

City of Freeport, Florida

Financial Statements

September 30, 2015



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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Freeport, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Freeport, Florida, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

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 financial position of governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Freeport, as of September 30, 2015, and the respective changes in financial position, and where applicable, cash flows 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 13 to the financial statements, effective for the 2014-15 fiscal year, implementation of Government Accounting Standards Board Statement 68, *Accounting and Financial Reporting for Pension*, and Government Accounting Standards Board Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an Amendment of GASB Statement No. 68, resulted in a change in accounting principle. This matter affects the comparability of amounts reported for the 2014-15 fiscal year to the amounts reported for the 2013-14 fiscal year. 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 management's discussion and analysis (MD&A), and required supplementary information other than MD&A as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Other financial information as listed in the table of contents is presented for purposes of additional analysis 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 additional 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2016 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

Certified Public Accountants
Niceville, Florida
June 28, 2016

Management's Discussion and Analysis

Management's Discussion and Analysis

Management's discussion and analysis provide an easily readable analysis of the City's financial activities. The analysis provides summary financial information for the City and should be read in conjunction with the City's financial statements.

Financial Highlights

- Total assets of the City exceeded total liabilities by \$45,581,933 (net position). Of this amount, \$2,452,767 is unrestricted for governmental activities and a deficit of \$970,537 is unrestricted for business-type activities, while \$353,857 is restricted net position for governmental activities and \$2,960,929 is restricted for business-type activities. Total net position includes \$19,696,473 net investment in capital assets in the governmental activities and \$21,088,444 in the business-type activities.
- Total net position increased by \$135,091. Of this amount, (\$376,397) is attributable to governmental activities and \$511,488 is attributable to business-type activities.
- As of September 30, 2015, the general fund's unassigned fund balance was \$2,857,949 or 125% of total general fund expenditures.
- Governmental activities revenues increased to \$2,656,378 or 12%, while governmental activities expenditures increased by 5% to \$2,715,977. Business-type activities revenues increased to \$2,952,128 or 49%, while business-type activities expenditures decreased 7% to \$2,440,640.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) *Government-wide financial statements*, 2) *Fund financial statements*, and 3) *Notes to basic financial statements*. The *government-wide financial statements* present an overall picture of the City's financial position and results of operations. The *fund financial statements* present financial information for the City's major funds. The *notes to basic financial statements* provide additional information concerning the City's finances that are not otherwise disclosed in the government-wide or fund financial statements.

Government-wide Financial Statements

The *government-wide financial statements* include the *statement of net position* and *statement of activities*. These statements are designed to provide readers with a broad overview of the City's financial position, in a manner similar to that of private-sector companies. Emphasis is placed on the net position of governmental activities and business-type activities, as well as the change in net position. Governmental activities are primarily supported by gross receipts taxes, utility taxes, franchise fees, and state shared revenues, while business-type activities are supported by charges to the users of activities, for water and sewer services.

The *statement of net position* presents information on all assets and liabilities of the City, with the difference between the two reported as *net position*. Assets, liabilities, deferred inflows and outflows and net position are reported separately for governmental activities and business-type activities. Increases or decreases in net position over time may serve as a useful indicator of the City's improving or declining financial position. The *statement of activities* presents information on all revenues and expenditures of the City and the change in net position for the fiscal year. All changes in the 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 expenditures are reported in the statement of activities for some items that will only result in cash flows in future fiscal periods (e.g., uncollected fees and earned, but unused vacation/sick leave).

Expenditures are reported by major function, along with program revenues relating to those functions, providing the net cost of all functions provided by the City. In order to better understand the City's operations, governmental activities expenditures include among others, general government services, public safety, highways and streets, and culture and recreation. Business-type activities expenses, which are financed by user fees and charges, include water and sewer services.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific purposes or objectives. Individual funds have been established by the City to account for revenues that are restricted to certain uses, or to comply with legal requirements. The two major categories of funds found in the City's *fund financial statements* include: governmental funds and proprietary funds.

Fund financial statements provide financial information for the City's major funds and more detailed information about the City's activities. Governmental fund financial statements provide information on the *current* assets and liabilities of the funds, changes in *current* financial resources (revenues and expenditures), and *current* available resources. The proprietary funds financial statements provide information on all assets and liabilities of the funds, changes in the economic resources (revenues and expenses), and total economic resources.

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

The *government-wide financial statements* and the *fund financial statements* provide different presentations of the City's financial position. Categorized by governmental activities and business-type activities, the government-wide financial statements provide an overall picture of the City's financial standing. These statements, which are comparable to private-sector companies, provide a good understanding of the City's overall financial health and present the means used to pay for various activities, or functions provided by the City. All assets of the City, including buildings, land, and infrastructure are reported in the statement of net position, as well as all liabilities, including outstanding principal on bonds and future employee benefits obligated but not yet paid by the City. The statement of activities includes depreciation on all long lived assets of the City.

The *fund financial statements* provide a presentation of the City's major funds. In the case of governmental activities, outlays for long lived assets are reported as expenditures and long-term liabilities, such as revenue bonds, are not included in the fund financial statements. To facilitate a comparison between the *fund financial statements* and the *government-wide financial statements*, a reconciliation is provided.

Notes to basic financial statements provide additional detail concerning the financial activities and financial balances of the City. Additional information about the accounting practices of the City, investments of the City, and long-term debt are just a few of the items included in the notes to basic financial statements.

Government-wide financial analysis of the City

The following schedule provides a summary of the assets, liabilities and net position of the City. At the end of the fiscal years 2015 and 2014, the City is able to report positive balances in all three categories of net position, for the government as a whole. Noncurrent liabilities and unrestricted net position is restated for the implementation of GASB 68. See note 13 for more details.

Net Position

<i>September 30,</i>	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 3,600,016	\$ 2,975,335	\$ 8,078,789	\$ 9,426,924	\$ 11,678,805	\$ 12,402,259
Capital assets	20,601,910	21,640,430	29,219,792	30,138,558	49,821,702	51,778,988
Total assets	24,201,926	24,615,765	37,298,581	39,565,482	61,500,507	64,181,247
Deferred outflows of resources	87,506	30,821	155,565	54,793	243,071	85,614
Current liabilities	436,713	400,760	158,149	310,169	594,862	710,929
Noncurrent liabilities (restated)	1,174,902	1,178,214	13,906,547	16,408,326	15,081,449	17,586,540
Total liabilities	1,611,615	1,578,974	14,064,696	16,718,495	15,676,311	18,297,469
Deferred inflows of resources	174,720	188,118	310,614	334,432	485,334	522,550
Net position						
Net investment in capital assets	19,696,473	20,721,434	21,088,444	19,132,448	40,784,917	39,853,882
Restricted	353,857	337,912	2,960,929	2,934,639	3,314,786	3,272,551
Unrestricted (restated)	2,452,767	1,820,148	(970,537)	500,261	1,482,230	2,320,409
Total net position	\$ 22,503,097	\$ 22,879,494	\$ 23,078,836	\$ 22,567,348	\$ 45,581,933	\$ 45,446,842

Net investment in capital assets (e.g., land, buildings, and equipment), represents the City's largest portion of net position (89%). These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. It should be noted, that although the City's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following schedule provides a summary of the changes in net position.

Changes in Net Position

Years ended September 30,	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Program revenues						
Charges for services	\$ 844,917	\$ 736,974	\$ 1,982,851	\$ 1,896,432	\$ 2,827,768	\$ 2,633,406
Capital grants/contributions	4,200	20,600	112,760	72,950	116,960	93,550
General revenues						
Gross receipts taxes	852,674	802,018	-	-	852,674	802,018
Utility taxes/franchise fees	105,908	119,399	-	-	105,908	119,399
Intergovernmental	787,193	687,826	-	-	787,193	687,826
Other	61,486	9,939	856,517	15,245	918,003	25,184
Total revenues	2,656,378	2,376,756	2,952,128	1,984,627	5,608,506	4,361,383
Expenses						
General government	668,128	547,748	-	-	668,128	547,748
Public safety	537,368	589,258	-	-	537,368	589,258
Culture/recreation	683,908	661,957	-	-	683,908	661,957
Streets	91,004	115,176	-	-	91,004	115,176
Physical environment	697,660	640,847	-	-	697,660	640,847
Interest on long-term debt	37,909	41,605	-	-	37,909	41,605
Water	-	-	1,473,640	1,551,858	1,473,640	1,551,858
Sewer	-	-	967,000	1,077,660	967,000	1,077,660
Total expenses	2,715,977	2,596,591	2,440,640	2,629,518	5,156,617	5,226,109
Increase (decrease) in net position before gains (losses)	(59,599)	(219,835)	511,488	(644,891)	451,889	(864,726)
Gain (loss) on sale of assets	(316,798)	300	-	-	(316,798)	300
Increase (decrease) in net position	\$ (376,397)	\$ (219,535)	\$ 511,488	\$ (644,891)	\$ 135,091	\$ (864,426)

For the year ending September 30, 2015, governmental activities expenses exceeded revenues by \$376,397 while business-type activities revenues exceeded expenses by \$511,488. Total revenues increased \$1,247,123 from the previous year. Revenues increased as a result of increase in ad valorem taxes, planning and zoning fees, intergovernmental taxes received, settlement of BP claim and forgiveness of debt. Total expenses decreased \$69,492 from the previous year.

32% of the revenues for governmental activities were generated by gross receipts taxes, while most of the governmental resources were expended for general government (25%), culture and recreation (25%), and physical environment (26%) activities.

Charges for services provided 67% of the revenues for business-type activities, while the water (60%) and sewer funds (40%) consumed 100% of business-type activities expenses.

Financial Analysis of the City's Funds

Governmental Funds

General Fund

The main operating fund of the City is the general fund. As of September 30, 2015, total assets were \$3,600,016 and total liabilities were \$436,713. At the end of fiscal year 2015, unassigned fund balance of the general fund was \$2,857,949 while total fund balance equaled \$3,163,303.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in greater detail. Both proprietary funds are reported as major funds.

Unrestricted net position of proprietary funds at the end of the year is presented below:

Fund	Unrestricted Net Position	
	2015	2014 (restated)
September 30,		
Water	\$ 542,302	\$ 1,165,223
Sewer	(1,512,839)	(664,962)
Total	\$ (970,537)	\$ 500,261

The *Proprietary Funds* are used to account for the operations of the City's utility systems. Refer to the statement of net position – proprietary funds and the statement of revenues, expenses and changes in net position – proprietary funds for specific numerical data.

Capital Assets Activity

The following schedule provides a summary of the City's capital assets activity. The City's total investment in capital assets for both its governmental and business-type activities as of September 30, 2015, was \$49,821,702 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure, and construction in progress.

Major capital asset events during the current fiscal year included the following:

- Transfer of the fire department to Walton County resulting in a decrease of \$1,180,472 in assets.
- Reduction in cost of construction in progress for the relocation of the water lines of \$1,110,715.

Capital Assets (Net of depreciation)

Additional information on the City's capital assets can be found in note 6 – capital assets, of the notes to the basic financial statements.

<i>September 30,</i>	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 12,367,264	\$ 12,367,264	\$ 392,225	\$ 392,225	\$ 12,759,489	\$ 12,759,489
Construction in progress	41,977	6,875	6,471,071	6,746,407	6,513,048	6,753,282
Buildings and improvements	10,096,923	10,096,923	29,392,049	29,375,704	39,488,972	39,472,627
Equipment	496,495	1,635,102	1,697,499	1,632,070	2,193,994	3,267,172
Infrastructure	1,529,256	1,529,256	-	-	1,529,256	1,529,256
Accumulated depreciation	(3,930,005)	(3,994,990)	(8,733,052)	(8,007,848)	(12,663,057)	(12,002,838)
Total	\$ 20,601,910	\$ 21,640,430	\$ 29,219,792	\$ 30,138,558	\$ 49,821,702	\$ 51,778,988

Debt Management

At the end of the current fiscal year, the City had total bond debt and notes payable outstanding in the amount of \$9,036,785. This debt amount represents bonds secured solely by specified revenue sources (i.e., revenue bonds) and notes payable to Walton County and Florida Department of Transportation.

Outstanding Bond Debt

<i>September 30,</i>	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenue bonds	\$ 905,437	\$ 918,996	\$ 5,153,600	\$ 6,591,400	\$ 6,059,037	\$ 7,510,396
Other obligations	-	-	2,977,748	4,414,710	2,977,748	4,414,710
Total	\$ 905,437	\$ 918,996	\$ 8,131,348	\$ 11,006,110	\$ 9,036,785	\$ 11,925,106

Principal repayments during the year on revenue bonds totaled \$1,451,359 and repayments on notes payable totaled \$2,836,962. More detail on the City's liabilities is presented in notes 7 and 8 of the notes to the basic financial statements.

Economic Factors and Next Year's Budget and Rates

At September 30, 2015, unassigned fund balance in the general fund was \$2,857,949. Use of available fund balance will enable the City to perform its basic mission and to prepare for emergencies should they arise. As part of the regular budget monitoring process, the finance department prepares a monthly financial report that the City Council can use to follow the actual performance of revenue and expenditure estimates. In addition, during the year an analysis of the budget estimates versus the actual results is done to assess the need for any supplemental appropriations. When necessary, the City Council passes supplemental appropriations resolutions.

Contacting the City's Finance Department

This financial report is designed to provide a general overview of the City of Freeport, Florida's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Freeport, Florida, City Clerk P.O. Box 339 Freeport, Florida, 32439. You may visit the City's website <http://freeportflorida.gov> or send email to freeport@freeportflorida.gov.

Basic Financial Statements

City of Freeport, Florida
Statement of Net Position
September 30, 2015

Primary Government

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Unrestricted assets			
Cash and cash equivalents	\$ 2,832,305	\$ 4,336,114	\$ 7,168,419
Accounts receivable (net)	34,230	227,999	262,229
Due from other governments	99,415	-	99,415
Due from other funds	276,583	-	276,583
Inventory	-	65,886	65,886
Prepaid expenses	467	-	467
Total unrestricted assets	3,243,000	4,629,999	7,872,999
Restricted assets			
Cash and cash equivalents			
Meter deposits and impact fees	304,887	2,766,687	3,071,574
Sinking, reserve, and escrow funds	52,129	682,103	734,232
Total restricted assets	357,016	3,448,790	3,805,806
Total current assets	3,600,016	8,078,789	11,678,805
Noncurrent assets			
Capital assets			
Land	12,367,264	392,225	12,759,489
Buildings	2,912,237	747,391	3,659,628
Building improvements	101,314	-	101,314
Improvements other than buildings	7,083,372	28,644,658	35,728,030
Equipment	496,495	1,697,499	2,193,994
Construction work in progress	41,977	6,471,071	6,513,048
Infrastructure	1,529,256	-	1,529,256
Less accumulated depreciation	(3,930,005)	(8,733,052)	(12,663,057)
Total noncurrent assets	20,601,910	29,219,792	49,821,702
Total assets	24,201,926	37,298,581	61,500,507
Deferred outflows of resources	87,506	155,565	243,071

(Continued)

See accompanying notes

City of Freeport, Florida
Statement of Net Position (Continued)
September 30, 2015

	Governmental Activities	Business-type Activities	Total
Liabilities			
Current liabilities			
Accounts payable	\$ 419,933	\$ 102,910	\$ 522,843
Accrued expenses	16,780	38,296	55,076
Unearned revenue from customer prepayments	-	16,943	16,943
Total current liabilities	436,713	158,149	594,862
Noncurrent liabilities			
Customer deposits	-	467,849	467,849
Unearned revenues from connection fees	-	4,528,085	4,528,085
Due within one year			
Current portion of long-term debt	14,118	313,226	327,344
Accrued interest	3,159	24,297	27,456
Due in more than one year			
Due to other funds	-	276,583	276,583
Compensated absences	7,316	17,960	25,276
Net pension obligation	258,990	460,425	719,415
Notes payable	-	2,792,522	2,792,522
Revenue bonds payable	891,319	5,025,600	5,916,919
Total noncurrent liabilities	1,174,902	13,906,547	15,081,449
Total liabilities	1,611,615	14,064,696	15,676,311
Deferred inflows of resources	174,720	310,614	485,334
Net position			
Net investment in capital assets	19,696,473	21,088,444	40,784,917
Restricted			
Sinking fund	48,970	661,117	710,087
Impact fees	304,887	2,299,812	2,604,699
Unrestricted	2,452,767	(970,537)	1,482,230
Total net position	\$ 22,503,097	\$ 23,078,836	\$ 45,581,933

See accompanying notes

City of Freeport, Florida
Statement of Activities
Year ended September 30, 2015

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Total Governmental Activities	Total Business-type Activities	Total
Governmental activities							
General government	\$ 668,128	\$ 69,501	\$ -	\$ -	\$ (598,627)	\$ -	\$ (598,627)
Public safety	537,368	448	-	4,200	(532,720)	-	(532,720)
Culture and recreation	683,908	57,784	-	-	(626,124)	-	(626,124)
Street	91,004	19,524	-	-	(71,480)	-	(71,480)
Physical environment	697,660	697,660	-	-	-	-	-
Interest on long-term debt	37,909	-	-	-	(37,909)	-	(37,909)
Total governmental activities	2,715,977	844,917	-	4,200	(1,866,860)	-	(1,866,860)
Business-type activities							
Water	1,473,640	1,344,219	-	34,260	-	(95,161)	(95,161)
Sewer	967,000	638,632	-	78,500	-	(249,868)	(249,868)
Total business-type activities	2,440,640	1,982,851	-	112,760	-	(345,029)	(345,029)
Total primary government	\$ 5,156,617	\$ 2,827,768	\$ -	\$ 116,960	(1,866,860)	(345,029)	(2,211,889)
General revenues							
Taxes							
Ad valorem taxes							
					832,672	-	832,672
Local option gas tax							
					20,002	-	20,002
Franchise fees							
Utility							
					87,076	-	87,076
Solid waste							
					2,234	-	2,234
Communications service tax							
					16,598	-	16,598
Intergovernmental							
Local government sales tax							
					379,890	-	379,890
Miscellaneous revenue							
					407,303	-	407,303
Miscellaneous							
					60,019	853,381	913,400
Loss on sale of assets							
					(316,798)	-	(316,798)
Total general revenues							
					1,488,996	853,381	2,342,377
Interest earnings							
					1,467	3,136	4,603
Total general revenues and interest							
					1,490,463	856,517	2,346,980
Change in net position							
					(376,397)	511,488	135,091
Net position - beginning (as originally stated)							
					23,248,822	23,223,931	46,472,753
Prior period adjustment							
					(369,328)	(656,583)	(1,025,911)
Net position - beginning (restated)							
					22,879,494	22,567,348	45,446,842
Net position - ending							
					\$ 22,503,097	\$ 23,078,836	\$ 45,581,933

See accompanying notes

City of Freeport, Florida
Balance Sheet
Governmental Funds
September 30, 2015

	General Fund
Assets	
Cash and cash equivalents	\$ 2,832,305
Accounts receivable (net)	34,230
Due from other governments	99,415
Due from other funds	276,583
Prepays	467
Restricted assets	
Cash and cash equivalents	
Sinking, reserve, and escrow funds	52,129
Impact fees	304,887
Total assets	3,600,016
Liabilities	
Accounts payable	419,933
Accrued expenditures	16,780
Total liabilities	436,713
Fund balances	
Nonspendable	
Prepays	467
Restricted	
Impact fees	304,887
Unassigned	2,857,949
Total fund balance	3,163,303
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	20,601,910
Deferred inflows and outflows of resources are not recognized in in the current period and, therefore are not reported in the funds	(87,214)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(1,174,902)
Net position of governmental activities	\$ 22,503,097

See accompanying notes

City of Freeport, Florida
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Year ended September 30, 2015

	General Fund
<hr/>	
Revenues	
Taxes	\$ 1,338,472
Intergovernmental	1,124,487
Charges for services	93,310
Impact fees	4,200
Fines and forfeitures	448
Interest earnings	1,467
Rents	33,975
Sale of assets	255,000
Miscellaneous	60,019
<hr/>	
Total revenues	2,911,378
<hr/>	
Expenditures	
Current	
General government	604,443
Public safety	510,678
Street	44,932
Culture and recreation	302,291
Physical environment	697,660
Capital outlay	76,970
Debt service	
Principal	13,559
Interest and fiscal charges	37,909
<hr/>	
Total expenditures	2,288,442
<hr/>	
Net changes in fund balance	622,936
<hr/>	
Fund balances - beginning	2,540,367
<hr/>	
Fund balances - ending	\$ 3,163,303
<hr/>	

See accompanying notes

City of Freeport, Florida

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balance of Governmental Funds to the Statement of Activities
Year ended September 30, 2015**

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

Net changes in fund balance - total governmental funds	\$ 622,936
Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(466,718)
Proceeds from sale of assets are offset by the adjusted basis of the assets in the statement of activities.	(571,796)
The issuance of long-term debt (i.e. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of the issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	13,559
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	25,622
Change in net position of governmental activities	\$ (376,397)

See accompanying notes

City of Freeport, Florida
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and
Actual - General Fund
Year ended September 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,278,000	\$ 1,278,000	\$ 1,338,472	\$ 60,472
Intergovernmental	765,000	765,000	1,124,487	359,487
Charges for services	54,000	54,000	93,310	39,310
Impact fees	-	-	4,200	4,200
Fines and forfeitures	1,000	1,000	448	(552)
Interest earnings	1,200	1,200	1,467	267
Rents	27,600	27,600	33,975	6,375
Sale of assets	-	-	255,000	255,000
Miscellaneous	49,000	49,000	60,019	11,019
Total revenues	2,175,800	2,175,800	2,911,378	735,578
Expenditures				
Current				
General government	480,210	480,210	604,443	(124,233)
Public safety	505,595	505,595	510,678	(5,083)
Street	53,000	53,000	44,932	8,068
Culture and recreation	359,600	359,600	302,291	57,309
Physical environment	429,500	429,500	697,660	(268,160)
Capital outlay	8,000	8,000	76,970	(68,970)
Debt service	53,000	53,000	51,468	1,532
Total expenditures	1,888,905	1,888,905	2,288,442	(399,537)
Net changes in fund balances	\$ 286,895	\$ 286,895	\$ 622,936	\$ 336,041

See accompanying notes

City of Freeport, Florida
Statement of Net Position
Proprietary Funds
September 30, 2015

Business-type Activities / Enterprise Funds

	Water	Sewer	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 2,326,319	\$ 2,009,795	\$ 4,336,114
Accounts receivable (net)	122,345	105,654	227,999
Inventory	31,774	34,112	65,886
Due from other funds	228,121	-	228,121
Restricted assets - cash			
Meter deposits and impact fees	942,656	1,824,031	2,766,687
Sinking and reserve funds	582,650	99,453	682,103
Total current assets	4,233,865	4,073,045	8,306,910
Noncurrent assets			
Capital assets			
Land	350,247	41,978	392,225
Buildings	558,268	189,123	747,391
Construction work in progress	2,638,621	3,832,450	6,471,071
Improvements other than buildings	14,196,477	14,448,181	28,644,658
Equipment	853,015	844,484	1,697,499
Total capital assets	18,596,628	19,356,216	37,952,844
Less accumulated depreciation	(4,182,032)	(4,551,020)	(8,733,052)
Net capital assets	14,414,596	14,805,196	29,219,792
Total assets	18,648,461	18,878,241	37,526,702
Deferred outflows of resources	89,936	65,629	155,565

(Continued)

See accompanying notes

City of Freeport, Florida
Statement of Net Position
Proprietary Funds (Continued)
September 30, 2015

Business-type Activities / Enterprise Funds			
	Water	Sewer	Total
Liabilities			
Current liabilities			
Accounts payable	\$ 89,551	\$ 13,359	\$ 102,910
Accrued expenses	14,664	23,632	38,296
Unearned revenue	16,943	-	16,943
Total current liabilities	121,158	36,991	158,149
Noncurrent liabilities			
Customer deposits	467,849	-	467,849
Unearned revenues - connection fees	1,678,404	2,849,681	4,528,085
Due within one year			
Current portion of long term-debt	188,392	124,834	313,226
Accrued interest	20,986	3,311	24,297
Compensated absences	9,899	8,061	17,960
Due in more than one year			
Due to other funds	-	504,704	504,704
Notes payable	1,873,135	919,387	2,792,522
Revenue bonds payable	4,807,600	218,000	5,025,600
Net pension obligation	266,184	194,241	460,425
Total noncurrent liabilities	9,312,449	4,822,219	14,134,668
Total liabilities	9,433,607	4,859,210	14,292,817
Deferred inflows of resources	179,574	131,040	310,614
Net position			
Net investment in capital assets	7,545,469	13,542,975	21,088,444
Restricted			
Impact fees	475,781	1,824,031	2,299,812
Sinking fund	561,664	99,453	661,117
Unrestricted	542,302	(1,512,839)	(970,537)
Total net position	\$ 9,125,216	\$ 13,953,620	\$ 23,078,836

See accompanying notes

City of Freeport, Florida
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year ended September 30, 2015

	Business-type Activities / Enterprise Funds		
	Water	Sewer	Total
Operating revenues			
Charges for services	\$ 1,344,219	\$ 638,632	\$ 1,982,851
Impact fees	34,260	78,500	112,760
Total operating revenues	1,378,479	717,132	2,095,611
Operating expenses			
Personnel services	426,862	297,624	724,486
Contractual services	19,463	7,904	27,367
Materials and supplies	89,920	71,799	161,719
Repairs and maintenance	58,219	21,382	79,601
Utilities	97,882	82,143	180,025
Other	188,046	74,246	262,292
Depreciation	349,167	376,037	725,204
Total operating expenses	1,229,559	931,135	2,160,694
Operating income (loss)	148,920	(214,003)	(65,083)
Nonoperating revenues (expenses)			
Miscellaneous	12,718	840,663	853,381
Interest income	1,391	1,745	3,136
Interest expense	(244,081)	(35,865)	(279,946)
Total nonoperating revenues (expenses)	(229,972)	806,543	576,571
Changes in net position	(81,052)	592,540	511,488
Net position - beginning (as originally stated)	9,585,855	13,638,076	23,223,931
Prior period adjustment	(379,587)	(276,996)	(656,583)
Net position - beginning (restated)	9,206,268	13,361,080	22,567,348
Net position - ending	\$ 9,125,216	\$ 13,953,620	\$ 23,078,836

See accompanying notes

City of Freeport, Florida
Statement of Cash Flows
Proprietary Funds
Year ended September 30, 2015

	Business-type Activities / Enterprise Funds		
	Water	Sewer	Total
Operating activities			
Receipts from customers and users	\$ 1,353,230	\$ 660,275	\$ 2,013,505
Payments to suppliers and others	(232,126)	(82,849)	(314,975)
Payments for personnel services	(450,627)	(314,968)	(765,595)
Net cash provided by operating activities	670,477	262,458	932,935
Noncapital financing activities			
Miscellaneous receipts	12,718	3,632	16,350
Net cash provided by noncapital financing activities	12,718	3,632	16,350
Capital and related financing activities			
Acquisition of capital assets	(572,049)	(345,105)	(917,154)
Proceeds from note payable	872,652	527,348	1,400,000
Principal paid on notes payable	(123,179)	(1,002,556)	(1,125,735)
Principal paid on revenue bonds	(939,700)	(498,100)	(1,437,800)
Interest paid on revenue bonds	(244,080)	(35,865)	(279,945)
Net cash used for capital and related financing activities	(1,006,356)	(1,354,278)	(2,360,634)
Investing activities			
Interest received	1,391	1,745	3,136
Net cash provided by investing activities	1,391	1,745	3,136
Net decrease in cash and cash equivalents	(321,770)	(1,086,443)	(1,408,213)
Cash and cash equivalents - beginning	4,173,395	5,019,722	9,193,117
Cash and cash equivalents - ending	\$ 3,851,625	\$ 3,933,279	\$ 7,784,904
Classified as cash			
Unrestricted	\$ 2,326,319	\$ 2,009,795	\$ 4,336,114
Restricted	1,525,306	1,923,484	3,448,790
Cash and cash equivalents - ending	\$ 3,851,625	\$ 3,933,279	\$ 7,784,904
Noncash financing activities			
Noncash debt reduction on loans	\$ 1,110,716	\$ 600,511	\$ 1,711,227

(Continued)

See accompanying notes

City of Freeport, Florida
Statement of Cash Flows (Continued)
Proprietary Funds
Year ended September 30, 2015

	Business-type Activities / Enterprise Funds		
	Water	Sewer	Total
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ 148,920	\$ (214,003)	\$ (65,083)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	349,167	376,037	725,204
Increase in accounts receivable (net)	(46,353)	(48,357)	(94,710)
Increase in unearned revenue	(10,535)	(8,500)	(19,035)
Decrease in due from other funds	153,279	157,514	310,793
Decrease in inventory	423	-	423
Increase in accounts payable	59,116	216	59,332
Increase in accrued expenses	8,586	16,895	25,481
Increase in customer deposits	31,639	-	31,639
Decrease in net pension obligation	(23,765)	(17,344)	(41,109)
Net cash provided by operating activities	\$ 670,477	\$ 262,458	\$ 932,935

See accompanying notes



City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Freeport, Florida (City) have been prepared in conformity with United States generally accepted accounting principles (U.S. GAAP) as applied to governmental units promulgated by the Governmental Accounting Standards Board (GASB).

This summary of the City's significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies are considered essential and should be read in conjunction with the accompanying financial statements.

Reporting Entity

The City was established in 1963 by legislative action under Chapter 165 of the Florida statutes. The City is under the authority of the mayor and five council members all elected by the public. The City provides the following services as authorized by its charter: public safety, street, culture and recreation, physical environment, general government services, and water and sewer operations.

Component Units

This report includes financial statements of the funds required to account for those financial activities which are related to the City and are controlled by or dependent upon the City's legislative body, the City Council. A component unit is an entity for which the City is considered to be financially accountable and is included in the City's reporting entity because of the significance of its operational or financial relationships with the City. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. The primary government may also be financially accountable for governmental organizations that are fiscally dependent on it. Based on the application of these criteria, no potential component units were identified.

Measurement Focus and Basis of Accounting

The basic financial statements of the City are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to basic financial statements

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. 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



City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 the requirements of GASB Statement 33 – *Accounting and Financial Reporting for Nonexchange Transactions*.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government’s citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

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. The City chooses to eliminate the indirect costs between governmental activities to avoid duplicating revenues and expenditures.

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 government-wide financial statements. These statements display information about major funds individually and in the aggregate for governmental and enterprise funds.

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



City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the accrual basis of 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 revenue 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 excludes 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 are expended, rather than as fund assets. The proceeds of long-term debt are recorded as an "other financing source" rather than as a fund liability.

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, proprietary 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 position.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies, taxes, and investment earnings, result from nonexchange transactions or ancillary activities.

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



City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

GASB Statement 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The City has used GASB Statement 34 minimum criteria for major fund determination to determine which funds are required to be reported as major funds.

Governmental Major Funds

General fund - The general fund is the general operating fund of the City. It is used to account for all activities of the general government except those required to be accounted for in another fund.

Proprietary Major Funds

Utility funds - The utility funds are used to account for operations and activities related to the water and sewer systems within the City.

Noncurrent Governmental Assets/Liabilities

GASB Statement 34 requires noncurrent governmental assets, such as land, buildings and equipment, and noncurrent governmental liabilities, such as general obligation bonds and capital leases, to be reported in the governmental activities column in the government-wide statement of net position.

Budgets

Annual budgets are legally adopted for all governmental funds and proprietary funds. Budgets are prepared and adopted on a basis of accounting consistent with U.S. generally accepted accounting principles. All annual appropriations lapse at fiscal year-end.

Florida Statutes provide that it is unlawful to make expenditures that exceed the total amount budgeted for each fund. Chapter 129, Florida Statutes, governs the manner in which the budget may be legally amended once it has been approved. Therefore, the fund level is the legal level of control for budget considerations according to Florida Statutes.

The City budgets expenditures at the department level. Only the City Council can approve budget amendments that change the total approved budget appropriation of an individual department.

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.

Actual expenditures for the year ending September 30, 2015 exceeded budgeted expenditures by \$399,537.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For the purpose of the statements of cash flows in the proprietary fund types, the City considers cash, certificates of deposits with maturities of up two years, and all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less.

Accounts Receivable

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Compensated Absences

Accumulated vacation and sick pay are accrued with a maximum carryover of the 120 hours for annual leave and unlimited carryover for sick leave. Accrued sick leave is not paid upon termination except for retirement or death of an employee or employees.

Due to and Due from 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.

Inventory

Inventory in proprietary funds consist of expendable supplies held for consumption stated on a first-in/first-out basis. It is reported at cost which is recorded as expenditure at the time individual items are purchased. Inventory in proprietary funds is valued at the lower of cost (first-in, first-out) or net realizable value.

Other Assets

Other assets held are recorded and accounted for at cost.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, infrastructure, water and sewer distribution systems and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$500 or more and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend its useful life are not capitalized.

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Capital assets are stated at cost, except for contributed assets, which are recorded at fair market value on the date received by the City. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets. Estimated useful lives are generally as follows:

Water distribution system	
Original system	50 Years
Additions	10-50 Years
Sewer system	
Original system	50 Years
Additions	10-50 Years
Buildings	50 Years
Machinery and equipment	5-10 Years

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 funds are reported as liabilities in the appropriate funds.

Capitalization of Interest

Interest costs related to bond issues are capitalized during the construction period. These costs are netted against applicable interest earnings on construction fund investments in business-type activities. The City does not capitalize interest in governmental activities. During the year ended September 30, 2015, the City capitalized no interest.

Unearned Revenues

Unearned revenues reported in government-wide financial statements will be recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting. Unearned revenues reported in governmental fund financial statements represent unearned revenues or revenues which are

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

measurable but not available and, in accordance with the modified accrual basis of accounting, are reported as unearned revenues.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes include a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The City has one item related to pensions that qualifies for reporting in this category.

In addition to liabilities, the statement of net position will sometimes include a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The City has one item related to pensions that qualifies for reporting in this category.

Fund balances

The City has implemented GASB Statement 54 employing the following terminology and classifications for fund balance.

Nonspendable – This category includes the resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The balance as of September 30, 2015 of \$467 is from prepaids which are not in spendable form.

Restricted – This category includes resources restricted by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. The balance as of September 30, 2015 of \$304,887 is from impact fees collected which are to be used for public safety expenditures.

Committed – This category includes resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority which is the City Council. There are no committed funds as of September 30, 2015.

Assigned – This category includes resources that are intended to be used for specific purposes, but are neither restricted nor committed. These are resources that have been set aside for a specific purpose by an authorized government body or official. There are no assigned funds as of September 30, 2015.

Unassigned – This category is the residual classification for the City's fund balances. The balance as of September 30, 2015 is \$2,857,949.



City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets

Certain assets of the various funds are required by resolutions or ordinances to be set aside and used for specific purposes; thus, they are not available to be used for general operations. When both restricted and unrestricted resources are available for use, it is the government's policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

Net position

Net position is classified in three categories. The general meaning of each is as follows:

Net investment in capital assets - represents the difference between the costs of capital assets, less accumulated depreciation reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. At September 30, 2015, the City had \$40,784,917 in net position invested in capital assets net of related debt.

Restricted - represents that portion of net position set aside and used for specific purposes. At September 30, 2015, the City had \$2,604,699 in impact fees to be used in future projects for the upgrade and expansion of public safety, sewer and water systems. In addition, the City had \$710,087 of debt service funds representing sinking fund and reserve fund requirements on long-term debt.

Unrestricted - indicates that portion of net position that is available for future periods. At September 30, 2015 the City had \$1,482,230 in unrestricted net position.

Property Taxes

Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. All property is assessed by the county according to its fair market value on January 1 of each year. Each assessment roll is submitted to the executive director of the State Department of Revenue for review to determine if the rolls meet all of the appropriate requirements of State Statutes. Florida Statutes permit municipalities to levy property taxes at a rate of up to 10 mills for general operations. The City's millage rate for the year ended September 30, 2015, was 4.7302 mills.

The current year taxes for the fiscal year, beginning October 1, are billed in the month of November and are due no later than March 31. On April 1, all unpaid amounts become delinquent and are subject to interest and penalties. Discounts are allowed for early payment at the rate of 4% for payments prior to November 30, 3% for payments made before December 31, 2% for payments made before January 31 and 1% for payments made before March.

The City tax calendar is as follows: valuation date: January 1; levy date: November 1; due date; March 31, succeeding year; and lien date: April 1, succeeding year.

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

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

Reclassifications

Certain accounts have been reclassified in the prior period for comparative purposes.

Subsequent events

Management of the City has evaluated subsequent events through June 28, 2016, the date the financial statements were available to be issued.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net position:

The governmental funds balance sheet includes reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains, "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this difference are as follows:

Cost of capital assets	\$	24,531,915
Less: accumulated depreciation		(3,930,005)
<hr/>		
Net adjustment to increase fund balance - total governmental funds to arrive at net position of governmental activities	\$	20,601,910
<hr/>		

Another element of that reconciliation states, "long-term liabilities, are not due and payable in the current period and, therefore, are not reported in the funds." The details of this difference are as follows:

Bonds payable	\$	905,437
Net pension obligations		258,990
Compensated absences		7,316
Accrued interest		3,159
<hr/>		
Net adjustment to reduce fund balance - total governmental funds to arrive at net position of governmental activities	\$	1,174,902
<hr/>		

Another element of that reconciliation states, "deferred inflows and outflows of resources are not recognized, in the current period and, therefore, are not reported in the funds." The details of this difference are as follows

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

Deferred outflows/inflows of resources, net	\$	(87,214)
<hr/>		
Net adjustment to reduce fund balance - total governmental funds to arrive at net position of governmental activities	\$	(87,214)
<hr/> <hr/>		

Explanation of certain differences between the governmental funds statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities:

The governmental funds statement of revenues, expenditures and changes in fund balance includes reconciliation between net changes in fund balance - total governmental funds and change in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	\$	76,970
Depreciation expense		(543,688)
<hr/>		
Amount of depreciation that exceeds capital outlay		(466,718)
Net book value of assets sold		(571,796)
<hr/>		
Net adjustment to decrease net changes in fund balance – total governmental funds to arrive at change in net position of governmental activities	\$	(1,038,514)
<hr/> <hr/>		

Another element of that reconciliation states, "the issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this difference are as follows:

Principal repayments		
Bond payments	\$	13,559
<hr/>		
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at change in net position of governmental activities	\$	13,559
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Another element of that reconciliation states, "some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this difference are as follows:

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

Pension obligation	\$	23,119
Compensated absences		2,503
<hr/>		
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at change in net position of governmental activities	\$	25,622
<hr/>		

NOTE 3 – DEPOSITS

Deposits

All cash resources of the City are placed in banks that are qualified public depositories, as required by law (Florida Security for Public Deposits Act). Every qualified public depository is required by this law to deposit with the State Treasurer eligible collateral equal to, or in excess of, an amount to be determined by the Treasurer. The State Treasurer is required by this law to ensure that the City's funds are entirely collateralized throughout the fiscal year.

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.

NOTE 4 – ACCOUNTS RECEIVABLE (NET)

The City accrues general fund receivables based on receipts of intergovernmental revenues earned in year ending September 30, 2015, and received after year end. As a result, no allowance for doubtful accounts is recorded. At September 30, 2015, accounts receivable in the governmental funds is summarized as follows:

Total accounts receivable	\$	34,230
Less: allowance for doubtful accounts		-
<hr/>		
Net accounts receivable	\$	34,230
<hr/>		

The City provides an allowance for doubtful accounts for the proprietary funds based on experience and analysis of individual accounts. At September 30, 2015, accounts receivable in the proprietary funds is summarized as follows:

Accounts receivable	\$	254,548
Less: allowance for doubtful accounts		(26,549)
<hr/>		
Net accounts receivable	\$	227,999
<hr/>		

NOTE 5 – DUE TO AND FROM FUNDS AND INTERFUND TRANSFERS

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" for operating purposes.

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 5 – DUE TO AND FROM FUNDS AND INTERFUND TRANSFERS (CONTINUED)

At September 30, 2015, the general fund had a net receivable from the water and sewer funds of \$276,583. The sewer fund had a net payable to the water and general fund of \$504,704. The water fund had a net receivable of \$228,121 due from the sewer and general fund.

NOTE 6 – CAPITAL ASSETS

Changes in capital assets of the governmental activities funds are summarized as follows:

	September 30, 2014	Increases	Decreases	September 30, 2015
Capital assets, not being depreciated				
Land	\$ 12,367,264	\$ -	\$ -	\$ 12,367,264
Construction in progress	6,875	35,102	-	41,977
Total capital assets, not being depreciated	12,374,139	35,102	-	12,409,241
Capital assets, being depreciated				
Buildings	2,912,237	-	-	2,912,237
Building improvements	101,314	-	-	101,314
Improvements, other than buildings	7,083,372	-	-	7,083,372
Equipment	1,635,102	41,865	(1,180,472)	496,495
Infrastructure	1,529,256	-	-	1,529,256
Total capital assets, being depreciated	13,261,281	41,865	(1,180,472)	12,122,674
Less accumulated depreciation				
Buildings	(535,733)	(58,245)	-	(593,978)
Building improvements	(49,110)	(7,159)	-	(56,269)
Improvements, other than buildings	(2,176,480)	(356,010)	-	(2,532,490)
Equipment	(832,613)	(76,710)	608,676	(300,647)
Infrastructure	(401,054)	(45,567)	-	(446,621)
Total accumulated depreciation	(3,994,990)	(543,691)	608,676	(3,930,005)
Capital assets, being depreciated (net of accumulated depreciation)	9,266,291	(501,826)	(571,796)	8,192,669
Total governmental activities' capital assets (net of accumulated depreciation)	\$ 21,640,430	\$ (466,724)	\$ (571,796)	\$ 20,601,910

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

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	Water	Sewer	Total
Land	\$ 350,247	\$ 41,978	\$ 392,225
Construction in progress	2,638,621	3,832,450	6,471,071
Buildings	558,268	189,123	747,391
Improvements other than buildings	14,196,477	14,448,181	28,644,658
Equipment	853,015	844,484	1,697,499
Total	18,596,628	19,356,216	37,952,844
Less accumulated depreciation			
Buildings	(55,035)	(76,564)	(131,599)
Improvements other than buildings	(3,408,733)	(3,970,349)	(7,379,082)
Equipment	(718,264)	(504,107)	(1,222,371)
Total accumulated depreciation	(4,182,032)	(4,551,020)	(8,733,052)
Total business-type activities' capital assets (net of accumulated depreciation)	\$ 14,414,596	\$ 14,805,196	\$ 29,219,792

Changes in capital assets of the business-type activities funds are summarized as follows:

	September 30, 2014	Increases	Decreases	September 30, 2015
Capital assets, not being depreciated				
Land	\$ 392,225	\$ -	\$ -	\$ 392,225
Construction in progress	6,746,407	835,379	(1,110,715)	6,471,071
Total capital assets, not being depreciated	7,138,632	835,379	(1,110,715)	6,863,296
Capital assets, being depreciated				
Buildings	747,391	-	-	747,391
Improvements other than buildings	28,628,313	16,345	-	28,644,658
Equipment	1,632,070	65,429	-	1,697,499
Total capital assets, being depreciated	31,007,774	81,774	-	31,089,548
Less accumulated depreciation				
Buildings	(115,328)	(16,271)	-	(131,599)
Improvements	(6,775,796)	(603,286)	-	(7,379,082)
Equipment	(1,116,724)	(105,647)	-	(1,222,371)
Total accumulated depreciation	(8,007,848)	(725,204)	-	(8,733,052)

(Continued)

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	September 30, 2014	Increases	Decreases	September 30, 2015
Capital assets, being depreciated (net of accumulated depreciation)	\$ 22,999,926	\$ (643,430)	\$ -	\$ 22,356,496
Total business-type activities' capital assets (net of accumulated depreciation)	\$ 30,138,558	\$ 191,949	\$ (1,110,715)	\$ 29,219,792

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

Governmental activities			
General		\$	86,807
Public safety			29,193
Culture and recreation			381,617
Street			46,074
Total depreciation expense – governmental activities		\$	543,691
Business-type activities			
Water		\$	349,167
Sewer			376,037
Total depreciation expense – business-type activities		\$	725,204

NOTE 7 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

	Balance September 30, 2014	Additions	Deductions	Balance September 30, 2015	Due Within One Year
Revenue bonds payable	\$ 918,996	\$ -	\$ (13,559)	\$ 905,437	\$ 14,118
Net pension obligation	-	258,990	-	258,990	-
Accrued compensated absences	9,819	-	(2,503)	7,316	-
Total	\$ 928,815	\$ 258,990	\$ (16,062)	\$ 1,171,743	\$ 14,118

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 7 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES (CONTINUED)

On October 1, 2007, the City issued \$1,000,000 capital improvement revenue bonds, series 2007 due in annual installments of principal and interest of \$51,467 and maturing on September 1, 2047 at 4.125% per annum. The bonds were issued for the construction of a new administration building. For the year ended September 30, 2015, annual principal and interest payments were 42% of the pledged revenues from the franchise fees and the local communication services tax. The total principal and interest remaining to be paid on the bonds is \$1,646,948. Principal and interest paid for the current year and pledged revenue was \$51,467 and \$122,506, respectively. \$ 905,437

Total revenue bonds payable at September 30, 2015	905,437
Less: revenue bonds-current portion	(14,118)
Revenue bonds - long-term at September 30, 2015	\$ 891,319

Debt service requirements to maturity on revenue bonds payable at September 30, 2015 are as follows:

Year ending September 30,	Principal	Interest	Total
2016	\$ 14,118	\$ 37,349	\$ 51,467
2017	14,700	36,767	51,467
2018	15,307	36,161	51,468
2019	15,938	35,529	51,467
2020	16,595	34,872	51,467
2021-2025	93,829	163,507	257,336
2026-2030	114,843	142,491	257,334
2031-2035	140,568	116,769	257,337
2036-2040	172,051	85,284	257,335
2041-2045	210,588	46,748	257,336
2046-2047	96,900	6,034	102,934
Total	\$ 905,437	\$ 741,511	\$ 1,646,948

NOTE 8 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES

	Balance September 30, 2014	Additions	Deductions	Balance September 30, 2015	Due Within One Year
Revenue bonds payable	\$ 6,591,400	\$ -	\$ (1,437,800)	\$ 5,153,600	\$ 128,000
Net pension obligation	-	460,425	-	460,425	-
Notes payable	4,414,710	1,400,000	(2,836,962)	2,977,748	185,226
Total	\$ 11,006,110	\$ 1,860,425	\$ (4,274,762)	\$ 8,591,773	\$ 313,226

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 8 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)

September 30,

2015

On January 9, 1997, the City issued a \$1,014,000 Water System Junior Lien Revenue Bonds, Series 1997 due in annual installments of principal and interest of \$55,505 to \$61,655 through October 1, 2036; interest of 4.5% per annum. The bonds were issued for improvement of the water system. Annual principal and interest payments are 8.42% of the pledged net revenues from the Water and Sewer System. The total principal and interest remaining to be paid on the bonds is \$1,174,015. Principal and interest paid for the current year and pledged revenues were \$55,505 and \$660,121 respectively.

\$ 748,000

On May 19, 2003, the City issued a \$1,606,600 Water System Revenue Bonds, Series 2003 due in annual installments of principal and interest of \$59,197 to \$89,452 through October 1, 2042; interest of 4.5% per annum. The bonds were issued for improvement of the water system. Annual principal and interest payments are 13.49% of the pledged net revenues from the Water and Sewer System. The total principal and interest remaining to be paid on the bonds is \$2,404,489. Principal and interest paid in the current year and pledged revenues were \$89,072 and \$660,121 respectively.

1,375,600

On July 23, 2004, the City issued a \$1,977,000 Water System Revenue Bonds, Series 2004 due in annual installments of principal and interest of \$109,280 to \$110,770 through October 1, 2043; interest of 4.5% per annum. The bonds were issued for improvement of the North Bay water system. Annual principal and interest payments are 16.66% of the pledged net revenues from the Water and Sewer System. The total principal and interest remaining to be paid on the bonds is \$3,067,115. Principal and interest paid in the current year and pledged revenues were \$109,975 and \$660,121, respectively.

1,724,000

On June 21, 2012, the City issued a \$1,200,000 Capital Improvement Revenue Refunding Bonds, Series 2012 due in annual installments of principal and interest of \$70,928 to \$70,898 through October 1, 2035; interest of 2.75% per annum. The bonds were issued for improvement of the North Bay water system. Annual principal and interest payments are 10.73% of the pledged net revenues from the Water and Sewer System. The total principal and interest remaining to be paid on the bonds is \$1,421,213. Principal and interest paid in the current year and pledged revenues were \$70,855 and \$660,121 respectively.

1,082,000

On March 29, 2000, the City issued a \$280,000 Sewer System Revenue Bonds, Series 2000 due in annual installments of principal and interest of \$15,530 to \$8,360 through October 1, 2031; interest of 4.5% per annum. The bonds were issued for improvement of the waste water treatment plant. Annual principal and interest payments are 2.32% of the pledged net revenues from the Sewer and Water System. The total principal and interest remaining to be paid on the bonds is \$367,010. Principal and interest paid during the current year and pledged revenues were \$15,305 and \$660,121 respectively.

224,000

(Continued)

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 8 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)

\$2,380,106 note payable to State of Florida, Department of Transportation dated January 11, 2012 for reimbursement to FDOT for construction costs associated with utility relocation for the expansion of RT 331. Noninterest bearing with annual payments of \$39,668 through October 15, 2042. Total principal remaining to be paid on the note is \$1,071,047. Principal paid during the year was \$119,005 in addition \$1,110,716 of debt was forgiven. \$ 1,071,047

Note payable to Co-Bank dated June 26, 2015 for \$1,400,000 of which \$872,652 was allocated to the water fund for the purpose of refunding two outstanding bond issues. Interest of 4.85% with monthly payments of \$5,688 of principal and interest maturing July 31, 2035. Principal only payment of \$4,171 was paid during the year. 868,481

Note payable to Co-Bank dated June 26, 2015 for \$1,400,000 of which \$527,348 was allocated to the sewer fund for the purpose of refunding three outstanding bond issues. Interest of 4.85% with monthly payments of \$3,437 of principal and interest maturing July 31, 2035. Principal only payment of \$2,557 was paid during the year. 524,791

\$2,200,000 note payable to Walton County dated May 4, 2006 for construction of Bay Area sewer extension. During the year the loan was converted to a non-interest bearing note with annual principal payments of \$102,686 maturing December 2019. Principal paid during the year was \$1,000,000 and \$660,512 of debt was forgiven. 513,429

Total	8,131,348
Less current maturities	(313,226)
Total long-term notes payable	\$ 7,818,122

Debt Service requirements to maturity on the long-term debt activity at September 30, 2015 are as follows:

Year ending September 30,	Principal	Interest	Total
2016	\$ 313,226	\$ 279,606	\$ 592,832
2017	319,353	272,437	591,790
2018	328,585	265,001	593,586
2019	334,927	257,173	592,100
2020	343,386	249,067	592,453
2021-2025	1,339,862	1,110,259	2,450,121
2026-2030	1,604,422	846,067	2,450,489
2031-2035	1,913,299	518,369	2,431,668
2036-2040	1,085,340	221,700	1,307,040
2041-2043	548,948	39,024	587,972
Total	\$ 8,131,348	\$ 4,058,703	\$ 12,190,051

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 9 – NET POSITION RESTRICTIONS

The government-wide statement of net position reports \$3,314,786 of restricted net position. The following is a description of reported net position restrictions in governmental activities and business-type activities at September 30, 2015.

Governmental Activities

Revenue bond retirement - This restriction was established in conjunction with the issuance of debt and funded by initial deposits from the proceeds of such debt and by transfers from the revenue accounts.

Impact fees - This restriction was established to restrict the use of impact fees collected in excess of qualified expenditures. An ordinance restricts the use of impact fees to certain capital expenditures, emergency repairs or other improvements.

Business-type Activities

Revenue bond retirement - This restriction was established in conjunction with the issuance of debt and funded by initial deposits from the proceeds of such debt and by transfers from the revenue accounts.

Impact fees - This restriction was established to record water, sewer and storm water impact fees collected in excess of qualified expenditures. An ordinance restricts the use of impact fees to certain capital expenditures, emergency repairs or other improvements to the water and sewer systems.

Summary

Specific restrictions of net assets are summarized below as of September 30, 2015:

Governmental activities	
Impact fees	\$ 304,887
Revenue bond retirement	48,970
Total	\$ 353,857
Business-type activities	
Impact fees	\$ 2,299,812
Revenue bond retirement	661,117
Total	\$ 2,960,929

NOTE 10 – RETIREMENT PLANS

Defined Benefit Pension Plan

The City participates in the Florida Retirement System (FRS), which is a multiple-employer: cost sharing retirement system established by Chapter 121, Florida Statutes. The Florida Retirement System is administered by the Division of Retirement of the State of Florida Department of Administration. The Florida Retirement System issues a publicly available financial report that includes financial statements

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 10 – RETIREMENT PLANS (CONTINUED)

and required supplementary information. That report may be obtained by writing to the State of Florida Division of Retirement, 2639-C North Monroe Street, Tallahassee, Florida 32399-1560.

FRS provides vesting of benefits after 6 years of creditable service. Members are eligible for normal retirement after attaining age 62 or 30 years of service. Generally, membership is compulsory for all full-time and part-time employees, except for elected City officials who may elect to not participate in the System. The City's payroll for employees covered by the system for the years ended September 30, 2015, 2014 and 2013 was \$862,866, \$1,082,584, and \$1,082,542, respectively. The contributory rate for employees is 3%. The City's contributory rates for the year ended September 30, 2015 were as follows:

	October 1, 2014 through June 30, 2015	July 1, 2015 through September 30, 2015
Regular employees	7.37%	7.26%
Special risk employees	19.82%	22.04%
Elected officers	33.17%	35.71%

These employer contribution rates include 1.20% and 1.26% HIS Plan subsidy for the periods October 1, 2014 through June 30, 2015 and from July 1, 2015 through September 30, 2015 respectively. The City's contributions to the plan for the years ended September 30, 2015, 2014 and 2013 were \$71,193, \$106,547 and \$83,766 respectively, which equal the required contributions. For the year ended September 30, 2015 retirement contributions represent 8.25% of the City's total covered payroll.

Defined Contribution Plan

Pursuant to Chapter 121, Florida Statutes, the Florida Legislature created the Florida Retirement Investment Plan (FRS Investment Plan), a cost-sharing multiple-employer defined contribution pension plan qualified under Section 401(a) of the Internal Revenue Code. This FRS Investment Plan is an alternative available to members of the Florida Retirement System in lieu of the defined benefit plan. Changes to the law can only occur through an act of the Florida Legislature. The FRS Investment Plan is administered by the Florida State Board of Administration. Information about this plan can be obtained by writing to FRS Plan Administrator, P.O. Box 56290, Jacksonville, Florida 32241-6290 or by calling 866-377-2121.

FRS Investment Plan is funded through employee and employer contributions. The contributory rate for employees is 3%. The City's contributory rates for the year ended September 30, 2015 were as follows:

	October 1, 2014 through June 30, 2015	July 1, 2015 through September 30, 2015
Regular employees	7.37%	7.26%
Special risk employees	19.82%	22.04%
Elected officers	33.17%	35.71%

These employer contribution rates include 1.20% and 1.26% HIS Plan subsidy for the periods October 1, 2014 through June 30, 2015 and from July 1, 2015 through September 30, 2015 respectively. For the year ended September 30, 2015, there were no employees participating in the FRS Investment plan.

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 10 – RETIREMENT PLANS (CONTINUED)

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

At September 30, 2015, the City reported a liability of \$140,425 for governmental activities and \$249,642 for business type activities, for its proportionate share of the Pension Plan’s 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 to July 1, 2015. The City’s share of the net pension liability was based on the City’s 2014-2015 fiscal year contributions relative to the 2013-2014 fiscal year contributions of all participating members. At June 30, 2015, the City’s proportionate share was .003019949 percent which was a decrease of .001004605 percent from its proportionate share measured as of June 30, 2014.

For the year ended September 30, 2015, the City recognized pension income of \$46,959 for governmental activities and \$83,482. 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
Difference between expected and actual experience	\$ 41,180	\$ -
Changes in assumptions	25,890	-
Net difference between projected and actual investment earnings on pension plan investments	137,392	-
Difference between expected and actual experience	-	(9,251)
Net difference between projected and actual investment earnings on pension plan investments	-	(230,534)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(211,134)
Deferred outflows for contributions subsequent to the measurement date	8,480	-
Total	\$ 212,942	\$ (450,919)

The deferred outflows of resources related to the pension plan, totaling \$8,480 resulting from City contributions to the plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension plan will be recognized in pension expense (income) as follows:

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 10 – RETIREMENT PLANS (CONTINUED)

Year ending September 30:	Amount
2016	\$ (52,213)
2017	(52,213)
2018	(52,213)
2019	(52,213)
2020	(28,929)
Thereafter	(8,676)
Total	\$ (246,457)

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuations 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 7.65%, net of pension plan investment expense including inflations
Investment rate of return	expense including inflations

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

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 on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.00%	3.20%	3.10%	1.70%
Fixed income	18.00%	4.80%	4.70%	4.70%

(Continued)

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 10 – RETIREMENT PLANS (CONTINUED)

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
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	12.00%	6.70%	6.10%	11.40%
Total	<u>100.00%</u>			
Assumed Inflation - Mean		2.60%		1.90%

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

Discount Rate

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

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

The following represents the City's proportionate share of the net pension liability calculated using the discount rate of 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 one percentage point lower (6.65%) of one percentage point higher (8.65%) than the current rate:

	<u>1% Decrease (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>1% Increase (8.65%)</u>
City's proportionate share of the net pension liability	\$ 1,010,751	\$ 390,067	\$ (126,445)

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

Health Insurance Subsidy (HIS) Plan

The HIS Plan is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement. Under the plan, eligible retirees are entitled to a benefit of \$5 per month per year of service, with a minimum benefit of \$30 per month and a maximum benefit of \$150 per month. The retiree must apply and provide certification of health insurance coverage to be eligible for the subsidy.

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 10 – RETIREMENT PLANS (CONTINUED)

The HIS Plan is funded by required employer contributions. Contributory rates for the years ended September 30, 2015 and 2014 were 1.20% and 1.26% of covered payroll respectively. The County contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be

reduced or cancelled. The City's contributions to the HIS Plan totaled \$10,872 and \$12,991 for the fiscal years ended September 30, 2015 and 2014 respectively.

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 liability of \$118,565 for governmental activities and \$210,783 for business type activities, for its proportionate share of the HIS Plan's 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 to July 1, 2015. The City's share of the net pension liability was based on the City's 2014-2015 fiscal year contributions relative to the 2013-2014 fiscal year contributions of all participating members. At June 30, 2015, the City's proportionate share was .003229403 percent which was a decrease of .000443416 percent from its proportionate share measured as of June 30, 2014.

For the year ended September 30, 2015, the City recognized pension income of \$46,959 for governmental activities and \$83,482. 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
Changes in assumptions	\$ 25,911	\$ -
Net difference between projected and actual investment earnings on pension plan investments	178	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,125	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(34,415)
Deferred outflows for contributions subsequent to the measurement date	2,915	-
Total	\$ 30,129	\$ (34,415)

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 10 – RETIREMENT PLANS (CONTINUED)

The deferred outflows of resources related to the HIS Plan, totaling \$2,915 resulting from City contributions to the HIS Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan will be recognized in pension expense as follows:

HIS Year ending September 30:	Amount
2016	\$ (1,146)
2017	(1,146)
2018	(1,146)
2019	(1,148)
2020	(1,191)
Thereafter	(1,423)
Total	\$ (7,200)

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	4.29 %

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

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.

Discount Rate

The discount rate used to measure the total pension liability was 4.29%. 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 County's Proportionate Share of the Net Position Liability to Changes in the Discount Rate

The following represents the County's proportionate share of the net pension liability calculated using the discount rate of 4.29%, as well as what the County's proportionate share of the net pension liability

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 10 – RETIREMENT PLANS (CONTINUED)

would be if it were calculated using a discount rate that is one percentage point lower (3.29%) or one percentage point higher (5.29%) than the current rate:

	1% Decrease (3.29%)	Current Discount Rate (4.29%)	1% Increase (5.29%)
City's proportionate share of the net pension liability	\$ 375,277	\$ 329,348	\$ 291,051

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

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The City has established the Retirees' Health Insurance Other Postemployment Benefits Plan, a single employer plan. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the City and eligible dependents, may continue to participate in the group insurance plan. Retirees and their eligible dependents shall be offered the same health and hospitalization insurance coverage as is offered to active employees at a premium cost of no more than the premium cost applicable to active employees. The City subsidizes the premium rates paid by the retirees by allowing them to participate in the plan at blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. The City currently has 35 total active and no retired employees eligible to receive these benefits. No stand-alone report is issued for the plan.

Eligibility

A participant is eligible to receive benefits from the plan upon retirement under the plan provisions. To be eligible for retiree benefits, the participant must be covered under the medical plan as an active participant immediately prior to retirement. Participants not eligible for retirement at the time of their termination are not eligible for immediate or future benefits from the plan.

Funding Policy

Although the contribution requirement is established by Statute, the contribution amount required by plan members and the government are established and may be amended by the Council Members. Currently, members receiving benefits pay the full cost (total premium) for medical coverage. The contribution rates effective for eligible City plan members during the year are shown below:

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

<u>Coverage</u>	<u>Monthly Cost</u>
Retiree	\$ 831
Retiree and Spouse	1,978
Retiree and Children	1,562
Retiree and Family	2,639

The City has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. Rather, the funding is based on a pay-as-you-go basis. During the fiscal year, the City provided contributions of \$0 toward the annual OPEB cost.

Annual OPEB Cost and Net OPEB Obligation

The following table shows the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation:

<u>Description</u>	
Normal cost (service cost for one year)	\$0
Amortization of unfunded actuarial accrued liability	0
Amortization of net OPEB obligation	0
Annual required contribution	0
Interest on net OPEB obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost (expense)	0
Contribution toward the OPEB cost	0
Increase in net OPEB obligation	0
Net OPEB obligation, beginning of year	0
Net OPEB obligation, end of year	\$0

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of September 30, 2015, 2014 and 2013 was as follows:

<u>Year ended September 30</u>	<u>Annual OPEB Cost</u>	<u>Percent of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$ -	100.00%	-
2014	-	100.00%	-
2015	-	100.00%	-

Funding Status and Funding Progress

The funding status and funding progress information can be found in the schedule of funding progress which is presented as required supplementary information immediately following the notes.

This schedule 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 of benefits.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions

The City had an actuarial valuation completed for the fiscal year ended September 30, 2014. 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 and termination, mortality, and the healthcare cost trends. 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. Projections of benefits for financial reporting purposes are based on the substantive plan provisions determined as understood by the employer and participating members, in effect at the valuation date and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarially accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The initial OPEB valuation method used for the City was the alternative measurement method. This method is used to estimate the actuarial liabilities and costs. This method was selected because it produced the best estimate of the OPEB liability and annual cost for the City employees. The actuarial assumptions include a 4% discount rate including inflation of 3% per annum. The actuarial assumptions also include an annual healthcare cost trend rate. For the City, this rate begins with an initial rate for the 2014-15 fiscal year of 4%. The assumed retirement age was 65 and 100% of employees will be eligible for Medicare.

NOTE 12 – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of the above risks of loss. Management believes that the coverage is adequate to preclude any significant uninsured risk exposure to the City. Settled claims in the past three years have not exceeded the coverage.

NOTE 13 – IMPLEMENTATION OF GASB STATEMENT NO. 68.

During the fiscal year ended September 30, 2015, the City implemented the provisions of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an Amendment of GASB Statement No. 68, resulted in a change in accounting principle which records the City's proportion of net pension obligation in the Florida Retirement Plan. As a result a restatement adjustment was made to the beginning net position on the statement of activities of (\$369,328) for governmental activities and (\$656,583) for business-type activities for the year ended September 30, 2015.

NOTE 14 – FORGIVENESS OF DEBT

During the fiscal year ended September 30, 2015, two note payables from the previous years were renegotiated. Note payable to Florida Department of Transportation for costs associated with the movement of utility lines for the Rt331 expansion was reduced by \$1,110,715 resulting in a reduction of the loan balance along with a reduction in the balance of construction in progress for \$1,110,715 included in the water fund. Note payable to Walton County for the construction of Bay Area sewer extension was reduced by \$660,512 and accrued interest of \$236,518 from the prior year was forgiven resulting in a \$837,029 gain recorded to miscellaneous income in the sewer fund.

NOTE 15 – TRANSFER OF FIRE DEPARTMENT

In January 2015, the fire department was transferred to Walton County. Equipment with a cost of \$755,472 and a net book value of \$249,506 was included in the transfer resulting in a loss on disposal of assets of \$249,506 recorded on the governmental activities fund. In addition, the City was required to pay \$301,095 to Walton County to cover estimated operating expenses for the remainder of the year ended September 30, 2015.

In addition, a fire truck that was not transferred to Walton County was sold for \$250,000 in February 2015 with a cost of \$425,000 and a net book value \$322,292 resulting in a loss on sale of assets of \$72,292 recorded in the governmental activities fund.

Required Supplementary Information

City of Freeport, Florida
Required Supplementary Information
September 30, 2015

Schedule of Proportionate Share of Net Pension Liability- Florida Retirement system Last Two Years:

	2015	2014
City's proportion of the net pension liability	0.0030199%	0.0040246%
City's proportionate share of the new pension liability	\$ 390,067	\$ 245,557
City's covered-employee payroll	\$ 862,866	\$ 1,082,584
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	45.21%	22.68%
Plan fiduciary net position as a percentage of the total pension liability	92.00%	96.09%

These amounts presented for each fiscal year were determined as of 6/30

Schedule of Proportionate Share of Net Pension Liability- Health Insurance Subsidy Last Two Years:

	2015	2014
City's proportion of the net pension liability	0.0032294%	0.0036728%
City's proportionate share of the new pension liability	\$ 329,348	\$ 343,418
City's covered-employee payroll	\$ 862,866	\$ 1,082,584
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	38.17%	31.72%
Plan fiduciary net position as a percentage of the total pension liability	50.00%	99.00%

These amounts presented for each fiscal year were determined as of 6/30

Schedule of Contributions- Florida Retirement System Last 2 Years

	2015	2014
Contractually required contribution	\$ 71,193	\$ 106,547
Contributions in relation to the contractually required contribution	(71,193)	(106,547)
Contribution deficiency (excess)	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	8.25%	9.84%

City of Freeport, Florida
Required Supplementary Information
September 30, 2015

Schedule of Contributions- Health Insurance Subsidy Last 2 Years

	2015	2014
Contractually required contribution	\$ 10,872	\$ 12,991
Contributions in relation to the contractually required contribution	(10,872)	(12,991)
Contribution deficiency (excess)	\$ -	\$ -
Contributions as a percentage of covered employee payroll	1.26%	1.20%

Schedule of Funding Progress for the Retirees' Health Insurance Other Postemployment Benefits Plan:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Liabilities (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
October 1, 2014	\$ -	\$ -	\$ -	-	\$ -	-

Schedule of Employer Contributions for the Retirees' Health Insurance Other Postemployment Benefits Plan:

Year ended September 30	Actual Contribution	Annual Required Contribution	Percentage Contributed
2013	\$ -	100.00%	-
2014	-	100.00%	-
2015	-	100.00%	-

Compliance Section

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

Honorable Mayor and Members
of the City Council
City of Freeport, 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, business-type activities, each major fund, and the aggregate remaining fund information of the City of Freeport, Florida, as of and for the year ended September 30, 2015 and the related notes to the financial statements, which collectively comprise the City of Freeport, Florida's basic financial statements, and have issued our report thereon dated June 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Freeport, Florida'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 of Freeport, Florida's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Freeport, Florida'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, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 as described below to be material weaknesses.

15-01 (prior year 14-01, 13-01) Some of the audit adjustments we proposed were to record capital expenditures and current year depreciation expense not recorded on the City's general ledger in accordance with their capitalization policy and U.S. generally accepted accounting principles.

Management's response – At the current time, the City does not have the software capability to monitor fixed assets to calculate and book the journal entries for depreciation.

15-02 Some of the audit adjustments were to record revenue; debt restructuring and debt payments not recorded on the general ledger in accordance with U.S. generally accepted accounting principles due to the departure of the accounting clerk during the year ending September 30, 2015.

Management's response – The city hired an accountant in November 2015. Due to time constraints, the new accountant was not able to post the required entries before the audit engagement began. All adjusting journal entries will be made to the general ledger for the fiscal year ending September 30, 2015. For the year ending September 30, 2016, all required journal entries are currently being recorded on the general ledger and we do not expect to have this same finding again next year.

15-03 During the year ending September 30, 2015, a deposit bag of money and checks from daily collections for drop off at the overnight deposit drawer of the bank went missing but was subsequently found. This resulted from a breach in the internal controls regarding the procedures for daily deposits of money and checks.

Management's response – This was an isolated occurrence and employees are currently following the internal controls relating to the daily deposit of money and checks collected at the billing department. We do not expect to have this same finding again next year.

The City's responses to the findings identified in our audit are included above. We did not audit the City's responses and, accordingly, we express no opinion on them.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Freeport, Florida'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*.

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.

Caru, Riggs & Ingram, L.L.C.

Certified Public Accountants
Niceville, Florida
June 28, 2016

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Honorable Mayor and Members
of the City Council
City of Freeport, Florida

Report on Financial Statements

We have audited the financial statements of the City of Freeport, Florida as of and for the fiscal year ended September 30, 2015, and have issued our report thereon dated June 28, 2016.

Auditor's Responsibility

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

Other Reports and Schedule

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in these reports, which are dated June 28, 2016, 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 findings and recommendations made in the preceding annual financial audit report, except as follows: Finding 15-01 contains a finding also noted in the two preceding annual financial audit reports for the fiscal years ended September 30, 2014 and 2013 (Finding 14-01 and 13-01).

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. See note 1 to the financial statements for disclosure.

Financial Condition

Section 10.554(1)(i)5.a., Rules of the Auditor General, requires we report the results of our determination as to whether or not the local governmental entity 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 of Freeport, Florida did not meet any of the conditions described in the 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 of the fiscal year end. It is management's responsibility to monitor the City of Freeport, Florida'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.

Annual Financial Report

Section 10.554(1)(i)5.b., Rules of the Auditor General, requires that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the City of Freeport, Florida 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 that 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, we did not have any such recommendations.

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 did not have any such findings.

Purpose of this Letter

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

Carly Riggs & Ingram, L.L.C.

Certified Public Accountants
Niceville, Florida
June 28, 2016

INDEPENDENT ACCOUNTANT'S REPORT

Honorable Mayor and Members
of the City Council
City of Freeport, Florida

We have examined the City of Freeport, Florida's (City) compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, 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 other procedures as we considered necessary in the circumstances. We believe that our examination provides 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 management and the State of Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, L.L.C.

Certified Public Accountants
Niceville, Florida
June 28, 2016

Other Information

City of Freeport, Florida
Balance Sheets - General Fund

September 30,	2015	2014
Assets		
Cash and cash equivalents	\$ 2,832,305	\$ 2,320,766
Accounts receivable (net)	34,230	69,653
Investments	-	110,927
Due to other funds	276,583	-
Due from other governments	99,415	117,180
Prepays	467	15,739
Restricted assets		
Cash and cash equivalents		
Sinking, reserve, and escrow funds	52,129	40,484
Impact fees	304,887	300,587
Total assets	\$ 3,600,016	\$ 2,975,336
Liabilities and fund balances		
Liabilities		
Accounts payable	\$ 419,933	\$ 386,489
Due to other funds	-	34,209
Accrued expenditures	16,780	14,271
Total liabilities	436,713	434,969
Fund balances		
Nonspendable		
Prepays	467	15,739
Restricted		
Impact fees	304,887	300,587
Unassigned		
General fund	2,857,949	2,224,041
Total fund balances	3,163,303	2,540,367
Total liabilities and fund balances	\$ 3,600,016	\$ 2,975,336

See independent auditor's report

City of Freeport, Florida
Statements of Revenues, Expenditures and Changes
in Fund Balances - General Fund

Years ended September 30,	2015	2014
Revenues		
Taxes	\$ 1,338,472	\$ 1,261,161
Intergovernmental	1,124,487	1,028,758
Charges for services	93,310	17,600
Impact fees	4,200	27,133
Fines and forfeitures	448	867
Grants	-	3,000
Interest earnings	1,467	1,802
Rents	33,975	28,297
Sale of assets	255,000	-
Miscellaneous	60,019	8,436
Total revenues	2,911,378	2,377,054
Expenditures		
Current		
General government	604,443	487,656
Public safety	510,678	511,898
Street	44,932	69,104
Culture and recreation	302,291	281,277
Physical environment	697,660	640,847
Capital outlay	76,970	15,460
Debt service		
Principal	13,559	13,021
Interest and fiscal charges	37,909	38,445
Total expenditures	2,288,442	2,057,708
Net changes in fund balances	622,936	319,346
Fund balances - beginning	2,540,367	2,221,021
Fund balances - ending	\$ 3,163,303	\$ 2,540,367

See independent auditor's report

City of Freeport, Florida
Statements of Net Position - Water Proprietary Fund

September 30,	2015	2014
Assets		
Current assets		
Cash and cash equivalents	\$ 2,326,319	\$ 2,606,022
Accounts receivable (net)	122,345	75,992
Inventory	31,774	32,197
Due from other funds	228,121	381,400
Restricted assets - cash		
Meter deposits and impact fees	942,656	877,731
Sinking and reserve funds	582,650	488,149
Other	-	201,493
Total current assets	4,233,865	4,662,984
Noncurrent assets		
Capital assets		
Land	350,247	350,247
Buildings	558,268	558,268
Construction work in progress	2,638,621	3,242,820
Improvements other than buildings	14,196,477	14,180,132
Equipment	853,015	803,828
Total capital assets	18,596,628	19,135,295
Less accumulated depreciation	(4,182,032)	(3,832,865)
Net capital assets	14,414,596	15,302,430
Total assets	18,648,461	19,965,414
Deferred outflows of resources	89,936	31,677

(Continued)

See independent auditor's report

City of Freeport, Florida
Statements of Net Position - Water Proprietary Fund (Continued)

September 30,	2015	2014
Liabilities		
Current liabilities		
Accounts payable	\$ 89,551	\$ 30,435
Accrued expenses	14,664	3,481
Unearned revenue	16,943	18,978
Total current liabilities	121,158	52,894
Noncurrent liabilities		
Customer deposits	467,849	436,210
Unearned revenues - connection fees	1,678,404	1,686,904
Due within one year		
Current portion of long-term debt	188,392	223,937
Accrued interest	20,986	20,986
Compensated absences	9,899	12,496
Due in more than one year		
Notes payable	1,873,135	2,221,432
Revenue bonds payable	4,807,600	5,724,700
Net pension obligation	266,184	217,921
Total noncurrent liabilities	9,046,265	10,326,665
Total liabilities	9,167,423	10,379,559
Deferred inflows of resources	179,574	193,343
Net Position		
Net investment in capital assets	7,545,469	7,132,361
Restricted		
Impact fees	475,781	441,521
Sinking fund	561,664	467,163
Unrestricted	542,302	1,165,223
Total net position	\$ 9,125,216	\$ 9,206,268

See independent auditor's report

City of Freeport, Florida
Statements of Net Position - Sewer Proprietary Fund

September 30,	2015	2014
Assets		
Current assets		
Cash and cash equivalents	\$ 2,009,795	\$ 2,993,767
Accounts receivable (net)	105,654	57,297
Inventory	34,112	34,112
Restricted assets - cash		
Meter deposits and impact fees	1,824,031	1,914,931
Sinking and reserve funds	99,453	111,024
Total current assets	4,073,045	5,111,131
Noncurrent assets		
Capital assets		
Land	41,978	41,978
Buildings	189,123	189,123
Construction work in progress	3,832,450	3,503,587
Improvements other than buildings	14,448,181	14,448,181
Equipment	844,484	828,242
Total capital assets	19,356,216	19,011,111
Less accumulated depreciation	(4,551,020)	(4,174,983)
Net capital assets	14,805,196	14,836,128
Total assets	18,878,241	19,947,259
Deferred outflows of resources	65,629	23,116

(Continued)

City of Freeport, Florida
Statements of Net Position - Sewer Proprietary Fund (Continued)

September 30,	2015	2014
Liabilities		
Current liabilities		
Accounts payable	\$ 13,359	\$ 13,143
Accrued expenses	23,632	244,133
Total current liabilities	36,991	257,276
Noncurrent liabilities		
Unearned revenues - connection fees	2,849,681	2,858,181
Due within one year		
Current portion of long-term debt	124,834	25,300
Accrued interest	3,311	3,311
Compensated absences	8,061	7,184
Due in more than one year		
Due to other funds	504,704	347,190
Note payable	919,387	2,113,941
Revenue bonds payable	218,000	696,800
Net pension obligation	194,241	159,023
Total noncurrent liabilities	4,627,978	6,051,907
Total liabilities	4,664,969	6,309,183
Deferred inflows of resources	131,040	141,089
Net Position		
Net investment in capital assets	13,542,975	12,000,087
Restricted		
Impact fees	1,824,031	1,914,931
Sinking funds	99,453	111,024
Unrestricted	(1,512,839)	(664,962)
Total net position	\$ 13,953,620	\$ 13,361,080

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City of Freeport, Florida
Statements of Revenues, Expenses and Changes in
Net Position - Water Proprietary Fund

Years ended September 30,	2015	2014
Operating revenues		
Charges for services	\$ 1,344,219	\$ 1,286,471
Impact fees	34,260	18,950
Total operating revenues	1,378,479	1,305,421
Operating expenses		
Personnel services	426,862	473,835
Contractual services	19,463	66,820
Materials and supplies	89,920	74,634
Repairs and maintenance	58,219	77,171
Utilities	97,882	104,336
Other	188,046	156,207
Depreciation	349,167	343,542
Total operating expenses	1,229,559	1,296,545
Operating income	148,920	8,876
Nonoperating revenues (expenses)		
Miscellaneous	12,718	12,648
Interest income	1,391	2,549
Interest expense	(244,081)	(255,313)
Gain on sale of assets	-	500
Total nonoperating revenues (expenses)	(229,972)	(239,616)
Changes in net position	(81,052)	(230,740)
Net position - beginning (as originally stated)	9,206,268	9,816,595
Prior period adjustment	-	(379,587)
Net position - beginning (restated)	9,206,268	9,437,008
Net position - ending	\$ 9,125,216	\$ 9,206,268

See independent auditor's report

City of Freeport, Florida
Statements of Revenues, Expenses and Changes in
Net Position - Sewer Proprietary Fund

Years ended September 30,	2015	2014
Operating revenues		
Charges for services	\$ 638,632	\$ 609,961
Impact fees	78,500	54,000
Total operating revenues	717,132	663,961
Operating expenses		
Personnel services	297,624	297,590
Contractual services	7,904	58,053
Materials and supplies	71,799	85,976
Repairs and maintenance	21,382	24,495
Utilities	82,143	83,898
Other	74,246	50,276
Depreciation	376,037	365,312
Total operating expenses	931,135	965,600
Operating loss	(214,003)	(301,639)
Nonoperating revenues (expenses)		
Miscellaneous	840,663	(4,000)
Interest income	1,745	3,548
Interest expense	(35,865)	(112,060)
Total nonoperating revenues (expenses)	806,543	(112,512)
Changes in net position	592,540	(414,151)
Net position - beginning (as originally stated)	13,361,080	14,052,227
Prior period adjustment	-	(276,996)
Net position - beginning (restated)	13,361,080	13,775,231
Net position - ending	\$ 13,953,620	\$ 13,361,080

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Honorable Mayor and Members
of the City Council
City of Freeport, Florida

We have audited the financial statements of the City of Freeport, Florida as of and for the year ended September 30, 2015, and our report thereon dated June 28, 2016, which expressed an unmodified opinion on those financial statements appears on pages 1, 2 and 3. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to June 28, 2016. The accompanying Schedule of Receipts and Expenditures of Funds Related to the Deepwater Horizon Oil Spill is presented for purposes of additional analysis 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 additional 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.

Carr, Riggs & Ingram, L.L.C.

Certified Public Accountants
Niceville, Florida
June 28, 2016

City of Freeport, Florida
Schedule of Receipts and Expenditures of
Funds Related to the Deepwater Horizon Oil Spill

Year ended September 30, 2015

Source	Amount Received in the 2014-15 Fiscal Year	Amount Expended in the 2014-15 Fiscal Year
British Petroleum:		
Case # 2:10-MD-02179-CJB-SS	\$ 55,446	\$ -