF #2)	135,687	21,507	21,753	3.07%
Revenue Bonds, Series 1983	83,439	34,722	36,720	5.00%
Revenue Bonds, Series 1997	2,073,100	155,815	176,374	4.50%
Notes payable	379,323	-	-	0.00%
Notes payable	38,538	-	-	1.94%
	<u>\$ 3,516,102</u>	<u>\$ 394,976</u>	<u>\$ 458,174</u>	

These debts are collateralized by the net revenues of the sewer system with the exception of the 1983 and 1997 issues which are also collateralized by the net revenues of the natural gas system. The 1997 issue is also collateralized by the utility service taxes collected on natural and bottled gas. The debts listed above have been incurred due to the enormous capital asset needs of the City's sewer system.

These needs have included extending the City's sewer lines in order to provide this service to additional customers. It has also involved complying with the Department of Environmental Protection's regulations from building a new sewer plant to installing an upland irrigation spray site for the sewer system's effluent.

The City is not in violation of any of the bond ordinances or terms of any notes payable represented above. Meeting the yearly debt payments is also not an issue for the City's sewer fund. As previously presented the capital assets, net of accumulated depreciation, of the sewer fund are \$9,039,511 which is more than the incurred debt of \$3,516,102.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015
(Continued)**

The cash, cash equivalents as well as the investment savings for the sewer fund are presented below, please note investment savings are through the Florida League of Cities investment trust fund and the cash and cash equivalents are in qualified public depositories:

	<u>2015</u>	<u>2014</u>
Undesignated cash and cash equivalents	\$ 179,733	\$ 135,234
Undesignated investment savings	169,808	167,112
Total undesignated	<u>349,541</u>	<u>302,346</u>
Designated Cash And Cash Equivalents:		
For debt service	246,130	246,130
For capital outlay	356,691	260,237
For new infrastructure due to growth	235,243	323,921
Designated Investment Savings:		
For debt service	121,263	121,263
For capital outlay	748,604	739,763
Total designated	<u>1,707,931</u>	<u>1,691,314</u>
Grand Total	<u>\$ 2,057,472</u>	<u>\$ 1,993,660</u>

The designation for capital outlay is by City Ordinance #664, which requires the sewer fund to maintain a minimum of \$1,000,000 for the replacement of assets at the end of their useful life. The total capital outlay balance for this fund in 2015 and 2014 is \$1,105,295 and \$1,000,000 respectively.

Natural Gas Fund

The change in net assets for this fund was a negative \$71,894 in 2015. This decrease in net assets gave the natural gas fund a \$1,412,987 net position value as of September 30, 2015. For fiscal year 2014 the change in net assets was a negative \$191,702. This equates to an increase of 63% in net revenue from 2014 to 2015 for the City's natural gas fund.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015
(Continued)**

The outstanding debt and their corresponding balances of the natural gas fund as of September 30, 2015 are as follows:

	<u>Balance</u>	<u>Debt Service Requirement</u>	<u>Actual Debt Service Balance</u>	<u>Rate</u>
Refunded Revenue Bond,				
Series 2012	\$ 609,262	\$ 39,367	\$ 57,258	2.30%
Master lease	114,423	-	-	2.75%
Notes payable on equipment	19,168	-	-	1.94%
Notes payable	<u>30,636</u>	<u>-</u>	<u>-</u>	0.00%
	<u><u>\$ 773,489</u></u>	<u><u>\$ 39,367</u></u>	<u><u>\$ 57,258</u></u>	

The cash, cash equivalents as well as the investment savings for the natural gas fund are presented below, please note investment savings are through the Florida League of Cities investment trust fund and the cash and cash equivalents are in qualified public depositories:

	<u>2015</u>	<u>2014</u>
Undesignated cash and cash equivalents	<u>\$ 8,417</u>	<u>\$ 5,177</u>
Designated Cash And Cash Equivalents:		
Customer deposits	22,835	21,340
For debt service	39,367	39,753
For capital outlay	77,832	77,568
Designated Investment Savings:		
For capital outlay	<u>497,296</u>	<u>453,642</u>
Total designated	<u><u>637,330</u></u>	<u><u>592,303</u></u>
Grand Total	<u><u>\$ 645,747</u></u>	<u><u>\$ 597,480</u></u>

The designation for capital outlay is by City Ordinance #664, which requires the natural gas fund to maintain a minimum of \$500,000 for the replacement of assets at the end of their useful life. The total capital outlay balance for this fund in 2015 and 2014 is \$575,128 and \$531,210, respectively.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015
(Continued)**

Water Fund

During fiscal year 2015, the water fund had an increase in net assets (e.g. net gain) of \$374,434. The increase in 2014 was \$37,635. The total net position of this fund at the end of fiscal year 2015 is \$4,039,516, of which \$183,253 is unrestricted.

The water fund's outstanding debts as of September 30, 2015 are as follows:

	<u>Balance</u>	<u>Debt Service Requirement</u>	<u>Actual Debt Service Balance</u>	<u>Rate</u>
Revenue Bonds, Series 1991	\$ 918,000	\$ 92,275	\$ 96,147	5.00%
Revenue Bonds, Series 1996	498,100	43,347	52,228	5.125%
Revenue Bonds, Series 2004	1,915,000	130,011	136,038	4.50%
Revenue Bonds, Series 2006	2,681,000	153,800	156,248	4.25%
Revenue Bonds, Series 2012	4,386,000	73,143	91,135	2.75%
Master Lease	457,692	-	-	2.75%
Note payable on equipment	35,222	-	-	1.94%
Note payable	326,658	-	-	0.00%
	<u>\$ 11,217,672</u>	<u>\$ 492,576</u>	<u>\$ 531,796</u>	

The 1991 bond issue was for the replacement of the water system's storage tank and the 1996 issue was to replace one of the system's four water wells. The 2004, 2006, and 2012 revenue bonds were for needed improvements to the city's water system. These issues as well as the 1991 and 1996 issues are collateralized by the net revenues of the water system. The master lease is collateralized by the net revenues of both the water and natural gas fund. The City's water system is in violation of a bond ordinance related to the Series 2006 and Series 2012 bonds, but the City Council has approved a rate increase that will rectify this concern. The fund's ability to meet its yearly bond payments is not an issue.

CITY OF DEFUNIAK SPRINGS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015
(Continued)

The water system's cash accounts are depicted as follows, please note investment savings are through the Florida League of Cities investment trust fund and the cash and cash equivalents are in qualified public depositories:

	<u>2015</u>	<u>2014</u>
Undesignated cash and cash equivalents	\$ 157,642	\$ 72,834
Designated Cash And Cash Equivalents:		
Customer deposits	126,037	115,378
For debt service	455,679	455,679
For capital outlay	207,026	502,278
For new infrastructure due to growth	110,809	216,342
Designated Investment Savings:		
For capital outlay	86,924	86,304
Total designated	<u>986,475</u>	<u>1,375,981</u>
 Grand Total	 <u>\$ 1,144,117</u>	 <u>\$ 1,448,815</u>

As in the sewer and natural gas fund, the designation for capital outlay is by City Ordinance #664 which requires the water fund to maintain a minimum of \$700,000 for the replacement of assets at the end of their useful life. The total capital outlay balance for this fund in 2015 and 2014 is \$293,950 and \$588,582, respectively.

Sanitation Fund

The sanitation fund had a change in net assets of \$65,535 for fiscal year ending 2015 after transferring \$660,884 to other City funds.

In addition to the earlier discussion of the 1-cent sales tax receipts, per the interlocal agreement, the City is to receive back from Walton County a proportional share of these funds. The City's proportional share of the aforementioned sales tax is the amount left at the end of each fiscal year after the County has expended the needed funds from this tax for solid waste disposal purposes only. This proportional share amounted to \$754,232 in 2015 and \$700,599 in 2014. The City's proportional share is determined by the Department of Revenue's sales tax distribution formula in effect at the time of the distribution.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015
(Continued)**

Upgrade to the sanitation fund's equipment is not the only item that this money has provided. It has enabled the City to have additional funds available for unforeseen situations such as emergency repairs. This money has also assisted the City's general fund in providing services to the City's residents.

The sanitation fund's outstanding debts as of September 30, 2015 are as follows:

	<u>Balance</u>	<u>Rate</u>
Lease on dumpster truck	\$ 28,736	1.81%
Lease on equipment	\$ 175,521	1.94%

Both of these notes are paid on a monthly basis, therefore, no debt service is required.

The following table breaks down the sanitation fund's cash amounts:

	<u>2015</u>	<u>2014</u>
Undesignated cash and cash equivalents	\$ 232,738	\$ 317,104
Designated Cash And Cash Equivalents:		
For capital outlay	141,271	140,576
Designated Investment Savings:		
For capital outlay	8,519	8,458
Total designated	<u>149,790</u>	<u>149,034</u>
Grand Total	<u><u>\$ 382,528</u></u>	<u><u>\$ 466,138</u></u>

Unlike the sewer, natural gas and water funds, there is no ordinance capping the amount designated for capital outlay, however, this capital outlay designation was established by the City Council in the early 1980's.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015
(Continued)**

CAPITAL ASSETS ACTIVITY

Asset acquisitions of the City for 2015 and 2014 are depicted in the following table. These assets have been acquired either through grant monies, debt proceeds or City funds.

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 120,948	\$ 26,059	\$ -	\$ -	\$ 120,948	\$ 26,059
Construction in progress			697,961			
Buildings and distribution systems	-	815,037	827,200	1,295,795	827,200	2,110,832
Improvements other than buildings	489,567	9,653	-	-	489,567	9,653
Equipment	351,124	520,651	135,743	386,060	486,867	906,711
Total	<u>\$ 961,639</u>	<u>\$ 1,371,400</u>	<u>\$ 1,660,904</u>	<u>\$ 1,681,855</u>	<u>\$ 1,924,582</u>	<u>\$ 3,053,255</u>

The following schedule provides a summary of the City's total capital assets (net of accumulated depreciation).

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 2,759,346	\$ 2,638,398	\$ 589,488	\$ 589,488	\$ 3,348,834	\$ 3,227,886
Construction in progress	-	-	697,961	-	697,961	-
Buildings and distribution systems	4,391,281	4,391,281	37,463,930	36,636,730	41,855,211	41,028,011
Improvements other than buildings	10,855,952	10,366,385	-	-	10,855,952	10,366,385
Equipment	4,255,668	3,911,471	2,826,115	2,690,372	7,081,783	6,601,843
	<u>22,262,247</u>	<u>21,307,535</u>	<u>41,577,494</u>	<u>39,916,590</u>	<u>63,839,741</u>	<u>61,224,125</u>
Less Accumulation Depreciation	<u>8,020,276</u>	<u>7,368,967</u>	<u>15,750,272</u>	<u>14,692,502</u>	<u>23,770,548</u>	<u>22,061,469</u>
Total	<u>\$ 14,241,971</u>	<u>\$ 13,938,568</u>	<u>\$ 25,827,222</u>	<u>\$ 25,224,088</u>	<u>\$ 40,069,193</u>	<u>\$ 39,162,656</u>

**CITY OF DEFUNIAK SPRINGS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015
(Continued)**

TOTAL DEBT OBLIGATIONS

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

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Notes payable	\$ 299,283	\$ 377,299	\$ 2,547,619	\$ 2,957,064	\$ 2,846,902	\$ 3,334,363
Revenue bonds	-	-	13,163,901	13,516,639	13,163,901	13,516,639
Total	<u>\$ 299,283</u>	<u>\$ 377,299</u>	<u>\$ 15,711,520</u>	<u>\$ 16,473,703</u>	<u>\$ 16,010,803</u>	<u>\$ 16,851,002</u>

The revenue of the sewer system is pledged against the notes payable reported under the business-type activities. The business-type revenue bonds are secured solely by specified revenue sources. Details of these bonds have been presented under the financial analysis of the City's funds. The revenue of the utility service tax fund secures the bonds reported under the governmental activities.

OTHER FINANCIAL INFORMATION

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

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 104,709	\$ 378,533	\$ 483,242
Investments	716,543	2,112,744	2,829,287
Accounts receivable	93,427	1,209,481	1,302,908
Restricted assets:			
Cash and cash equivalents	419,286	1,085,253	1,504,539
Investments	217,672	510,020	727,692
Cash with fiscal agent	-	143,314	143,314
Due from other governments	421,891	-	421,891
Internal balances	374,409	(374,409)	-
Inventory	-	5,935	5,935
Unamortized bond issuance costs	-	17,309	17,309
Capital assets:			
Assets not being depreciated	2,759,346	1,287,449	4,046,795
Assets being depreciated, net	11,482,625	24,539,773	36,022,398
Total Assets	16,589,908	30,915,402	47,505,310
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	535,772	113,375	649,147
Total Assets and Deferred Outflows	\$ 17,125,680	\$ 31,028,777	\$ 48,154,457
LIABILITIES			
Checks issued in advance of deposits	\$ 216,683	\$ -	\$ 216,683
Accounts payable	736,983	411,113	1,148,096
Accrued liabilities	348,054	22,876	370,930
Escrow deposits	13,010	-	13,010
Due to other governments	145,000	356,259	501,259
Payable from restricted assets			
Accrued interest	3,403	51,427	54,830
Customer deposits	-	148,772	148,772
Non-current liabilities			
Due within one year			
Compensated absences	117,550	23,089	140,639
Notes payable	-	244,717	244,717
Capital leases	80,602	177,106	257,708
Revenue bonds payable	-	369,000	369,000
Due in more than one year			
Compensated absences	181,644	28,892	210,536
Notes payable	-	1,472,140	1,472,140
Capital leases	218,681	653,656	872,337
Revenue bonds payable	-	12,794,901	12,794,901
Net pension liability	2,868,581	607,010	3,475,591
Net OPEB obligation	81,885	20,626	102,511
Total Liabilities	5,012,076	17,381,584	22,393,660
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	596,257	126,174	722,431
NET POSITION			
Net investment in capital assets, net of related debt	13,942,688	10,115,702	24,058,390
Restricted for:			
Debt service and other debt requirements	-	584,833	584,833
Impact fees	-	195,734	195,734
Unrestricted	(2,425,341)	2,624,750	199,409
Total Net Position	11,517,347	13,521,019	25,038,366
Total Liabilities, Deferred Inflows, and Net Position	\$ 17,125,680	\$ 31,028,777	\$ 48,154,457

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

CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2015

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Operating Grants and Contributions	Capital Grants and Contributions	Charges for Services	Governmental Activities	Business-Type Activities	Total
	Expenses						
Functions:							
Governmental:							
General government	\$ 1,148,978	\$ -	\$ 55,460	\$ 945,377	\$ (148,141)		\$ (148,141)
Public safety	3,206,400	-	3,166	45,394	(3,157,840)		(3,157,840)
Transportation	2,653,729	-	591,505	520,380	(1,541,844)		(1,541,844)
Culture and recreation	919,633	-	80,888	107,647	(731,098)		(731,098)
	<u>7,928,740</u>	<u>-</u>	<u>731,019</u>	<u>1,618,798</u>	<u>(5,578,923)</u>		<u>(5,578,923)</u>
Business-type:							
Water service	2,282,523	-	823,089	2,022,470		\$ 563,036	563,036
Sewer service	1,761,611	-	-	1,662,746		(98,865)	(98,865)
Gas service	1,191,658	-	-	1,394,085		202,427	202,427
Sanitation service	2,354,850	-	-	1,445,452		(909,398)	(909,398)
	<u>7,590,642</u>	<u>-</u>	<u>823,089</u>	<u>6,524,753</u>		<u>(242,800)</u>	<u>(242,800)</u>
Total	<u>\$ 15,519,382</u>	<u>\$ -</u>	<u>\$ 1,554,108</u>	<u>\$ 8,143,551</u>	<u>(5,578,923)</u>	<u>(242,800)</u>	<u>(5,821,723)</u>
General Revenues:							
Taxes:							
Ad valorem taxes					909,459	-	909,459
Local option gas tax					390,504	-	390,504
Local sales taxes					1,645,585	-	1,645,585
Franchise taxes					277,477	-	277,477
Utility service taxes					953,863	-	953,863
State shared revenues					1,218,474	-	1,218,474
Earnings on investments					10,306	31,142	41,448
Miscellaneous revenue					480,967	-	480,967
Transfers					(443,174)	443,174	-
Total general revenues and transfers					<u>5,443,461</u>	<u>474,316</u>	<u>5,917,777</u>
Change in net position					(135,462)	231,516	96,054
Net position at beginning of year, as previously stated					14,790,035	13,953,362	28,743,397
Adjustment to beginning net position					(3,137,226)	(663,859)	(3,801,085)
Net position at beginning of year, as restated					<u>11,652,809</u>	<u>13,289,503</u>	<u>24,942,312</u>
Net position at end of year					<u>\$ 11,517,347</u>	<u>\$ 13,521,019</u>	<u>\$ 25,038,366</u>

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

CITY OF DEFUNIAK SPRINGS, FLORIDA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	General	Utility Service Tax	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 84,877	\$ -	\$ 19,832	\$ 104,709
Investments	576,941	-	139,602	716,543
Accounts receivable	9,739	83,688	-	93,427
Restricted assets:				
Restricted cash	419,286	-	-	419,286
Investments	15,305	202,367	-	217,672
Due from other governments	421,891	-	-	421,891
Interfund receivables	1,558,522	460,619	3,409	2,022,550
Total Assets	\$ 3,086,561	\$ 746,674	\$ 162,843	\$ 3,996,078

LIABILITIES AND FUND BALANCES

LIABILITIES				
Checks issued in advance of deposits	\$ -	\$ 216,683	\$ -	\$ 216,683
Accounts payable	730,411		6,572	736,983
Accrued liabilities	346,232	-	1,822	348,054
Escrow deposits	-	-	13,010	13,010
Due to other governments	145,000	-	-	145,000
Interfund payables	1,486,575	91,924	69,642	1,648,141
Total liabilities	2,708,218	308,607	91,046	3,107,871

FUND BALANCES

Restricted:				
Debt service	-	-	-	-
Committed:				
Impact fees - public safety	141,291	-	-	141,291
Proportionate fair share	15,229	-	-	15,229
Special revenue fund	-	-	71,797	71,797
Unassigned:				
General fund	221,823	-	-	221,823
Special revenue fund	-	438,067	-	438,067
Total fund balances	378,343	438,067	71,797	888,207
Total Liabilities and Fund Balances	\$ 3,086,561	\$ 746,674	\$ 162,843	\$ 3,996,078

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

**CITY OF DEFUNIAK SPRINGS, FLORIDA
RECONCILIATION OF THE BALANCE SHEET TO THE
STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015**

Total Fund Balances - Government Funds	\$	888,207
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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 governmental funds.

Governmental non-depreciable assets	2,759,346	
Governmental depreciable assets	19,502,901	
Less accumulated depreciation	<u>(8,020,276)</u>	14,241,971

Deferred outflows related to pensions are not financial resources and therefore not reported in the governmental funds.	535,772
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Deferred inflows related to pensions are not financial resources and therefore not reported in the governmental funds.	(596,257)
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.

Capital leases	(299,283)	
Accrued interest	(3,403)	
Compensated absences	(299,194)	
Net pension liability	(2,868,581)	
Net OPEB obligation	<u>(81,885)</u>	<u>(3,552,346)</u>

Total Net Position - Governmental Activities	\$	<u><u>11,517,347</u></u>
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CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2015

	General	Utility Service Tax	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 3,223,025	\$ 953,863	\$ -	\$ 4,176,888
License and permits	57,344	-	-	57,344
Intergovernmental	1,218,474	-	-	1,218,474
Charges for services	1,510,904	-	50,550	1,561,454
Interest	4,174	5,300	832	10,306
Miscellaneous	464,357	-	16,610	480,967
Total revenues	<u>6,478,278</u>	<u>959,163</u>	<u>67,992</u>	<u>7,505,433</u>
Expenditures:				
Current:				
General government	1,209,125	-	101,656	1,310,781
Public safety	3,012,248	-	-	3,012,248
Transportation	2,336,841	-	-	2,336,841
Culture and recreation	725,332	-	45,075	770,407
Capital outlay	961,639	-	-	961,639
Total expenditures	<u>8,245,185</u>	<u>-</u>	<u>146,731</u>	<u>8,391,916</u>
Excess (deficiency) revenues over (under) expenditures	<u>(1,766,907)</u>	<u>959,163</u>	<u>(78,739)</u>	<u>(886,483)</u>
Other Financing Sources (Uses):				
Capital contributions	731,019	-	-	731,019
Debt service payments	(85,741)	-	-	(85,741)
Transfers in	2,270,592	-	81,262	2,351,854
Transfers out	(1,715,988)	(1,079,040)	-	(2,795,028)
Total other financing sources (uses)	<u>1,199,882</u>	<u>(1,079,040)</u>	<u>81,262</u>	<u>202,104</u>
Net change in fund balances	(567,025)	(119,877)	2,523	(684,379)
Fund Balances:				
Beginning of year	<u>945,368</u>	<u>557,944</u>	<u>69,274</u>	<u>1,572,586</u>
End of year	<u>\$ 378,343</u>	<u>\$ 438,067</u>	<u>\$ 71,797</u>	<u>\$ 888,207</u>

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

**CITY OF DEFUNIAK SPRINGS, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2015**

Net Change In Fund Balances - General Fund	\$ (684,379)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Repayment of debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	79,736
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Annual other post employment benefits (OPEB) cost, as required by Governmental Accounting Standards No. 45, does not require the use of current financial resources, therefore, it is not reported as an expenditure in governmental funds.	(19,195)
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Governmental funds do not recognize expenditures for the change in the net pension liability from year-to-year.	208,160
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In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental fund, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	(23,188)
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Capital outlays are reported in the general fund as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which capital outlays (\$961,639) exceeded depreciation (\$658,235) in the current period.	303,404
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Change in Net Position - Governmental Activities	<u><u>\$ (135,462)</u></u>
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CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues:				
Taxes	\$ 2,524,440	\$ 2,524,440	\$ 3,223,025	\$ 698,585
License and permits	25,800	25,800	57,344	31,544
Intergovernmental	1,208,070	1,208,070	1,218,474	10,404
Charges for services	1,632,900	1,632,900	1,510,904	(121,996)
Interest	3,000	3,000	4,174	1,174
Miscellaneous	53,900	81,855	464,357	382,502
Total revenues	<u>5,448,110</u>	<u>5,476,065</u>	<u>6,478,278</u>	<u>1,002,213</u>
Expenditures:				
Current:				
General government	1,235,730	1,245,710	1,209,125	36,585
Public safety	3,028,970	3,089,170	3,012,248	76,922
Transportation	1,676,270	1,840,725	2,336,841	(496,116)
Culture and recreation	741,500	818,600	725,332	93,268
Debt service	96,000	96,000	-	96,000
Capital outlay	1,140,730	1,140,730	961,639	179,091
Total expenditures	<u>7,919,200</u>	<u>8,230,935</u>	<u>8,245,185</u>	<u>(14,250)</u>
Deficiency of revenues over expenditures	<u>(2,471,090)</u>	<u>(2,754,870)</u>	<u>(1,766,907)</u>	<u>987,963</u>
Other Financing Sources (Uses):				
Capital contributions	841,540	923,640	731,019	(192,621)
Transfers in	2,656,360	2,726,540	2,270,592	(455,948)
Transfers out	<u>(1,110,180)</u>	<u>(1,110,180)</u>	<u>(1,715,988)</u>	<u>(605,808)</u>
Total other financing sources and (uses)	<u>2,387,720</u>	<u>2,540,000</u>	<u>1,285,623</u>	<u>(1,254,377)</u>
Use of Reserves	<u>83,370</u>	<u>214,870</u>	<u>-</u>	<u>(214,870)</u>
Net change	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (481,284)</u>	<u>\$ (481,284)</u>

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

CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES BUDGET AND ACTUAL - UTILITY SERVICE TAX FUND
YEAR ENDED SEPTEMBER 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues:				
Taxes	\$ 1,075,540	\$ 1,075,540	\$ 953,863	\$ (121,677)
Interest	<u>3,500</u>	<u>3,500</u>	<u>5,300</u>	<u>1,800</u>
Total revenues	<u>1,079,040</u>	<u>1,079,040</u>	<u>959,163</u>	<u>(119,877)</u>
Other Financing Sources (Uses):				
Transfers out	<u>(1,079,040)</u>	<u>(1,079,040)</u>	<u>(1,079,040)</u>	<u>-</u>
Total other financing sources and (uses)	<u>(1,079,040)</u>	<u>(1,079,040)</u>	<u>(1,079,040)</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (119,877)</u>	<u>\$ (119,877)</u>

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

CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2015

	Business-Type Activities Enterprise Funds				
	Water Fund	Sewer Fund	Gas Fund	Sanitation Fund	Total
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 126,048	\$ 123,182	\$ -	\$ 129,303	\$ 378,533
Investments	236,004	1,048,927	574,588	253,225	2,112,744
Accounts receivable, net	699,923	306,396	144,822	58,340	1,209,481
Interfund receivables	1,049,416	438,810	415,024	1,424,987	3,328,237
Inventory	-	-	5,935	-	5,935
Total current assets	<u>2,111,391</u>	<u>1,917,315</u>	<u>1,140,369</u>	<u>1,865,855</u>	<u>7,034,930</u>
Non-Current Assets:					
Restricted cash and cash equivalents	620,732	427,402	37,119	-	1,085,253
Cash with fiscal agent	13,243	96,031	34,040	-	143,314
Restricted investments	148,090	361,930	-	-	510,020
Unamortized bond issue costs	-	1,907	15,402	-	17,309
Capital assets:					
Assets not being depreciated	621,209	662,459	3,781	-	1,287,449
Assets being depreciated, net	14,135,694	8,377,052	1,751,550	275,477	24,539,773
Total non-current assets	<u>15,538,968</u>	<u>9,926,781</u>	<u>1,841,892</u>	<u>275,477</u>	<u>27,583,118</u>
Total assets	<u>17,650,359</u>	<u>11,844,096</u>	<u>2,982,261</u>	<u>2,141,332</u>	<u>34,618,048</u>
Deferred Outflows of Resources					
Pensions	24,760	24,665	25,998	37,952	113,375
Total Assets and Deferred Outflows	<u>\$ 17,675,119</u>	<u>\$ 11,868,761</u>	<u>\$ 3,008,259</u>	<u>\$ 2,179,284</u>	<u>\$ 34,731,423</u>
LIABILITIES AND NET POSITION					
Current Liabilities:					
Accounts payable	\$ 233,549	\$ 87,118	\$ 51,018	\$ 39,428	\$ 411,113
Accrued expenses	4,944	4,944	5,306	7,682	22,876
Interfund payables	1,666,609	896,726	530,427	608,884	3,702,646
Due to other governments	178,811	24,219	15,979	137,250	356,259
Payable from restricted assets					
Accrued interest	33,170	10,019	6,252	1,986	51,427
Customer deposits	125,022	-	23,750	-	148,772
Compensated absences	4,590	4,590	4,940	8,969	23,089
Notes payable	25,128	216,185	3,404	-	244,717
Capital leases	83,604	-	23,577	69,925	177,106
Revenue bonds payable	199,000	90,000	80,000	-	369,000
Total current liabilities	<u>2,554,427</u>	<u>1,333,801</u>	<u>744,653</u>	<u>874,124</u>	<u>5,507,005</u>
Non-Current Liabilities:					
Compensated absences	7,073	7,073	11,619	3,127	28,892
Net other post-employment benefits obligation	4,039	3,702	4,373	8,512	20,626
Notes payable	301,530	1,143,378	27,232	-	1,472,140
Capital leases	409,310	-	110,014	134,332	653,656
Revenue bonds payable	10,199,100	2,066,539	529,262	-	12,794,901
Net pension liability	132,569	132,059	139,188	203,194	607,010
Total non-current liabilities	<u>11,053,621</u>	<u>3,352,751</u>	<u>821,688</u>	<u>349,165</u>	<u>15,577,225</u>
Total liabilities	<u>13,608,048</u>	<u>4,686,552</u>	<u>1,566,341</u>	<u>1,223,289</u>	<u>21,084,230</u>
Deferred Inflows of Resources					
Pensions	27,555	27,451	28,931	42,237	126,174
Net Position:					
Net investment in capital assets, net of related debt	3,539,231	5,523,409	981,842	71,220	10,115,702
Restricted					
Debt service and other debt requirements	299,806	285,027	-	-	584,833
Impact fees	17,226	178,508	-	-	195,734
Unrestricted	183,253	1,167,814	431,145	842,538	2,624,750
Total net position	<u>4,039,516</u>	<u>7,154,758</u>	<u>1,412,987</u>	<u>913,758</u>	<u>13,521,019</u>
Total Liabilities and Net Position	<u>\$ 17,675,119</u>	<u>\$ 11,868,761</u>	<u>\$ 3,008,259</u>	<u>\$ 2,179,284</u>	<u>\$ 34,731,423</u>

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

CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2015

	Business-Type Activities				
	Enterprise Funds				
	Water Fund	Sewer Fund	Gas Fund	Sanitation Fund	Total
Operating Revenue:					
Charges for service	\$ 1,867,942	\$ 1,625,043	1,296,818	\$ 452,845	\$ 5,242,648
Interlocal agreement	-	-	-	989,053	989,053
Other operating income	154,528	37,703	97,267	3,554	293,052
Total operating revenue	<u>2,022,470</u>	<u>1,662,746</u>	<u>1,394,085</u>	<u>1,445,452</u>	<u>6,524,753</u>
Operating Expenses:					
Personnel services	190,471	185,978	198,585	329,611	904,645
Contractual services	495,617	495,616	459,089	1,665,293	3,115,615
Materials and supplies	310,624	91,247	65,134	43,827	510,832
Professional services	23,316	5,387	5,987	-	34,690
Repairs and maintenance	87,389	169,785	64,916	43,343	365,433
Office and utilities	32,683	37,555	7,251	-	77,489
Insurance expense	25,940	31,147	6,540	8,630	72,257
Depreciation and amortization	455,180	389,876	117,610	97,442	1,060,108
Billing fees	247,056	224,796	247,056	166,704	885,612
Total operating expenses	<u>1,868,276</u>	<u>1,631,387</u>	<u>1,172,168</u>	<u>2,354,850</u>	<u>7,026,681</u>
Operating income (loss)	154,194	31,359	221,917	(909,398)	(501,928)
Non-Operating Revenue:					
Interest income	2,055	18,001	9,995	1,091	31,142
Interest expense	(414,247)	(130,224)	(19,490)	-	(563,961)
Total non-operating revenue (expense)	<u>(412,192)</u>	<u>(112,223)</u>	<u>(9,495)</u>	<u>1,091</u>	<u>(532,819)</u>
Income (Loss) Before Operating Transfers	<u>(257,998)</u>	<u>(80,864)</u>	<u>212,422</u>	<u>(908,307)</u>	<u>(1,034,747)</u>
Transfers and Capital Contributions:					
Transfers in	-	-	-	1,634,726	1,634,726
Transfers out	(190,657)	(55,695)	(284,316)	(660,884)	(1,191,552)
Capital contributions	823,089	-	-	-	823,089
Total transfers and capital contributions	<u>632,432</u>	<u>(55,695)</u>	<u>(284,316)</u>	<u>973,842</u>	<u>1,266,263</u>
Changes in net position	<u>374,434</u>	<u>(136,559)</u>	<u>(71,894)</u>	<u>65,535</u>	<u>231,516</u>
Net position at beginning of year, as previously stated	3,810,066	7,435,744	1,637,103	1,070,449	13,953,362
Adjustment to beginning net position	<u>(144,984)</u>	<u>(144,427)</u>	<u>(152,222)</u>	<u>(222,226)</u>	<u>(663,859)</u>
Net position at beginning of year, as restated	<u>3,665,082</u>	<u>7,291,317</u>	<u>1,484,881</u>	<u>848,223</u>	<u>13,289,503</u>
Net position - end of year	<u>\$ 4,039,516</u>	<u>\$ 7,154,758</u>	<u>\$ 1,412,987</u>	<u>\$ 913,758</u>	<u>\$ 13,521,019</u>

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

**CITY OF DEFUNIAK SPRINGS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2015**

	Water Fund	Sewer Fund	Gas Fund	Sanitation Fund	Total
Cash Flows from Operating Activities:					
Cash received from customers	\$ 1,836,123	\$ 1,649,628	\$ 1,386,348	\$ 1,444,896	\$ 6,316,995
Cash paid to employees for services	(196,101)	(191,580)	(202,330)	(349,670)	(939,681)
Cash paid to suppliers for goods and services	(752,353)	(768,535)	(581,642)	(1,915,460)	(4,017,990)
Internal activity - payments from (to) other funds	(73,988)	(167,921)	(154,192)	(160,916)	(557,017)
Other receipts	154,528	-	-	-	154,528
Net cash provided by (used in) operating activities	968,209	521,592	448,184	(981,150)	956,835
Cash Flows from Non-Capital Financing Activities:					
Transfer to other funds	(190,657)	(55,695)	(284,316)	(660,884)	(1,191,552)
Transfer from other funds	-	-	-	1,634,726	1,634,726
Net cash provided by (used in) non-capital financing activities	(190,657)	(55,695)	(284,316)	973,842	443,174
Cash Flows from Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(1,193,829)	(423,726)	(33,842)	(9,504)	(1,660,901)
Interest paid	(414,247)	(129,629)	(19,490)	-	(563,366)
Proceeds from grants	445,409	-	-	-	445,409
Principal payment of notes payable	(22,968)	(211,015)	(3,404)	-	(237,387)
Principal payment on capital leases	(81,270)	-	(22,899)	(67,889)	(172,058)
Principal payment on bonds payable	(192,000)	(85,000)	(80,000)	-	(357,000)
Net cash used in capital and related financing activities	(1,458,905)	(849,370)	(159,635)	(77,393)	(2,545,303)
Cash Flows from Investing Activities:					
Purchases of investments	(44,205)	(18,000)	(14,044)	(1,091)	(77,340)
Sales of investments	373,307	-	4,049	-	377,356
Interest received	2,055	18,000	9,995	1,091	31,141
Net cash provided by investing activities	331,157	-	-	-	331,157
Net Change in Cash and Cash Equivalents	(350,196)	(383,473)	4,233	(84,701)	(814,137)
Cash and Cash Equivalents - Beginning of the Year	1,110,219	1,030,088	66,926	214,004	2,421,237
Cash and Cash Equivalents - End of the Year	<u>\$ 760,023</u>	<u>\$ 646,615</u>	<u>\$ 71,159</u>	<u>\$ 129,303</u>	<u>\$ 1,607,100</u>
Displayed As:					
Cash and cash equivalents	\$ 126,048	\$ 123,182	\$ -	\$ 129,303	\$ 378,533
Restricted cash	620,732	427,402	37,119	-	1,085,253
Cash with fiscal agent - restricted	13,243	96,031	34,040	-	143,314
	<u>\$ 760,023</u>	<u>\$ 646,615</u>	<u>\$ 71,159</u>	<u>\$ 129,303</u>	<u>\$ 1,607,100</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:					
Operating income (loss)	\$ 154,194	\$ 31,359	\$ 221,917	\$ (909,398)	\$ (501,928)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities -					
Depreciation and amortization expense	455,180	389,876	117,610	97,442	1,060,108
Changes in operating assets and liabilities:					
Accounts receivable	(31,819)	(13,118)	(7,737)	(556)	(53,230)
Due to/from other funds	173,093	56,875	92,864	5,788	328,620
Due to/from other governments	22,979	-	-	-	22,979
Deferred outflows of resources - pensions	(11,089)	(11,047)	(11,644)	(17,001)	(50,781)
Accounts payable	192,697	62,833	24,025	(154,366)	125,189
Accrued expenses	950	1,254	1,901	2,880	6,985
Compensated absences	2,095	2,095	4,455	(8,193)	452
Customer deposits	8,460	-	3,250	-	11,710
Net pension liability	48,675	48,487	51,105	74,607	222,874
Deferred inflows of resources - pensions	(47,206)	(47,022)	(49,562)	(72,353)	(216,143)
Total adjustments	814,015	490,233	226,267	(71,752)	1,458,763
Net Cash Provided By (Used In) Operating Activities	<u>\$ 968,209</u>	<u>\$ 521,592</u>	<u>\$ 448,184</u>	<u>\$ (981,150)</u>	<u>\$ 956,835</u>

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

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of DeFuniak Springs, Florida, (the City) is a political subdivision of the State and was legally created by Laws of Florida, Chapter 5341 (1903) on July 30, 1901. The City provides police and fire protection, general government, parks and recreation and public works services to its residents. In addition, the City operates water and 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.

Reporting Entity:

The Governmental Accounting Standards Board (GASB) was established in April 1984 to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governments. The GASB is the successor organization to the National Council on Governmental Accounting (NCGA). GASB Statement 1 states that all NCGA Statements and Interpretations heretofore issued and in effect at July 1984 are considered to be generally accepted accounting principles and are continued in force until amended by subsequent GASB pronouncements. Accordingly, these Statements have been applied in the preparation of these financial statements.

GASB Statement No. 14, *The Financial Reporting Entity*, was issued to provide the criteria to be used in determining what governmental functions, activities and organizations should be included in a governmental reporting entity. In developing these criteria, the GASB assumed that all functions of government are considered to be responsible to elected officials at the federal, state or local level. Therefore, all functions of government must be a part of federal, state or local government and should be reported at the lowest level of legislative authority.

Statement 14 requires that financial operations of governmental departments, agencies, commissions or authorities over which the governmental unit's elected officials have oversight responsibility be included in the reporting entity's financial statements. In determining whether elected officials have oversight responsibility, Statement 14 identifies certain criteria to be considered. These criteria include, but are not limited to, selection of the governing body, designation of management, ability to influence operations and accountability over fiscal matters.

Based on the foregoing criteria, there are no other organizations which should be considered for inclusion in the City's financial statements.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation:

Government-Wide Financial Statements - Government-wide financial statements display information about the reporting government as a whole. These statements include separate columns for the governmental and business-type 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 rely, to a significant extent, on fees and charges for support.

The statement of activities presents a comparison between direct expenses and program revenues. Direct expenses are those that are specifically identifiable with a particular service, program or department. Program revenues include fees, fines and charges paid by customers or users of goods or services provided by the program or function and operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. General revenues include all taxes and all other revenues not required to be reported as program revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as reductions of the related liabilities, rather than as expenditures.

As a general rule, the effects of interfund activity have been eliminated from the government-wide financial statements.

Fund Financial Statements - The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental and proprietary funds are presented after the governmental-wide financial statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental and enterprise funds.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued):

Governmental Funds

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 collected 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Franchise fees, licenses, sales taxes, gas taxes, operating and capital grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other items are considered to be measurable only when cash is received by the City.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of "available spendable resources." Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

Because of their spending measurement focus, expenditure recognition for governmental fund types exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as another financing source rather than as a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The City has used the minimum criteria for major fund determination according to GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments*, to determine which funds are required to be reported as major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued):

Governmental Funds (Continued)

The City reports the following major governmental funds:

General Fund - This is the City's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund. All general property taxes, fines, various permits, and certain intergovernmental revenues are recorded in this fund. Typical expenditures are for administration, planning, public service, public safety, streets and drainage, and parks and recreation.

Utility Services Tax Fund - This fund accounts for the receipt of the utility services taxes.

Proprietary Funds

The City's enterprise funds are proprietary funds. In the fund financial statements, proprietary funds are presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, propriety funds are presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net assets.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Amounts paid to acquire capital assets are capitalized as assets in the fund financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the fund financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness are reported as a reduction of the related liabilities, rather than as an expense.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The City reports the following major enterprise funds:

Water Fund - This fund accounts for the operation, maintenance and development of the City's water supply distribution system.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued):

Proprietary Funds (Continued)

Sewer Fund - This fund accounts for the operation, maintenance and development of the City's wastewater system.

Natural Gas Fund - This fund accounts for the operation, maintenance and development of the City's natural gas distribution system.

Sanitation Fund - The sanitation fund is used to account for activities related to retail sanitation operations.

Measurement Focus and Basis of Accounting

The basic financial statements of the City are composed of the government-wide financial statements, fund financial statements, and notes to the financial statements.

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with GASB No. Statement 33, *Accounting and Financial Reporting for Nonexchange transactions*.

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 government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, under GASB 54, are comprised of the following:

Non-spendable - includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, deposits, prepaid items, and advances to other funds.

Restricted - includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification of Fund Balance (Continued):

Committed - includes fund balance amounts that can be used only for the specific purposes that are internally imposed by a formal action of the government's highest level of decision making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal that imposed the constraint initially. Contractual obligations are included to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual obligations.

Assigned - includes fund balance amounts that sets limits as a result of the intended use of funds that are neither restricted nor committed, per the City's Purchasing Policy, which is set by the City's management.

Unassigned - includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

Noncurrent Governmental Assets/Liabilities:

GASB 34 eliminates the presentation of account groups, such as land, buildings and equipment, general obligation bonds and capital leases, but provides for these records to be maintained and incorporates the information into the governmental column in the government-wide statement of net position.

Budgets:

The City Council annually adopts budgets on a basis consistent with GAAP through passage of a resolution for the general, special revenue, and enterprise funds. Budgetary control is exercised at the department level. Appropriations for operating expenditures may be transferred from one object level to another through a formal budgetary transfer. Expenditures may legally exceed the departmental appropriation as well as the fund level appropriation. Any amendment made to the budget must be approved by either the department head or the City Council. The City Council may amend the budget at any time during the year.

Budgetary data presented in the accompanying basic financial statements in the final budgeted amounts column represents the final budgetary data. In this column, the effects of budget amendments have been applied to original budgetary data.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents:

The City has defined cash and cash equivalents to include cash on hand, demand deposits, certificates of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Accounts Receivable:

Accounts receivable are deemed to be entirely collectible; therefore, an allowance for uncollectible accounts receivable has not been recorded.

Sewer, gas, water and sanitation services are billed at the beginning of the month. This billing method does not capture the amounts receivable for the last ten days of the month by the City at the end of each fiscal year. The unbilled amounts as of September 30, 2015 have been recorded and are included in the respective accounts receivable balance.

Due from and Due to Other Funds:

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Property Taxes:

Property tax revenue has been recognized in the fiscal year in which the taxes have been collected. The property tax calendar for 2015 is as follows:

Levy date	October 1
Tax bills mailed	1 st week in November
Payments due by	March 31
Delinquent date	April 1
Lien date	January 1
Tax sale	June 1

Inventory:

Inventory consists of gas appliances and is valued at cost, using the first-in, first-out method.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

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

General infrastructure assets acquired prior to October 1, 2002 are not reported in the basic financial statements.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows and Inflows of Resources:

The City has implemented the provisions of GASB Statement Nos. 63 and 65. Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows and inflows of resources, originally introduced and defined in GASB Concepts Statement No. 4, *Elements of Financial Statements*, as an acquisition or consumption, respectively, of net assets applicable to a future reporting period. Further, Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. Statement No. 65, *Items Previously Reported As Assets and Liabilities*, reclassifies and recognizes certain items that were formerly reported as assets and liabilities as one of the four financial statement elements, (1) deferred outflows of resources, (2) outflows of resources, (3) deferred inflows of resources, and (4) inflows of resources. Concepts Statement No. 4 requires that deferred outflows and deferred inflows be recognized only in those instances specifically identified in GASB pronouncements. Statement 65 provides that guidance.

The City reports increases and decreases in net position that relate to future periods as deferred inflows and deferred outflows of resources in a separate section of the statement of net position. The deferred outflows and inflows of resources related to pensions are further discussed in Note 7.

Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the FRS defined benefit plan and the HIS defined benefit plan, and additions to/deductions from the FRS's and the HIS's fiduciary net position have been determined on the same basis as they are reported by the FRS and HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Long-term Obligations:

The City reports long-term debt of governmental funds at face value in the government-wide long-term liabilities. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the government-wide long-term liabilities. Long-term debt and other obligations financed by proprietary finds are reported as liabilities in the appropriate funds.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unamortized Bond Issue Cost:

In the propriety funds, the costs related to issuing bonds in the Sewer and Gas Fund are amortized using the straight-line method over the life of the bonds. The City follows GASB Statement No. 62 which allows matching the regulated rate recovery of the costs if certain criteria are met.

Compensated Absences:

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

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events:

The City has evaluated events and transactions that occurred between September 30, 2015 and April 24, 2017, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

New Accounting Pronouncements:

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No.68*, effective for fiscal years beginning after June 15, 2014. The City participates in the Florida Retirement System (“FRS”) defined benefit pension plan and the Health Insurance Subsidy (“HIS”) defined benefit plan administered by the Florida Division of Retirement. As a participating employer, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires employers participating in cost-sharing multiple-employer defined benefit pension plans to report the employers’ proportionate share of the net pension liabilities and related pension amounts of the defined benefit pension plans. The beginning net position of the City was decreased by \$3,801,085 due to the adoption of this Statement.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 2 - RESTRICTED ASSETS

Certain assets of the various funds are required by resolution and ordinance to be set aside and used for specific purpose and are not available to be used for general operations. It is the City's policy to first apply restricted resources for expenditures incurred for which there are restricted and unrestricted resources available. Additionally, the City would first apply committed, followed by assigned amounts and lastly unassigned amounts of unrestricted fund balance when expenditures are incurred. These assets consist of the following:

	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 419,286	\$ 1,085,253	\$ 1,504,539
Investments	217,672	510,020	727,692
Cash with fiscal agent	-	143,314	143,314
	<u>\$ 636,958</u>	<u>\$ 1,738,587</u>	<u>\$ 2,375,545</u>

The following amounts are payable from restricted assets:

	Governmental Activities	Sewer	Gas	Water	Sanitation	Total
Accrued interest payable	\$ 3,403	\$ 10,019	\$ 6,252	\$ 33,170	\$ 1,986	\$ 54,830
Customer deposits	-	-	23,750	125,022	-	148,772
Notes payable, current portion	-	169,043	-	-	-	169,043
Bonds payable, current portion	-	90,000	80,000	199,000	-	369,000
Total	<u>\$ 3,403</u>	<u>\$ 269,062</u>	<u>\$ 110,002</u>	<u>\$ 357,192</u>	<u>\$ 1,986</u>	<u>\$ 741,645</u>

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits:

All cash resources of the City are placed in banks that are qualified as a public depository as required by the Florida Security for Public Deposits Act. The State Treasurer is required by this law to ensure that the City's funds are entirely collateralized throughout the fiscal year. Every qualified public depository is required by this law to deposit with the State Treasurer eligible collateral equivalent to the total governmental deposits held by the bank at the end of each quarter.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued):

In the event of failure by a qualified public depository, losses in excess of federal depository insurance and proceeds from the sale of the securities pledged by the defaulting depository are assessed against the other qualified public depositories of the same type as the depository in default. When other qualified public depositories are assessed additional amounts, they are assessed on a pro-rata basis.

Investments:

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

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

The Florida Municipal Investment Trust (FMIVT) is an authorized investment under Section 218.415, Florida Statutes, for units of local government in Florida. 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, 2015, the City held the following investments as categorized below in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosure*:

<u>Investments Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
Local government investment pool	<u>\$ 2,535,992</u>	Less than one year	AAA

Certificates of deposit valued at \$1,020,987 are also included as investments on the Statement of Net Position.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Credit Risk:

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. 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. Generally, the City's investing activities are managed by the City Finance Officer. Investing is performed in accordance with the investment policy set forth by the State of Florida Statutes.

FMIvT investment guidelines state that each fund will seek to maintain a bond fund credit rating from a nationally recognized statistical rating organization of AAA. Funds having an AAA bond fund credit rating are composed of a preponderance of assets that carry the highest credit ratings from a NRSRO. At September 30, 2015, Fitch rated the FMIvT 1-3 Year High Quality Bond Fund and Intermediate High Quality Bond Fund as AAA/V2 and AAA/V3, respectively.

Custodial Credit Risk:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in pools should be disclosed, but not categorized under GASB No. 40 because they are not evidenced by securities that exist in physical or book entry form.

Participants' investments in the FMIvT are evidenced by shares of the pool. The City's investment is with the pool, not the securities that make up the pool; therefore, no disclosure is required.

Concentration Risk:

GASB Statement No. 40 requires disclosure of the concentration of credit risk when five or more percent of the total assets of the portfolio are invested with a single issuer. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are excluded from the concentration of credit risk disclosure requirements. The City places 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 investments in mutual funds, external investment pools and other pooled investments that do not meet the definition of a "2a-7 like" pool.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk (Continued):

Additionally, GASB Statement No. 40 requires that the interest rate be disclosed using one of 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 weighted average maturity method (WAM) for its FMIvT 1-3 Year High Quality Bond Fund investments totaling \$1,549,375 which results in a WAM of 1.37. The City also uses the weighted average maturity method (WAM) for its FMIvT Intermediate High Quality Bond Fund investments totaling \$986,617 which results in a WAM of 3.60.

NOTE 4 - CAPITAL ASSETS

Changes in capital assets of the government-type activities fund are summarized as follows:

	Balance October 1, 2014	Increases	Decreases	Balance September 30, 2015
Governmental activities:				
Land	\$ 2,638,398	\$ 120,948	\$ -	\$ 2,759,346
<i>Capital assets being depreciated:</i>				
Buildings	4,391,281	-	-	4,391,281
Improvements other than buildings	10,366,385	489,567	-	10,855,952
Furniture and equipment	3,911,471	351,124	6,927	4,255,668
Total capital assets being depreciated	18,669,137	840,691	6,927	19,502,901
Less accumulated depreciation for:				
Buildings	(1,722,818)	(129,989)	-	(1,852,807)
Improvements other than buildings	(2,674,486)	(302,136)	-	(2,976,622)
Furniture and equipment	(2,971,663)	(219,184)	-	(3,190,847)
Total accumulated depreciation	(7,368,967)	(651,309)	-	(8,020,276)
Total capital assets being depreciated, net	11,300,170	189,382	6,927	11,482,625
Governmental activities capital assets, net	<u>\$ 13,938,568</u>	<u>\$ 310,330</u>	<u>\$ 6,927</u>	<u>\$ 14,241,971</u>

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 4 - CAPITAL ASSETS (Continued)

The following schedule summarizes the capital assets of the City's Business-type activities at September 30, 2015.

	Balance October 1, 2014	Increases	Decreases	Balance September 30, 2015
Business-type activities:				
<i>Water:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 257,847	\$ -	\$ -	\$ 257,847
Construction in progress	-	363,362	-	363,362
Total capital assets not being depreciated	<u>257,847</u>	<u>363,362</u>	<u>-</u>	<u>621,209</u>
<i>Capital assets being depreciated:</i>				
Buildings and distribution system	17,740,647	827,200	-	18,567,847
Machinery, equipment and vehicles	604,810	3,268	-	608,078
Total capital assets being depreciated	<u>18,345,457</u>	<u>830,468</u>	<u>-</u>	<u>19,175,925</u>
Less accumulated depreciation for:				
Buildings and distribution system	(4,095,153)	(420,719)	-	(4,515,872)
Machinery, equipment and vehicles	(489,897)	(34,462)	-	(524,359)
Total accumulated depreciation	<u>(4,585,050)</u>	<u>(455,181)</u>	<u>-</u>	<u>(5,040,231)</u>
Total capital assets being depreciated, net	<u>13,760,407</u>	<u>375,287</u>	<u>-</u>	<u>14,135,694</u>
Water capital assets, net	<u>14,018,254</u>	<u>738,649</u>	<u>-</u>	<u>14,756,903</u>
<i>Sewer:</i>				
<i>Capital assets not being depreciated:</i>				
Land	327,860	-	-	327,860
Construction in progress	-	334,599	-	334,599
Total capital assets not being depreciated	<u>327,860</u>	<u>334,599</u>	<u>-</u>	<u>662,459</u>
<i>Capital assets being depreciated:</i>				
Buildings and distribution system	15,400,394	-	-	15,400,394
Machinery, equipment and vehicles	486,261	89,128	-	575,389
Total capital assets being depreciated	<u>15,886,655</u>	<u>89,128</u>	<u>-</u>	<u>15,975,783</u>
Less accumulated depreciation for:				
Buildings and distribution system	(6,894,700)	(354,690)	-	(7,249,390)
Machinery, equipment and vehicles	(314,155)	(35,186)	-	(349,341)
Total accumulated depreciation	<u>(7,208,855)</u>	<u>(389,876)</u>	<u>-</u>	<u>(7,598,731)</u>
Total capital assets being depreciated, net	<u>8,677,800</u>	<u>(300,748)</u>	<u>-</u>	<u>8,377,052</u>
Sewer capital assets, net	<u>9,005,660</u>	<u>33,851</u>	<u>-</u>	<u>9,039,511</u>

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 4 - CAPITAL ASSETS (Continued)

	Balance October 1, 2014	Increases	Decreases	Balance September 30, 2015
<i>Natural Gas:</i>				
Land	3,781	-	-	3,781
<i>Capital assets being depreciated:</i>				
Buildings and distribution system	3,495,689	-	-	3,495,689
Machinery, equipment and vehicles	344,027	33,843	-	377,870
Total capital assets being depreciated	3,839,716	33,843	-	3,873,559
Less accumulated depreciation for:				
Buildings and distribution system	(1,756,333)	(87,141)	-	(1,843,474)
Machinery, equipment and vehicles	(250,406)	(28,129)	-	(278,535)
Total accumulated depreciation	(2,006,739)	(115,270)	-	(2,122,009)
Total capital assets being depreciated, net	1,832,977	(81,427)	-	1,751,550
Natural gas capital assets, net	1,836,758	(81,427)	-	1,755,331
<i>Sanitation:</i>				
Machinery, equipment and vehicles	1,255,274	9,504	-	1,264,778
Less accumulated depreciation m	(891,858)	(97,443)	-	(989,301)
Sanitation capital assets, net	363,416	(87,939)	-	275,477
Business-type activities capital assets, net	\$ 25,224,088	\$ 603,134	\$ -	\$ 25,827,222

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 4 - CAPITAL ASSETS (Continued)

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

Governmental activities -	
General government	\$ 33,075
Public safety	167,099
Transportation	299,556
Culture and recreation	<u>151,579</u>
Total depreciation expenses - governmental activities	<u><u>\$ 651,309</u></u>
Business-type activities -	
Water	\$ 455,181
Sewer	389,876
Natural gas	115,270
Sanitation	<u>97,443</u>
Total depreciation expenses - business-type activities	<u><u>\$ 1,057,770</u></u>

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of September 30, 2015 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Christmas reflections	\$ 3,797
	Utility service tax	3,883
	Cemetery	65,845
	Sewer	491,097
	Gas	311,266
	Water	77,345
	Sanitation	<u>605,289</u>
	Total General	<u><u>1,558,522</u></u>

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Utility Service Tax	General	75,899
	Gas	66,567
	Water	318,153
	Total Utility Service Tax	<u>460,619</u>
Cemetery	Water	3,409
	Total Cemetery	<u>3,409</u>
Sewer	Utility service tax	88,041
	Water	350,559
	Gas	8
	Sanitation	202
	Total Sewer	<u>438,810</u>
Gas	Sewer	163,785
	Water	251,239
	Total Gas	<u>415,024</u>
Water	General	1,028,212
	Sewer	12,217
	Gas	5,594
	Sanitation	3,393
	Total Water	<u>1,049,416</u>
Sanitation	General	382,364
	Sewer	229,727
	Gas	146,992
	Water	665,904
	Total Sanitation	<u>1,424,987</u>
Total		<u><u>\$ 5,350,787</u></u>

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)

Interfund transfers:

	Transfers In			
	General Fund	Nonmajor Governmental	Sanitation Fund	Total
Transfers out:				
General fund	\$ -	\$ 81,262	\$ 1,634,726	\$ 1,715,988
Utility service tax fund	1,079,040	-	-	1,079,040
Water fund	190,657	-	-	190,657
Sewer fund	55,695	-	-	55,695
Gas fund	284,316	-	-	284,316
Sanitation fund	660,884	-	-	660,884
Total transfers out	<u>\$ 2,270,592</u>	<u>\$ 81,262</u>	<u>\$ 1,634,726</u>	<u>\$ 3,986,580</u>

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

NOTE 6 - LONG-TERM OBLIGATIONS

Long-term debt consisted of the following:

Governmental Activities

Capital Leases

Capital lease with Santander Bank for various equipment with an original cost of \$313,697; due in annual installments of \$69,061; payments through January 2019; bearing an interest rate of 1.94%; secured by the various equipment \$ 251,123

Capital lease with Santander Bank for a Dodge Ram bucket truck with an original cost of \$63,602; due in annual installments of \$16,680; payments through February 2018; bearing an interest rate of 1.94%; secured by the Dodge Ram bucket truck 48,160

Total Governmental Activities \$ 299,283

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 6 - LONG-TERM OBLIGATIONS (Continued)

Business-Type Activities

State Revolving Loans

State revolving loan payable (SRF#1) of \$3,883,675,
due in semi-annual payments of \$86,384, through
September 15, 2020, bearing an interest rate of 2.56%,
secured by anticipated net sewer system revenues. \$ 806,015

State revolving loan payable (SRF#2) of \$328,411,
due in semi-annual payments of \$10,240, through
December 15, 2022, bearing an interest rate of 1.535%,
secured by anticipated net sewer system revenues. 135,687

Total state revolving loans - business-type activities 941,702

Notes Payables

Note payable with Capital City Bank for the purchase of
vactron equipment with an original cost of \$62,500;
monthly payments of \$1,117; payments through
September 2018; bearing an interest rate of 2.75%;
secured by the City's non ad valorem revenues. 38,538

Note payable with the State of Florida, Department
of Transportation for the relocation of waster
and sewer utilities with an original cost of \$625,925;
annual payments of \$41,728; payments through
March 2028; bearing no interest rate. 545,817

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. 190,800

Total notes payable - business-type activities 775,155

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 6 - LONG-TERM OBLIGATIONS (Continued)

Capital leases

Capital lease with Branch Banking and Trust Company for the purchase of a dumpster truck with an original cost of \$119,000; due in monthly payments of \$2,076; payments through November 2016; bearing an interest rate of 1.81%; secured by the dumpster truck. 28,736

Capital lease with SunTrust Equipment Finance & Leasing Corp. for the purchase of meter registers with an original cost of \$685,000; due in quarterly payments of \$26,978; payments through April 2021; bearing an interest rate of 2.75%; secured by the meter registers. 572,115

Capital lease with Santander Bank for various equipment with an original cost of \$287,198; due in annual installments of \$63,227; payments through January 2019; bearing an interest rate of 1.94%; secured by the various equipment 229,911

Total capital leases - business-type activities 830,762

Revenue Bonds

Sewer System Revenue Bonds - Series 1983

Authorized \$665,800 issued \$460,000 at 5%, principal and interest payable annually on September 1. Payments are to be made from and collateralized by a lien on and pledge of the public services taxes (utilities service taxes) on the sale of natural and bottled gas. Bonds are also collateralized by a lien on and pledge of the net revenues of the sewer and gas systems, the public service taxes collected on electric, water and telephone service, and the guaranteed entitlement revenue received from the State of Florida's Revenue Sharing Trust Fund. 83,439

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 6 - LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds (Continued)

Sewer System Revenue Bonds - Series 1997

Authorized \$5,105,000 issued \$2,826,300 at 4.5%, per annum, principal and interest payable annually on September 1. Payments shall be made from and collateralized by a lien on taxes (utilities service taxes) on the sale of natural and bottled gas. Bonds are also collateralized by a lien on and pledge of the net revenues derived from operations of the sewer and gas systems, junior, inferior and subordinate to the lien thereon of the prior obligations, the public service taxes collected on electric, water and telephone service, and the guaranteed entitlement revenue received from the State of Florida.

2,073,100

Water System Junior Lien Revenue Bonds - Series 1991

Authorized and issued \$1,430,200 at 5% per annum principal and interest payable annually on September 1. Payments shall be made from and secured equally and ratably by a pledge of and a lien on the net revenues derived from the operation of the Water System, junior, inferior and subordinate to the lien thereon of the thereon of the prior obligations.

918,000

Water System Junior Lien Revenue Bonds - Series 1996

Authorized and issued \$663,100 at 5.125% per annum principal and interest payable annually on September 1. Payments shall be made from and secured equally and ratably by a pledge of and a lien on the net revenues derived from the operation of the Water System, junior, inferior and subordinate to the lien thereon of the prior obligations.

498,100

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 6 - LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds (Continued)

Water System Junior Lien Revenue Bonds - Series 2004

Authorized and issued \$2,178,000 at 4.50% per annum principal and interest payable annually on September 1. Payments shall be made from and secured equally and ratably by a pledge of and a lien on the net revenues derived from the operation of the Water System, junior, inferior and subordinate to the lien thereon of the prior obligations.

1,915,000

Water System Junior Lien Revenue Bonds - Series 2006

Authorized and issued \$3,000,000 at 4.25% per annum principal and interest payable annually on September 1. Payments shall be made from and secured equally and ratably by a pledge of and a lien on the net revenues derived from the operation of the Water System, junior, inferior and subordinate to the lien thereon of the prior obligations.

2,681,000

Water System Junior Lien Revenue Bonds - Series 2012

Authorized and issued \$4,454,000 at 2.75% per annum principal and interest payable annually on September 1. Payments shall be made from and secured equally and ratably by a pledge of and a lien on the net revenues derived from the operation of the Water System, junior, inferior and subordinate to the lien thereon of the prior obligations.

4,386,000

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 6 - LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds (Continued)

Gas System Refunding Revenue Bonds - Series 2012

Authorized and issued \$885,000 at 2.30% per annum, principal payable annual on May 1, interest payable semi-annually on November 1 and May 1. Bonds are collateralized by a pledge of the local government half-cent sales tax pursuant to Florida Statutes.

609,262

Total revenue bonds - business-type activities

13,163,901

Total Business-Type Activities

\$ 15,711,520

Grand Total Long-Term Debt

\$ 16,010,803

Long-term obligation activity:

Changes in long-term obligations for the year ended September 30, 2015, are as follows:

	Balance October 1 2014	Increases	Decreases	Balance September 30, 2015	Due Within One Year
Governmental activities:					
Capital leases	\$ 377,299	\$ -	\$ (78,016)	\$ 299,283	\$ 80,602
Compensated absences	276,006	23,188		299,194	117,550
Other postemployment benefits	62,690	19,195	-	81,885	-
	<u>\$ 715,995</u>	<u>\$ 42,383</u>	<u>\$ (78,016)</u>	<u>\$ 680,362</u>	<u>\$ 198,152</u>

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 6 - LONG-TERM OBLIGATIONS (Continued)

	Balance October 1, 2014	Increases	Decreases	Balance September 30, 2015	Due Within One Year
Business-type activities:					
State revolving loans	\$ 1,107,384	\$ -	\$ (165,682)	\$ 941,702	\$ 169,043
Notes payable	846,860	-	(71,705)	775,155	75,674
Capital leases	1,002,820	-	(172,058)	830,762	177,106
Revenue bonds	13,516,639	-	(352,738)	13,163,901	369,000
Compensated absences	51,529	452	-	51,981	23,220
Other postemployment benefits	15,938	4,688	-	20,626	-
	<u>\$ 16,541,170</u>	<u>\$ 5,140</u>	<u>\$ (762,183)</u>	<u>\$ 15,784,127</u>	<u>\$ 814,043</u>

Debt service requirements on long-term obligations at September 30, 2015 are as follows:

Year Ending September 30	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2016	\$ 80,602	\$ 5,138	\$ 795,332	\$ 547,099	\$ 1,428,171
2017	81,498	4,243	798,548	524,920	1,409,209
2018	83,080	2,661	804,566	501,447	1,391,754
2019	54,103	1,050	781,821	477,933	1,314,907
2020	-	-	745,911	454,041	1,199,952
2021-2025	-	-	2,333,606	2,009,285	4,342,891
2026-2030	-	-	2,252,536	1,607,152	3,859,688
2031-2035	-	-	2,240,200	1,149,399	3,389,599
2036-2040	-	-	1,791,000	728,172	2,519,172
2041-2045	-	-	1,822,000	394,126	2,216,126
2046-2050	-	-	984,000	126,153	1,110,153
2051-2055	-	-	362,000	14,960	376,960
Total	<u>\$ 299,283</u>	<u>\$ 13,092</u>	<u>\$ 15,711,520</u>	<u>\$ 8,534,687</u>	<u>\$ 24,558,582</u>

Bonds authorized and unissued:

At September 30, 2015, the City of DeFuniak Springs, Florida had \$2,484,500 in Sewer Revenue Bonds which were authorized and unissued.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 7 - DEFINED BENEFIT PENSION PLAN

Florida Retirement System - FRS Pension Plan

Plan Description:

The Florida Retirement System (FRS) was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy Program (HIS), a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any state-administered retirement system in paying the costs of health insurance.

The FRS issues a publicly available financial report that includes financial statements and required supplementary information for FRS. That report may be obtained by writing to the Florida Division of Retirement, 2639 N. Monroe Street, Building C, Tallahassee, Florida 32399, or calling 1-850-488-6491.

The City contributes to the Florida Retirement System (FRS Pension Plan), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Florida Division of Retirement, Department of Management Services. The Florida Retirement System provides retirement, disability, or death benefits to plan members or their designated beneficiaries. Florida Statutes Chapters 121, 122, and 123 provide the authority under which benefit provisions are established. The provisions may only be amended by legislative action. All permanent employees hired prior to January 1, 1996, participate in this plan.

Contribution and Funding Policy:

Contribution requirements of the plan are established in Florida Statutes Chapter 121 and may only be amended by legislative action. Effective July 1, 2011, the Florida Legislature passed Senate Bill 2100 requiring all employee members to contribute 3% to the FRS Pension Plan. Formerly, only employers were required to contribute to the FRS Pension Plan. The FRS funding policy now provides for monthly employer and employee contributions at actuarially determined rates that, expressed as percentages of annual covered payroll are adequate to accumulate sufficient assets to pay benefits when due. Level percentages of payroll employer contribution rates, established by state law, are determined using the entry-age actuarial funding method. If an unfunded actuarial liability re-emerges as a result of future plan benefit changes, assumption changes, or methodology changes, it is assumed any unfunded actuarial liability would be amortized over 30 years, using level dollar amounts. Except for gains reserved for rate stabilization, it is anticipated future actuarial gains and losses are amortized on a rolling 10% basis, as a level dollar amount.

In July 2002, the Florida Legislature established a uniform contribution rate system for the FRS, which remained in effect with the passage of Senate Bill 2100. The uniform contribution system covers both the FRS Pension Plan and the FRS Investment Plan. Employers and employees contribute a percentage of the total payroll for each class of FRS membership.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 7 - DEFINED BENEFIT PENSION PLAN (Continued)

Florida Retirement System - FRS Pension Plan (Continued)

Contribution and Funding Policy (Continued):

Effective July 1, 2015, the actuarial determined contribution rates, expressed as a percentage of covered payroll, including the required employee 3% contribution are 7.26% for regular employees, 22.04% for police officer and firefighter (special risk) employees, 21.43% for senior management employees, and 43.27% for elected positions.

The City's contributions to the plan for the fiscal years ended September 30, 2015, 2014 and 2013, listed below are equal to the required contributions for each year.

	Years Ended September 30		
	2015	2014	2013
General employees	\$ 132,013	\$ 147,566	\$ 99,195
Special risk employees	276,288	234,297	187,319
	<u>\$ 408,301</u>	<u>\$ 381,863</u>	<u>\$ 286,514</u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

At September 30, 2015, the City reported a net pension liability of \$2,229,181 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The City's proportionate share of net pension liability was based on the City's fiscal year 2015 contributions relative to the fiscal year 2015 contributions of all participating members. At June 30, 2015, the City's proportionate share was 0.0170258611%, which was an increase of 0.000161829% from its proportionate share measured at June 30, 2014.

For the year ended September 30, 2015, the City recognized pension expense of \$134,077 related to the FRS Pension Plan. 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
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 7 - DEFINED BENEFIT PENSION PLAN (Continued)

Florida Retirement System - FRS Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 235,336	\$ 52,869
Change in assumptions	147,958	-
Net difference between projected and actual earnings on FRS Pension Plan investments	-	532,291
Change in proportion and differences between City FRS Pension Plan contributions and proportionate share of contributions	21,240	126,010
City Pension Plan contributions subsequent to measurement date	<u>117,330</u>	<u>-</u>
	<u><u>\$ 521,864</u></u>	<u><u>\$ 711,170</u></u>

The deferred outflows of resources related to the Pension Plan totaling \$117,330 resulting from City contributions to the Pension Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ending September 30	
2016	\$ (201,642)
2017	(201,642)
2018	(201,642)
2019	237,514
2020	46,253
Thereafter	<u>14,523</u>
	<u><u>\$ (306,636)</u></u>

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 7 - DEFINED BENEFIT PENSION PLAN (Continued)

Florida Retirement System - FRS Pension Plan (Continued)

Actuarial Assumptions:

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60%
Salary increases	3.25%, average, including inflation
Investment rate of return	7.65%, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based in 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 class are summarized in the following table:

	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1.00%	3.20%	3.10%	1.70%
Fixed income	18.00%	4.80%	4.70%	4.70%
Global equity	53.00%	8.50%	7.20%	17.70%
Real estate property	10.00%	6.80%	6.20%	12.00%
Private equity	6.00%	11.90%	8.20%	30.00%
Strategic investments	<u>12.00%</u>	6.70%	6.10%	11.40%
	100.00%			
Assumed inflation - Mean		2.60%		1.90%

Note: (1) As outlined in the Plan's investment policy.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 7 - DEFINED BENEFIT PENSION PLAN (Continued)

Florida Retirement System - FRS Pension Plan (Continued)

Discount Rate:

The discount rate used to measure the total pension liability was 7.65%. The FRS Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:

The following table presents the City's proportionate share of net pension liability calculated using the discount rate of 7.65% as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1%-point lower (6.65%) or 1%-point higher (8.65%) than the current rate:

	1% Decrease 6.65%	Current Discount Rate 7.65%	1% Increase 8.65%
City's proportionate share of the net pension liability	\$ 5,776,312	\$ 2,229,181	\$ (722,615)

Pension Plan Fiduciary Net Position:

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

Payables to the Pension Plan:

At September 30, 2015 the City reported a payable of \$37,933 for the outstanding amount of contributions to the FRS Pension Plan required for the year ended September 30, 2015.

Florida Retirement System - HIS Pension Plan

Plan Description

The HIS Pension Plan ("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 Division of Retirement within the Florida Department of Management Services.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 7 - DEFINED BENEFIT PENSION PLAN (Continued)

Florida Retirement System - HIS Pension Plan (Continued)

Benefits Provided:

For the year ended September 30, 2015, 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 of \$30 and a maximum HIS payment of \$150 per month pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which includes 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. At September 30, 2015, the contribution rate 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 the 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 for the years ended September 30, 2015, 2014, and 2013 listed below were equal to the required contributions for each year.

	Years Ended September 30		
	2015	2014	2013
General employees	\$ 29,281	\$ 30,796	\$ 20,701
Special risk employees	61,282	48,897	39,093
	<u>\$ 90,563</u>	<u>\$ 79,693</u>	<u>\$ 59,794</u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

At September 30, 2015, the City reported a net pension liability of \$1,246,411 for its proportionate share of the HIS Plan's net pension liability. The current portion of the net pension liability is the City's proportionate share of benefit payments expected to be paid within one year, net of the City's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 7 - DEFINED BENEFIT PENSION PLAN (Continued)

Florida Retirement System - HIS Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued):

The City's proportionate share of net pension liability was based on the City's fiscal year 2015 contributions relative to the fiscal year 2015 contributions of all participating members. At June 30, 2015, the City's proportionate share was 0.012221599%, which was a decrease of 0.000145077% from its proportionate share measured at June 30, 2014.

For the year ended September 30, 2015, the City recognized pension expense of \$93,276 related to the HIS Plan. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ 98,060	\$ -
Net difference between projected and actual earnings on HIS Plan investments	675	-
Change in proportion and differences between City HIS Plan contributions and proportionate share of contributions	11,624	11,261
City HIS Plan contributions subsequent to measurement date	16,924	-
	<u>\$ 127,283</u>	<u>\$ 11,261</u>

The deferred outflows of resources related to the Pension Plan totaling \$16,924 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 year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses as follows:

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 7 - DEFINED BENEFIT PENSION PLAN (Continued)

Florida Retirement System - HIS Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued):

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending September 30	
2016	\$ 17,496
2017	17,496
2018	17,496
2019	17,359
2020	17,293
Thereafter	<u>11,958</u>
	<u><u>\$ 99,098</u></u>

Actuarial Assumptions:

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60%
Salary increases	3.25%, average, including inflation
Municipal Bond Rate	3.80%

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

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 7 - DEFINED BENEFIT PENSION PLAN (Continued)

Florida Retirement System - HIS Pension Plan (Continued)

Discount Rate:

The discount rate used to measure the total pension liability was 3.80%. 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 City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:

The following table presents the City's proportionate share of net pension liability calculated using the discount rate of 3.80% as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1%-point lower (2.80%) or 1%-point higher (4.80%) than the current rate:

	1% Decrease 2.80%	Current Discount Rate 3.80%	1% Increase 4.80%
City's proportionate share of the net pension liability	\$ 1,420,227	\$ 1,246,411	\$ 1,101,474

Pension Plan Fiduciary Net Position:

Detailed information about 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.

Payables to the Pension Plan:

At September 30, 2015 the City reported a payable of \$11,244 for the outstanding amount of contributions to the HIS Plan required for the year ended September 30, 2015.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS

The City has implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions ("OPEB for certain postemployment healthcare benefits provided by the City.

Plan Description:

The City has previously established and maintains an employee group health insurance plan (the Plan) that is made available to eligible retirees in accordance with the requirements of Florida State Statutes, Section 112.0801. Pursuant to this statute, the City is required to permit participation in the health insurance program by retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which the coverage is available for active employees. The Plan is a single employer plan that provides medical, dental, and vision benefits. The postemployment portion of the Plan refers to these related benefits applicable to current and future retirees and their eligible dependents. No stand alone report is issued for this plan.

Membership of the plan consisted of the following at October 1, 2012, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	1
Active plan members	<u>91</u>
Total	<u><u>92</u></u>

Funding Policy:

The contribution requirements of the plan members are established and may be amended by the City. These contributions are neither mandated nor guaranteed. Eligible retirees pay the full cost of blended rate premiums associated with the healthcare plan elected; no direct City subsidy is currently applicable. To-date, the City has followed a pay-as-you-go funding policy, contributing only those amounts necessary to provide for its portion of current year benefit costs.

The State of Florida prohibits the City from separately rating retirees and active employees. The City therefore assigns eligible active employees and eligible retirees an equal, blended premium. The actual costs of providing benefits considering the retirees experience rating would be higher. Inversely, the actual costs of providing benefits considering the active employee's experience rating would be lower. This requirement creates an implicit rate subsidy. Although the retirees pay the full cost of their benefits, the City is in effect providing a benefit to the retiree with an implicit cost. With an implicit rate subsidy, the active employee premiums are subsidizing the retirees premiums, and that subsidization creates a liability that may need to be recognized. Although both groups are assigned the same blended rate premiums, governmental standards require the actuarial liability presented below to be calculated using age-adjusted premiums approximating claim costs for eligible retirees separate from active eligible members.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation:

The City's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The City's contribution equals the contribution made for OPEB in relation to the employer's ARC, adjusted to include the effect of any implicit subsidy inherent in the retiree premiums. The cumulative difference between the annual OPEB cost for the year and the contributions for the year is called the net OPEB obligation. The net OPEB obligation, if necessary, is allocated among the related funds and recorded accordingly.

The following table shows the components of the City's annual OPEB cost for the year, the amount contributed to the plan, and the change in the City's net OPEB obligation:

Annual required contribution	\$ 41,173
Interest on net OPEB obligation	3,145
Adjustment to annual required contribution	<u>(4,372)</u>
Annual OPEB cost	39,946
Contributions made	<u>(16,063)</u>
Increase in net OPEB obligation	23,883
Net OPEB obligation - beginning of year	78,628
Net OPEB obligation - end of year	<u><u>\$ 102,511</u></u>

The City's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation as of September 30, 2015 and the preceding two years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB cost</u>	<u>Employer Amount Contributed</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
9/30/2015	\$ 39,946	\$ 16,063	40%	\$ 102,511
9/30/2014	\$ 40,381	\$ 12,515	31%	\$ 78,628
9/30/2013	\$ 40,836	\$ 11,698	29%	\$ 50,762

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funded Status:

As of October 1, 2012, the most recent actuarial valuation date, the OPEB funding progress was as follows:

Actuarial Accrued Liability (AAL) - Entry Age	\$ 198,241
Actuarial Value of Assets	<u>-</u>
Unfunded AAL (UAAL)	<u><u>\$ 198,241</u></u>
Funded Ratio	0%
Covered Payroll	\$ 3,278,296
UAAL as a Percentage of Covered Payroll	6.05%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress presented in the Required Supplementary Information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions:

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates about the future.

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of the valuation and the historical pattern of sharing of benefit costs between the employer and Plan members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions (Continued):

The following table summarizes the actuarial methods and assumptions as of the latest actuarial valuation date:

Valuation date	October 1, 2012
Actuarial cost method	Entry age
Amortization method	Level dollar method
Amortization period	30 years
Payroll inflation rate	Not applicable
Investment return	Not applicable
Healthcare cost trend rate:	Initial rate of 7.6% declining to an ultimate rate of 5.0% after 10 years

NOTE 9 - FUND EQUITY

Restricted Net Position:

The City has established certain restrictions within the net position section of the enterprise funds. It is the City's policy to first apply restricted resources for expenditures incurred for which there are restricted and unrestricted resources available. Additionally, the City would first apply committed, followed by assigned amounts and lastly unassigned amounts of unrestricted fund balance when expenditures are incurred.

Restricted net position at September 30, 2015 consist of the following:

	Sewer	Water	Total
Restricted for debt service	\$ 285,027	\$ 299,806	\$ 584,833
Restricted for impact fees	178,508	17,226	195,734
Total restricted net position	<u>\$ 463,535</u>	<u>\$ 317,032</u>	<u>\$ 780,567</u>

CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 9 - FUND EQUITY (Continued)

Restricted and Committed Fund Balances:

The City has established certain restrictions commitments within the fund equity section of the governmental funds. Restricted and committed fund balances at September 30, 2015, consist of the following:

General Fund:	
Committed:	
Impact fees - public safety	\$ 141,291
Proportionate fair share	15,229
Other Governmental Funds:	
Committed:	
Special Revenue	<u>71,797</u>
Total restricted and committed	<u><u>\$ 228,317</u></u>

NOTE 10 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disaster for which the City carries commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The City participates in various federal and state grants. The expenditures of these grants are subject to audit and adjustment by the funding agency or their representatives. If expenditures are subsequently disallowed due to noncompliance with the program, the City may be required to repay the funding agency. The City's management believes that disallowed expenditures, if any, will not be material to the accompanying financial statements.

NOTE 11 - COMMITMENTS

Interlocal Agreement

The City entered into an interlocal agreement with Walton County in 1995. This agreement stipulates that the City will turn over to the County the County imposed 1-cent sales tax proceeds generated within the city limits of DeFuniak Springs. In turn the County will not assess a tipping fee to the City on any solid waste except construction and demolition debris and tires. The County further agreed to pay the City a monthly fee of \$8.50 per residential unit.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 11 - COMMITMENTS (Continued)

It was also agreed upon that any funds remaining from the 1-cent sales tax collection would be distributed pursuant to the Department of Revenue's sales tax distribution formula in effect at the time of distribution. Included in this agreement is the stipulation that the County would spend the funds from this sales tax prior to disbursement of the escrowed funds for solid waste purposes only.

Grant Receipts

Amounts received or receivable from grants are subject to audit and adjustment by grantor. 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.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF DEFUNIAK SPRINGS, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS (OPEB)
SEPTEMBER 30, 2015**

Schedule of Funding Progress

<u>Fiscal Year End</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Payroll</u>
9/30/2015	10/1/2012	\$ -	\$ 198,241	\$ 198,241	0%	\$ 3,278,296	6.05%
9/30/2014	10/1/2012	\$ -	\$ 198,241	\$ 198,241	0%	\$ 3,278,296	6.05%
9/30/2013	10/1/2012	\$ -	\$ 198,241	\$ 198,241	0%	\$ 3,278,296	6.05%

NOTE 1 - OTHER POSTEMPLOYMENT BENEFIT PLAN

The information presented in the required supplementary schedule was determined as part of an actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date is as follows:

Valuation date	October 1, 2012
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll
Amortization period	30 years
Payroll inflation rate	3.0%
Investment return	4.0%
Healthcare cost trend rate:	
Medical	Decreasing from 7.6% to 5.0% over 10 years

**CITY OF DEFUNIAK SPRINGS, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST TEN FISCAL YEARS***

	Florida Retirement System		Health Insurance Subsidy Program	
	2015	2014	2015	2014
City of DeFuniak Springs' proportion of net pension liability	0.01725861%	0.01709678%	0.01222160%	0.01236668%
City of DeFuniak Springs' proportionate share of net pension liability	\$ 2,229,181	\$ 1,043,155	\$ 1,246,411	\$ 1,156,314
City of DeFuniak Springs' covered-employee payroll	\$ 3,756,488	\$ 3,705,926	\$ 3,756,488	\$ 3,705,926
City of DeFuniak Springs' proportionate share of net pension liability as a percentage of its covered-employee payroll	59.34%	28.15%	33.18%	31.20%
Plan fiduciary net position as a percentage of the total pension liability	92.00%	96.09%	0.50%	0.99%

* The amounts presented for each fiscal year were determined as of June 30. Information provided above was obtained from an actual valuation; information prior to fiscal year 2014 was not available.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
LAST TEN FISCAL YEARS***

	Florida Retirement System		Health Insurance Subsidy Program	
	2015	2014	2015	2014
Contractually required contribution	\$ 408,301	\$ 381,863	\$ 90,563	\$ 79,693
Contributions in relation to the actuarially determined contributions	<u>(408,301)</u>	<u>(381,863)</u>	<u>(90,563)</u>	<u>(79,693)</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City of DeFuniak Springs' covered-employee payroll	\$ 3,756,488	\$ 3,705,926	\$ 3,756,488	\$ 3,705,926
Contributions as a percentage of covered employee payroll	10.87%	10.30%	2.41%	2.15%

* The amounts presented for each fiscal year were determined as of June 30. Information provided above was obtained from an actual valuation; information prior to fiscal year 2014 was not available.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND
SEPTEMBER 30, 2015**

	Special Revenue		
	Cemetery	Christmas Reflections	Total
ASSETS			
Cash and cash equivalents	\$ 5,114	\$ 14,718	\$ 19,832
Investments	139,602	-	139,602
Interfund receivables	3,409	-	3,409
Total Assets	<u>\$ 148,125</u>	<u>\$ 14,718</u>	<u>\$ 162,843</u>
LIABILITIES			
Accounts payable	\$ 4,004	\$ 2,568	\$ 6,572
Accrued liabilities	1,822	-	1,822
Escrow deposits	13,010	-	13,010
Interfund payables	65,845	3,797	69,642
Total liabilities	<u>84,681</u>	<u>6,365</u>	<u>91,046</u>
FUND BALANCES			
Committed			
Special revenue fund	<u>63,444</u>	<u>8,353</u>	<u>71,797</u>
Total Liabilities and Fund Balances	<u>\$ 148,125</u>	<u>\$ 14,718</u>	<u>\$ 162,843</u>

See independent auditor's report.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2015**

	Special Revenue		
	Cemetery	Christmas Reflections	Total
Revenues:			
Charges for services	\$ 1,800	\$ 48,750	\$ 50,550
Interest	832	-	832
Miscellaneous	16,610	-	16,610
Total revenues	<u>17,442</u>	<u>48,750</u>	<u>67,992</u>
Expenditures:			
Current:			
General government	101,656	-	101,656
Culture and recreation	-	45,075	45,075
Total expenditures	<u>101,656</u>	<u>45,075</u>	<u>146,731</u>
Deficiency of revenues under expenditures	<u>(84,214)</u>	<u>3,675</u>	<u>(78,739)</u>
Other Financing Sources:			
Transfers in	<u>81,262</u>	<u>-</u>	<u>81,262</u>
Net change in fund balances	(2,952)	3,675	2,523
Fund Balances:			
Beginning of year	<u>64,596</u>	<u>4,678</u>	<u>69,274</u>
End of year	<u>\$ 61,644</u>	<u>\$ 8,353</u>	<u>\$ 71,797</u>

See independent auditor's report.

CITY OF DEFUNIAK SPRINGS, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2015

Federal Grantor Pass-through Entity Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements/ Expenditures
U.S. Department of Justice			
Passed through Florida Department of Law Enforcement			
Edward Bryne Memorial Justice Assistance Grant Program	16.738	2014-JAGC-WALT-1-E5-207	<u>\$ 3,166</u>
U.S. Department of Transportation			
Airport Improvement Program -			
Federal Aviation Administration - Purchase Tug &			
Road Design	20.106	3-12-018-007-2013	49,611
Federal Aviation Administration - Construct Access Road -			
Phase 2	20.106	3-12-0018-008-2014	<u>398,369</u>
Total U.S. Department of Transportation			<u>447,980</u>
U.S. Department of Agriculture			
ARRA - Water and Waste Disposal Loans and Grants -			
(Section 306C)	10.77	FL-91-15	<u>445,409</u>
U.S. Department of Energy			
Passed through Florida Department of Agriculture and Consumer Services			
State Energy Program	81.041	GO440	<u>72,114</u>
U.S. Department of Homeland Security			
Passed through Florida Division of Emergency Management			
Federal Emergency Management Agency, Hazard Mitigation Grant	97.039	4138-9-R	<u>55,360</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,024,029</u></u>

See the accompanying notes.

OTHER REPORTS AND SCHEDULES

**INDEPENDENT AUDITORS' REPORT ON THE SCHEDULE OF
RECEIPTS AND EXPENDITURES OF FUNDS RELATED TO THE
DEEPWATER HORIZON OIL SPILL**

To the Honorable Mayor and Members of the
City Council
City of DeFuniak Springs, Florida

We have audited the financial statements of the City of DeFuniak Springs, Florida as of and for the year ended September 30, 2015, and have issued our report thereon dated April 24, 2017 which contained an unmodified opinion on the financial statements as a whole.

The Schedule of Receipts and Expenditures of Funds related to the Deepwater Horizon Oil Spill on page 81 is presented for the purpose of additional analysis as required by Florida Statute 288.8018 and the Rules of the Auditor General Chapter 10.557(3)(f), and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Fort Walton Beach, Florida
April 24, 2017

CITY OF DEFUNIAK SPRINGS, FLORIDA
OTHER SUPPLEMENTARY INFORMATION
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FUNDS
RELATED TO DEEPWATER HORIZON OIL SPILL
FOR THE FISCAL YEAR SEPTEMBER 30, 2015

Source	Amounts Received in the 2014-2015 Fiscal Year	Amounts Expended in the 2014-2015 Fiscal Year
British Petroleum:		
Litigation Settlement	\$ 368,063	\$ 368,063

See the accompanying notes.

**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
City of DeFuniak Springs, Florida

We have audited, in accordance with the 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 the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of DeFuniak Springs, Florida (the City), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 24, 2017.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 2014-006 and 2015-002 to be material weaknesses.

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 2013-004, 2014-001, 2014-002, 2014-004 and 2015-001 to be significant deficiencies.

Compliance and Other Matters

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

We noted certain matters that we reported to the management of the City in a separate letter dated April 24, 2017.

The City's Responses to Findings

The City's responses to the findings identified in our audit are described above. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



Fort Walton Beach, Florida
April 24, 2017

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the City of DeFuniak Springs, Florida's (the City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*, and the requirements described in the *Department of Financial Services' State Projects Compliance Supplement*, that could have a direct and material effect on the City's major Federal programs for the year ended September 30, 2015. The City of DeFuniak Springs, Florida major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the City of DeFuniak Springs, Florida major Federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

Opinion on Compliance for Each Major Federal Program

In our opinion, City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended September 30, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-006. Our opinion on the major federal programs is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program or State project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and State project and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a Federal program or State project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program or State project will not be prevented, or detected and corrected, on a timely basis.

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with the type of compliance requirement of a Federal program or State project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned cost as item 2014-006 that we consider to be a material weakness.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script, reading "Saltmarsh Cleveland & Gund".

Fort Walton Beach, Florida
April 24, 2017

**CITY OF DEFUNIAK SPRINGS, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
FEDERAL PROGRAMS
YEAR ENDED SEPTEMBER 30, 2015**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the basic financial statements of the City of DeFuniak Springs, Florida.
2. Seven significant deficiencies in internal control disclosed during the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Two of the significant deficiencies are considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements of the City of DeFuniak Springs, Florida were disclosed during the audit.
4. One significant deficiency in internal control over the major federal programs is reported in the Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance with requirements that could have a direct and material effect on each major federal program expresses an unmodified opinion.
6. Our audit disclosed one finding required to be reported related to federal programs under section 510(a) of OMB Circular A-133.
7. The programs tested as major federal programs were CFDA No. 10.770, U.S. Department of Agriculture - Water and Waste Disposal Loans and Grants (Section 306C) and CFDA 20.106, U.S. Department of Transportation – Airport Improvement Program.
8. The threshold for distinguishing Types A and B programs is \$300,000 for major federal programs.
9. The City did not qualify as a low-risk auditee pursuant to OMB Circular A-133.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2015**

B. FINANCIAL STATEMENT FINDINGS

Reserve Funds Not Maintained

Finding: 2013-004

As of September 30, 2015, the City had not maintained reserve funds per City Ordinance #664 for the Water fund. The ordinance requires the reserves to be maintained at an established minimum balance unless provisions are made for the immediate replacement of the funds. Funds may be withdrawn from the reserve accounts for the sole purpose of replacing depreciated property, equipment, and making special purchases. Prior to utilizing any reserve funds a provision to replace the funds must be identified. The provision for use of and replacement of the funds shall be provided for by resolution of the City Council.

The City should implement standard accounting procedures to ensure that the reserve funds are adequately maintained and that the Council is aware of the lack of any adequately maintained reserve funds for it to properly provide for the replenishment of the funds.

Management's Response: The City has implemented accounting procedures to ensure the reserve funds are adequately maintained.

Segregation of Duties

Finding: 2014-001

An element of an effective internal control system is the proper segregation of duties. The basic premise of segregating duties is to prevent situations where an employee has the ability to perpetrate an error or irregularity and to conceal it as well. Proper segregation of duties provides for a system of checks and balances such that the functions of one employee are subject to the review through the performance of the interrelated functions of another employee. Due to turnover in the position of Finance Director, the City Manager performed some Finance Director duties during the year. These items, including the reconciliation of bank statements, were performed without adequate supervision and review. We understand that with the replacement of the Finance Director, these duties should again become properly segregated.

We recommend that the City review the internal control procedures to ensure checks and balances always exist to the greatest extent possible.

Management's Response: The City has hired a finance director to perform the necessary financial duties thereby reestablishing adequate supervision and review.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2015**

B. FINANCIAL STATEMENT FINDINGS (Continued)

Fraud Prevention and Detection Program

Finding: 2014-002

In fulfilling its duty to establish and maintain a system of internal controls, management is responsible for the design and implementation of programs and controls to prevent and detect fraud appropriate for its size. We noted that the City has not developed a formal fraud risk assessment and monitoring program that is appropriate for the size and complexity of the City with the aim to identify specific fraud risks and to take appropriate action to reduce or eliminate the risks. Although management has established a system of internal controls, there is no preliminary assessment of fraud risks and those controls do not constitute a formal fraud prevention and detection program in our opinion.

We recommend that management schedule periodic meetings with the City Council to discuss the areas in which the City may be vulnerable to fraud and develop and implement processes to help mitigate these risks as they arise. We additionally recommend the City Council be advised for the organization's current accounting procedures and be involved in the oversight of the City's fraud risk management program. Council discussions regarding their assessment of the organization's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of the financial statements should be documented in Council minutes, at least annually.

Management's Response: The City is in the process of developing a formal fraud prevention and detection program.

Debt Compliance - Water Bonds Series 2006 and Water Bonds Series 2012

Finding: 2014-004

Pursuant to bond agreements, the City has certain covenants that require rates to be set at levels annually to provide for the payment of current expenses and deposits to meet certain trust fund requirements associated with the bond agreements. The City is not in compliance with the debt covenants associated with the Water Series 2006 bonds and the Water Series 2012 bonds, as the water fund did not generate sufficient revenue in the current fiscal period to cover the operating expenses of the fund and meet the parity debt service requirements.

We recommend that the City take necessary steps to make revisions in the water rates, current expenses or the method of operation of the enterprise system funds in order to satisfy the requirements of the bond agreement and ensure those funds generate sufficient revenue to cover current obligations.

Management's Response: The City increased the water rates effective October 1, 2015.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2015**

B. FINANCIAL STATEMENT FINDINGS (Continued)

Timely Reporting

Finding: 2014-006

Our audit procedures revealed that there were instances where reports required to be filed under the grant agreement were filed after the due date.

We strongly recommend that the City institute policies and procedures that stipulate that the required reports must be filed by their respective due dates. It is critically important that timely and accurate reports be produced to ensure that the goals and purposes of the grant have been achieved and accounted for properly.

Management's Response: The City has implemented policies and procedures stipulating the required reports are filed by their respective due dates.

Reserve Funds Not Maintained

Finding: 2015-001

As of September 30, 2015, the City had not maintained replacement funds per City Ordinance #663 for the Sanitation fund's Depreciated Property Replacement Account. The ordinance requires annual deposits to the account in an amount equal to the current period's depreciation expense on all the vehicles and items of major equipment utilized in the proprietary function of the City's trash and garbage collection. Funds may be withdrawn from the replacement account for the sole purpose of replacing such depreciated property. Depreciation expense for fiscal year 2015 for the Sanitation fund was \$97,442. No deposits were made to the replacement account in fiscal year 2015.

The City should implement standard accounting procedures to ensure that the replacement funds are adequately maintained and that the Council is aware of the lack of any adequately maintained replacement funds for it to properly provide for the replenishment of the funds.

Management's Response: The City has implemented accounting procedures to ensure the replacement funds are adequately maintained.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2015**

C. FINDINGS AND QUESTIONED COSTS - FEDERAL AND STATE PROGRAMS

Reconciliation of Accounts

Finding: 2015-002

During the period ended September 30, 2015, several general ledger accounts, including the City's various cash accounts were not reconciled to the detail supporting ledgers in a timely manner. As a result of unreconciled accounts, material adjustments were required in order to bring the City's books into compliance with generally accepted accounting principles and prevent them from being materially misstated. Many of the issues encountered during the audit could be avoided if accounts are reconciled timely.

We recommend that all applicable general ledger accounts be reconciled monthly to their detail supporting ledgers and that any reconciling items be promptly investigated and adjusted with adequate explanations.

Management's Response: The City will implement accounting procedures to ensure accounts are reconciled in a timely fashion.

**CITY OF DEFUNIAK SPRINGS, FLORIDA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2015**

2014-003 Utility Accounts Receivable

Finding - During our testing of utility accounts receivable, we identified certain inactive accounts that had accumulated. The City has not written off these inactive accounts and had not recorded an allowance for doubtful accounts. As a result, an audit adjustment was necessary to write off bad debt as of September 30, 2014.

In addition, we noted that unbilled receivables were not properly accrued at year-end. As a result, an audit adjustment was necessary to accrue unbilled receivables in the enterprise funds, along with a prior period correction for under accrued receivables in the prior year.

We also noted an “other receivable” account that had not been properly reconciled at year-end. An audit adjustment was necessary to reconcile the ending balances in both the water and sewer funds as of September 30, 2014.

We recommend the City evaluate the balances in inactive accounts on a periodic basis and adjust the allowance for doubtful accounts as necessary. The City should also establish a policy to write off accounts that have been inactive for a certain period of time, such as over one or two years. Unbilled accounts receivable should be accrued at year-end, to ensure proper matching of revenues and expenses. All receivable account should be reconciled on a regular basis.

Current Status - The City implemented procedures to evaluate the balances in active accounts and established a policy to write off accounts that have been inactive for a period of one year.

2014-005 Revenue Recognition

Finding: During our testing of grants, we identified revenues associated with both the USDA federal grant and Aviation Development state grants recorded in the wrong period. As a result, prior period audit adjustments were proposed to move \$158,797 in USDA grant revenue and \$65,311 in State Aviation grant revenue back to 2013.

We recommend that the City develop and institute policies that will ensure a clean cut off period. Grant revenues and related expenses should be reconciled, matched and recorded in the same period, by accruing revenue through grant receivables or deferring revenue through the use of liability accounts.

Current Status - The City has developed and instituted policies that will ensure grant revenues and related expenses are reconciled, matched and recorded in the same time period. Similar misstatements were not noted in the audit for the period ended September 30, 2015.

MANAGEMENT LETTER

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

Report on the Financial Statements

We have audited the financial statements of the City of DeFuniak Springs, Florida (the City), as of and for the fiscal year ended September 30, 2015, and have issued our report thereon dated March XX, 2017.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550 Rules of the Florida Auditor General.

Other Reports and Schedule

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Federal Program and State Project and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and Chapter 10.550 Rules of the Auditor General, Independent Accountant's Report on Compliance with Section 218.415, Florida Statutes and Schedule of Findings and Questioned Costs. Disclosures in that report, which is dated April 24, 2017, 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 or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address some findings and recommendations made in the preceding annual financial audit report. Repeat findings are listed as 2013-004, 2014-001, 2014-002, 2014-004 and 2014-006 noted in the *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*, which begins on page 80. These findings were included with the 2014 financial audit reports. Finding 2013-004 was also included in the 2013 financial audit reports.

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

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 for the City is disclosed in the notes to the financial statements. The City was established by Laws of Florida Chapter 5341 (1903) on July 30, 1901. The City includes no component units.

Financial Condition

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

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. 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. We have noted deteriorating financial conditions, partially as a result of interfund receivables and payables which are not being timely repaid. Growing balances in these accounts negatively affect the cash balances of the lending funds and the current liabilities balances of the borrowing funds. We recommend management evaluate the interfund balances and develop procedures for ensuring these balances are timely addressed. In addition, rates for charges for services in the proprietary funds have not been sufficient to support current expenses. In subsequent periods, rates increases have been implemented which management believes should help the proprietary funds cover their operations with current year revenues, without relying heavily on transfers from the governmental funds.

Annual Financial Report

Section 10.554(1)(i)5.b., Rules of the Auditor General, requires that we report the results of our determination as to whether the annual financial report for the City for the fiscal year ended September 30, 2015, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2015. In connection with our audit, we determined these two reports were in agreement.

Other Matters

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, our findings and recommendations are reported in the Schedule of Findings and Questioned Costs.

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

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address 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 noncompliance in Findings 2013-004, 2014-004, 2014-006 and 2015-001 in the Schedule of Findings and Questioned Costs.

Purpose of this Letter

Our management letter is intended 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, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Saltmarsh Cleveland & Gunkel".

Fort Walton Beach, Florida
April 24, 2017

**INDEPENDENT ACCOUNTANT'S REPORT
ON COMPLIANCE WITH SECTION 218.415, FLORIDA STATUTES**

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

We have examined the City of DeFuniak Springs, Florida's (the City) compliance with Section 218.415, Florida Statutes during the year ended September 30, 2015. 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 and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such procedures as we considered necessary in the circumstances. We believe that our examination provided a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2015.

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



Fort Walton Beach, Florida
April 24, 2017