

Item #8

**City of Flagler Beach, Florida
Financial Statements
For the Year Ended
September 30, 2012**

**Dufresne & Associates, CPA, PA
385 Stiles Avenue
Post Office Box 1179
Orange Park, Florida 32073
(904) 278-8980 Phone
(904) 278-4665 Fax
www.dufresnepas.com**

City of Flagler Beach, Florida
Financial Statements
September 30, 2012

TABLE OF CONTENTS

INTRODUCTORY SECTION	
List of Principal Officials.....	1
FINANCIAL SECTION	
Independent Auditor's Report.....	2
Management's Discussion and Analysis.....	4
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets.....	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	15
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets.....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Net Assets - Enterprise Funds.....	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Enterprise Funds.....	20
Statement of Cash Flows - Enterprise Funds.....	21
Statement of Fiduciary Net Assets - Pension Trust Funds.....	22
Statement of Changes in Fiduciary Net Assets - Pension Trust Funds.....	23
Notes to the Financial Statements.....	24
Required Supplementary Information:	
Budgetary Comparison Schedule - General Fund.....	48
Budgetary Comparison Schedule - Community Redevelopment Fund.....	49
Notes to the Budgetary Comparison Schedules.....	50
Schedule of Funding Progress - Municipal Police Officers' and Firefighters' Pension Trust Fund Plans.....	51
Schedule of Pension Plan Contributions from the Employer and Other Contributing Entities - Municipal Police Officers' and Firefighters' Pension Trust Fund Plans.....	52
Other Supplementary Information:	
Community Redevelopment Agency - Balance Sheet (As Required and Defined by <i>Florida Statutes</i> 163.387(8)).....	53
Community Redevelopment Agency - Statement of Revenues, Expenditures, and Changes in Fund Balance (As Required and Defined by <i>Florida Statutes</i> 163.387(8)).....	54
OTHER REPORTS	
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>	55
Management Letter of Independent Auditors Required by Chapter 10.550, Rules of the Auditor General.....	57

INTRODUCTORY SECTION

**City of Flagler Beach, Florida
List of Principal Officials
September 30, 2012**

MAYOR

HONORABLE
LINDA PROVENCHER

CHAIRPERSON

JANE MEALY

VICE-CHAIRPERSON

STEVE SETTLE

CITY COMMISSIONERS

KIM CARNEY
MARSHALL SHUPE
JOY MCGREW

CITY MANAGER

BRUCE CAMPBELL

FINANCE DIRECTOR

KATHLEEN DOYLE

CITY ATTORNEY

DREW SMITH

INDEPENDENT AUDITORS

DUFRESNE & ASSOCIATES, CPA, PA

FINANCIAL SECTION

DATE

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor, City Commissioners, and
City Manager of the City of Flagler Beach, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Flagler Beach, Florida (City), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City, as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 12 and 48 through 50 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The accompanying Community Redevelopment Agency Balance Sheet (As Required and Defined by *Florida Statutes* 163.387(8)) and the Community Redevelopment Agency Statement of Revenues, Expenditures and Changes in Fund Balance (As Required and Defined by *Florida Statutes* 163.387(8)) (collectively referred to as CRA Financial Statements) included in the section entitled Other Supplementary Information are presented for purposes of additional analysis and are not a required part of the financial statements. The CRA Financial Statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the CRA Financial Statements are fairly stated in all material respects in relation to the financial statements as a whole.

Dufresne & Associates, CPA, PA

Management's Discussion and Analysis (Unaudited)

As management of the City of Flagler Beach, Florida (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2012.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$35,962,692.
- The City's total net assets decreased by \$577,362.
- As the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,797,949, an increase of \$238,175 in comparison with the prior year. There was not one significant factor, but overall 12 of the 23 departments came in under budget when compared to the original budget. The return to fund balance is not an effect of budgets being set too high; but a factor of good staff management during the year. See Budget Comparison Schedule on page 48.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,543,320 or 73.03% of total General Fund expenditures. Expenditures exceeded Revenues in the General Fund by \$137,344, until internal transfers and other funding sources of \$470,031 are factored in. The result is 5.88% of anticipated expenditures were returned to the General Fund.
- The City's total long-term liabilities decreased by \$322,917. The liabilities consists of compensated absences, capital leases for police motorcycles and two police vehicles, State Revolving Fund Loan for the water treatment plant, the Revenue Bond Note for CRA District improvements and the Revenue Bond Note for Stormwater Improvements throughout the City.

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 the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected utility taxes or earned but unsecured vacation leave, etc.).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes, licenses and permits, and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, transportation, physical environment, and culture/recreation. The business-type activities of the City include water and sewer, sanitation, and stormwater. The government-wide financial statements can be found on pages 13 and 14 of this report.

Fund financial statements. A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable *resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements; it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains two individual governmental funds; General and Community Redevelopment Funds. Information is presented separately in the governmental fund Balance Sheet and in the Statement of Revenues, Expenditures, and Changes in Fund Balances for the governmental funds. The basic governmental fund financial statements can be found in this report on pages 15 through 18.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget and can be found on page 48.

Proprietary funds. The City maintains one type of propriety fund, which are enterprise funds. Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, sanitation, and stormwater activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer, Sanitation, and Stormwater Funds, all of which are considered major funds. The basic proprietary fund financial statements can be found in this report on pages 19 through 21.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found within this report on pages 22 and 23.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found within this report on pages 24 through 47.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information for the Municipal Police Officers' Pension Trust Fund and the Municipal Firefighters' Pension Trust Fund and the budget versus actual schedule for the General Fund and Community Redevelopment Fund.

Government-wide Financial Analysis

As noted earlier, net assets might serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceed liabilities by \$35,962,692 at the close of the most recent fiscal year.

The largest portion of the City's net assets reflects its investment in capital assets (e.g. land, land improvements, buildings, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that 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.

City of Flagler Beach's Net Assets

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 6,421,987	\$ 6,047,101	\$ 7,471,051	\$ 7,843,843	\$ 13,893,038	\$ 13,890,944
Capital assets	8,964,922	9,041,693	22,689,438	23,286,280	31,654,360	32,327,973
Total assets	15,386,909	15,088,794	30,160,489	31,130,123	45,547,398	46,218,917
Long-term liabilities outstanding	1,286,131	1,242,527	7,218,781	7,585,302	8,504,912	8,827,829
Other liabilities	537,867	304,398	541,927	546,636	1,079,794	851,034
Total liabilities	1,823,998	1,546,925	7,760,708	8,131,938	9,584,706	9,678,863
Net assets:						
Invested in capital assets, net of related debt	7,939,133	8,021,442	15,575,509	15,793,694	23,514,642	23,815,136
Restricted	1,982,172	2,123,731	2,314,707	2,833,085	4,296,879	4,956,816
Unrestricted	3,641,606	3,396,696	4,509,565	4,371,406	8,151,171	7,768,102
Total net assets	\$ 13,562,911	\$ 13,541,869	\$ 22,399,781	\$ 22,998,185	\$ 35,962,692	\$ 36,540,054

A portion of the City's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors.

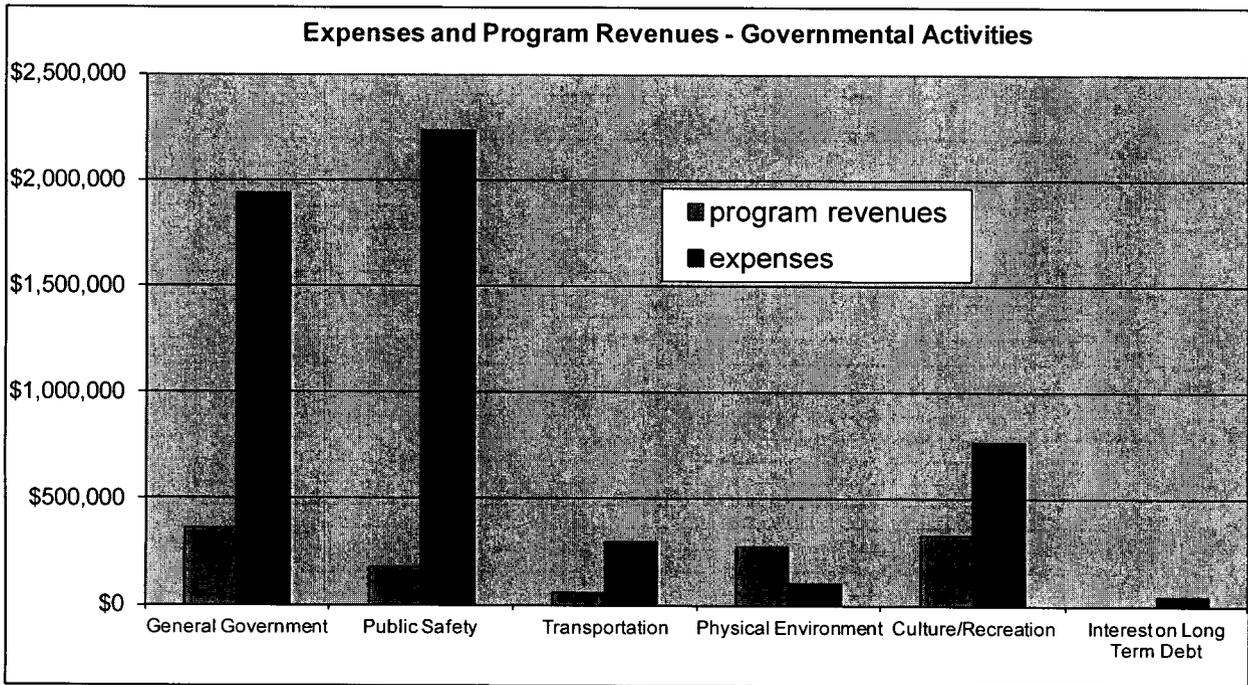
At the end of the current fiscal year, the City is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Governmental activities. Governmental activities increased the City's net assets by \$21,042 thereby accounting for 3.64% of the total decrease in the net assets of the City; this represents an increase over last year due to the construction in the CRA district. There was a \$152,000 decrease due to a prior period adjustment as noted in the notes on page 31 of the report.

Overall, revenues in Governmental activities decreased by \$53,373 or 0.95%; expenses increased by \$915,940 or 20.59% when compared to last year's balances.

City of Flagler Beach's Change in Net Assets

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for services and fees	\$ 596,477	\$ 449,987	\$ 3,794,418	\$ 3,887,685	\$ 4,390,895	\$ 4,337,672
Operating grants and contributions	193,284	289,167	-	-	193,284	289,167
Capital grants and contributions	411,954	693,500	87,383	-	499,337	693,500
General revenues:						
Property taxes	2,343,689	2,505,458	-	-	2,343,689	2,505,458
Sales taxes	388,631	436,668	-	-	388,631	436,668
Franchise and utility taxes	997,427	1,036,871	-	-	997,427	1,036,871
Intergovernmental revenue	109,018	110,885	-	-	109,018	110,885
Unrestricted investment earnings	38,648	40,553	70,344	76,798	108,992	117,351
Other miscellaneous	29,823	28,261	-	-	29,823	28,261
Total revenues	5,108,951	5,591,350	3,952,145	3,964,483	9,061,096	9,555,833
Expenses:						
General government	1,933,817	1,226,692	-	-	1,933,817	1,226,692
Public safety	2,229,094	1,974,738	-	-	2,229,094	1,974,738
Transportation	299,783	368,264	-	-	299,783	368,264
Physical environment	98,634	93,821	-	-	98,634	93,821
Culture/recreation	764,594	744,343	-	-	764,594	744,343
Interest on long-term debt	39,013	41,137	-	-	39,013	41,137
Water and sewer	-	-	3,144,833	2,647,422	3,144,833	2,647,422
Sanitation	-	-	807,180	933,211	807,180	933,211
Stormwater	-	-	169,510	147,821	169,510	147,821
Total expenses	5,364,935	4,448,995	4,121,523	3,728,454	9,486,458	8,177,449
Increase (decrease) in net asset before transfers	(255,984)	1,142,355	(169,378)	236,029	(425,362)	1,378,384
Transfers	429,026	-	(429,026)	-	-	-
Increase (decrease) in net assets	173,042	1,142,355	(598,404)	236,029	(425,362)	1,378,384
Net assets-beginning of year, as previously reported	13,541,869	12,399,514	22,998,185	22,762,156	36,540,054	35,161,670
Prior period adjustment	(152,000)	-	-	-	(152,000)	-
Net assets- beginning of year, as restated	13,389,869	12,399,514	22,998,185	22,762,156	36,388,054	35,161,670
Net assets - end of year	\$ 13,562,911	\$ 13,541,869	\$ 22,399,781	\$ 22,998,185	\$ 35,962,692	\$ 36,540,054



Revenues by Source - Governmental Activities



■ Property Tax 45.87%	■ Franchise Tax 5.31%
■ Utility Service Tax 9.78%	■ Community Services Tax 4.43%
■ Operating Grants 3.78%	■ Capital Grants 8.06%
■ Infrastructure Surtax 3.39%	■ Local Half Cent Sales Tax 2.44%
■ Local Option Gas Tax 1.78%	■ State Revenue Sharing 2.03%
■ Intergovernmental .10%	■ Charges for Services & Fees 11.68%
■ Unrestricted Investment Earnings .76%	■ Miscellaneous .58%

Business-type activities. Business-type activities decrease the City's net assets by \$598,404 accounting for 103.64% of the total decrease in the City's net assets when compared to last fiscal year.

Overall the revenues in business-type activities decreased by \$441,364 or 11.13%. The expenses increased \$393,069 or 10.54%.

Financial Analysis of the City's Funds

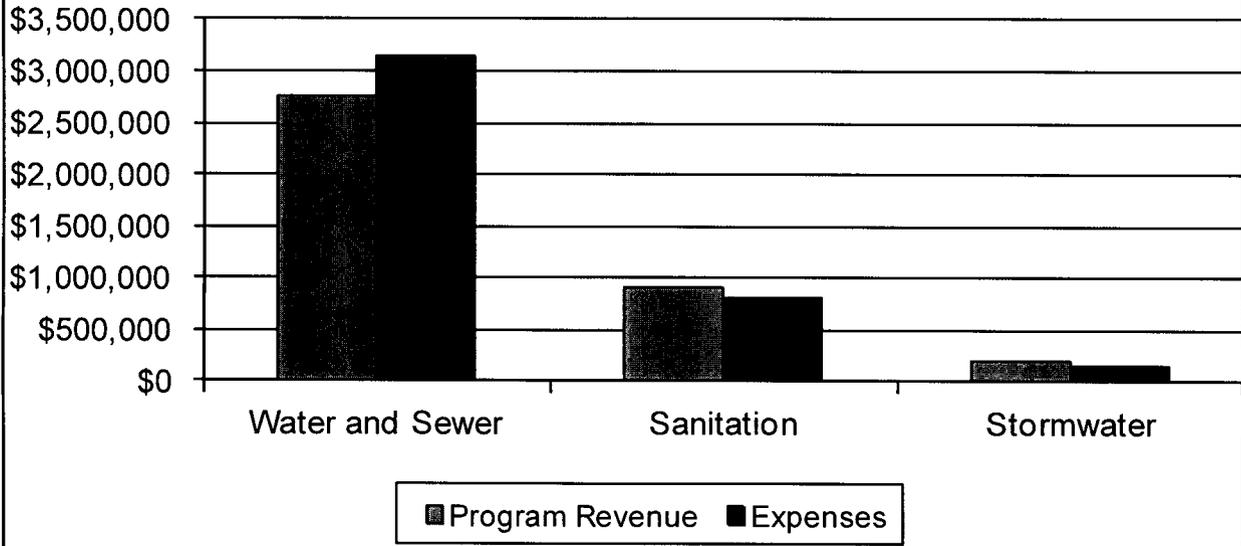
As noted earlier, the City used fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,797,949, an increase of \$238,175 in comparison with prior year. 63.50% of the total amount, or \$3,543,230, constitutes *unassigned fund balance* in the General Fund, which is available for spending at the government's discretion. The Community Redevelopment Fund has an *unassigned fund balance* of \$138,679 available for spending in CRA related endeavors at the government's discretion. The remainder of the fund balance in the General Fund is reserved to indicate that it is not available for new spending because it has already been designated *Nonspendable* – Prepaid amounts of \$80,729; *Restricted* for Infrastructure and Capital Projects \$1,611,543, *Restricted* for Law Enforcement and Training \$93,390, *Restricted* for Land Purchases \$18,555 and *Restricted* for the purchase of a new Fire Truck \$50,000; *Committed* for Encumbrances \$235,080 including \$3,762 for paving and \$231,318 for construction; *Assigned* as an encumbrance was the amount of \$26,743 for Software purchases.

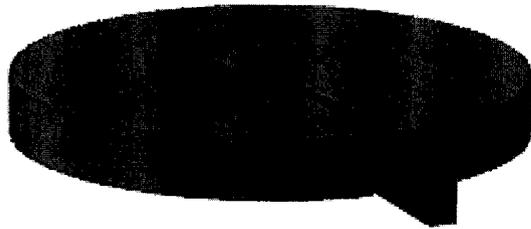
The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$3,543,230 while the total fund balance reached \$5,659,270. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 65.04% of the total General Fund expenditures, while total fund balance represents 105.48% of General Fund expenditures.

Proprietary funds. The City's proprietary funds financial statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the Water and Sewer, Sanitation, and Stormwater Funds at the end of the year amounted to \$2,647,707, \$1,354,173, and \$507,685, respectively. The total increase (decrease) in unrestricted net assets was (\$9,051), \$159,978, (\$12,768), respectively. Base Rate increases for the Utility and Stormwater Funds will be necessary to fund future projects and general maintenance of aging infrastructure.

Expenses and Program Revenues Business-Type Activities



Revenues by Source - Business-Type Activities



- Charges for Services & Fees 98.18%
- Unrestricted Investment Earnings 1.82%

General Fund Budgetary Highlights

The Budgetary Comparison Schedule for the General Fund found on page 48 of the Required Supplementary Information shows the differences between the original budget, the final amended budget and actual amounts.

Revenues were \$59,574 more than the final budget. The City was able to keep expenditures under budget by \$490,742 when compared to the amended budget. The net result was an increase of \$332,687 to the fund balance for General Fund.

Capital assets. The City's investment in capital assets for its governmental and business-type assets as of September 30, 2012, amounts to \$31,654,360. This investment in capital assets includes land and land improvements, buildings, improvements other than buildings, equipment, construction in progress, and infrastructure. The total decrease in the City's investment in capital assets for the current fiscal year was 2.08%.

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

- The Morningside Sewer Line Improvement was completed this year. The total cost of the improvement was \$1,049,461. The residents of the Morningside Subdivision will be assessed \$632,997 on their tax bills over the next 20 years.
- The old Water Treatment Plant was demolished during the 2011-12 Fiscal Year resulting in a \$1,082,745 loss on disposal of property
- Stormwater Improvements were completed on South Flagler Avenue near the Fire Department, bringing the total of Stormwater projects completed to five. The cost for the fifth project was \$439,195.
- Improvements made to the City owned Pier included a complete bathroom renovation and a new deck behind the restaurant. The cost of \$139,129 was reimbursed to the city with a Tourist Development Council (TDC) Grant.
- Construction in Progress (CIP) for the city included the CRA Phase II C, which puts the finishing touches on the downtown area. This project is funded with an ARRA Grant and was completed during the 2012-13 Fiscal Year
- Design for the Ocean Promenade was completed during the 2011-12 Fiscal Year. This project is funded with a Transportation Grant and will be started late 2012-13

City of Flagler Beach's Capital Assets

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Land and land improvements	\$ 1,666,395	\$ 1,666,395	\$ 1,648,235	\$ 1,648,235	\$ 3,314,630	\$ 3,314,630
Buildings	3,540,912	3,401,783	10,717,389	12,516,951	14,258,301	15,918,734
Improvements other than buildings	1,675,842	1,665,831	15,259,492	14,328,882	16,935,334	15,994,713
Equipment	2,482,249	2,442,600	2,038,314	1,958,162	4,520,563	4,400,762
Construction in progress	511,160	288,364	254,272	620,839	765,432	909,203
Infrastructure	4,245,611	4,245,611	2,314,002	1,874,806	6,559,613	6,120,417
Less accumulated depreciation	(5,157,247)	(4,668,891)	(9,542,266)	(9,661,595)	(14,699,513)	(14,330,486)
Total	\$ 8,964,922	\$ 9,041,693	\$ 22,689,438	\$ 23,286,280	\$ 31,654,360	\$ 32,327,973

Additional information on the City's capital assets can be found within this report.

Long-term debt. At the end of the fiscal year, the City had total debt outstanding in the amount of \$8,504,912, of which \$446,023 is due within one year.

The debt in the governmental funds amounts to \$1,286,131 and consists of the Community Redevelopment Revenue Note, capital leases for vehicles and compensated absences.

The enterprise funds' debt amounts to \$7,218,781 and includes the State Revolving Fund Loan for the water treatment plant, Stormwater Revenue Note and compensated absences.

Economic Factors and Next Year's Budgets and Rates

- Property values continue to decline into the 2012-13 Budget Year; not as severely as in the past five years, but still a 6% decrease.
- The City owned Pier Restaurant renovation was completed during the 2012-13 year and the "Funky Pelican" opened in January of 2013. The increased revenue from the restaurant and Pier Shop has also increased our Pier Walk-Out Revenue. For the first time in many years, revenues collected from the Pier will exceed the operating costs of the Municipal Pier.
- Continued decline in investment earning opportunities will affect both governmental and business-type activities
- Base Rate increases for the Utility to provide funds for the aging Waste Water Treatment Plant and general maintenance of aging infrastructure.
- The Stormwater Fees have not been increased since the City began the Enterprise Fund in 2004-05 Fiscal Year. Now that the City has completed Projects an operating budget for maintenance of the infrastructure will be needed. The budget will need to include labor and equipment. 67% of our current fee structure of \$4 per month for residential properties is spent on the debt service. This leaves us unable to rebuild our reserves for future projects. The City was awarded a FEMA Grant to proceed with the next two projects, but the city will need to provide roughly 25% of the funding from reserves.

All of these factors were considered when the City prepared the budget for fiscal year 2012-13. The state of our local economy and the condition of unrestricted reserves in the Utility and Stormwater Funds will be considered in preparing the City's budget for fiscal year 2013-14.

At the end of 2011-12 the fund balance in the General Fund increased to \$5,659,270. All appropriations lapse at year end. The City of Flagler Beach has appropriated \$261,823 to be returned to the fund balance for the 2012-13 fiscal year budget. The use of current revenues and available reserved fund balance for ongoing projects allowed the City to adjust the millage rate to the roll back rate for the 2012-13 fiscal year budget. Management continues to enforce reduction of spending and restructuring of staff positions, services and other expenditures in the General and Enterprise Funds to balance the budget in the future.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Flagler Beach, Finance Department Director, 105 South Second Street, Flagler Beach, FL 32136.

City of Flagler Beach, Florida
Statement of Net Assets
September 30, 2012

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 805,788	\$ 1,057,654	\$ 1,863,442
Investments	4,455,106	3,457,005	7,912,111
Accounts receivable, net of allowance	143,842	615,542	759,384
Due from other governments	522,760	-	522,760
Internal balances	324,539	(324,539)	-
Prepays	99,947	23,453	123,400
Restricted cash and cash equivalents	-	327,229	327,229
Restricted investments	-	2,314,707	2,314,707
Net pension asset	70,005	-	70,005
Capital assets:			
Land and land improvements	1,666,395	1,648,235	3,314,630
Construction in progress	511,160	254,272	765,432
Buildings	3,540,912	10,717,389	14,258,301
Improvements other than buildings	1,675,842	15,259,492	16,935,334
Equipment	2,482,249	2,038,314	4,520,563
Infrastructure	4,245,611	2,314,002	6,559,613
Accumulated depreciation	<u>(5,157,247)</u>	<u>(9,542,266)</u>	<u>(14,699,513)</u>
Total assets	<u>15,386,909</u>	<u>30,160,489</u>	<u>45,547,398</u>
LIABILITIES			
Accounts payable and accrued liabilities	501,566	296,374	797,940
Unearned revenues	33,249	18,726	51,975
Customer deposits	-	195,576	195,576
Accrued interest payable	3,052	31,251	34,303
Non-current liabilities:			
Due within one year	108,151	337,872	446,023
Due in more than one year	1,177,980	6,880,909	8,058,889
Total liabilities	<u>1,823,998</u>	<u>7,760,708</u>	<u>9,584,706</u>
NET ASSETS			
Invested in capital assets, net of related debt	7,939,133	15,575,509	23,514,642
Restricted for:			
Infrastructure and capital assets	1,680,098	2,314,707	3,994,805
Law enforcement	93,390	-	93,390
Pensions	70,005	-	70,005
Community redevelopment	138,679	-	138,679
Unrestricted	3,641,606	4,509,565	8,151,171
Total net assets	<u>\$ 13,562,911</u>	<u>\$ 22,399,781</u>	<u>\$ 35,962,692</u>

The notes to the financial statements are an integral part of this statement.

City of Flagler Beach, Florida
Statement of Activities
For the Year Ended September 30, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services and Fees	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs							
Primary Government:							
Governmental activities:							
General government	\$ 1,933,817	\$ 356,477	\$ -	\$ -	\$ (1,577,340)	\$ -	\$ (1,577,340)
Public safety	2,229,094	43,743	131,783	-	(2,053,568)	-	(2,053,568)
Transportation	299,783	-	58,514	-	(241,269)	-	(241,269)
Physical environment	98,634	-	-	279,239	180,605	-	180,605
Culture/recreation	764,594	196,257	2,987	132,715	(432,635)	-	(432,635)
Debt Service - Interest (GA)	39,013	-	-	-	(39,013)	-	(39,013)
Total governmental activities	5,364,935	596,477	193,284	411,954	(4,163,220)	-	(4,163,220)
Business-type activities:							
Water and sewer	3,144,833	2,671,842	-	87,383	-	(385,608)	(385,608)
Sanitation	807,180	912,880	-	-	-	105,700	105,700
Stormwater	169,510	209,696	-	-	-	40,186	40,186
Total business-type activities	4,121,523	3,794,418	-	87,383	-	(239,722)	(239,722)
Total primary government	\$ 9,486,458	\$ 4,390,895	\$ 193,284	\$ 499,337	(4,163,220)	(239,722)	(4,402,942)
General Revenues:							
Property taxes					2,343,689	-	2,343,689
Franchise fees					271,454	-	271,454
Utility service taxes					499,461	-	499,461
Communication services tax					226,512	-	226,512
Infrastructure surtax					173,178	-	173,178
Local half-cent sales tax					124,674	-	124,674
Local option gas tax					90,779	-	90,779
State revenue sharing proceeds					103,712	-	103,712
Intergovernmental					5,306	-	5,306
Unrestricted investment earnings					38,648	70,344	108,992
Miscellaneous					29,823	-	29,823
Transfers					429,026	(429,026)	-
Total general revenues and transfers					4,336,262	(358,682)	3,977,580
Change in net assets					173,042	(598,404)	(425,362)
Total net assets - beginning of year, previously reported					13,541,869	22,998,185	36,540,054
Prior period adjustment					(152,000)	-	(152,000)
Total net assets - beginning of year, restated					13,389,869	22,998,185	36,388,054
Net assets - end of year					\$ 13,562,911	\$ 22,399,781	\$ 35,962,692

The notes to the financial statements are an integral part of this statement.

City of Flagler Beach, Florida
Balance Sheet
Governmental Funds
September 30, 2012

	<u>General</u>	<u>Community Redevelopment</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 762,647	\$ 43,141	\$ 805,788
Investments	4,455,106	-	4,455,106
Accounts receivable, net of allowance	143,842	-	143,842
Due from other governments	243,521	279,239	522,760
Due from other funds	541,564	8,455	550,019
Prepays	80,729	-	80,729
Total assets	<u>\$ 6,227,409</u>	<u>\$ 330,835</u>	<u>\$ 6,558,244</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 289,600	\$ 22	\$ 289,622
Accrued personal services	19,021	-	19,021
Contracts payable	2,345	161,006	163,351
Retainage payable	-	29,571	29,571
Deferred revenue	33,249	-	33,249
Due to other funds	223,924	1,557	225,481
Total liabilities	<u>568,139</u>	<u>192,156</u>	<u>760,295</u>
Fund balances:			
Nonspendable:			
Prepays	80,729	-	80,729
Restricted:			
Police training	17,308	-	17,308
Special law enforcement	32,900	-	32,900
Law enforcement automation	43,182	-	43,182
Fire truck	50,000	-	50,000
A1A land purchases	18,555	-	18,555
Infrastructure and capital assets	1,611,543	-	1,611,543
Committed:			
Roads & highways	3,762	-	3,762
Pier hardening related to FEMA	94,350	-	94,350
Phase II C design engineering fees	136,968	-	136,968
Assigned:			
Software	26,743	-	26,743
Unassigned	3,543,230	138,679	3,681,909
Total fund balances	<u>5,659,270</u>	<u>138,679</u>	<u>5,797,949</u>
Total liabilities and fund balances	<u>\$ 6,227,409</u>	<u>\$ 330,835</u>	<u>\$ 6,558,244</u>

The notes to the financial statements are an integral part of this statement.

City of Flagler Beach, Florida
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
September 30, 2012

Fund balances - governmental funds	\$	5,797,949
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Governmental capital assets	14,122,169	
Accumulated depreciation	<u>(5,157,247)</u>	8,964,922
Interest payable on long-term debt does not require current financial resources, therefore interest payable is not reported as a liability in the governmental funds Balance Sheet.		
		(3,052)
The cumulative effect of overfunding/underfunding the actuarially required contributions to a pension fund or OPEB fund does not represent a financial asset/liability in the governmental funds. In the Statement of Net Assets, which is presented on the accrual basis, an asset or liability is reported since the adjustment to expense is fully recognized in the Statement of Activities.		
Net pension asset	70,005	
Other postemployment benefits liability	<u>(122,810)</u>	(52,805)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as governmental fund liabilities.		
Notes payable	(982,000)	
Capital leases payable	(63,007)	
Compensated absences	<u>(118,314)</u>	(1,163,321)
Deferred charges for note issuance costs are currently expensed in the governmental funds, whereas they are capitalized and amortized in the Statement Net Assets.		
		<u>19,218</u>
Net assets of governmental activities	\$	<u><u>13,562,911</u></u>

City of Flagler Beach, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2012

	General	Community Redevelopment	Total Governmental Funds
REVENUES			
Taxes	\$ 3,127,810	\$ 115,030	\$ 3,242,840
Franchise fees	271,454	-	271,454
Licenses and permits	244,978	-	244,978
Intergovernmental	517,755	-	517,755
Charges for services	297,022	-	297,022
Fines and forfeitures	54,477	-	54,477
Grants and donations	132,715	279,239	411,954
Investment earnings	38,564	84	38,648
Miscellaneous	29,649	174	29,823
Total revenues	<u>4,714,424</u>	<u>394,527</u>	<u>5,108,951</u>
EXPENDITURES			
Current:			
General government	1,619,579	17,602	1,637,181
Public safety	1,960,712	-	1,960,712
Transportation	107,642	-	107,642
Physical environment	-	78,749	78,749
Culture/recreation	710,815	-	710,815
Debt service:			
Principal	11,212	41,000	52,212
Interest	1,753	37,385	39,138
Capital outlay	440,055	328,298	768,353
Total expenditures	<u>4,851,768</u>	<u>503,034</u>	<u>5,354,802</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(137,344)</u>	<u>(108,507)</u>	<u>(245,851)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	431,941	16,910	448,851
Transfers out	(16,910)	(2,915)	(19,825)
Capital Lease	55,000	-	55,000
Total other financing sources (uses)	<u>470,031</u>	<u>13,995</u>	<u>484,026</u>
Net changes in fund balances	332,687	(94,512)	238,175
Fund balances - beginning of year	5,326,583	233,191	5,559,774
Fund balances - end of year	<u>\$ 5,659,270</u>	<u>\$ 138,679</u>	<u>\$ 5,797,949</u>

The notes to the financial statements are an integral part of this statement.

City of Flagler Beach, Florida
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2012

Net changes in fund balances - total governmental funds \$ 238,175

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	563,585	
Current year depreciation	<u>(488,356)</u>	75,229

Some revenues and expenses reported in the Statement of Activities did not require the use of or provide current financial resources and therefore are not reported in the governmental funds.

Change in:

Compensated absences payable	(7,488)	
Interest payable	128	
Other postemployment benefits liability	(33,327)	
Net pension asset	<u>(94,141)</u>	(134,828)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The details of these differences in the treatment of long-term debt and related items are as follows:

Capital lease	(55,000)	
Promissory note principal payments	41,000	
Capital leases principal payments	11,211	
Deferred charges	<u>(2,745)</u>	<u>(5,534)</u>

Change in net assets of governmental activities \$ 173,042

City of Flagler Beach, Florida
Statement of Net Assets
Enterprise Funds
September 30, 2012

	Water and Sewer	Sanitation	Stormwater	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 513,455	\$ 194,741	\$ 349,458	\$ 1,057,654
Investments	2,372,179	990,820	94,006	3,457,005
Restricted cash and cash equivalents:				
Customer deposits	199,391	-	-	199,391
Debt service	100,542	-	-	100,542
Revenue note covenant accounts	-	-	27,296	27,296
Receivables (net of allowance for uncollectible accounts):				
Accounts receivable	453,884	-	-	453,884
Unbilled accounts	161,658	-	-	161,658
Due from other funds	210,582	270,626	61,623	542,831
Prepays and other assets	4,322	-	19,131	23,453
Total current assets	<u>4,016,013</u>	<u>1,456,187</u>	<u>551,514</u>	<u>6,023,714</u>
Non-current assets:				
Restricted investments:				
Water impact fees	1,377,425	-	-	1,377,425
Sewer impact fees	937,282	-	-	937,282
Total restricted assets	<u>2,314,707</u>	<u>-</u>	<u>-</u>	<u>2,314,707</u>
Unrestricted:				
Land	75,562	-	1,572,673	1,648,235
Construction in progress	100,320	7,123	146,829	254,272
Buildings	10,647,368	70,021	-	10,717,389
Improvements other than buildings	15,259,492	-	-	15,259,492
Equipment	951,032	1,054,830	32,452	2,038,314
Infrastructure	-	-	2,314,002	2,314,002
Less accumulated depreciation	(8,698,850)	(712,583)	(130,833)	(9,542,266)
Total unrestricted assets	<u>18,334,924</u>	<u>419,391</u>	<u>3,935,123</u>	<u>22,689,438</u>
Total non-current assets	<u>20,649,631</u>	<u>419,391</u>	<u>3,935,123</u>	<u>25,004,145</u>
Total assets	<u>24,665,644</u>	<u>1,875,578</u>	<u>4,486,637</u>	<u>31,027,859</u>
LIABILITIES				
Current liabilities:				
Accounts payable	280,515	14,974	34	295,523
Accrued personal services liabilities	763	89	-	852
Accrued interest payable	31,251	-	-	31,251
Unearned revenues	18,726	-	-	18,726
Current portion of long-term debt	319,722	-	-	319,722
Compensated absences payable	12,494	5,193	463	18,150
Customer deposits payable	195,576	-	-	195,576
Due to other funds	780,751	64,655	21,963	867,369
Total current liabilities	<u>1,639,798</u>	<u>84,911</u>	<u>22,460</u>	<u>1,747,169</u>
Non-current liabilities				
Loans payable	5,254,338	-	1,559,000	6,813,338
Compensated absences payable	14,556	4,475	505	19,536
Other postemployment benefits	33,674	12,628	1,733	48,035
Total non-current liabilities	<u>5,302,568</u>	<u>17,103</u>	<u>1,561,238</u>	<u>6,880,909</u>
Total liabilities	<u>6,942,366</u>	<u>102,014</u>	<u>1,583,698</u>	<u>8,628,078</u>
NET ASSETS				
Invested in capital assets, net of related debt	12,760,864	419,391	2,395,254	15,575,509
Restricted for:				
Water construction	1,377,425	-	-	1,377,425
Sewer construction	937,282	-	-	937,282
Unrestricted	2,647,707	1,354,173	507,685	4,509,565
Total net assets	<u>\$ 17,723,278</u>	<u>\$ 1,773,564</u>	<u>\$ 2,902,939</u>	<u>\$ 22,399,781</u>

The notes to the financial statements are an integral part of this statement.

City of Flagler Beach, Florida
Statement of Revenues, Expenses and Changes in Fund Net Assets
Enterprise Funds
For the Year Ended September 30, 2012

	Water and Sewer	Sanitation	Stormwater	Total
Operating revenues:				
Charges for services				
Water	\$ 1,518,565	\$ -	\$ -	\$ 1,518,565
Sewer	1,093,736	-	-	1,093,736
Sanitation	-	909,760	-	909,760
Stormwater	-	-	206,028	206,028
Other operating revenues	59,541	3,120	3,668	66,329
Total operating revenues	<u>2,671,842</u>	<u>912,880</u>	<u>209,696</u>	<u>3,794,418</u>
Operating expenses:				
Personal services	731,641	264,492	42,040	1,038,173
Materials, supplies, services and other operating expenses	599,285	431,980	15,793	1,047,058
Depreciation	583,250	110,708	59,161	753,119
Total operating expenses	<u>1,914,176</u>	<u>807,180</u>	<u>116,994</u>	<u>2,838,350</u>
Operating income	<u>757,666</u>	<u>105,700</u>	<u>92,702</u>	<u>956,068</u>
Nonoperating revenues (expenses):				
Impact fees	87,383	-	-	87,383
Investment earnings	62,575	7,235	534	70,344
Interest expense	(147,912)	-	(52,516)	(200,428)
Loss on disposal of property	(1,082,745)	-	-	(1,082,745)
Total nonoperating revenues (expenses)	<u>(1,080,699)</u>	<u>7,235</u>	<u>(51,982)</u>	<u>(1,125,446)</u>
Income before contributions and transfers	(323,033)	112,935	40,720	(169,378)
Transfers out	(362,416)	(56,542)	(10,068)	(429,026)
Change in net assets	<u>(685,449)</u>	<u>56,393</u>	<u>30,652</u>	<u>(598,404)</u>
Total net assets - beginning	<u>18,408,727</u>	<u>1,717,171</u>	<u>2,872,287</u>	<u>22,998,185</u>
Total net assets - ending	<u>\$ 17,723,278</u>	<u>\$ 1,773,564</u>	<u>\$ 2,902,939</u>	<u>\$ 22,399,781</u>

The notes to the financial statements are an integral part of this statement.
6/25/2013 4:41:39 PM

City of Flagler Beach, Florida
Statement of Cash Flows
Enterprise Funds
For the Year Ended September 30, 2012

	Business-type Activities - Enterprise Funds			
	Water and Sewer	Sanitation	Stormwater	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 2,733,379	\$ 912,880	\$ 209,696	\$ 3,855,955
Payments to suppliers	(374,265)	(439,609)	(29,657)	(843,531)
Payments to employees	(742,959)	(270,449)	(42,165)	(1,055,573)
Other operating cash transfers	380,017	(85,644)	(23,428)	270,945
Net cash provided by operating activities	<u>1,996,172</u>	<u>117,178</u>	<u>114,446</u>	<u>2,227,796</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	(362,416)	(56,542)	(10,068)	(429,026)
Net cash used by noncapital financing activities	<u>(362,416)</u>	<u>(56,542)</u>	<u>(10,068)</u>	<u>(429,026)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital grants and contributions	87,383	-	-	87,383
Acquisition and construction of capital assets	(1,191,883)	(7,123)	(224,092)	(1,423,098)
Principal paid on capital debt	(311,392)	-	(70,000)	(381,392)
Interest paid on capital debt	(152,612)	-	(52,516)	(205,128)
Net cash used by capital and related financing activities	<u>(1,568,504)</u>	<u>(7,123)</u>	<u>(346,608)</u>	<u>(1,922,235)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(133,918)	(7,163)	(272)	(141,353)
Interest and other income	60,829	7,235	534	68,598
Net cash provided (used) by investing activities	<u>(73,089)</u>	<u>72</u>	<u>262</u>	<u>(72,755)</u>
Net increase (decrease) in cash and cash equivalents	(7,837)	53,585	(241,968)	(196,220)
Cash and cash equivalents, beginning of year	821,225	141,156	618,722	1,581,103
Cash and cash equivalents, end of year	<u>\$ 813,388</u>	<u>\$ 194,741</u>	<u>\$ 376,754</u>	<u>\$ 1,384,883</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets				
Cash and cash equivalents in current assets:				
Cash and cash equivalents	\$ 513,455	\$ 194,741	\$ 349,458	\$ 1,057,654
Restricted cash and cash equivalents	299,933	-	27,296	327,229
Total cash and equivalents	<u>\$ 813,388</u>	<u>\$ 194,741</u>	<u>\$ 376,754</u>	<u>\$ 1,384,883</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 757,666	\$ 105,700	\$ 92,702	\$ 956,068
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation	583,250	110,708	59,161	753,119
(Increase) decrease in certain assets:				
Prepays	(5,067)	50	2,735	(2,282)
Accounts receivable	48,407	-	-	48,407
Increase (decrease) in certain liabilities:				
Accounts payable and accrued liabilities	216,721	(12,900)	(16,765)	187,056
Accrued personal services liabilities	2,048	(736)	41	1,353
Customer deposits	18,013	-	-	18,013
Unearned revenues	(4,883)	-	-	(4,883)
Due to other funds	380,017	(85,644)	(23,428)	270,945
Total adjustments	<u>1,238,506</u>	<u>11,478</u>	<u>21,744</u>	<u>1,271,728</u>
Net cash provided by operating activities	<u>\$ 1,996,172</u>	<u>\$ 117,178</u>	<u>\$ 114,446</u>	<u>\$ 2,227,796</u>

The notes to the financial statements are an integral part of this statement.

City of Flagler Beach, Florida
Statement of Fiduciary Net Assets
Pension Trust Funds
September 30, 2012

	Municipal Police Officers' Pension Trust Fund	Municipal Firefighters' Pension Trust Fund	Total
ASSETS			
Cash	\$ 570	\$ 319	\$ 889
Receivables:			
State contributions	40,642	48,439	89,081
Employer contributions	1,593	580	2,173
Employee contributions	2,451	448	2,899
Accrued income	2,886	1,591	4,477
Investments:			
Money market funds	308,681	129,218	437,899
U.S. Government and agency securities	42,481	28,321	70,802
Domestic corporate bonds	360,000	190,555	550,555
Common equity securities	1,236,877	657,960	1,894,837
Total assets	<u>1,996,181</u>	<u>1,057,431</u>	<u>3,053,612</u>
LIABILITIES			
Accounts payable	<u>3,673</u>	<u>5,635</u>	<u>9,308</u>
Total liabilities	<u>3,673</u>	<u>5,635</u>	<u>9,308</u>
NET ASSETS			
Held in trust for pension benefits	<u>\$ 1,992,508</u>	<u>\$ 1,051,796</u>	<u>\$ 3,044,304</u>

The notes to the financial statements are an integral part of this statement.
6/25/2013 4:41:39 PM

City of Flagler Beach, Florida
Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended September 30, 2012

	Municipal Police Officers' Pension Trust Fund	Municipal Firefighters' Pension Trust Fund	Total
ADDITIONS			
Contributions:			
Employees	\$ 66,541	\$ 12,506	\$ 79,047
Employer	130,849	55,956	186,805
State insurance	40,642	48,439	89,081
Total contributions	<u>238,032</u>	<u>116,901</u>	<u>354,933</u>
Investment income:			
Net increase in fair value of investments	257,264	137,174	394,438
Interest and dividends	36,152	19,748	55,900
Less investment expense	(22,326)	(23,269)	(45,595)
Net investment income	<u>271,090</u>	<u>133,653</u>	<u>404,743</u>
Total additions	<u>509,122</u>	<u>250,554</u>	<u>759,676</u>
DEDUCTIONS			
Professional services	4,888	5,531	10,419
Employee withdrawals	42,058	34,183	76,241
Total deductions	<u>46,946</u>	<u>39,714</u>	<u>86,660</u>
Change in net assets	462,176	210,840	673,016
Net assets - beginning	<u>1,530,332</u>	<u>840,956</u>	<u>2,371,288</u>
Net assets - ending	<u>\$ 1,992,508</u>	<u>\$ 1,051,796</u>	<u>\$ 3,044,304</u>

The notes to the financial statements are an integral part of this statement.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

I. Summary of significant accounting policies

A. Reporting entity

The City of Flagler Beach (City), Florida, Flagler County (County), a political subdivision incorporated in 1946, under the authority of Chapter 165 *Florida Statutes*, was established by Chapter 11.481 Laws of Florida Acts of 1925. The City operates under a Commission-Manager form of government and provides the following services, as authorized by the City Charter: public safety (police, fire, and building departments), highways and streets, culture/recreation, public improvements, planning and zoning, and general government services. As required by accounting principles generally accepted in the United States of America (GAAP), these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and so, data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize that it is legally separate from the City. The City has no discretely presented component units to report.

Blended component unit. The Flagler Beach Community Redevelopment Agency (CRA) is a blended component unit of the City as both entities are governed by the City Commission. The CRA was created and established by City Ordinances 95-24 and 97-21, for the purpose of rehabilitation, conservation and redevelopment of specific downtown areas of the City.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect costs are included in the program expense reported for individual functions and activities. Program revenues include 1) charges and fees from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, enterprise funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the enterprise fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

- The General Fund – the City's primary operating fund. It accounts for all financial resources of the general government, except those required or permitted and chosen by management to be accounted for in another fund.
- The Community Redevelopment Fund – The City's special revenue fund. It accounts for revenue sources that are legally restricted to expenditures for the CRA.

The City reports the following major enterprise funds:

- The Water and Sewer Fund – accounts for the operations and activities of the City's water and sewer department.
- The Sanitation Fund – accounts for the operations and activities of the City's sanitation department.
- The Stormwater Fund – accounts for the City's stormwater operations and activities.

Additionally, the City reports the following fiduciary funds:

- The Pension Trust Funds – account for the assets of the Municipal Police Officers' Pension Trust Fund and the Municipal Firefighters' Pension Trust Fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Assets, liabilities, and equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The fair value of shares held at the SBA Investment Pool is the same as the fair value of the pooled shares. Investments are reported at fair value. Securities traded on an exchange are valued at the last reported sales price.

Cash and cash equivalents presented on the Statement of Cash Flows - Enterprise Funds are composed of restricted and unrestricted cash.

2. Receivables and payables

All outstanding balances between funds are reported on the fund financial statements as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Enterprise fund receivables are balances due from commercial and residential customers within the City. The City's policy for collections is limited to applying security deposits to past due amounts, the right to discontinue service and to place liens on property. Enterprise receivables are shown net of an allowance for uncollectible accounts.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

All real and tangible personal property taxes are assessed as of the first of January. Assessments are levied and payable on the first of November of each year or as soon thereafter as the assessment roll is certified by the Flagler County Property Appraiser. The County mails to each property owner on the assessment roll a notice of the taxes due and the County also collects the taxes for the City.

City property tax revenues are recognized when levied to the extent that they result in current receivables. Procedures for the collection of delinquent taxes by the County are provided for in the *Florida Statutes*.

The property tax calendar is as follows:

Valuation Date January 1, 2011

Property Appraiser prepares the assessment roll with values as of January 1, 2011, submits this preliminary roll for approval by the State and notifies each taxing authority of their respective valuations. July 1, 2011

City Commission holds two required public hearings and adopts a budget and ad valorem tax millage rate for the coming fiscal year. September 27, 2011
and
September 27, 2011

Property Appraiser certifies the assessment roll and all real and tangible personal property taxes are due and payable (Levy Date). November 1, 2011

A Notice of Taxes is mailed to each property owner on the assessment roll. Taxes are paid November 2011 through March 2012, with the following applicable discounts:

<u>Month Paid</u>	<u>Discount (%)</u>	
November	4	
December	3	November 1, 2011
January	2	through
February	1	March 31, 2012
March	0	

All unpaid taxes on real and tangible personal property become delinquent. April 1, 2012

A list of unpaid tangible personal property taxes and a list of unpaid real property taxes are advertised. April and May 2012

Tax certificates are sold on all real estate parcels with unpaid real property taxes (Lien Date). June 1, 2012

A court order is obtained authorizing the seizure and sale of personal property if the taxpayer fails to pay the delinquent personal property taxes. June 1, 2012

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

Certain proceeds of the City's governmental Community Redevelopment and enterprise Stormwater fund's revenue notes are classified as restricted assets on the Balance Sheet and Statement of Net Assets because their use is limited by applicable bond covenants.

Restricted assets required to be set aside for the payment of enterprise fund contingencies, and other specific enterprise fund assets set aside for restricted purposes which cannot be used for routine operations are classified as restricted assets since their exclusive use is limited by applicable legal indentures.

5. Capital assets

Capital assets, which include: property, plant and equipment and infrastructure assets (e.g. roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Interest capitalization ceases when the construction project is substantially complete. Net interest capitalized during fiscal year 2012 amounted to \$12,932. Interest is not capitalized for construction projects of governmental funds.

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

<u>Assets</u>	<u>Years</u>
Buildings	15-50
Improvements other than buildings	10-50
Equipment	5-15

Pursuant to GASB Statement No. 34, the City is exempt from being required to record and depreciate infrastructure assets acquired before the implementation date becomes effective. As a result, the governmental activities column in the government-wide financial statements does not reflect those infrastructure assets completed prior to October 1, 2003.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

6. Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick-pay benefits. No liability is reported for unpaid accumulated sick leave, except for police officers. Vacation pay is accrued when incurred in enterprise funds and reported as a fund liability. Vacation and sick-pay that is expected to be liquidated with expendable available financial resources are reported as expenditures and a fund liability of the governmental fund that will pay it. No expenditure is reported for these amounts in the current year in the governmental funds. Amounts not expected to be liquidated with expendable available financial resources are reported as long-term debt in the government-wide financial statements. The current portion of this debt is estimated based on historical trends. Also, for governmental activities, compensated absences are generally liquidated by the General Fund.

7. Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or enterprise fund type statement of net assets.

8. Fund equity

The City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance - amounts that are not in spendable form (such as prepaid expenses and advances due from other funds) or are required to be maintained intact.

Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions or by enabling legislation.

Committed fund balance - amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (City Commission). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.

Assigned fund balance - amounts the City intends to use for a specific purpose. Intent can be expressed by the City Commission or as delegated to the City Manager.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

City Commission establishes and modifies or rescinds fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balances are established by the City Commission through adoption or amendment of the budget and through delegation to the City Manager.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

When both restricted and unrestricted fund (committed, assigned or unassigned) balances are available, it is the City's policy to use restricted resources first and then unrestricted resources as they are needed.

The City does not have an established policy regarding its use of unrestricted fund balance amounts but chooses to follow GASB 54, para 18 and considers that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

E. Recently issued accounting standards

In December 2010, the GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance. This statement will improve financial reporting by contributing to the GASB's efforts to codify from all sources of generally accepted accounting principles for state and local governments so they derive from a single source. The City intends to implement the new requirements for the fiscal year 2012-13 financial statements.

In June 2011, the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position, to provide reporting guidance for deferred outflows and inflows of resources. The City intends to implement the new requirements for the fiscal year 2012-13 financial statements.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund Balance Sheet and the government-wide Statement of Net Assets.

Following the governmental fund Balance Sheet is a reconciliation between *fund balances — governmental funds* and *net assets of governmental activities* as reported in the government-wide Statement of Net Assets. The details of the differences are explained in the reconciliation.

B. Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities.

Following the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances, there is a reconciliation between *net changes in fund balances - total governmental funds* and *change in net assets of governmental activities* as reported in the government-wide Statement of Activities. The details of the differences are explained in the reconciliation.

III. Stewardship, compliance, and accountability

A. Budgetary information

Annual budgets are adopted on a basis consistent with GAAP. Annual appropriated budgets are legally adopted for the General and Special Revenue Fund. All annual appropriations lapse at fiscal year end.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

As of September 30, 2013, the City has encumbered amounts in the General Fund that they intend to honor in the subsequent year. The amount encumbered in the General Fund at September 30, 2012 is \$261,823. Of this amount, \$235,080 is reported as committed and \$26,743 as assigned for general government expenditures at the fund level.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

The City follows these procedures in establishing the Budgetary Comparison Schedule data reflected in the financial statements:

- The City Manager annually prepares and submits to the City Commission a proposed operating budget. The operating budget includes proposed expenditures and the means of financing them.
- The general summary of the budget and notice of public hearing is published in the local newspaper.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to October 1, the budget is legally enacted for the General Fund through passage of a resolution.
- Expenditures may not exceed the annual appropriations without budget revisions and all appropriations lapse at the end of the fiscal year.
- The City Commission must approve any budget revisions that change the total expenditures of any department. The City Manager is authorized to approve line item budget transfers within a department without approval of the City Commission up to \$10,000. The level of classified account detail at which expenditures may not legally exceed appropriations is within a department by fund.
- Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Fund.
- All budgets are adopted on a basis consistent with GAAP.

IV. Detailed notes on all funds

A. Prior period adjustment

Construction in progress in the amount of \$152,000 of the Governmental Activities was overcapitalized for the year ended September 30, 2011. These costs represent the cost of two projects that were completed and put into service during the year ended September 30, 2011. The related assets of these projects were correctly added to the improvements and buildings asset accounts to begin depreciation over their useful lives. However the related cost of these projects was not removed from the construction in progress account. The effect of the prior period adjustment was to decrease capital assets and beginning net assets of the Governmental Activities of the Statement of Net Assets as follows:

	Governmental Activities
Net Assets at September 30, 2011 (as reported)	\$ 13,541,869
Correction to properly record construction in progress	(152,000)
Net Assets at September 30, 2011 (as restated)	\$ 13,389,869

B. Deposits and investments

At September 30, 2012, the carrying amount of the City's deposits was \$2,190,671 and the bank balances were \$2,347,868. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each bank. Any balance in excess of FDIC insurance is covered by collateral held by the City's custodial banks, which is pledged to a state trust fund that provides security in accordance with Florida Security for Public Deposits Act, Chapter 280, *Florida Statutes*.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

The Florida Security for Public Deposits Act established guidelines for qualification and participation by banks and savings associations, procedures for the administration of the collateral requirements and characteristics of eligible collateral. Under the Act, the qualified public depository must pledge at least 50% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance. Additional collateral, up to a maximum of 125%, may be required, if deemed necessary under the conditions set forth in the Act.

Obligations pledged to secure deposits must be delivered to the State Treasurer or, with the approval of the State Treasurer, to a bank, savings association, or trust company provided a power of attorney is delivered to the Treasurer. Under the Act, the pool may assess participating financial institutions on a pro rata basis to fund any shortfall in the event of the failure of a member institution.

On June 27, 2002, the City adopted a comprehensive investment policy pursuant to Section 218.415, *Florida Statutes*, which limits the types of investments that a government can invest in unless specifically authorized in an investment policy. The City's investment policy allows for the following investments:

- i. SBA Investment Pool.
- ii. Bonds, notes, or other obligations of the United States guaranteed by the United States or for which the credit of the United States is pledged for the payment of principal and interest or dividends.
- iii. Interest bearing savings accounts in state-certified qualified public depositories.
- iv. Certificates of Deposit in state-certified qualified public depositories.
- v. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- vi. Federal Agencies and Instrumentalities, which are non-full faith and credit agencies.
- vii. Repurchase Agreements comprised of only those investments as authorized in Sections (ii) and (vi). All repurchase agreement transactions and institutions and dealers transacting repurchase agreements will be required to perform as stated in the Master Repurchase Agreement.
- viii. Commercial Paper rated at the time of purchase, "Prime-1" by Moody's Investors Service and "A-1" by Standard & Poor's Corporation.
- ix. Inventory-based Banker's Acceptances issued by a domestic bank, which has a rating of at least "Prime-1" by Moody's Investors Service and "A-1" and "A" by Standard & Poor's Corporation and ranked in the top fifty (50) United States Banks in terms of total assets by The American Banker's yearly report.
- x. The Florida Municipal Investment Trust.

The City is a member of the SBA Investment Pool. The Local Government Surplus Funds Trust Fund was created by Act of the Florida Legislature effective October 1, 1977 (Chapter 218, Part IV *Florida Statutes*), which allowed the State Board of Administration to establish a pooled investment account (SBA Investment Pool). Rules and regulations have been developed to govern the administration of the Local Government Surplus Funds Trust Fund pursuant to Section 218.405, *Florida Statutes* (Chapter 19-7).

The SBA manages Florida PRIME (investment policies can be found at www.sbafla.com/prime), a 2a-7-like pool, carried at amortized cost. A 2a-7-like pool is an external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940, which regulates money market funds. Therefore, Florida PRIME operates essentially as a money market fund and the City's position in Florida PRIME is considered to be equivalent to its fair value.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

On November 29, 2007, the trustees of the SBA suspended deposits and withdrawals from our Local Government Investment Pool (LGIP). This action was taken to stop withdrawals that caused the Investment Pool's assets to fall from about \$27 billion down to \$14 billion in a month's time. On December 4, 2007, the SBA split the Investment Pool into two funds: 86% was allocated to the Local Government Investment Pool (LGIP) designated to hold high-quality money-market appropriate securities and 14% was allocated to the Fund B Surplus Funds Trust Fund (Fund B) (investment policies can be found at www.sbafla.com/prime), a fluctuating net asset value (NAV) pool, designated to hold higher-risk securities such as those in default, having payment extensions or having significant changes in credit risk. In addition, the Investment Pool's entire November interest and loan loss reserve was placed in Fund B to offset some of the lost value. During the fiscal year 2009, the name of the LGIP was changed to Florida PRIME.

Currently, Pool B participants are prohibited from withdrawing any amount from Pool B. As payments are received from the assets in Pool B, cash is transferred periodically to Florida PRIME and participants may withdraw such distributions. Pool B does not meet the requirements of a SEC 2a-7-like pool; therefore, the City has reported the balance of Pool B at September 30, 2012, at fair market value.

The City has investments in Florida Municipal Investment Trust (FMIT). The FMIT is an external pool established in 1993 and administered by the Florida League of Cities, Inc. pursuant to the laws of the State of Florida. The FMIT is exempt from registration under the Securities Act of 1933, the Investment Company Act of 1940 and the Florida Securities and Investors Protection Act. Participants in the FMIT are limited to governmental entities in the State of Florida. The FMIT has adopted GASB Statement No. 31 and the fair value of the City's position in the FMIT is the same as the fair value of the FMIT shares. The investment in the pool is not evidenced by securities that exist in physical or book entry form.

The City reports two pension trust fund plans in the accompanying financial statements. Each of the plans has a separate governing board of trustees, a separate investment policy, and differing investment restriction/risks.

At September 30, 2012, the cash deposits and investments controlled by the City included the following:

Investments:	
Florida Prime (formerly know as State Treasurer's Pool Fund A)	\$ 3,001,465
State Treasurer's Pool Fund B	70,545
Florida Municipal Investment Trust	<u>7,154,808</u>
Total investments	<u>10,226,818</u>
Cash:	
Cash deposits	<u>2,190,671</u>
Total cash and investments	<u>\$ 12,417,489</u>

Risk

In accordance with GASB Statement No. 40, investments also require certain disclosures regarding policies and practices with respect to the risks associated with them. Interest rate risk, credit risk, concentration of credit risk, and custodial credit risk are discussed in the following paragraphs.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally speaking, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City's investment policy requires diversifying investments to control the risk of loss resulting from over-concentrations of assets in a specific maturity. The investment plans for the Municipal Police Officers' and Firefighters' Pension Trust Funds (collectively, Pension Trust Fund Plans) purchase investments with various durations of maturities as a means of limiting their exposure to fair value losses arising from interest rate fluctuations.

Information about the sensitivity of the fair values of the City's investments (including investments held by the pension trustees) to market interest rate fluctuations is provided by the following table that shows the City's investments and the distribution by maturity for those that have scheduled maturity dates.

	Fair Value	Investment Maturities (in years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
Investments controlled by the City:					
Florida Prime (formerly State Treasurer's Pool Fund A)	\$ 3,001,465	\$ 3,001,465	\$ -	\$ -	\$ -
State Treasurer's Pool Fund B	70,545	-	70,545	-	-
Florida Municipal Investment Trust investments:					
0-2 Year High Quality Bond Fund	2,380,603	2,380,603	-	-	-
1-3 Year High Quality Bond Fund	3,349,261	-	3,349,261	-	-
Intermediate High Quality Bond Fund	1,424,944	-	1,424,944	-	-
Total investments controlled by the City	10,226,818	5,382,068	4,844,750	-	-
Pension Trust Funds investments:					
Money Market Funds	437,899	437,899	-	-	-
Equity Securities	1,894,837	1,894,837	-	-	-
U.S. Government and agency securities	70,802	-	-	-	70,802
Domestic corporate bonds	550,555	110,874	374,065	31,555	-
Total Pension Trust Funds investments	2,954,093	2,443,610	374,065	31,555	104,863
Total investments	\$ 13,180,911	\$ 7,825,678	\$ 5,218,815	\$ 31,555	\$ 104,863

Credit risk

A credit rating is a measure of credit risk, the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investment policy and the Pension Trust Fund Plans utilize portfolio diversification in order to control this risk. The City's rated debt instruments as of September 30, 2012, were rated by Standard & Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below.

Instrument type	Fair Value	Quality Ratings					
		AAAm (S&P)	AAA/V1 (Fitch)	AAA/V2 (Fitch)	AAA/V3 (Fitch)	Unrated	
Controlled by the City:							
Florida Prime (formerly State Treasurer's Pool Fund A)	\$ 3,001,465	\$ 3,001,465	\$ -	\$ -	\$ -	\$ -	\$ -
State Treasurer's Pool Fund B	70,545	-	-	-	-	-	70,545
Florida Municipal Investment Trust:							
0-2 Year High Quality Bond Fund	2,380,603	-	2,380,603	-	-	-	-
1-3 Year High Quality Bond Fund	3,349,261	-	-	3,349,261	-	-	-
Intermediate High Quality Bond Fund	1,424,944	-	-	-	1,424,944	-	-
Total controlled by the City	10,226,818	3,001,465	2,380,603	3,349,261	1,424,944	-	70,545
Pension Trust Funds:							
Money Market Funds	437,899	\$ 437,899	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Government and agency securities	70,802	-	70,802	-	-	-	-
Domestic corporate bonds	550,555	-	25,385	90,088	66,769	172,574	46,892
Total Pension Trust Funds	1,059,256	437,899	96,187	90,088	66,769	172,574	46,892
Total debt instruments	11,286,074	\$ 3,439,364	\$ 2,476,790	\$ 3,439,349	\$ 1,491,713	\$ 243,119	\$ 46,892
Equity securities	1,894,837	-	-	-	-	-	-
Total investments	\$13,180,911	-	-	-	-	-	-

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investments in a single issuer. Investments issued or explicitly guaranteed by the United States government and investments in external investment pools are excluded from this disclosure requirement. As of September 30, 2012, the City's investments subject to this disclosure requirement did not exceed 5% of total investments in any single issuer.

Custodial credit risk

Custodial credit risk for investments is the risk that, in the event of failure of a counterparty, the City will not be able to recover the value of the investment or collateral securities that are in possession of an outside party. Consistent with the City's investment policy, as of September 30, 2012, all investments were held with an appropriate custodian or trustee and are held in accounts in the name of and belonging to the City.

C. Receivables

Receivables consist of the following at September 30, 2012:

	<u>General</u>	<u>Community Redevelopment</u>	<u>Water and Sewer</u>	<u>Total</u>
Receivables:				
Taxes, franchise fees	\$ 84,929	\$ -	\$ 21,459	\$ 106,388
Accounts	-	-	456,475	456,475
Unbilled accounts	-	-	161,658	161,658
Intergovernmental	243,521	279,239	-	522,760
Due from Escrow Agent for capital leases	55,000	-	-	55,000
Other	3,913	-	8,950	12,863
Gross receivables	<u>387,363</u>	<u>279,239</u>	<u>648,542</u>	<u>1,315,144</u>
Less: Allowance for uncollectible accounts	-	-	(33,000)	(33,000)
Receivables, net	<u>\$ 387,363</u>	<u>\$ 279,239</u>	<u>\$ 615,542</u>	<u>\$ 1,282,144</u>

D. Interfund accounts

Interfund receivables and payables at September 30, 2012, are as follows:

	<u>Due To Other Funds</u>	<u>Due From Other Funds</u>
Governmental funds:		
General Fund	\$ 223,924	\$ 541,564
Community Redevelopment Fund	1,557	8,455
Total governmental funds	<u>225,481</u>	<u>550,019</u>
Enterprise funds:		
Water and Sewer Fund	780,751	210,582
Sanitation Fund	64,655	270,626
Stormwater Fund	21,963	61,623
Total enterprise funds	<u>867,369</u>	<u>542,831</u>
Total Due To/Due From	<u>\$ 1,092,850</u>	<u>\$ 1,092,850</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

E. Interfund transfers

Transfers of resources from a fund receiving revenue to the fund through which the resources are to be expended are recorded as transfers and are reported as other financing sources (uses) in the governmental funds and as transfers in (out) in the enterprise funds.

	Transfer in		Total Transfers
	General Fund	Community Redevelopment	
Transfer out:			
Governmental funds:			
General Fund	\$ -	\$ 16,910	\$ 16,910
Community Redevelopment Fund	2,915	-	2,915
Total governmental funds	2,915	16,910	19,825
Enterprise funds:			
Water & Sewer Funds	362,416	-	362,416
Sanitation Fund	56,542	-	56,542
Stormwater Fund	10,068	-	10,068
Total enterprise funds	429,026	-	429,026
Total transfers	\$ 431,941	\$ 16,910	\$ 448,851

In 2012, the Community Redevelopment Fund transferred \$2,915 to the General Fund for reimbursable expenditures and the General Fund transferred \$16,910 to the Community Redevelopment Fund for Grant Writing for the General Fund project proposals.

The Water & Sewer Funds, Sanitation Fund and Stormwater Fund transferred \$362,416, \$56,542 and \$10,068, respectively to the General Fund for Utility Billing Services (administration, customer service, billing and related overhead), provided by employees paid directly from the General Fund.

F. Capital assets

A summary of changes in the City's capital assets for the year ended September 30, 2012, is as follows:

	Balance 10-1-2011	Additions and Transfers	Disposals and Transfers	Balance 9-30-12
Governmental activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 1,666,395	\$ -	\$ -	\$ 1,666,395
Construction in progress, restated	136,364	533,964	(159,168)	511,160
Total capital assets, not being depreciated	1,802,759	533,964	(159,168)	2,177,555
Capital assets, being depreciated:				
Buildings	3,401,783	139,129	-	3,540,912
Improvements other than buildings	1,665,831	10,011	-	1,675,842
Equipment	2,442,600	96,000	(56,351)	2,482,249
Infrastructure	4,245,611	-	-	4,245,611
Total capital assets, being depreciated	11,755,825	245,140	(56,351)	11,944,614
Accumulated depreciation for:				
Buildings	(1,160,672)	(132,554)	-	(1,293,226)
Improvements other than buildings	(1,121,459)	(91,003)	-	(1,212,462)
Equipment	(2,004,943)	(112,936)	54,301	(2,063,578)
Infrastructure	(381,817)	(206,164)	-	(587,981)
Total accumulated depreciation	(4,668,891)	(542,657)	54,301	(5,157,247)
Total capital assets, being depreciated, net	7,086,934	(297,517)	(2,050)	6,787,367
Governmental activities capital assets, net	\$ 8,889,693	\$ 236,447	\$ (161,218)	\$ 8,964,922

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

	Balance 10-1-2011	Additions and Transfers	Disposals and Transfers	Balance 9-30-12
Business-type activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 1,648,235	\$ -	\$ -	\$ 1,648,235
Construction in progress	620,839	141,950	(508,517)	254,272
Total capital assets, not being depreciated	2,269,074	141,950	(508,517)	1,902,507
Capital assets, being depreciated:				
Buildings	12,516,951	-	(1,799,562)	10,717,389
Improvements other than buildings	14,328,882	1,086,241	(155,631)	15,259,492
Equipment	1,958,162	80,152	-	2,038,314
Infrastructure	1,874,806	439,196	-	2,314,002
Total capital assets, being depreciated	30,678,801	1,605,589	(1,955,193)	30,329,197
Accumulated depreciation for:				
Buildings	(2,269,321)	(245,694)	837,515	(1,677,500)
Improvements other than buildings	(6,046,068)	(304,105)	34,933	(6,315,240)
Equipment	(1,278,597)	(148,208)	-	(1,426,805)
Infrastructure	(67,609)	(55,112)	-	(122,721)
Total accumulated depreciation	(9,661,595)	(753,119)	872,448	(9,542,266)
Total capital assets, being depreciated, net	21,017,206	852,470	(1,082,745)	20,786,931
Business-type activities capital assets, net	<u>\$ 23,286,280</u>	<u>\$ 994,420</u>	<u>\$ (1,591,262)</u>	<u>\$ 22,689,438</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 236,734
Public safety	154,254
Transportation	28,325
Culture/recreation	123,344
Total depreciation expense - governmental activities	<u>\$ 542,657</u>
Business-type activities:	
Water and sewer	\$ 583,250
Sanitation	110,708
Stormwater	59,161
Total depreciation expense - business-type activities	<u>\$ 753,119</u>

G. Leases

Operating Leases

On October 30, 2007, the City renewed a submerged land lease agreement with the Florida Department of Environmental Protection for its Pier. The lease expires on October 30, 2012. The annual lease payment is based on the amount of revenue generated by the Pier for fishing and walking. The lease payment paid was \$14,080 for the year ended September 30, 2012, based on revenues of \$146,844.

The City leases office equipment under noncancelable operating leases. The total costs of such leases were \$10,474 for the year ended September 30, 2012. The minimum lease payments for these leases are as follows:

Year Ending September 30,	Amount
2013	\$ 8,369
2014	4,399
2015	1,110
Total	<u>\$ 13,878</u>

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of certain vehicles for its police department. The related assets acquired through these capital leases are as follows:

	Governmental Activities
Asset:	
2 Honda motorcycles	\$ 30,558
2 Chevy Tahoes	62,000
Total assets	92,558
Less: Accumulated depreciation	(21,974)
	\$ 70,584

Details of the lease agreements are as follows:

On November 18, 2009, the City entered into a lease with option to purchase agreement with Sparta Commercial Services in the amount of \$30,558 to finance two police motorcycles. Payments are due in monthly installments of \$1,781 through September 18, 2014 and have an interest of 1.6%. The balance of this obligation at September 30, 2012 is \$13,234.

On February 22, 2012, the City entered into a lease agreement (Lease) in the amount of \$55,000 with RBC Bank (Bank) to finance two 2012 Chevrolet Tahoe Police Vehicles (Vehicles). An Escrow Deposit Agreement (Escrow Agreement) was entered into between the City, the Bank and RBC Bank acting as the escrow agent (Escrow Agent). The Bank deposited the sum of \$55,000 to an escrow fund (Escrow Fund) established and maintained by the Escrow Agent in advance of the acquisition of the Vehicles. The Escrow Agent shall disburse funds from the Escrow Fund to the City to the extent the City's funds were spent for the acquisition of the Vehicles. The City acquired the Vehicles on June 21, 2012. The Escrow Agent had not yet disbursed the funds to the City as of September 30, 2012, resulting in a receivable due from the Escrow Agent of \$55,000.

Payments of \$5,846 are due semi-annually beginning August 15, 2012 through February 15, 2017 and have an interest of 2.25%. The balance of this obligation at September 30, 2012 is \$49,773.

Prior to entering into all of the above agreements, the City executed a Certificate with Respect to Tax-Exempt Interest and Qualified Tax-Exempt Obligations (Certificate) for the purpose of establishing (i) that the interest component of each of the lease payments for the agreements are not included in gross income of the lessors' for purposes of federal income taxations, and (ii) that the lease agreements qualify as qualified tax-exempt obligations of the City for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986 (Code).

The above lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2012, are as follows:

Year Ending September 30,	Amount
2013	\$ 18,816
2014	18,816
2015	11,692
2016	11,692
2017	5,846
Total minimum lease payments	66,862
Less: Amount representing interest	(3,855)
Present value of minimum lease payments	\$ 63,007

H. Long-term liabilities

The following is a summary of long-term liability activity for the year ended September 30, 2012:

	Balance 10/1/2011	Additions	(Reductions)	Balance 9/30/2012	Due Within One Year
Governmental activities:					
Notes payable	\$ 1,023,000	\$ -	\$ (41,000)	\$ 982,000	\$ 42,000
Capital leases	19,218	55,000	(11,211)	63,007	17,032
Compensated absences payable	110,826	91,459	(83,971)	118,314	49,119
Other postemployment benefits	89,483	33,327	-	122,810	-
Governmental activities long-term liabilities	\$ 1,242,527	\$ 179,786	\$ (136,182)	\$ 1,286,131	\$ 108,151
Business-type activities:					
Revolving loan payable	\$ 5,885,452	\$ -	\$ (311,392)	\$ 5,574,060	\$ 319,722
Notes payable	1,629,000	-	(70,000)	1,559,000	-
Compensated absences payable	36,333	36,346	(34,993)	37,686	18,150
Other postemployment benefits	34,517	13,518	-	48,035	-
Business-type activities long-term liabilities	\$ 7,585,302	\$ 49,864	\$ (416,385)	\$ 7,218,781	\$ 337,872

Governmental Activities

Revenue Note

\$1,100,000 Community Redevelopment Revenue Note, Series 2009 - Principal payments due in annual installments commencing March 1, 2010 of \$38,000 to \$703,000 through March 1, 2019. Interest on the Note at 3.73 % is due semiannually commencing September 1, 2009. The Redevelopment Note is payable from and secured solely by a lien on the Pledged Revenues which consist of tax increment revenues deposited to the credit of the Community Redevelopment Trust Fund established pursuant to Ordinance No. 2002-12 of the City. As additional security for the Redevelopment Note, the City has entered into an Interlocal Agreement to provide non-ad valorem revenues, which consist of legally available non-ad valorem revenues of the City budgeted, appropriated and deposited in accordance with the provisions of the Redevelopment Note Legislation, the Interlocal Agreement and the Loan Agreement. The Redevelopment Note was issued to finance the acquisition and construction of certain capital improvements included in the City's Community Redevelopment Plan which includes utility, sidewalk, Americans with Disabilities Act accessibility, streetscape, stormwater, irrigation and lighting improvements.

As of September 30, 2012, the amount of total principal and accrued interest outstanding was \$985,052. Pledged Revenues for the year ended September 30, 2012 was \$115,030. Principal and interest for the current year was \$41,000 and \$37,393, respectively.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

The following is a schedule of the future payments on the outstanding Community Redevelopment Revenue Note as of September 30, 2012:

Fiscal Year Ending September 30,	Note Payable		
	Principal	Interest	Total
2013	\$ 42,000	\$ 35,845	\$ 77,845
2014	44,000	34,241	78,241
2015	46,000	32,563	78,563
2016	47,000	30,829	77,829
2017	49,000	29,038	78,038
2018 - 2019	754,000	40,284	794,284
	<u>\$ 982,000</u>	<u>\$ 202,800</u>	<u>\$ 1,184,800</u>

Business-type Activities

State Revolving Fund Construction Loans

On January 18, 2005, the City was approved for a Drinking Water State Revolving Fund Construction Loan (Loan) from the Florida Department of Environmental Protection (FDEP) for the Water Treatment Plant Expansion Project. The amount of the original Loan was \$3,375,000 with an interest rate of 2.67%. In June 2006, the Loan was amended to include an additional \$3,158,750 with an interest rate of 2.65%. In July 2007, the Loan was amended to include an additional \$3,280,134 with an interest rate of 2.64%. As of the year ended September 30, 2012, \$7,705,748 had been drawn by the City on the Loan and \$1,937,522 has been repaid. Revenues of the water and sewer systems will repay this obligation.

The City has pledged the future net revenues (generally, customer revenues) of the water and sewer utility fund to repay the outstanding Loan issued in 2005 to finance the Water Treatment Plan Expansion Project. The Loan is payable solely from the utility net revenues and is payable through 2027. In 2012, annual principal and interest payments on the Loan were 20% of utility gross revenues. As of September 30, 2012, the amount of total principal and accrued interest outstanding was \$5,605,311. Principal and interest paid for the current year and utility gross revenues were \$465,778 and \$2,337,260, respectively.

The following is a schedule of the future payments on the outstanding the Loan as of September 30, 2012:

Fiscal Year Ending September 30,	Principal	Interest	Total
2013	\$ 319,722	\$ 146,027	\$ 465,749
2014	328,275	137,475	465,750
2015	337,058	128,692	465,750
2016	346,075	119,675	465,750
2017	355,333	110,416	465,749
2018 - 2022	1,924,450	404,298	2,328,748
2023 - 2027	1,963,147	132,729	2,095,876
	<u>\$5,574,060</u>	<u>\$1,179,312</u>	<u>\$ 6,753,372</u>

Revenue Note

\$1,800,000 Stormwater Revenue Note, Series 2009 - Principal payments due in annual installments commencing October 1, 2009 of \$38,000 to \$1,077,000 through October 1, 2019. Interest on the Note at 3.73 % is due semiannually commencing April 1, 2009. The Stormwater Note is payable from the Pledged Revenues, which consist of net revenues of the City's stormwater system, in the manner and to the extent provided in the Stormwater Note Legislation and the Loan Agreement. The Stormwater Note was issued to finance the acquisition and construction of certain capital improvements to the City's stormwater system.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

As of September 30, 2012, the amount of total principal outstanding was \$1,559,000. Pledged Revenues for the year ended September 30, 2012 were \$151,863. Principal and interest paid for the current year were \$70,000 and \$60,762, respectively.

The following is a schedule of the future payments on the outstanding Stormwater Revenue Note as of September 30, 2012:

Fiscal Year Ending September 30,	Principal	Interest	Total
2013	\$ -	\$ 29,075	\$ 29,075
2014	73,000	56,789	129,789
2015	76,000	54,011	130,011
2016	79,000	51,120	130,120
2017	81,000	48,136	129,136
2018 - 2019	1,250,000	106,939	1,356,939
	<u>\$ 1,559,000</u>	<u>\$ 346,070</u>	<u>\$ 1,905,070</u>

V. Other information

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; workers' compensation and natural disasters. The City carries commercial insurance for all of these risks of loss except workers' compensation.

The City is a member of the Preferred Government Insurance Trust (PGI Trust). The PGI Trust was created to allow members to pool their liabilities pursuant to provisions in Florida Workers' Compensation Law. The City pays an annual premium to the PGI Trust for its workers' compensation coverage. The PGI Trust's underwriting and rate setting policies were established after consulting with an independent actuary. The PGI Trust is non-assessable and, therefore, the City has no liability for future deficits of the PGI Trust, if any.

There have been no significant reductions in insurance coverage from the prior year. Also, there have been no settlements which exceeded insurance coverage for each of the past three fiscal years.

B. Commitments and contingencies

The City has active construction projects as of September 30, 2012. At year end the City's commitments were \$2,038,532 as follows:

Project	Contract Amount	Spent - to - Date	Remaining Commitment
CRA Citywide:			
Q L Hampton	\$ 23,800	\$ 10,179	\$ 13,621
Halifax Paving	1,508,563	295,705	1,212,858
Reynolds, Smith & Hill	124,801	37,149	87,652
Pier HMGP Repairs:			
Q L Hampton	94,350	-	94,350
Sanitation			
Big Belly Solar	30,000	-	30,000
Utility Citywide			
Q L Hampton	74,340	14,289	60,051
Beech Construction	540,000	-	540,000
Total	<u>\$ 2,395,854</u>	<u>\$ 357,322</u>	<u>\$ 2,038,532</u>

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

C. Grant programs

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

D. Legal matters

The City is engaged in routine litigation incidental to the conduct of its municipal affairs. In the opinion of Counsel, no legal proceedings are pending against it, not covered by insurance, which would inhibit its ability to perform its operations or materially affect its financial condition.

E. Defined contribution plan

The City of Flagler Beach, Florida 401(a) Money Purchase Plan is a defined contribution plan established by the City to provide benefits at retirement for general employees. The City is required to contribute on behalf of each participant 6.5% of earnings for the plan year. Participants are not permitted to make contributions. City contributions fully vest in the year they are contributed. Plan provisions and contribution requirements are established and may be amended by the City Commission.

The plan assets are administered by ICMA Retirement Corp. The City does not exercise any control over the plan assets. Contributions were approximately \$123,265 for the year ended September 30, 2012.

F. Defined benefit pension plans

1. Plan Description

The City has provided separate single-employer pension plans for all eligible police officers and firefighters, which are accounted for in the Pension Trust Fund Plans, respectively. The City Commission is the authority under which obligations to contribute to the plans are established or may be amended. The Pension Trust Fund Plans do not issue a stand-alone financial report.

All full-time certified police officers and firefighters are eligible to participate in the respective Pension Trust Fund Plans. Benefits vest with eligible employees after ten years of participation. Employees who retire at age 52 with 25 years of active service or at age 55 or later with at least ten years of active service are entitled to an earned benefit, payable monthly for life, in an amount equal to 2.5% (Police Officers) and 3% (Firefighters) of the average monthly pay (for the best five years of the latest ten years of average monthly pay determined on October 1 of each year) times the number of benefit years served. The Pension Trust Fund Plans also provide death and disability benefits. In the event the employee dies after retirement but before receiving retirement benefits for a period of ten years, the same monthly benefit will be paid to their beneficiary for the balance of such ten-year period.

The disability benefit is the greater of 42% (25% if not incurred in the line of duty) of the average monthly pay or the earned benefit for as long as there is a total disability. Participants in the Pension Trust Fund Plans are required to contribute 10% and 5% of their annual salary to the Pension Trust Fund Plans, respectively. The City is required to contribute 6.5% of annual salaries for the Police Officers' Plan and, beginning June 2010, to the Firefighter Plan and the remaining amounts necessary to fund both Pension Trust Fund Plans, based upon actuarial valuations as required by State statutes (particularly Chapter 175 and Chapter 185, *Florida Statutes*) and City ordinances.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

Current membership in the Pension Trust Fund Plans as of September 30, 2012, is comprised of the following:

	Municipal Police Officers' Pension Trust Fund Plan	Municipal Firefighters' Pension Trust Fund Plan
Retirees and beneficiaries currently receiving benefits	1	3
Active employees:		
Fully vested	6	4
Nonvested	13	22
Inactive employees:		
Fully vested, not receiving benefits	1	3

2. Employer funding policy

Statewide pension funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. The valuation method used for funding both Pension Trust Fund Plans is the aggregate actuarial cost method. The aggregate cost method is a method under which the excess of the actuarial present value of projected benefits of the group included in an actuarial valuation over the actuarial value of assets is allocated on a level basis over the earnings of the group between the valuation date and assumed exit. The aggregate cost method does not identify and separately amortize unfunded actuarial liabilities. Currently the employee contributions, investment earnings, and insurance tax from the State cover the obligation of the Pension Trust Fund Plans.

The Florida Constitution requires local governments to make the actuarially determined contribution to their defined benefit plans. The Florida Division of Retirement reviews and approves each local government's actuarial report to ensure its appropriateness for use for funding purposes. Additionally, the State collects two locally authorized insurance premium surcharges (one for the Police Officers' Pension Trust Fund Plan on casualty insurance policies and one for the Firefighters' Pension Trust Fund Plan on certain real and personal property insurance policies within the corporate limits) which can only be distributed after the State has ascertained that the local government has met their actuarial funding requirement for the then most recently completed fiscal year.

The following table summarizes assumptions used in actuarial computations for the Pension Trust Fund Plans:

Mortality	RP-2000 Combined Healthy Mortality Table			
Interest	8.0% per year			
Retirement age	Earlier of age 52 and 25 years of service or 55 and 10 years of service; any member who has reached normal retirement is assumed to continue employment for one additional year.			
Early retirement	It is assumed that members who are eligible for early retirement (age 50) will retire at a rate of 5% per year.			
Salary increases	7.5% per year until the assumed retirement age; see table below			
Payroll growth	N/A			
	Age	% Becoming Disabled During the Year	% Terminating During the Year	Current Salary as % of Salary at Age 55
	20	0.03%	6.0%	8.0%
	30	0.04%	5.0%	16.4%
	40	0.07%	2.6%	33.8%
	50	0.18%	0.8%	69.7%

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

3. Annual pension cost, net pension obligation, and reserves

Current Year Annual Pension Cost and Net Pension Asset

Current year annual pension costs (APC) for the Pension Trust Fund Plans are shown in the trend information provided below. Annual required contributions (ARC) were made by the Pension Trust Fund Plans. GASB No. 27 (Statement) requires the computation of a net pension obligation (NPO) or asset (NPA) which would result if the City's contributions to the pension funds did not equal the annual pension cost as computed by the Pension Trust Fund Plans' actuaries. There was no NPO or NPA for the cumulative 10-year period prior to implementation or at the transition date for adopting this Statement for any of the City's Pension Trust Fund Plans.

All of the NPA is attributable to governmental funds and therefore is not reflected in the fund financial statements in accordance with the modified accrual basis of accounting for governmental funds. The NPA has been reported in the government-wide financial statements in accordance with the full accrual method of accounting. The development of the NPA as of September 30, 2012, is shown below.

Reserves

There are no assets legally reserved for purposes other than the payment of plan member benefits for either plan. The Pension Trust Fund Plans held no individual investments whose market value exceeds 5% or more of net assets available for benefits. There are no long-term contracts for contributions.

The annual pension cost and net pension asset of the Police Officers' and Firefighters' Pension Trust Fund Plans for the most recent actuarial valuation are as follows:

Three-Year Trend Information

Fiscal Year Ending	Municipal Police Officers' Pension Trust Fund Plan			Municipal Firefighters' Pension Trust Fund Plan		
	Annual Pension Cost APC	Percentage of APC Contributed	Net Pension Asset	Annual Pension Cost APC	Percentage of APC Contributed	Net Pension Asset
2012	\$ 138,296	95%	\$ (31,906)	\$ 69,829	80%	\$ 101,911
2011	137,001	51%	(24,460)	90,463	83%	115,785
2010	95,505	103%	39,468	59,656	102%	130,972

The City's annual required contribution for the year ended September 30, 2012, for the Municipal Police Officers' and Municipal Firefighters' Pension Trust Fund Plans was approximately \$138,296 and \$69,829, respectively. This was based upon the actuarial valuation using 19% and 22.94% of covered payroll. The City's actual contributions to the Plans were \$130,849 and \$55,956, respectively.

	Municipal Police Officers' Pension Trust Fund Plan	Municipal Firefighters' Pension Trust Fund Plan
Actuarially determined contribution (A)	\$ (138,296)	\$ (79,092)
Interest on NPA	-	9,263
Annual pension cost (APC)	(138,296)	(69,829)
Contributions made	130,849	55,956
Increase in NPA	(7,447)	(13,873)
NPA, beginning of year as reported	48,367	115,784
Adjustment to NPA	(72,826)	-
NPA, beginning of year as adjusted	(24,459)	115,784
NPA, end of year	\$ (31,906)	\$ 101,911

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

4. Actuarial Methods and Significant Assumptions

	Municipal Police Officers' Pension Trust Fund Plan	Municipal Firefighters' Pension Trust Fund Plan
Valuation date	October 1, 2010	October 1, 2010
Actuarial cost method	Aggregate	Aggregate
Amortization method	N/A	N/A
Actuarial asset valuation method	Fair Market Value	Fair Market Value
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases (includes inflation at 3.0%)	7.5%	7.5%
Post Retirement COLA	0.0%	0.0%
	Municipal Police Officers' Pension Trust Fund Plan	Municipal Firefighters' Pension Trust Fund Plan
Actuarial Valuation Date	October 1, 2010	October 1, 2010
Actuarial Value of Assets	\$ 1,440,319	\$ 783,956
Actuarial Accrued Liability (AAL) Entry Age	2,251,935	1,071,819
Unfunded AAL (UAAL) (2)-(1)	811,616	287,863
Funded Ratio (1)/(2)	63.96%	73.14%
Covered Payroll	637,661	249,684
UAAL as % of covered payroll [(2)-(1)/(5)]	127.28%	115.29%

The Schedule of Funding Progress, presented as required supplemental information following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrual.

5. Other Postemployment Benefits

The City implemented GASB Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits other than Pensions* (OPEB) for certain postemployment health care benefits.

The City provides optional postemployment healthcare and dental insurance coverage to eligible individuals.

Eligible individuals include all regular, full-time employees of the City who retire from active service and are eligible for retirement or disability benefits under one of the pension plans sponsored by the City. Under certain conditions, eligible individuals for healthcare coverage also include spouses and dependent children.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

Retirees must pay a monthly premium as determined by the insurance carrier. The premium varies depending on whether the retiree elects single, couple, single plus children or family coverage and also varies depending on which medical plan is selected by the retiree. The City offers three different medical plan choices, which include a low-cost plan (a basic HMO with a high deductible), a medium-cost plan (an HMO with non-network coverage available at a higher deductible) and a high-cost plan (a traditional HMO with a low deductible). The following chart presents the premium contributions required to be paid by retirees for continued coverage as of September 30, 2012.

	<u>Single</u>	<u>Couple</u>	<u>Single plus Dependents</u>	<u>Family</u>
Balance HMO L60	\$ 503	\$ 976	\$ 976	\$ 1,203
POS Balance L62	554	1,074	1,074	1,323
Balance HMO L66	529	1,026	1,026	1,264

The postretirement medical and dental benefits are currently funded on a pay-as-you go basis (i.e., City funds on a cash basis as benefits are paid). No assets have been segregated and restricted to provide postretirement benefits.

The City's annual OPEB cost for the fiscal year ended 2012 and the related information for each plan are as follows:

Actuarially required contribution (ARC)	\$ 64,439
Interest on net OPEB obligation	4,960
Adjustment to annual required contribution	(9,332)
Annual OPEB cost	60,067
Contributions made	(13,222)
Increase in net OPEB obligation	46,845
Net OPEB obligation, beginning of year	124,000
Net OPEB obligation, end of year	<u>\$ 170,845</u>

The City's annual OPEB cost (the percentage of annual OPEB cost contributed to the plan) and the net OPEB obligation for the fiscal year ended 2012 were as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 60,067	22.00%	\$ 170,845
2011	78,000	19.00%	124,000
2010	76,000	20.00%	61,000

Funded status and funding progress

The schedule below shows the balance of the actuarial accrued liability (AAL), all of which was unfunded as of September 30, 2012.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
10/1/2011	\$0	\$235,321	\$235,321	0.0%	\$2,376,554	9.9%

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2012

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions by the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial methods and assumptions

Projections of benefits are based on the substantive plan (the Plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The following summarizes other significant methods and assumptions used in valuing the AAL and benefits under the plan.

Actuarial valuation date	October 1, 2011
Actuarial cost method	Entry age normal (level % of pay)
Amortization method	Level percentage of payroll (closed amortization over 30 years)
Investment return	4% per annum
Healthcare cost trend rates:	
Pre-Medicare	9.0% in fiscal 2012; then 8.5% in fiscal 2013 trending to 4.5% in 2017
Post-Medicare	9.0% in fiscal 2012; then 8.5% in fiscal 2013 trending to 4.5% in 2017

G. Evaluation of subsequent events

On March 27, 2013, the City purchased approximately 27 acres which was the former Ocean Palm Golf Course in a foreclosure sale. The cost of the purchase was \$503,738.

On June 19, 2013, the Escrow Agent, PNC Bank (formally RBC Bank) disbursed the sum of \$55,000 to the City per the Escrow Agreement dated February 22, 2012, from the Escrow Fund maintained by the Escrow Agent to the extent that the City had spent its own funds for the purchase of two Chevrolet Tahoe Vehicles financed by RBC Bank in the capital lease agreement dated February 22, 2012.

City management has evaluated subsequent events through _____, the date which the financial statements are available to be issued.

**REQUIRED SUPPLEMENTARY
INFORMATION**

City of Flagler Beach, Florida
Budgetary Comparison Schedule
General Fund
September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 3,083,876	\$ 3,083,876	\$ 3,127,810	\$ 43,934
Franchise fees	275,000	275,000	271,454	(3,546)
Licenses and permits	232,446	243,246	244,978	1,732
Intergovernmental	514,105	515,272	517,755	2,483
Charges for services	277,116	335,116	297,022	(38,094)
Fines and forfeitures	37,550	37,550	54,477	16,927
Grants and donations	50,000	127,231	132,715	5,484
Investment earnings	23,159	23,159	38,564	15,405
Miscellaneous	14,400	14,400	29,649	15,249
Total revenues	4,507,652	4,654,850	4,714,424	59,574
EXPENDITURES				
Current:				
Commission	62,191	62,191	55,598	6,593
Executive	177,253	178,453	178,451	2
City clerk	130,445	135,365	129,238	6,127
Finance	258,681	258,681	257,542	1,139
Legal counsel	141,600	309,600	308,763	837
Building maintenance	183,502	199,042	160,497	38,545
General government	670,622	887,413	588,058	299,355
Police	1,205,918	1,296,472	1,279,553	16,919
VOCA	58,579	58,579	50,398	8,181
Fire	539,207	579,692	562,960	16,732
Building and zoning	139,508	158,508	151,580	6,928
Roads and streets	207,086	272,779	268,957	3,822
Library	76,189	76,189	76,760	(571)
Museum	5,900	5,900	5,205	695
Parks	149,680	149,950	125,081	24,869
Beach	135,049	152,049	149,040	3,009
Dune crossover	8,000	8,000	2,619	5,381
Fishing pier	154,840	231,071	225,016	6,055
Bait shop	111,306	159,056	147,264	11,792
Wickline Center	16,200	16,200	13,005	3,195
Recreation	56,422	56,422	38,581	17,841
Building code inspections	91,184	90,898	77,602	13,296
Total expenditures	4,579,362	5,342,510	4,851,768	490,742
Excess (deficiency) of revenues over (under) expenditures	(71,710)	(687,660)	(137,344)	550,316
OTHER FINANCING SOURCES (USES)				
Transfers in	335,783	504,485	431,941	(72,544)
Transfers out	(153,968)	(153,968)	(16,910)	137,058
Capital leases	65,325	66,867	55,000	(11,867)
Total other financing sources (uses)	247,140	417,384	470,031	52,647
Net change in fund balances	\$ 175,430	\$ (270,276)	\$ 332,687	\$ 602,963

The notes to the Budgetary Comparison Schedule are an integral part of these schedules.
6/25/2013 4:41:39 PM

City of Flagler Beach, Florida
Budgetary Comparison Schedule
Community Redevelopment Fund
September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Grant revenue	\$ 1,357,322	\$ 1,482,123	\$ 279,239	\$ (1,202,884)
Taxes - property	104,000	104,000	115,030	11,030
Interest income	100	100	84	(16)
Other income	-	-	174	174
Total revenues	1,461,422	1,586,223	394,527	(1,191,696)
EXPENDITURES				
Current:				
Personnel costs	67,622	67,622	70,480	(2,858)
Professional services	5,208	5,208	3,145	2,063
Operational costs	2,655	2,370	1,275	1,095
Travel & training	500	750	549	201
Redevelopment grants	-	12,400	-	12,400
Promotional activities	4,000	4,000	3,300	700
Debt service:				
Interest	40,001	40,001	37,385	2,616
Principal	67,314	67,314	41,000	26,314
Capital outlay	1,492,169	1,642,065	345,900	1,296,165
Total expenditures	1,679,469	1,841,730	503,034	1,338,696
Excess (deficiency) of revenues over (under) expenditures	(218,047)	(255,507)	(108,507)	147,000
OTHER FINANCING SOURCES (USES)				
Transfers in	17,000	17,000	16,910	(90)
Transfers out	(5,000)	(6,507)	(2,915)	3,592
Other financing sources	136,968	136,968	-	(136,968)
Total other financing sources (uses)	148,968	147,461	13,995	(133,466)
Net change in fund balances	\$ (69,079)	\$ (108,046)	\$ (94,512)	\$ 13,534

The notes to the Budgetary Comparison Schedule are an integral part of these schedules.
6/25/2013 4:41:39 PM

City of Flagler Beach, Florida
Notes to the Budgetary Comparison Schedules
For the Year Ended September 30, 2012

A. Budgetary Information

The budget is prepared on a basis consistent with GAAP. The City maintains the legal level of budgetary control at the department level in the General Fund and at the fund level for all other funds. Total expenditures for each fund may not exceed appropriations without Commission approval.

City of Flagler Beach, Florida
Schedule of Funding Progress
Municipal Police Officers' and Firefighters' Pension Trust Fund Plans
For the Year Ended September 30, 2012

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
<u>Police Officers'</u>						
10/1/2010	\$ 1,440,319	\$ 2,251,935	\$ 811,616	63.96% ⁽¹⁾	\$ 637,661	127.28%
<u>Firefighters'</u>						
10/1/2010	\$ 783,956	\$ 1,071,819	\$ 287,863	73.14% ⁽¹⁾	\$ 249,684	115.29%

(1) Information about funded status and funding progress was prepared using the entry age normal cost method and serves as a surrogate for the funded status and funding progress of the plan.

City of Flagler Beach, Florida
Schedule of Pension Plan Contributions from the Employer and Other Contributing Entities
Municipal Police Officers' and Firefighters' Pension Trust Fund Plans
September 30, 2012

<u>Year Ended September 30,</u>	<u>Annual Required Contribution</u>	<u>City Contribution</u>	<u>State Contribution</u>	<u>Percentage Contributed</u>
Police Officers'				
2012	\$ -	\$ -	\$ -	0.00%
2011	64,179	70,103	40,863	172.90%
2010	94,853	98,159	42,243	148.02%
2009	76,936	41,741	45,323	113.16%
2008	96,461	57,044	47,533	108.41%
2007	96,748	33,936	47,533	84.21%
Firefighters'				
2012	\$ -	\$ -	\$ -	0.00%
2011	91,225	75,276	42,531	129.14%
2010	60,867	19,605	41,262	100.00%
2009	8,531	-	51,859	607.89%
2008	7,566	-	93,114	1230.69%
2007	3,939	-	44,864	1138.97%

OTHER SUPPLEMENTARY INFORMATION

City of Flagler Beach, Florida
Community Redevelopment Agency
Balance Sheet
(As Required and Defined by *Florida Statutes 163.387(8)*)
September 30, 2012

ASSETS

Cash (Operating)	\$	43,141
Due from the State		279,239
Due from other funds		8,455
Total assets	\$	330,835

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable	\$	22
Contracts payable		161,006
Retainage payable		29,571
Due to other funds		1,557
Total liabilities		192,156

Fund balances:

Reserved, designated for:		
Community redevelopment		138,679
Total fund balances		138,679

Total liabilities and fund balances	\$	330,835
-------------------------------------	----	---------

City of Flagler Beach, Florida
Community Redevelopment Agency
Statement of Revenues, Expenditures and Changes in Fund Balance
(As Required and Defined by Florida Statutes 163.387(8))
For the Fiscal Year Ended September 30, 2012

REVENUES	
Grant revenue	\$ 279,239
Taxes - property	115,030
Interest income	84
Other income	174
Total revenues	<u>394,527</u>
EXPENDITURES	
Personnel costs	70,480
Professional services	3,145
Operational costs	1,275
Travel and training	549
Promotional activities	3,300
Debt service:	
Interest	37,385
Principal	41,000
Capital outlay:	
Streetscape	<u>345,900</u>
Total expenditures	<u>503,034</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(108,507)</u>
OTHER FINANCING SOURCES (USES)*	
Transfers in	16,910
Transfers out	<u>(2,915)</u>
Total other financing sources (uses)	<u>13,995</u>
Net changes in fund balance	<u>(94,512)</u>
Fund balance - beginning of year	<u>233,191</u>
Fund balance - end of year	<u>\$ 138,679</u>

- * \$16,910 was transferred from the General Fund for reimbursement for Grant Writing for the General Fund Project. \$2,915 was transferred to the General Fund for reimbursable administrative expenditures.

OTHER REPORTS

DATE

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

To the Honorable Mayor, City Commissioners, and
City Manager of the City of Flagler Beach, Florida

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the City of Flagler Beach, Florida (City) as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated _____. 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.

Internal Control over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

6/25/2013 4:41:39 PM

We noted certain matters as required by Section 10.554(1)(i)3, Rules of the Auditor General, that we reported to management of the City in a separate letter dated _____.

This report is intended solely for the information and use of management, the City Commission, others within the entity and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dufresne & Associates, CPA, PA

DATE

**MANAGEMENT LETTER OF INDEPENDENT AUDITORS
REQUIRED BY CHAPTER 10.550,
RULES OF THE AUDITOR GENERAL**

To the Honorable Mayor, City Commissioners,
and City Manager of the City of Flagler Beach, Florida

We have audited the financial statements of the City of Flagler Beach, Florida (City), as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated _____.

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. 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*. Disclosures in this report, which is dated _____, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

- 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.

PRIOR YEAR RECOMMENDATIONS

The following is a summary of the September 30, 2011, recommendations, as communicated in the prior year Management Letter of Independent Auditors required by Chapter 10.550, Rules of the Auditor General, dated June 14, 2012.

Recommendation Number	Prior Year Recommendation	Corrective Actions Taken	
		Yes	No
2011-1	Control over signing out credit cards	x	
2011-2	Improve policy & procedures over disbursements	x	
2011-3	Improve policy & procedures over disbursements	x	
2011-4	Improve policy & procedures related to purchase orders	x	
2011-5	Improve safeguarding of cash at bait shop	x	

- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, the following is a summary of our current year recommendations:

CURRENT YEAR RECOMMENDATIONS

RECOMMENDATION 2012-1: An inventory of fixed assets should be performed every two to three years.

During our testing, we noted the City has not performed an inventory of its fixed assets in several years.

We recommend that the City take a physical inventory of its fixed assets on a regular basis (such as every two to three years) to ensure that only active, in-service fixtures and equipment are included on the City's financial statements. This will ensure that fixed assets are properly stated and that depreciation is being calculated from a reliable listing. During the inventory process, we recommend that the City include inspection of all fully depreciated assets, whether or not currently recorded in the City's fixed asset listing. An appropriate level of management should interview operations personnel to determine the physical handling and security of fully depreciated assets and inquire about any unusual activity, including unusual movement, theft, or personal use of the assets.

Management Response: Management plans on doing a full inventory of fixed assets following criteria listed in the recommendation prior to year end September 30, 2013 and every two years going forward.

- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of 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 more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts or abuse; and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)6., 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. This information is disclosed in Note 1-A in the Financial Statements.
- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2012, 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, 2012. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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 Representatives, the Florida Auditor General, Federal and other granting agencies, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

Dufresne & Associates, CPA, PA