

City of Freeport, Florida

Financial Statements

September 30, 2016



CRI CARR
RIGGS &
INGRAM

CPAs and Advisors

CRIcpa.com



City of Freeport, Florida
Table of Contents
September 30, 2016

Independent Auditor’s Report	1
Management’s Discussion and Analysis	4
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	11
Statement of Activities	13
Fund Financial Statements	
Balance Sheet – Governmental Fund	14
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund	15
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balance of Governmental Fund to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	17
Statement of Net Position – Proprietary Funds	18
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	20
Statement of Cash Flows – Proprietary Funds	21
Notes to Basic Financial Statements	23
Required Supplementary Information (other than MD&A)	
Schedule of Proportionate Share of Net Pension Liability – Florida Retirement System	50
Schedule of Proportionate Share of Net Pension Liability – Health Insurance Subsidy	50
Schedule of Contributions – Florida Retirement System	51



City of Freeport, Florida
Table of Contents (Continued)
September 30, 2016

Schedule of Contributions – Health Insurance Subsidy	51
Schedule of Funding Progress for Retirees’ Health Insurance Other Postemployment Benefits Plan	51
Schedule of Employer Contributions for Retirees’ Health Insurance Other Postemployment Benefits Plan	51
Compliance Reports	
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 <i>Government Auditing Standards</i>	52
Independent Auditor’s Management Letter	56
Independent Accountant’s Report	58
Other Information	
Balance Sheets – General Fund – September 30, 2016 and 2015	59
Statements of Revenues, Expenditures and Changes in Fund Balances – General Fund – years ended September 30, 2016 and 2015	60
Statements of Net Position – Water Proprietary Fund – September 30, 2016 and 2015	61
Statements of Net Position – Sewer Proprietary Fund – September 30, 2016 and 2015	63
Statements of Revenues, Expenses and Changes in Net Position – Water Proprietary Fund – years ended September 30, 2016 and 2015	65
Statements of Revenues, Expenses and Changes in Net Position – Sewer Proprietary Fund – years ended September 30, 2016 and 2015	66



CRI CARR
RIGGS &
INGRAM
CPAs and Advisors

Carr, Riggs & Ingram, LLC
4502 Highway 20 East, Suite A
Niceville, FL 32578

(850) 897-4333
(850) 897-4068 (fax)
www.cricpa.com

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, and each major fund of the City of Freeport, Florida, as of and for the year ended September 30, 2016, and the related notes to basic financial statements, which collectively comprise the City of Freeport, Florida'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.

Summary of Opinions

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

Basis for Qualified Opinion on the General Fund

In the process of reconciling bank accounts for the general fund during the year ended September 30, 2016, corrections were made for prior year and current year posting errors. Some of those adjustments could not be specifically identified as to the appropriate revenue and expenditure accounts or identified as to the proper fiscal year to which they applied. The effect of these adjustments on the financial statements could not be determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on the General Fund” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the general fund of the City of Freeport, Florida, as of September 30, 2016, and respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above, except for the effects of the matter described in the “Basis for Qualified Opinion on the General Fund” paragraph, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Freeport, Florida, as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Freeport, Florida's basic financial statements. The other information as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other information, as listed in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2017 on our consideration of the City of Freeport, Florida'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 of Freeport, Florida's internal control over financial reporting and compliance.

Carry Riggs & Ingram, L.L.C.

Certified Public Accountants
Niceville, Florida
June 27, 2017

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 of the City and should be read in conjunction with the City's financial statements.

Financial Highlights

- Total assets and deferred outflows of the City exceeded total liabilities and deferred inflows by \$46,883,912 (net position). Of this amount, \$3,098,467 is unrestricted for governmental activities and a deficit of \$669,162 is unrestricted for business-type activities, while \$354,178 is restricted net position for governmental activities and \$2,534,363 is restricted for business-type activities. Total net position includes \$19,228,054 net investment in capital assets in the governmental activities and \$22,338,012 in the business-type activities.
- Total net position increased by \$1,301,979. Of this amount, \$514,319 is attributable to governmental activities before transfers and \$787,660 is attributable to business-type activities.
- As of September 30, 2016, the general fund's unassigned fund balance was \$3,489,531 or 178 % of total general fund expenditures.
- Governmental activities' revenues increased to \$2,930,871 or 10%, while governmental activities' expenses decreased by 7% to \$2,416,552. Business-type activities' revenues increased to \$3,482,279 or 18%, while business-type activities' expenses increased 10% to \$2,694,619.

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 expenses 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 expenses 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).

Expenses 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' expenses include general government, public safety, streets, culture and recreation and physical environment. 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 funds, outlays for long lived assets are reported as expenditures and long-term liabilities, such as revenue bonds, are not included in the fund financial statements. 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 2016 and 2015, the City is able to report positive balances in all three categories of net position, for the government as a whole.

Net Position

September 30,	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 4,329,502	\$ 3,600,016	\$ 7,087,872	\$ 8,078,789	\$ 11,417,374	\$ 11,678,805
Capital assets	20,119,373	20,601,910	30,156,600	29,219,792	50,275,973	49,821,702
Total assets	24,448,875	24,201,926	37,244,472	37,298,581	61,693,347	61,500,507
Deferred outflows of resources	106,657	87,506	181,605	155,565	288,262	243,071
Current liabilities	462,362	436,713	258,472	158,149	720,834	594,862
Noncurrent liabilities	1,219,527	1,174,902	12,635,866	13,906,547	13,855,393	15,081,449
Total liabilities	1,681,889	1,611,615	12,894,338	14,064,696	14,576,227	15,676,311
Deferred inflows of resources	192,944	174,720	328,526	310,614	521,470	485,334
Net position						
Net investment in capital assets	19,228,054	19,696,473	22,338,012	21,088,444	41,566,066	40,784,917
Restricted	354,178	353,857	2,534,363	2,960,929	2,888,541	3,314,786
Unrestricted	3,098,467	2,452,767	(669,162)	(970,537)	2,429,305	1,482,230
Total net position	\$ 22,680,699	\$ 22,503,097	\$ 24,203,213	\$ 23,078,836	\$ 46,883,912	\$ 45,581,933

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

<i>Years ended September 30,</i>	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program revenues						
Charges for services	\$ 945,093	\$ 844,917	\$ 2,710,584	\$ 1,982,851	\$ 3,655,677	\$ 2,827,768
Capital grants/contributions	18,245	4,200	727,905	112,760	746,150	116,960
General revenues						
Gross receipts taxes	942,487	852,674	-	-	942,487	852,674
Utility taxes/franchise fees	115,589	105,908	-	-	115,589	105,908
Intergovernmental	883,410	787,193	-	-	883,410	787,193
Other	26,047	61,486	43,790	856,517	69,837	918,003
Total revenues	2,930,871	2,656,378	3,482,279	2,952,128	6,413,150	5,608,506
Expenses						
General government	568,339	668,128	-	-	568,339	668,128
Public safety	220,036	537,368	-	-	220,036	537,368
Culture and recreation	651,696	683,908	-	-	651,696	683,908
Streets	115,692	91,004	-	-	115,692	91,004
Physical environment	823,440	697,660	-	-	823,440	697,660
Interest on long-term debt	37,349	37,909	-	-	37,349	37,909
Water	-	-	1,616,300	1,473,640	1,616,300	1,473,640
Sewer	-	-	1,078,319	967,000	1,078,319	967,000
Total expenses	2,416,552	2,715,977	2,694,619	2,440,640	5,111,171	5,156,617
Increase in net position before gains and transfers	514,319	(59,599)	787,660	511,488	1,301,979	451,889
Transfers	(336,717)	-	336,717	-	-	-
Gain on sale of assets	-	(316,798)	-	-	-	(316,798)
Increase in net position	\$ 177,602	\$ (376,397)	\$ 1,124,377	\$ 511,488	\$ 1,301,979	\$ 135,091

For the year ending September 30, 2016, governmental activities' revenues exceeded expenses by \$514,319 while business-type activities' revenues exceeded expenses by \$787,660. Total revenues increased \$804,644 from the previous year. Revenues increased as a result of increase in ad valorem taxes, planning and zoning fees, intergovernmental taxes received and recognition of unearned revenues due to current year water and sewer connections. Total expenses decreased \$45,446 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 (24%), culture and recreation (27%), and physical environment (34%) activities.

Charges for services provided 78% 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, 2016, total assets were \$4,360,037 and total liabilities were \$541,186. At the end of fiscal year 2016, unassigned fund balance of the general fund was \$3,489,531 while total fund balance equaled \$3,795,011.

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	
	2016	2015
September 30,		
Water	\$ 665,277	\$ 542,302
Sewer	(1,334,439)	(1,512,839)
Total	\$ (669,162)	\$ (970,537)

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, 2016, was \$50,275,973 (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:

- Water system upgrade and expansion of \$519,507
- 331 Sewer upgrades and pumping station of \$757,771
- Sludge drying beds of \$122,173

**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 basic financial statements.

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
<i>September 30,</i>						
Land	\$ 12,367,264	\$ 12,367,264	\$ 392,225	\$ 392,225	\$ 12,759,489	\$ 12,759,489
Construction in progress	-	41,977	5,073,311	6,471,071	5,073,311	6,513,048
Buildings and improvements	10,113,099	10,096,923	32,367,252	29,392,049	42,480,351	39,488,972
Equipment	504,564	496,495	1,831,783	1,697,499	2,336,347	2,193,994
Infrastructure	1,571,233	1,529,256	-	-	1,571,233	1,529,256
Accumulated depreciation	(4,436,787)	(3,930,005)	(9,507,971)	(8,733,052)	(13,944,758)	(12,663,057)
Total	\$ 20,119,373	\$ 20,601,910	\$ 30,156,600	\$ 29,219,792	\$ 50,275,973	\$ 49,821,702

Debt Management

At the end of the current fiscal year, the City had total bond debt and notes payable outstanding in the amount of \$8,709,907. This debt amount represents bonds secured solely by specified revenue sources (i.e., revenue bonds) and notes payable.

Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
<i>September 30,</i>						
Revenue bonds	\$ 891,319	\$ 905,437	\$ 5,025,600	\$ 5,153,600	\$ 5,916,919	\$ 6,059,037
Notes payable	-	-	2,792,988	2,977,748	2,792,988	2,977,748
Total	\$ 891,319	\$ 905,437	\$ 7,818,588	\$ 8,131,348	\$ 8,709,907	\$ 9,036,785

Principal repayments during the year on revenue bonds totaled \$142,118 and repayments on notes payable totaled \$184,760. More detail on the City's long-term debt is presented in notes 7 and 8 of the notes to basic financial statements.

Economic Factors and Next Year's Budget and Rates

At September 30, 2016, unassigned fund balance in the general fund was \$3,489,531. 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 uses 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 necessary 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 accounting@freeportflorida.gov.

Basic Financial Statements

City of Freeport, Florida
Statement of Net Position
September 30, 2016

Primary Government

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Unrestricted assets			
Cash and cash equivalents	\$ 3,217,842	\$ 4,186,442	\$ 7,404,284
Accounts receivable, net	34,230	181,833	216,063
Due from other governments	112,131	-	112,131
Internal balances	607,495	(607,495)	-
Grants receivable	-	207,274	207,274
Inventories	-	65,886	65,886
Prepaid expenses	467	-	467
Total unrestricted assets	3,972,165	4,033,940	8,006,105
Restricted assets			
Cash and cash equivalents			
Meter deposits and impact fees	305,013	2,565,377	2,870,390
Sinking, reserve and escrow	52,324	488,555	540,879
Total restricted assets	357,337	3,053,932	3,411,269
Total current assets	4,329,502	7,087,872	11,417,374
Noncurrent assets			
Capital assets			
Land	12,367,264	392,225	12,759,489
Buildings	2,912,237	750,591	3,662,828
Building improvements	115,565	-	115,565
Improvements other than buildings	7,085,297	31,616,661	38,701,958
Equipment	504,564	1,831,783	2,336,347
Construction in progress	-	5,073,311	5,073,311
Infrastructure	1,571,233	-	1,571,233
Less accumulated depreciation	(4,436,787)	(9,507,971)	(13,944,758)
Total noncurrent assets	20,119,373	30,156,600	50,275,973
Total assets	24,448,875	37,244,472	61,693,347
Deferred outflows of resources	106,657	181,605	288,262

(Continued)

See accompanying notes

City of Freeport, Florida
Statement of Net Position (Continued)
September 30, 2016

Primary Government			
	Governmental Activities	Business-type Activities	Total
Liabilities			
Current liabilities			
Accounts payable	\$ 447,960	\$ 241,529	\$ 689,489
Accrued expenses	14,402	-	14,402
Customer prepayments	-	16,943	16,943
Total current liabilities	462,362	258,472	720,834
Noncurrent liabilities			
Customer deposits	-	509,590	509,590
Unearned revenues	-	3,847,235	3,847,235
Due to other governments	72,126	-	72,126
Due within one year			
Notes payable	14,700	187,353	202,053
Revenue bonds payable	-	132,000	132,000
Accrued interest	3,159	24,297	27,456
Due in more than one year			
Compensated absences	7,316	17,960	25,276
Net pension liability	245,607	418,196	663,803
Notes payable	-	2,605,635	2,605,635
Revenue bonds payable	876,619	4,893,600	5,770,219
Total noncurrent liabilities	1,219,527	12,635,866	13,855,393
Total liabilities	1,681,889	12,894,338	14,576,227
Deferred inflows of resources	192,944	328,526	521,470
Net position			
Net investment in capital assets	19,228,054	22,338,012	41,566,066
Restricted			
Debt service	49,165	464,258	513,423
Impact fees	305,013	2,070,105	2,375,118
Unrestricted	3,098,467	(669,162)	2,429,305
Total net position	\$ 22,680,699	\$ 24,203,213	\$ 46,883,912

See accompanying notes

City of Freeport, Florida
Statement of Activities
Year ended September 30, 2016

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
					Total Governmental Activities	Total Business-type Activities	
Governmental activities							
General government	\$ 568,339	\$ 64,098	\$ -	\$ 18,245	\$ (485,996)	\$ -	\$ (485,996)
Public safety	220,036	883	-	-	(219,153)	-	(219,153)
Culture and recreation	651,696	39,657	-	-	(612,039)	-	(612,039)
Streets	115,692	17,015	-	-	(98,677)	-	(98,677)
Physical environment	823,440	823,440	-	-	-	-	-
Interest on long-term debt	37,349	-	-	-	(37,349)	-	(37,349)
Total governmental activities	2,416,552	945,093	-	18,245	(1,453,214)	-	(1,453,214)
Business-type activities							
Water	1,616,300	1,555,099	-	357,393	-	296,192	296,192
Sewer	1,078,319	1,155,485	-	370,512	-	447,678	447,678
Total business-type activities	2,694,619	2,710,584	-	727,905	-	743,870	743,870
Total primary government	\$ 5,111,171	\$ 3,655,677	\$ -	\$ 746,150	(1,453,214)	743,870	(709,344)
General revenues							
Taxes							
Ad valorem taxes					916,698	-	916,698
Local option gas tax					25,789	-	25,789
Franchise fees							
Utility					92,310	-	92,310
Solid waste					1,503	-	1,503
Communications services tax					21,776	-	21,776
Intergovernmental							
Local government sales tax					433,260	-	433,260
Miscellaneous					450,150	-	450,150
Miscellaneous					24,538	34,871	59,409
Total general revenues					1,966,024	34,871	2,000,895
Interest earnings					1,509	8,919	10,428
Transfers					(336,717)	336,717	-
Total general revenues, interest and transfers					1,630,816	380,507	2,011,323
Change in net position					177,602	1,124,377	1,301,979
Net position - beginning					22,503,097	23,078,836	45,581,933
Net position - ending					\$ 22,680,699	\$ 24,203,213	\$ 46,883,912

See accompanying notes

City of Freeport, Florida
Balance Sheet
Governmental Fund
September 30, 2016

	General Fund
Assets	
Cash and cash equivalents	\$ 3,217,842
Accounts receivable, net	34,230
Due from other governments	112,131
Due from other funds	607,495
Prepays	467
Restricted assets	
Cash and cash equivalents	
Sinking, reserve and escrow	52,324
Impact fees	305,013
Total assets	4,329,502
Liabilities	
Accounts payable	447,963
Due to other governments	72,126
Accrued expenditures	14,402
Total liabilities	534,491
Fund balances	
Nonspendable	
Prepays	467
Restricted	
Impact fees	305,013
Unassigned	3,489,531
Total fund balance	3,795,011
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.	20,119,373
Deferred inflows and outflows of resources are not recognized in the current period and, therefore are not reported in the funds.	(86,287)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(1,147,398)
Net position of governmental activities	\$ 22,680,699

See accompanying notes

City of Freeport, Florida
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
Year ended September 30, 2016

	General Fund
Revenues	
Taxes	\$ 1,491,335
Intergovernmental	1,290,603
Charges for services	75,339
Fines and forfeitures	883
Grants	18,245
Interest earnings	1,509
Rents	28,416
Miscellaneous	24,533
Total revenues	2,930,863
Expenditures	
Current	
General government	505,534
Public safety	212,838
Streets	69,620
Culture and recreation	275,294
Physical environment	823,440
Capital outlay	24,245
Debt service	
Principal	14,118
Interest and fiscal charges	37,349
Total expenditures	1,962,438
Excess of revenues over expenditures	968,425
Other financing sources (uses)	
Transfers out	(336,717)
Total other financing sources (uses)	(336,717)
Net change in fund balance	631,708
Fund balance - beginning	3,163,303
Fund balance - ending	\$ 3,795,011

See accompanying notes

City of Freeport, Florida

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balance of Governmental Fund to the Statement of Activities
Year ended September 30, 2016**

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

Net change in fund balance - total governmental funds	\$	631,708
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.		(482,537)
The issuance of long-term debt (i.e. bonds and 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 position.		14,118
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.		14,313
<hr/>		
Change in net position of governmental activities	\$	<u>177,602</u>

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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,869,991	\$ 1,869,991	\$ 1,491,335	\$ (378,656)
Intergovernmental	361,500	361,500	1,290,603	929,103
Charges for services	136,350	136,350	75,339	(61,011)
Fines and forfeitures	1,500	1,500	883	(617)
Grants	-	-	18,245	18,245
Interest earnings	1,650	1,650	1,509	(141)
Rents	-	-	28,416	28,416
Licenses and permits	1,000	1,000	-	(1,000)
Miscellaneous	24,500	24,500	24,533	33
Total revenues	2,396,491	2,396,491	2,930,863	534,372
Expenditures				
Current				
General government	1,096,004	1,096,004	505,534	590,470
Public safety	-	-	212,838	(212,838)
Streets	102,727	102,727	69,620	33,107
Culture and recreation	433,543	433,543	275,294	158,249
Physical environment	376,500	376,500	823,440	(446,940)
Capital outlay	-	-	24,245	(24,245)
Debt service	51,000	51,000	51,467	(467)
Total expenditures	2,059,774	2,059,774	1,962,438	97,336
Excess of revenues over expenditures	336,717	336,717	968,425	631,708
Other financing sources (uses)				
Transfers out	(336,717)	(336,717)	(336,717)	-
Total other financing sources (uses)	(336,717)	(336,717)	(336,717)	-
Net change in fund balance	\$ -	\$ -	\$ 631,708	\$ 631,708

See accompanying notes

City of Freeport, Florida
Statement of Net Position
Proprietary Funds
September 30, 2016

Business-type Activities/Enterprise Funds

	Water	Sewer	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 2,181,098	\$ 2,005,344	\$ 4,186,442
Accounts receivable, net	86,828	95,005	181,833
Inventories	31,774	34,112	65,886
Due from other funds	638,920	212,132	851,052
Grants receivable	207,274	-	207,274
Restricted assets - cash and cash equivalents			
Meter deposits and impact fees	1,057,699	1,507,678	2,565,377
Sinking, reserve and escrow	422,779	65,776	488,555
Total current assets	4,626,372	3,920,047	8,546,419
Noncurrent assets			
Capital assets			
Land	350,247	41,978	392,225
Buildings	558,268	192,323	750,591
Construction in progress	820,352	4,252,959	5,073,311
Improvements other than buildings	16,643,544	14,973,117	31,616,661
Equipment	875,868	955,915	1,831,783
Total capital assets	19,248,279	20,416,292	39,664,571
Less accumulated depreciation	(4,567,173)	(4,940,798)	(9,507,971)
Net capital assets	14,681,106	15,475,494	30,156,600
Total assets	19,307,478	19,395,541	38,703,019
Deferred outflows of resources	106,657	74,948	181,605

(Continued)

See accompanying notes

City of Freeport, Florida
Statement of Net Position
Proprietary Funds (Continued)
September 30, 2016

Business-type Activities/Enterprise Funds

	Water	Sewer	Total
Liabilities			
Current liabilities			
Accounts payable	\$ 199,623	\$ 41,906	\$ 241,529
Unearned revenue	16,943	-	16,943
Total current liabilities	216,566	41,906	258,472
Noncurrent liabilities			
Customer deposits	509,590	-	509,590
Unearned revenues	1,415,054	2,432,181	3,847,235
Due to other funds	492,886	965,661	1,458,547
Due within one year			
Notes payable	67,718	119,635	187,353
Revenue bonds payable	126,000	6,000	132,000
Accrued interest	20,986	3,311	24,297
Compensated absences	9,899	8,061	17,960
Due in more than one year			
Notes payable	1,805,850	799,785	2,605,635
Revenue bonds payable	4,681,600	212,000	4,893,600
Net pension liability	245,607	172,589	418,196
Total noncurrent liabilities	9,375,190	4,719,223	14,094,413
Total liabilities	9,591,756	4,761,129	14,352,885
Deferred inflows of resources	192,944	135,582	328,526
Net position			
Net investment in capital assets	7,999,938	14,338,074	22,338,012
Restricted			
Impact fees	562,427	1,507,678	2,070,105
Debt service	401,793	62,465	464,258
Unrestricted	665,277	(1,334,439)	(669,162)
Total net position	\$ 9,629,435	\$ 14,573,778	\$ 24,203,213

See accompanying notes

City of Freeport, Florida
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year ended September 30, 2016

	Business-type Activities/Enterprise Funds		
	Water	Sewer	Total
Operating revenues			
Charges for services	\$ 1,555,099	\$ 1,155,485	\$ 2,710,584
Impact fees	81,650	257,400	339,050
Total operating revenues	1,636,749	1,412,885	3,049,634
Operating expenses			
Personnel services	441,956	303,617	745,573
Contractual services	27,719	48,682	76,401
Materials and supplies	127,489	113,161	240,650
Repairs and maintenance	83,225	59,551	142,776
Utilities	91,845	75,771	167,616
Other	177,382	26,332	203,714
Depreciation	385,141	389,779	774,920
Total operating expenses	1,334,757	1,016,893	2,351,650
Net operating income	301,992	395,992	697,984
Nonoperating revenues (expenses)			
Miscellaneous	34,871	-	34,871
Interest income	4,797	4,122	8,919
Interest expense	(281,543)	(61,426)	(342,969)
Total nonoperating revenues (expenses)	(241,875)	(57,304)	(299,179)
Net income	60,117	338,688	398,805
Other financing sources (uses)			
Capital grants and contributions	275,743	113,112	388,855
Transfers in	168,359	168,358	336,717
Total other financing sources (uses)	444,102	281,470	725,572
Change in net position	504,219	620,158	1,124,377
Net position - beginning	9,125,216	13,953,620	23,078,836
Net position - ending	\$ 9,629,435	\$ 14,573,778	\$ 24,203,213

See accompanying notes

City of Freeport, Florida
Statement of Cash Flows
Proprietary Funds
Year ended September 30, 2016

Business-type Activities/Enterprise Funds			
	Water	Sewer	Total
Operating activities			
Receipts from customers and users	\$ 1,450,657	\$ 1,006,034	\$ 2,456,691
Payments to suppliers and others	(330,210)	(69,758)	(399,968)
Payments for personnel services	(465,884)	(330,046)	(795,930)
Net cash provided by operating activities	654,563	606,230	1,260,793
Noncapital financing activities			
Miscellaneous receipts	34,871	-	34,871
Net cash provided by noncapital financing activities	34,871	-	34,871
Capital and related financing activities			
Acquisition of capital assets	(651,651)	(1,060,076)	(1,711,727)
Capital grants and contributions	68,469	113,112	181,581
Principal paid on notes payable	(61,959)	(119,602)	(181,561)
Principal paid on revenue bonds	(126,000)	(5,199)	(131,199)
Interest paid on revenue bonds	(281,498)	(61,426)	(342,924)
Transfers in	168,359	168,358	336,717
Net cash used for capital and related financing activities	(884,280)	(964,833)	(1,849,113)
Investing activities			
Interest received	4,797	4,122	8,919
Net cash provided by investing activities	4,797	4,122	8,919
Net decrease in cash and cash equivalents	(190,049)	(354,481)	(544,530)
Cash and cash equivalents - beginning	3,851,625	3,933,279	7,784,904
Cash and cash equivalents - ending	\$ 3,661,576	\$ 3,578,798	\$ 7,240,374
Classified as			
Unrestricted	\$ 2,181,098	\$ 2,005,344	\$ 4,186,442
Restricted	1,480,478	1,573,454	3,053,932
Cash and cash equivalents - ending	\$ 3,661,576	\$ 3,578,798	\$ 7,240,374

(Continued)

See accompanying notes

City of Freeport, Florida
Statement of Cash Flows (Continued)
Proprietary Funds
Year ended September 30, 2016

	Business-type Activities/Enterprise Funds		
	Water	Sewer	Total
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 301,992	\$ 395,992	\$ 697,984
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	385,141	389,779	774,920
Decrease in accounts receivable, net	35,517	10,649	46,166
Decrease in unearned revenue	(263,350)	(417,500)	(680,850)
Decrease in due from other funds	82,087	248,825	330,912
Increase in accounts payable	110,072	28,547	138,619
Decrease in accrued expenses	(14,709)	(23,633)	(38,342)
Increase in customer deposits	41,741	-	41,741
Decrease in net pension liability	(23,928)	(26,429)	(50,357)
Net cash provided by operating activities	\$ 654,563	\$ 606,230	\$ 1,260,793

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 (GAAP) as applied to governmental units promulgated by the Governmental Accounting Standards Board.

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, deferred outflows, liabilities and deferred inflows resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows, liabilities and deferred inflows 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 expenses.

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, deferred outflows, liabilities, deferred inflows, 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, deferred outflows and all liabilities and deferred inflows (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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

GASB Statement 34 sets forth minimum criteria (percentage of the assets, deferred outflows, liabilities, deferred inflows, 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 other funds.

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 GAAP. 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.

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 to two years, and all highly debt instruments with maturities of three months or less when purchased to be cash equivalents.

The City's cash and cash equivalents are defined as 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.

Inventories

Inventories 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 expenses 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.

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, 2016, 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



City of Freeport, Florida
Notes to Basic Financial Statements

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 includes a separate section for deferred outflows of resources. This separate financial statement element 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 includes a separate section for deferred inflows of resources. This separate financial statement element 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 balances.

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, 2016 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, 2016 of \$305,013 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, 2016.

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, 2016.

Unassigned – This category is the residual classification for the City's fund balances. The balance as of September 30, 2016 is \$3,489,531.



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 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, 2016, the City had \$41,566,066 in net investment in capital assets.

Restricted – represents that portion of net position set aside and used for specific purposes. At September 30, 2016, the City had \$2,375,118 in impact fees to be used for future projects for the upgrade and expansion of public safety, sewer and water systems. In addition, the City had \$513,423 of debt service funds representing sinking fund and reserve funds.

Unrestricted – indicates that portion of net position that is available for future periods. At September 30, 2016 the City had \$2,429,305 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 mils for general operations. The City's millage rate for the year ended September 30, 2016, was 4.7302 mils.

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 GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ significantly from those estimates.

Subsequent events

Management of the City has evaluated subsequent events through June 27, 2017, 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	\$	24,556,160
Less: accumulated depreciation		(4,436,787)
<hr/>		
Net adjustment to increase fund balance - total governmental funds to arrive at net position of governmental activities	\$	20,119,373
<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	\$	891,316
Net pension obligations		245,607
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	\$	1,147,398
<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 of resources	\$	106,657
Deferred inflows of resources		(192,944)
<hr/>		
Net adjustment to reduce fund balance - total governmental funds to arrive at net position of governmental activities	\$	(86,287)
<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 financial statements include a reconciliation between net change 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 costs 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	\$	24,245
Depreciation expense		(506,782)
<hr/>		
Net adjustment to decrease net change in fund balance – total governmental funds to arrive at change in net position of governmental activities	\$	(482,537)
<hr/>		

Another element of that reconciliation states, "the issuance of long-term debt (i.e., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets." The details of this difference are as follows:

Principal repayments		
Revenue bonds	\$	14,118
<hr/>		
Net adjustment to increase net change in fund balance - total governmental funds to arrive at change in net position of governmental activities	\$	14,118
<hr/>		

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:

Net pension liability	\$	14,313
<hr/>		
Net adjustment to increase net change in fund balance - total governmental funds to arrive at change in net position of governmental activities	\$	14,313
<hr/>		

City of Freeport, Florida
Notes to Basic Financial Statements

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 prorata basis.

NOTE 4 – ACCOUNTS RECEIVABLE, NET

The City accrues general fund receivables based on receipts of intergovernmental revenues earned during the year and received after year end. As a result, no allowance for doubtful accounts is recorded. At September 30, 2016, accounts receivable in the governmental fund is summarized as follows:

Total accounts receivable	\$	34,230
Less: allowance for doubtful accounts		-
Accounts receivable, net	\$	34,230

The City provides an allowance for doubtful accounts for the proprietary funds based on experience and analysis of individual accounts. At September 30, 2016, accounts receivable in the proprietary funds is summarized as follows:

Accounts receivable	\$	208,312
Less: allowance for doubtful accounts		(26,479)
Accounts receivable, net	\$	181,833

NOTE 5 – DUE TO AND FROM OTHER 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 other funds" or "due from other funds" and are for operating purposes. At September 30, 2016, the general fund had a due from other funds from the water and sewer funds of \$607,495. The sewer fund had a net payable to the water and general fund of \$753,529. The water fund had a net receivable of \$146,034 due from the sewer and general fund. In addition, the general fund transferred \$168,359 to the water fund and \$168,358 to the sewer fund to cover operating costs.

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 6 – CAPITAL ASSETS

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

	September 30, 2015	Increases	Decreases	September 30, 2016
Capital assets, not being depreciated				
Land	\$ 12,367,264	\$ -	\$ -	\$ 12,367,264
Construction in progress	41,977	-	-	41,977
Total capital assets, not being depreciated	12,409,241	-	-	12,409,241
Capital assets, being depreciated				
Buildings	2,912,237	-	-	2,912,237
Building improvements	101,314	14,251	-	115,565
Improvements, other than buildings	7,083,372	1,925	-	7,085,297
Equipment	496,495	8,069	-	504,564
Infrastructure	1,529,256	-	-	1,529,256
Total capital assets, being depreciated	12,122,674	24,245	-	12,146,919
Less accumulated depreciation				
Buildings	(593,978)	(58,114)	-	(652,092)
Building improvements	(56,269)	(8,762)	-	(65,031)
Improvements, other than buildings	(2,532,490)	(355,863)	-	(2,888,353)
Equipment	(300,647)	(38,476)	-	(339,123)
Infrastructure	(446,621)	(45,567)	-	(492,188)
Total accumulated depreciation	(3,930,005)	(506,782)	-	(4,436,787)
Capital assets, being depreciated (net of accumulated depreciation)	8,192,669	(482,537)	-	7,710,132
Total governmental activities' capital assets (net of accumulated depreciation)	\$ 20,601,910	\$ (482,537)	\$ -	\$ 20,119,373

The following schedule summarizes the capital assets of the City's business-type activities at September 30, 2016.

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	820,352	4,252,959	5,073,311
Buildings	558,268	192,323	750,591
Improvements other than buildings	16,643,544	14,973,117	31,616,661
Equipment	875,868	955,915	1,831,783
Total	19,248,279	20,416,292	39,664,571
Less accumulated depreciation			
Buildings	(66,577)	(81,292)	(147,869)
Improvements other than buildings	(3,753,393)	(4,301,933)	(8,055,326)
Equipment	(747,203)	(557,573)	(1,304,776)
Total accumulated depreciation	(4,567,173)	(4,940,798)	(9,507,971)
Total business-type activities' capital assets (net of accumulated depreciation)	\$ 14,681,106	\$ 15,475,494	\$ 30,156,600

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

	September 30, 2015	Increases	Decreases	September 30, 2016
Capital assets, not being depreciated				
Land	\$ 392,225	\$ -	\$ -	\$ 392,225
Construction in progress	6,471,071	1,514,056	(2,911,816)	5,073,311
Total capital assets, not being depreciated	6,863,296	1,514,056	(2,911,816)	5,465,536
Capital assets, being depreciated				
Buildings	747,391	3,200	-	750,591
Improvements other than buildings	28,644,658	60,187	2,911,816	31,616,661
Equipment	1,697,499	134,284	-	1,831,783
Total capital assets, being depreciated	31,089,548	197,671	2,911,816	34,199,035
Less accumulated depreciation				
Buildings	(131,599)	(16,269)	-	(147,868)
Improvements	(7,379,082)	(676,245)	-	(8,055,327)
Equipment	(1,222,371)	(82,405)	-	(1,304,776)
Total accumulated depreciation	(8,733,052)	(774,919)	-	(9,507,971)

(Continued)

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	September 30, 2015	Increases	Decreases	September 30, 2016
Capital assets, being depreciated (net of accumulated depreciation)	\$ 22,356,496	\$ (577,248)	\$ 2,911,816	\$ 24,691,064
Total business-type activities' capital assets (net of accumulated depreciation)	\$ 29,219,792	\$ 936,808	\$ -	\$ 30,156,600

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

Governmental activities			
General		\$	75,312
Public safety			7,197
Culture and recreation			378,201
Streets			46,072
Total depreciation expense – governmental activities		\$	506,782
Business-type activities			
Water		\$	385,141
Sewer			389,778
Total depreciation expense – business-type activities		\$	774,919

NOTE 7 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

	Balance September 30, 2015	Additions	Deductions	Balance September 30, 2016	Due Within One Year
Revenue bonds payable	\$ 905,437	\$ -	\$ (14,118)	\$ 891,319	\$ 14,700
Net pension liability	258,990	-	(13,383)	245,607	-
Accrued compensated absences	7,316	-	-	7,316	-
Total	\$ 1,171,743	\$ -	\$ (27,501)	\$ 1,144,242	\$ 14,700

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, 2016, annual principal and interest payments were 45% of the pledged revenues from franchise fees and local communications services tax. Total principal and interest remaining to be paid on the bonds is \$1,595,481. Principal and interest paid for the current year and pledged revenue were \$51,467 and \$115,588, respectively.

	\$ 891,319
<hr/>	
Total revenue bonds payable at September 30, 2016	891,319
Less: revenue bonds-current portion	(14,700)
<hr/>	
Revenue bonds - long-term portion	\$ 876,619
<hr/>	

Debt service requirements to maturity on revenue bonds payable at September 30, 2016 are as follows:

Year ending September 30,	Principal	Interest	Total
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	17,280	34,187	51,467
2022-2026	97,699	159,637	257,336
2027-2031	119,581	137,754	257,335
2032-2036	146,366	110,970	257,336
2037-2041	179,148	78,187	257,335
2042-2046	219,275	38,061	257,336
2047-2051	49,430	2,037	51,467
Total	\$ 891,319	\$ 704,162	\$ 1,595,481

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

	Balance September 30, 2015	Additions	Deductions	Balance September 30, 2016	Due Within One Year
Revenue bonds payable	\$ 5,153,600	\$ -	\$ (128,000)	\$ 5,025,600	\$ 132,000
Net pension obligation	460,425	-	(42,229)	418,196	-
Notes payable	2,977,748	-	(184,760)	2,792,988	187,353
Total	\$ 8,591,773	\$ -	\$ (354,989)	\$ 8,236,784	\$ 319,353

City of Freeport, Florida
Notes to Basic Financial Statements

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

September 30,

2016

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 3.56% of the pledged net revenues from the Water and Sewer System. The total principal and interest remaining to be paid on the bonds is \$1,118,355. Principal and interest paid for the current year and pledged revenues were \$55,660 and \$1,562,581 respectively.

\$ 726,000

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 5.69 % of the pledged net revenues from the Water and Sewer System. The total principal and interest remaining to be paid on the bonds is \$2,315,587. Principal and interest paid in the current year and pledged revenues were \$88,902 and \$1,562,581 respectively.

1,348,600

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 7.01% of the pledged net revenues from the Water and Sewer System. The total principal and interest remaining to be paid on the bonds is \$2,957,535. Principal and interest paid in the current year and pledged revenues were \$109,580 and \$1,562,581, respectively.

1,692,000

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 4.53 % of the pledged net revenues from the Water and Sewer System. The total principal and interest remaining to be paid on the bonds is \$1,350,458. Principal and interest paid in the current year and pledged revenues were \$70,755 and \$1,562,581 respectively.

1,041,000

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, 2039; interest of 4.5% per annum. The bonds were issued for improvement of the waste water treatment plant. Annual principal and interest payments are 1.03 % of the pledged net revenues from the Sewer and Water System. The total principal and interest remaining to be paid on the bonds is \$350,930. Principal and interest paid during the current year and pledged revenues were \$16,080 and \$1,562,581 respectively.

218,000

(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 \$1,031,388. Principal paid during the year was \$39,668. \$ 1,031,380

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. Total principal and interest remaining to be paid on the note is \$1,285,506. Principal and interest paid during the current year was \$68,256. 842,223

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. Total principal and interest remaining to be paid on the note is \$776,787. Principal and interest paid during the current year was \$41,245. 508,641

\$2,200,000 note payable to Walton County dated May 4, 2006 for construction of Bay Area sewer extension. The loan is non-interest bearing with annual principal payments of \$102,686 maturing December 2019. Total principal remaining to be paid on the note is \$410,744. Principal paid during the year was \$102,686. 410,744

Total	7,818,588
Less current maturities	(319,353)
Total long-term notes payable	\$ 7,499,235

Debt Service requirements to maturity on the long-term debt activity at September 30, 2016 are as follows:

Year ending September 30,	Principal	Interest	Total
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	249,280	240,587	489,867
2022-2026	1,388,816	1,061,881	2,450,697
2027-2031	1,663,469	786,034	2,449,503
2032-2036	1,810,686	447,241	2,257,927
2037-2041	1,048,340	181,845	1,230,185
2042-2046	331,746	17,892	349,638
Total	\$ 7,818,588	\$ 3,779,158	\$ 11,597,746

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 9 – NET POSITION RESTRICTIONS

The government-wide statement of net position reports \$2,888,541 of restricted net position. The following is a description of reported net position restrictions in governmental activities and business-type activities at September 30, 2016.

Governmental Activities

Debt service - 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 expenses. An ordinance restricts the use of impact fees to certain capital items, emergency repairs or other improvements.

Business-type Activities

Debt service - 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 expenses. An ordinance restricts the use of impact fees to certain capital items, emergency repairs or other improvements to the water and sewer systems.

Summary

Specific restrictions of net position are summarized below as of September 30, 2016:

Governmental activities	
Impact fees	\$ 305,013
Debt service	49,165
Total	\$ 354,178
Business-type activities	
Impact fees	\$ 2,070,105
Debt service	464,258
Total	\$ 2,534,363

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. FRS is administered by the Division of Retirement of the State of Florida Department of Administration. FRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 10 – RETIREMENT PLANS (CONTINUED)

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, 2016, 2015 and 2014 was \$803,113, \$862,866, and \$1,082,584, respectively. The contributory rate for employees is 3%. The City's contributory rates for the year ended September 30, 2016 were as follows:

	October 1, 2015 through June 30, 2016	July 1, 2016 through September 30, 2016
Regular employees	7.26%	7.52%
Special risk employees	22.04%	22.57%
Elected officers	35.71%	36.70%

These employer contribution rates include 1.66% HIS Plan subsidy for the periods October 1, 2015 through June 30, 2016 and from July 1, 2016 through September 30, 2016 respectively. The City's contributions to the plan for the years ended September 30, 2016, 2015 and 2014 were \$57,958, \$71,193 and \$106,547 respectively, which equal the required contributions. For the year ended September 30, 2016 retirement contributions represent 72.17% 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, 2016 were as follows:

	October 1, 2015 through June 30, 2016	July 1, 2016 through September 30, 2016
Regular employees	7.26%	7.52%
Special risk employees	22.04%	22.57%
Elected officers	35.71%	36.70%

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 10 – RETIREMENT PLANS (CONTINUED)

These employer contribution rates include 1.66% HIS Plan subsidy for the periods October 1, 2015 through June 30, 2016 and from July 1, 2016 through September 30, 2016 respectively. For the year ended September 30, 2016, the City had no employees participating in the FRS Investment plan.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions for the Florida Retirement System

At September 30, 2016, the City reported a liability of \$140,367 for governmental activities and \$239,004 for business type activities, for its proportionate share of the FRS Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The City's share of the net pension liability was based on the City's 2015-2016 fiscal year contributions relative to the 2014-2015 fiscal year contributions of all participating members. At June 30, 2016, the City's proportionate share was .001502455 percent which was a decrease of .001517445 percent from its proportionate share measured as of June 30, 2015.

For the year ended September 30, 2016, the City recognized pension income of \$3,958 for governmental activities and pension income of \$6,738 for business type activities. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	FRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 29,048	\$ (3,532)
Changes in assumptions	22,951	-
Net difference between projected and actual investment earnings on pension plan investments	174,525	(76,462)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(348,173)
Deferred outflows for contributions subsequent to the measurement date	12,435	-
Total	\$ 238,959	\$ (428,167)

The deferred outflows of resources related to the pension plan, totaling \$12,435 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, 2017. 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
2017	\$ (56,201)
2018	(56,201)
2019	(18,103)
2020	(24,245)
2021	(35,001)
Thereafter	(11,895)
Total	\$ (201,646)

Actuarial Assumptions

The total pension liability in the June 30, 2016 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 7.60%, net of pension plan investment expense including inflations
Investment rate of return	including inflations

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

The actuarial assumptions used in the July 1, 2016 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%	3.00%	3.00%	1.70%
Fixed income	18.00%	4.70%	4.60%	4.60%
Global Equity	53.00%	8.10%	6.80%	17.20%
Real Estate (Property)	10.00%	6.40%	5.80%	12.00%
Private Equity	6.00%	11.50%	7.80%	30.00%
Strategic Investments	12.00%	6.10%	5.60%	11.10%
Total	100.00%			
Assumed Inflation - Mean		2.60%		1.90%

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

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 10 – RETIREMENT PLANS (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.6 %. 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 7.6%, 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 (6.6%) of one percentage point higher (8.6%) than the current rate:

	1% Decrease (6.6%)	Current Discount Rate (7.6%)	1% Increase (8.6%)
City's proportionate share of the net pension liability	\$ 698,448	\$ 379,371	\$ 113,782

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.

The HIS Plan is funded by required employer contributions. Contributory rates for the years ended September 30, 2016 and 2015 were 1.66% 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 \$13,332 and \$14,323 for the fiscal years ended September 30, 2016 and 2015 respectively.

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 10 – RETIREMENT PLANS (CONTINUED)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions for the Health Insurance Subsidy Plan

At September 30, 2016, the City reported a liability of \$105,240 for governmental activities and \$179,192 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, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as to July 1, 2016. The City's share of the net pension liability was based on the City's 2015-2016 fiscal year contributions relative to the 2014-2015 fiscal year contributions of all participating members. At June 30, 2016, the City's proportionate share was .002440516 percent which was a decrease of .0007888 percent from its proportionate share measured as of June 30, 2015.

For the year ended September 30, 2016, the City recognized pension income of \$16,619 for governmental activities and \$28,297 for the business type activities. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	HIS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 44,635	\$ -
Net difference between projected and actual investment earnings on pension plan investments	144	(648)
Changes in proportion and differences between employer contributions and proportionate share of contributions	909	(92,656)
Deferred outflows for contributions subsequent to the measurement date	3,616	-
Total	\$ 49,304	\$ (93,304)

The deferred outflows of resources related to the HIS Plan, totaling \$3,616 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, 2017. 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:

Year ending September 30,	Amount
2017	\$ (7,679)
	(Continued)

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 10 – RETIREMENT PLANS (CONTINUED)

Year ending September 30,	Amount
2018	\$ (7,679)
2019	(7,679)
2020	(7,679)
2021	(9,176)
Thereafter	(7,720)
Total	\$ (47,612)

Actuarial Assumptions – The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.6 %
Salary increases	3.25%, average, including inflation
Municipal bond rate	2.85 %

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

The actuarial assumptions used in the July 1, 2016, 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 2.85 %. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the City's Proportionate Share of the Net 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 2.85%, 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 (1.85%) or one percentage point higher (3.85%) than the current rate:

	1% Decrease (1.85%)	Current Discount Rate (2.85%)	1% Increase (3.85%)
City's proportionate share of the net pension liability	\$ 326,308	\$ 284,432	\$ 249,677

NOTE 10 – RETIREMENT PLANS (CONTINUED)

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 31 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:

<u>Coverage</u>	<u>Monthly Cost</u>
Retiree	\$ 780
Retiree and Spouse	1,509
Retiree and Children	1,479
Retiree and Family	2,279

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.

City of Freeport, Florida
Notes to Basic Financial Statements

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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:

Description	
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, 2016, 2015 and 2014 was as follows:

Year ended September 30	Annual OPEB Cost	Percent of OPEB Cost Contributed	Net OPEB Obligation
2014	\$ -	100.00%	\$ -
2015	-	100.00%	-
2016	-	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.

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

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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.

Required Supplementary Information

City of Freeport, Florida
Required Supplementary Information
September 30, 2016

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

	2016		2015
City's proportion of the net pension liability	0.0015025%		0.0030199%
City's proportionate share of the net pension liability	\$ 379,371	\$	390,067
City's covered-employee payroll	803,112		862,866
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	47.24%		45.21%
Plan fiduciary net position as a percentage of the total pension liability	96.09%		92.00%

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

* Information for this Plan is only available for 2016 and 2015.

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

	2016		2015
City's proportion of the net pension liability	0.0024405%		0.0032294%
City's proportionate share of the net pension liability	\$ 284,432	\$	329,348
City's covered-employee payroll	803,112		862,866
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	35.42%		38.17%
Plan fiduciary net position as a percentage of the total pension liability	99.00%		50.00%

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

* Information for this Plan is only available for 2016 and 2015.

City of Freeport, Florida
Required Supplementary Information
Year ended September 30, 2016

Schedule of Contributions - Florida Retirement System Last 2 Years*:

	2016	2015
Contractually required contribution	\$ 57,958	\$ 71,193
Contributions in relation to the contractually required contribution	(57,958)	(71,193)
Contribution deficiency (excess)	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	7.22%	8.25%

* Information for this Plan is only available for 2016 and 2015.

Schedule of Contributions - Health Insurance Subsidy Last 2 Years*:

	2016	2015
Contractually required contribution	\$ 13,332	\$ 14,323
Contributions in relation to the contractually required contribution	(13,332)	(14,323)
Contribution deficiency (excess)	\$ -	\$ -
Contributions as a percentage of covered employee payroll	1.66%	1.66%

* Information for this Plan is only available for the 2016 and 2015.

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	N/A	N/A	N/A	N/A	N/A	N/A
October 1, 2015	N/A	N/A	N/A	N/A	N/A	N/A
October 1, 2016	N/A	N/A	N/A	N/A	N/A	N/A

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

Year ended September 30,	Actual Contribution	Annual Required Contribution	Percentage Contributed
2014	\$ -	\$ -	0%
2015	-	-	0%
2016	-	-	0%

See independent auditor's report

Compliance Section



Carr, Riggs & Ingram, LLC
4502 Highway 20 East
Suite A
Nicoville, FL 32578

(850) 897-4333
(850) 897-4068 (fax)
www.cricpa.com

**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 and each major fund of the City of Freeport, Florida, as of and for the year ended September 30, 2016 and the related notes to basic financial statements, which collectively comprise the City of Freeport, Florida's basic financial statements, and have issued our report thereon dated June 27, 2017 in which we issued a qualified opinion for the general fund due to unidentified bank reconciliation adjustments.

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 2016-02, 2016-05 and 2016-06 as described below to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with

governance. We consider the deficiencies 2016-01, 2016-03 and 2016-04 as described below to be significant deficiencies.

2016-01 Capital Assets (prior year 15-01, 14-01)

Condition: The City does not have a capital assets software package.

Criteria: The City should include capital assets and depreciation on the financial statements.

Effect: 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.

Recommendation: The City should purchase and maintain a capital assets software package.

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

2016-02 Audit Adjusting Journal Entries (prior year 15-02)

Condition: Adjustments had to be proposed by the auditors including those to record unearned revenue and accounts payable for the financial statements to be materially correct.

Criteria: The City should be able to provide materially correct financial information.

Effect: Some of the audit adjustments were to record unearned revenues and payables not recorded on the general ledger in accordance with U.S. generally accepted accounting principles.

Recommendation: The City should insure that all necessary information is recorded to allow council members to review accurate information at their monthly meetings.

Management's response: The City has hired a full-time finance officer and now all financial information is recorded on the general ledger in accordance with U.S. generally accepted accounting principles.

2016-03 Budget to Actual Financial Reports

Condition: No budget to actual reports are prepared for council meetings.

Criteria : A budget to actual financial report should be presented at monthly council meetings.

Effect: Council members need to be aware of expenditures which exceed budget on a monthly basis as part of the overall internal control and oversight by the council. In addition, without the budgeted information at the council meetings the necessary amendments cannot be made to the original budget for any items which may occur during the year.

Recommendation: The City should prepare a budget to actual report for City council meetings.

Management's response: The City has hired a full-time finance officer and now budget to actual reports are presented monthly to the City Council.

2016-04 IT Controls

Condition: Passwords on the Banyon general ledger and UMS software system are not changed once issued.

Criteria: Passwords should be changed on a regular basis.

Effect: Passwords which are not regularly changed have a greater chance of being used by unauthorized individuals.

Recommendation: IT controls should be put in place, such as changing passwords on a regular basis, which would reduce the ability for passwords to be shared.

Management's response: The IT controls of changing passwords on a regular basis has been addressed by staff and new passwords have been assigned and will be periodically updated.

2016-05 Bank Reconciliations

Condition: Bank reconciliations are not prepared on a timely basis. Bank reconciliations for the year ended September 30, 2016 for all cash accounts were not prepared until March 2017.

Criteria: Bank accounts should be reconciled on a monthly basis.

Effect: Due to the timing of the reconciliations, corrections and adjustments could not be accurately identified.

Recommendation: Reconciliations done on a timely basis would allow more accurate information to be recorded on the general ledger and also serve as an important internal control for determining any errors or necessary corrections.

Management's response: Bank reconciliations are now prepared monthly.

2016-06 Billing reports

Condition: Information from the Banyon UMS software system for utility billings and collections of revenue at the City Hall did not match information recorded on the Banyon general ledger software system. Adjusting journal entries were necessary to reconcile those two systems.

Criteria: Reports from both the billing system and the general ledger should agree.

Effect: General ledger information is not accurate with regards to sales and accounts receivable.

Recommendation: The City should compare those two systems on a timely basis to identify any errors and to make the necessary corrections to allow for accurate financial information to be reviewed by both management and the council members.

Management's response: The information from the utility billing software is now being compare and reconciled to the general ledger on a timely basis.

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*.

City of Freeport, Florida's Responses to Findings

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.

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.

Carly Riggs & Ingram, L.L.C.

Certified Public Accountants
Niceville, Florida
June 27, 2017



Carr, Riggs & Ingram, LLC
4502 Highway 20 East
Suite A
Niceville, FL 32578

(850) 897-4333
(850) 897-4068 (fax)
www.cricpa.com

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, 2016, and have issued our report thereon dated June 27, 2017 in which we issued a qualified opinion for the general fund due to unidentified bank reconciliation adjustments.

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 27, 2017, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, except as follows: Finding 2016-01 was also noted in the two preceding annual financial audit reports for the fiscal years ended September 30, 2015 and 2014 (finding 15-01 and 14-01). Finding 2016-02 was also noted in the preceding annual financial report for the fiscal year ended September 30, 2015 (finding 15-02).

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. and 10.556(7), Rules of the Auditor General, requires that we apply appropriate procedures and report the results of our determination as to whether or not the City of Freeport, Florida 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 procedure. 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 and 10.556(7)., Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the City of Freeport, Florida for the fiscal year ended September 30, 2016, 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, 2016. 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 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 27, 2017



Carr, Riggs & Ingram, LLC
4502 Highway 20 East, Suite A
Niceville, FL 32578

(850) 897-4333
(850) 897-4068 (fax)
www.cricpa.com

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, 2016. 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, 2016.

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 27, 2017

Other Information

City of Freeport, Florida
Balance Sheets - General Fund

September 30,	2016	2015
Assets		
Cash and cash equivalents	\$ 3,217,842	\$ 2,832,305
Accounts receivable, net	34,230	34,230
Due from other funds	607,495	276,583
Due from other governments	112,131	99,415
Prepays	467	467
Restricted assets		
Cash and cash equivalents		
Sinking, reserve and escrow	52,324	52,129
Impact fees	305,013	304,887
Total assets	\$ 4,329,502	\$ 3,600,016
Liabilities and fund balances		
Liabilities		
Accounts payable	\$ 447,963	\$ 419,933
Due to other governments	72,126	-
Accrued expenditures	14,402	16,780
Total liabilities	534,491	436,713
Fund balances		
Nonspendable		
Prepays	467	467
Restricted		
Impact fees	305,013	304,887
Unassigned	3,489,531	2,857,949
Total fund balances	3,795,011	3,163,303
Total liabilities and fund balances	\$ 4,329,502	\$ 3,600,016

See independent auditor's report

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

Years ended September 30,	2016	2015
Revenues		
Taxes	\$ 1,491,335	\$ 1,338,472
Intergovernmental	1,290,603	1,124,487
Charges for services	75,339	93,310
Impact fees	-	4,200
Fines and forfeitures	883	448
Grants	18,245	-
Interest earnings	1,509	1,467
Rents	28,416	33,975
Gain on sale of assets	-	255,000
Miscellaneous	24,533	60,019
Total revenues	2,930,863	2,911,378
Expenditures		
Current		
General government	505,534	604,443
Public safety	212,838	510,678
Streets	69,620	44,932
Culture and recreation	275,294	302,291
Physical environment	823,440	697,660
Capital outlay	24,245	76,970
Debt service		
Principal	14,118	13,559
Interest and fiscal charges	37,349	37,909
Total expenditures	1,962,438	2,288,442
Excess of revenues over expenditures	968,425	622,936
Other financing sources (uses)		
Transfers out	(336,717)	-
Net change in fund balance	631,708	622,936
Fund balance - beginning	3,163,303	2,540,367
Fund balance - ending	\$ 3,795,011	\$ 3,163,303

See independent auditor's report

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

September 30,	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 2,181,098	\$ 2,326,319
Accounts receivable, net	86,828	122,345
Inventories	31,774	31,774
Due from other funds	638,920	228,121
Grants receivable	207,274	-
Restricted assets - cash and cash equivalents		
Meter deposits and impact fees	1,057,699	942,656
Sinking, reserve and escrow	422,779	582,650
Total current assets	4,626,372	4,233,865
Noncurrent assets		
Capital assets		
Land	350,247	350,247
Buildings	558,268	558,268
Construction in progress	820,352	2,638,621
Improvements other than buildings	16,643,544	14,196,477
Equipment	875,868	853,015
Total capital assets	19,248,279	18,596,628
Less accumulated depreciation	(4,567,173)	(4,182,032)
Net capital assets	14,681,106	14,414,596
Total assets	19,307,478	18,648,461
Deferred outflows of resources	106,657	89,936

(Continued)

See independent auditor's report

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

September 30,	2016	2015
Liabilities		
Current liabilities		
Accounts payable	\$ 199,623	\$ 89,551
Accrued expenses	-	14,664
Unearned revenue	16,943	16,943
Total current liabilities	216,566	121,158
Noncurrent liabilities		
Customer deposits	509,590	467,849
Unearned revenues	1,415,054	1,678,404
Due to other funds	492,886	-
Due within one year		
Notes payable	67,718	66,392
Revenue bonds payable	126,000	122,000
Accrued interest	20,986	20,986
Compensated absences	9,899	9,899
Due in more than one year		
Notes payable	1,805,850	1,873,135
Revenue bonds payable	4,681,600	4,807,600
Net pension liability	245,607	266,184
Total noncurrent liabilities	9,375,190	9,312,449
Total liabilities	9,591,756	9,433,607
Deferred inflows of resources	192,944	179,574
Net Position		
Net investment in capital assets	7,999,938	7,545,469
Restricted		
Impact fees	562,427	475,781
Debt service	401,793	561,664
Unrestricted	665,277	542,302
Total net position	\$ 9,629,435	\$ 9,125,216

See independent auditor's report

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

September 30,	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 2,005,344	\$ 2,009,795
Accounts receivable, net	95,005	105,654
Inventories	34,112	34,112
Due from other funds	212,132	-
Restricted assets - cash and cash equivalents		
Meter deposits and impact fees	1,507,678	1,824,031
Sinking, reserve and escrow	65,776	99,453
Total current assets	3,920,047	4,073,045
Noncurrent assets		
Capital assets		
Land	41,978	41,978
Buildings	192,323	189,123
Construction in progress	4,252,959	3,832,450
Improvements other than buildings	14,973,117	14,448,181
Equipment	955,915	844,484
Total capital assets	20,416,292	19,356,216
Less accumulated depreciation	(4,940,798)	(4,551,020)
Net capital assets	15,475,494	14,805,196
Total assets	19,395,541	18,878,241
Deferred outflows of resources	74,948	65,629

(Continued)

See independent auditor's report

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

September 30,	2016	2015
Liabilities		
Current liabilities		
Accounts payable	\$ 41,906	\$ 13,359
Accrued expenses	-	23,632
Total current liabilities	41,906	36,991
Noncurrent liabilities		
Unearned revenues	2,432,181	2,849,681
Due to other funds	965,661	504,704
Due within one year		
Notes payable	119,635	118,834
Revenue bonds payable	6,000	6,000
Accrued interest	3,311	3,311
Compensated absences	8,061	8,061
Due in more than one year		
Notes payable	799,785	919,387
Revenue bonds payable	212,000	218,000
Net pension liability	172,589	194,241
Total noncurrent liabilities	4,719,223	4,822,219
Total liabilities	4,761,129	4,859,210
Deferred inflows of resources	135,582	131,040
Net Position		
Net investment in capital assets	14,338,074	13,542,975
Restricted		
Impact fees	1,507,678	1,824,031
Debt service	62,465	99,453
Unrestricted	(1,334,439)	(1,512,839)
Total net position	\$ 14,573,778	\$ 13,953,620

See independent auditor's report

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

Years ended September 30,	2016	2015
Operating revenues		
Charges for services	\$ 1,555,099	\$ 1,344,219
Impact fees	81,650	34,260
Total operating revenues	1,636,749	1,378,479
Operating expenses		
Personnel services	441,956	426,862
Contractual services	27,719	19,463
Materials and supplies	127,489	89,920
Repairs and maintenance	83,225	58,219
Utilities	91,845	97,882
Other	177,382	188,046
Depreciation	385,141	349,167
Total operating expenses	1,334,757	1,229,559
Net operating income	301,992	148,920
Nonoperating revenues (expenses)		
Miscellaneous	34,871	12,718
Interest income	4,797	1,391
Interest expense	(281,543)	(244,081)
Total nonoperating revenues (expenses)	(241,875)	(229,972)
Other financing sources (uses)		
Capital grants and contributions	275,743	-
Transfers in	168,359	-
Total other financing sources (uses)	444,102	-
Change in net position	504,219	(81,052)
Net position - beginning	9,125,216	9,206,268
Net position - ending	\$ 9,629,435	\$ 9,125,216

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,	2016	2015
Operating revenues		
Charges for services	\$ 1,155,485	\$ 638,632
Impact fees	257,400	78,500
Total operating revenues	1,412,885	717,132
Operating expenses		
Personnel services	303,617	297,624
Contractual services	48,682	7,904
Materials and supplies	113,161	71,799
Repairs and maintenance	59,551	21,382
Utilities	75,771	82,143
Other	26,332	74,246
Depreciation	389,779	376,037
Total operating expenses	1,016,893	931,135
Net operating income (loss)	395,992	(214,003)
Nonoperating revenues (expenses)		
Miscellaneous	-	840,663
Interest income	4,122	1,745
Interest expense	(61,426)	(35,865)
Total nonoperating revenues (expenses)	(57,304)	806,543
Other financing sources (uses)		
Capital grants and contributions	113,112	-
Transfers in	168,358	-
Total other financing sources (uses)	281,470	-
Change in net position	620,158	592,540
Net position - beginning	13,953,620	13,361,080
Net position - ending	\$ 14,573,778	\$ 13,953,620

See independent auditor's report