

**City of Flagler Beach, Florida
Financial Statements
For the Year Ended
September 30, 2017**



THE NICHOLS GROUP, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

City of Flagler Beach, Florida
Financial Statements
September 30, 2017

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 Position 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 Position..... 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 Position - Enterprise Funds 19

Statement of Revenues, Expenses, and Changes in Net Position -
Enterprise Funds..... 20

Statement of Cash Flows - Enterprise Funds..... 21

Statement of Fiduciary Net Position - Pension Trust Funds 22

Statement of Changes in Fiduciary Net Position - Pension Trust Funds..... 23

Notes to the Financial Statements 24

Required Supplementary Information:

Budgetary Comparison Schedule - General Fund 54

Budgetary Comparison Schedule – Community Redevelopment Fund..... 55

Note to the Budgetary Comparison Schedules 56

Schedule of Funded Status and Funding Progress for Other Postemployment
Benefits Other Than Pensions 57

Schedule of Changes in Net Pension Liability and Related Ratios –
Municipal Police Officers’ Pension Trust Fund Plan 58

Schedule of Changes in Net Pension Liability and Related Ratios –
Municipal Firefighters’ Pension Trust Fund Plan 59

Schedule of Contributions – Municipal Police Officers’ Pension Trust Fund Plan 60

Schedule of Contributions – Municipal Firefighters’ Pension Trust Fund Plan..... 61

Schedule of Investment Returns – Pension Trust Fund Plans 62

OTHER REPORTS

Independent Auditor’s Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*..... 63

Management Letter of Independent Auditors Required by Chapter 10.550,
Rules of the Auditor General 65

Independent Accountant’s Report on Compliance with Section 218.415, Florida Statutes .. 67

INTRODUCTORY SECTION

**City of Flagler Beach, Florida
List of Principal Officials
September 30, 2017**

MAYOR

HONORABLE
LINDA PROVENCHER

CHAIRPERSON

JANE MEALY

VICE-CHAIRPERSON

MARSHALL D. SHUPE

CITY COMMISSIONERS

KIM CARNEY
RICHARD BELHUMEUR
JOY MCGREW

CITY MANAGER

LARRY M. NEWSOM

FINANCE DIRECTOR

KATHLEEN DOYLE

CITY ATTORNEY

DREW SMITH

INDEPENDENT AUDITORS

THE NICHOLS GROUP, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note I-A, on page 24 and in Note IV-D, on page 38, the City began reporting the Pier Fund as an enterprise fund at October 1, 2016, transferring net assets previously reported within the General Fund on the fund financial statements to the Pier Fund.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information on pages 4 - 12 and 54-62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



The Nichols Group, P.A.
Certified Public Accountants
Fleming Island, Florida

June 28, 2018

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, 2017.

Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$42,089,466.
- The City's total net position decreased by \$780,138 or about -1.81%. This is the result of a prior period adjustment of \$56,912, which is related to fixed assets, and expenses exceeding revenues by the amount of the decrease. During the 2016-17 fiscal year, Flagler Beach endured two major hurricanes. Hurricane Matthew hit the City on October 8, 2016, causing major damages to city structures, which included the loss of 160 feet from the City's Municipal Pier and damages to the homes of the City's residents. At the end of the year on September 11, 2017, the City was impacted by Hurricane Irma, again causing damages to the city structures and pier, and flooding over 400 residences. Both storms also created hundreds of tons of debris that had to be removed to landfills. For the year ended September 30, 2017, the City had spent close to \$3,000,000 on hurricane related expenses and received insurance reimbursements of \$1,443,882. The City will also receive reimbursement from FEMA to cover 87.5% (75% Federal Funds and 12.5% State Funds) of all eligible projects. At year end, FEMA had obligated one project from Hurricane Matthew in the amount of \$49,621. The City's 2016-2017 financial statements show the total amount expended on the hurricanes, but not the revenue obligated by FEMA after year end.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,049,584, a decrease of \$643,664 in comparison with the prior year. Expenditures related to the storms totaled \$809,686 in the governmental funds. We anticipate receiving \$630,000 in FEMA reimbursement in the 17/18 fiscal year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,467,320 or 73% of total General Fund expenditures. Expenditures exceeded revenues in the General Fund by \$456,510, before sale of capital assets of \$14,150 and transfer of Pier Net Assets of \$249,496 to Pier Fund. Total decrease in fund balance amounted to \$691,856.
- The City's total long-term liabilities decreased by \$341,553. The liabilities consist of compensated absences, State Revolving Fund Loan for the water treatment plant, 2015 Refunding Revenue Notes for CRA District Improvements and Stormwater Improvements, Other Postemployment Benefits (OPEB), and net pension liability of the Municipal Police Officers' Pension Trust Fund Plan.

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

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (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, roads and streets, physical environment, and culture/recreation. The business-type activities of the City include water and sewer, sanitation, stormwater and pier. 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 which can be found on pages 16 and 18.

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 and 17.

The City adopts an annual appropriated budget for its General Fund and Community Redevelopment Fund. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget and can be found on pages 54 and 55.

Proprietary funds. The City maintains one type of proprietary fund, which is an enterprise fund. 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, stormwater, and pier 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, Stormwater, and Pier Funds, all of which are considered major funds, except for the Pier Fund, which is a non-major fund. 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 statements 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 53.

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, 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 position might serve over time as a useful indicator of a City's financial position. In the case of the City, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$42,089,466 at the close of the most recent fiscal year.

The largest portion of the City's net position reflects its investment in capital assets (e.g. land, land improvements, buildings, and equipment); less any related outstanding debt used to acquire those assets. 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 Position

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 6,861,050	\$ 7,307,856	\$ 9,148,558	\$ 8,675,591	\$ 16,009,608	\$ 15,983,447
Capital assets	9,420,119	11,071,734	24,631,895	23,359,857	34,052,014	34,431,591
Total assets	16,281,169	18,379,590	33,780,453	32,035,448	50,061,622	50,415,038
Deferred outflows of resources	602,485	434,775	-	-	602,485	434,775
Long-term liabilities outstanding	1,494,410	1,397,989	5,282,066	5,720,040	6,776,476	7,118,029
Other liabilities	613,071	331,482	1,144,341	481,620	1,757,412	813,102
Total liabilities	2,107,481	1,729,471	6,426,407	6,201,660	8,533,888	7,931,131
Deferred inflows of resources	40,753	105,990	-	-	40,753	105,990
Net position:						
Net investment in capital assets	8,657,041	10,251,734	19,534,299	17,821,927	28,191,340	28,073,661
Restricted	1,084,408	918,649	3,482,207	3,148,662	4,566,615	4,067,311
Unrestricted	4,993,971	5,808,521	4,337,540	4,863,199	9,331,511	10,671,720
Total net position	\$14,735,420	\$16,978,904	\$ 27,354,046	\$ 25,833,788	\$ 42,089,466	\$ 42,812,692

A portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position 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 position, 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.

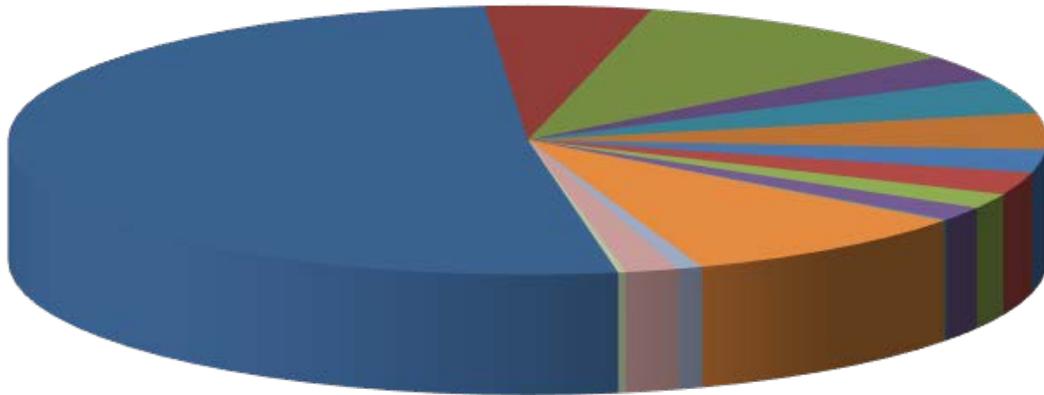
Governmental activities. Governmental activities decreased the City's net position by \$594,248. The decrease over last year is primarily attributable to reduced charges for services and increased expenses as a result of the hurricanes.

Overall, revenues in governmental activities increased by \$445,838 or 8.19%; whereas expenses increased by \$939,155 or 16.93% when compared to last year's balances. The increase in revenues was due to slight increases in ad valorem, sales, franchise and utility taxes, as well as a \$218,599 increase in capital grants and contributions. Increases in expenses were mostly general government and public safety expenses caused by the impact of the hurricanes.

City of Flagler Beach's Change in Net Position

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Charges for services	\$ 550,261	\$ 907,934	\$ 4,958,623	\$ 4,562,313	\$ 5,508,884	\$ 5,470,247
Operating grants and contributions	252,753	220,314	-	-	252,753	220,314
Capital grants and contributions	256,186	37,587	540,598	240,769	796,784	278,356
General revenues:						
Property taxes	3,029,327	2,535,224	-	-	3,029,327	2,535,224
Sales taxes	428,289	410,856	-	-	428,289	410,856
Franchise and utility taxes	1,108,309	1,112,384	-	-	1,108,309	1,112,384
Intergovernmental revenue	106,215	105,933	-	-	106,215	105,933
Unrestricted investment earnings	43,653	45,359	59,362	82,932	103,015	128,291
Gain (loss) on disposal of capital assets	14,150	1,000	(32,808)	4,000	(18,658)	5,000
Other miscellaneous	98,578	65,292	142	-	98,720	65,292
Total revenues	5,887,721	5,441,883	5,525,917	4,890,014	11,413,638	10,331,897
Expenses:						
General government	2,731,320	2,075,137	-	-	2,731,320	2,075,137
Public safety	2,768,311	2,125,844	-	-	2,768,311	2,125,844
Roads and streets	317,773	385,556	-	-	317,773	385,556
Physical environment	59,760	18,306	-	-	59,760	18,306
Culture/recreation	583,931	910,230	-	-	583,931	910,230
Interest on long-term debt	23,796	30,663	-	-	23,796	30,663
Water and sewer	-	-	3,116,744	3,015,273	3,116,744	3,015,273
Sanitation	-	-	1,803,953	1,051,853	1,803,953	1,051,853
Stormwater	-	-	295,025	207,094	295,025	207,094
Pier	-	-	493,163	-	493,163	-
Total expenses	6,484,891	5,545,736	5,708,885	4,274,220	12,193,776	9,819,956
Increase (decrease) in net position before transfers	(597,170)	(103,853)	(182,968)	615,794	(780,138)	511,941
Transfers	(1,671,067)	-	1,671,067	-	-	-
Increase (decrease) in net position	(2,268,237)	(103,853)	1,488,099	615,794	(780,138)	511,941
Net position-beginning of year, as previously reported	16,978,904	17,082,757	25,833,788	25,217,994	42,812,692	42,300,751
Prior period adjustment	24,753	-	32,159	-	56,912	-
Net position- beginning of year, as restated	17,003,657	17,082,757	25,865,947	25,217,994	42,869,604	42,300,751
Net position - end of year	\$ 14,735,420	\$ 16,978,904	\$ 27,354,046	\$ 25,833,788	\$ 42,089,466	\$ 42,812,692

Revenues by Source - Governmental Activities



■ Property Tax 51.45%	■ Franchise Tax 5.16%
■ Utility Service Tax 10.60%	■ Community Services Tax 3.06%
■ Operating Grants 4.29%	■ Capital Grants 4.35%
■ Infrastructure Surtax 2.76%	■ Local Half Cent Sales Tax 2.73%
■ Local Option Gas Tax 1.78%	■ State Revenue Sharing 1.68%
■ Intergovernmental .13%	■ Charges for Services & Fees 9.35%
■ Unrestricted Investment Earnings .74%	■ Miscellaneous 1.67%
■ Gain (loss) on disposal of capital assets .24%	

Business-type activities. Business-type activities increased the City's net position by \$1,488,099.

The overall revenues in business-type activities increased by \$635,903 or 13%. The increase is a result of Pier business-type activities now being reported in an enterprise fund. However, when compared to prior year pier revenues previously reported in the General Fund, pier revenues were down significantly by \$208,319 as the pier was closed for several months after Hurricanes Matthew and Irma in October 2016 and September 2017, respectively. A capital contribution of \$1,421,751 of Pier capital assets transferred from the governmental activities to the business-type activities is included in the transfers of the business-type activities. The expenses increased by \$1,434,665 or 33%. The increase is mostly due to an approximately \$753,000 increase in Sanitation expenses, combined with the Pier expenditures of \$493,163. Sanitation increase was due to hurricane debris removal, which the City will be reimbursed during 2017-18 fiscal year from FEMA.

Financial Analysis of the City's Funds

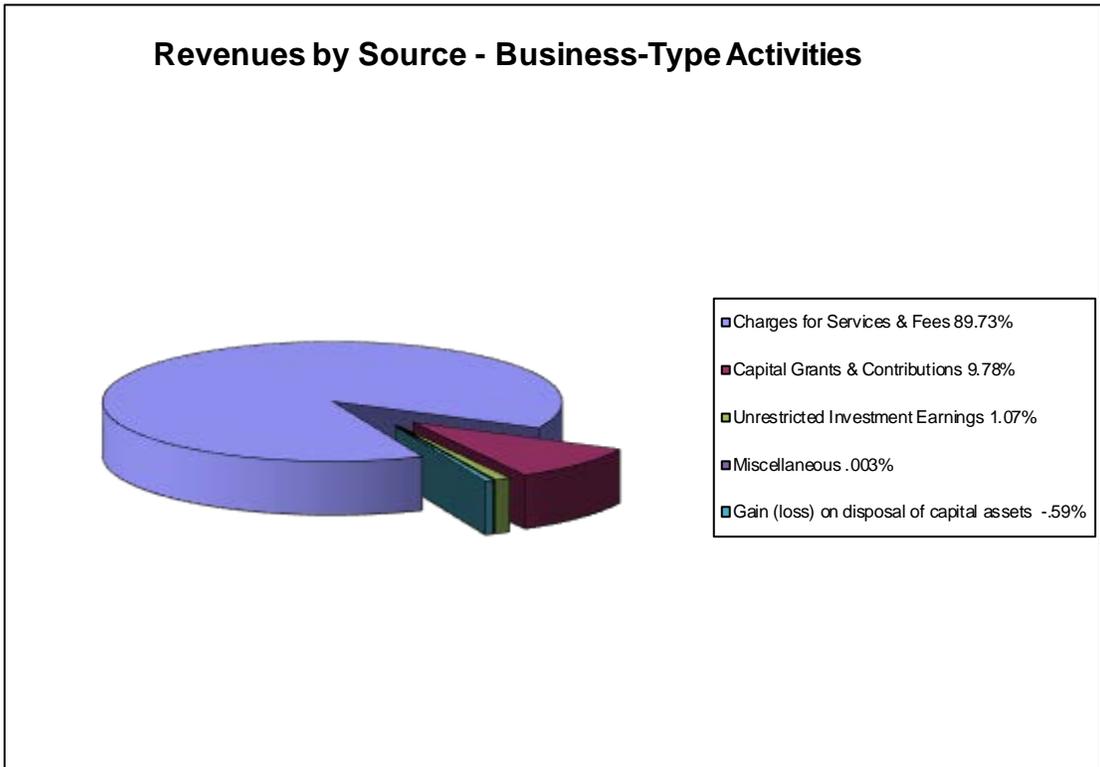
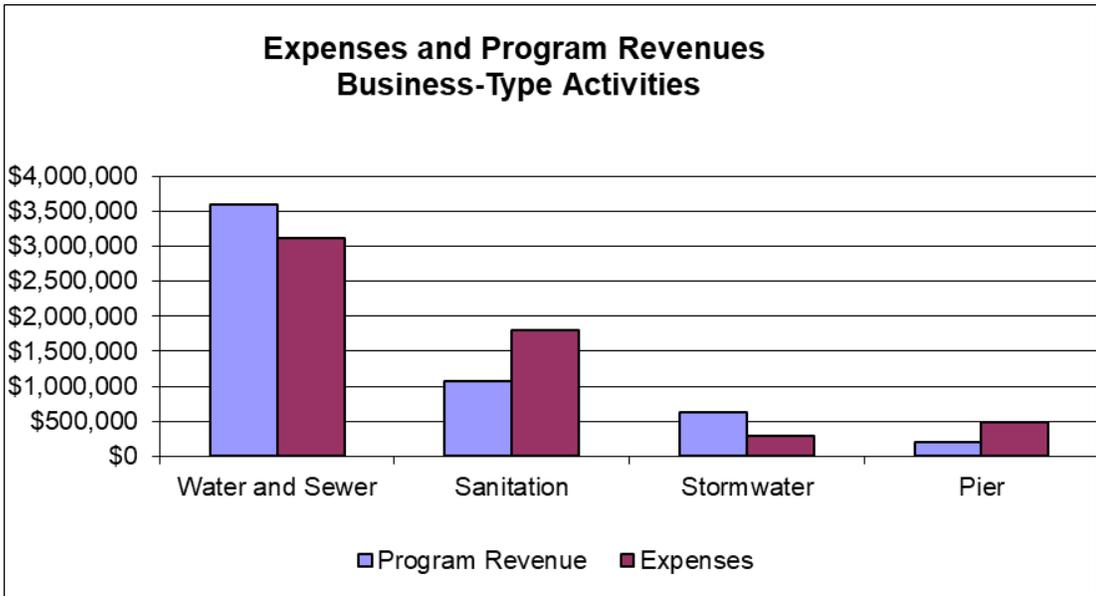
As noted earlier, the City used fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,049,584, a decrease of \$643,664 in comparison with prior year. 73.85% of the total amount, or \$4,467,320, 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 \$64,023. The CRA receives TIF (Tax Incremental Funding) from the City of Flagler Beach and Flagler County annually. Property values continue to climb and, barring any unforeseen circumstances, the fund balance for the CRA will remain positive by the end of September 2018. The remainder of the fund balances in the governmental funds, consisting of the following, is not available for new spending because it has already been designated *Nonspendable* – Prepaid amounts of \$7,257; *Restricted* items of \$800,035 including Infrastructure and Capital Assets \$734,694, Land Purchases \$18,490, and the Education of Building Inspectors \$33,342; *Committed* for Encumbrances \$358,499 including \$165,106 for Consulting; *Assigned* for encumbrances of \$352,450 including \$81,759 for the future purchase of a fire truck (slated for 2020-2021) and \$233,334 for the purchase of radios.

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 \$4,467,320 while the total fund balance reached \$5,969,456. 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 73% of the total General Fund expenditures, while total fund balance represents 97% 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 position of the Water and Sewer, Sanitation, Stormwater and Pier Funds at the end of the year amounted to \$2,972,610, \$801,957, \$258,373, and \$304,600, respectively. The total increase (decrease) in unrestricted net position was \$551,573, \$(728,609), \$326,639, and \$1,338,496, respectively.

Base Rate increases for the Utility and Stormwater Funds will be necessary to fund future projects and general maintenance of aging infrastructure. Sanitation Fees will be reviewed now that the City has to incur fees for recyclables at the landfill. In addition, there is an increase in visitors to the beaches and restaurants.



General Fund Budgetary Highlights

The Budgetary Comparison Schedule for the General Fund found on page 54 of the Required Supplementary Information shows the differences between the original budget, the final amended budget and actual amounts.

Revenues were \$512,641 less than the final budget. The City had amended the budget to include \$688,331 in FEMA reimbursements. However, as the projects were not obligated by FEMA on September 30, 2017, the City did not recognize the revenue as receivables. The City was able to keep expenditures under budget by \$852,733 when compared to the amended budget. The net result was an increase of \$340,092 to the fund balance for the General Fund.

Capital assets. The City's investment in capital assets for its governmental and business-type assets as of September 30, 2017, amounts to \$34,052,014. 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 1.09%.

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

- Capital contribution of Pier assets from the General Fund to the Pier Fund.
- Slip Lining
- Sand separators
- Ocean Palm Stormwater Project.
- 2 Police vehicles
- New servers
- City Hall generator

City of Flagler Beach's Capital Assets

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Land and land improvements	\$ 2,152,123	\$ 2,152,123	\$ 1,648,235	\$ 1,648,235	\$ 3,800,358	\$ 3,800,358
Buildings	2,799,016	3,627,631	11,631,203	11,304,824	14,430,219	14,932,455
Improvements other than buildings	2,084,329	3,774,165	18,403,368	16,311,641	20,487,697	20,085,806
Equipment	2,905,639	3,035,067	2,902,904	2,984,189	5,808,543	6,019,256
Construction in progress	67,853	2,797	1,069,488	440,081	1,137,341	442,878
Infrastructure	5,874,664	5,860,655	3,534,728	3,465,177	9,409,392	9,325,832
Less accumulated depreciation	(6,463,505)	(7,380,704)	(14,558,031)	(12,794,290)	(21,021,536)	(20,174,994)
Total	\$ 9,420,119	\$11,071,734	\$ 24,631,895	\$23,359,857	\$ 34,052,014	\$34,431,591

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

Long-term liabilities. At the end of the fiscal year, the City had total long-term liabilities in the amount of \$6,776,476, of which \$459,587 is due within one year.

The governmental activities' long-term liabilities amount to \$1,494,410 and consist of the Community Redevelopment 2015 Refunding Revenue Note, compensated absences, OPEB and net pension liability of the Municipal Police Officers' Pension Trust Fund.

The business-type activities' long-term liabilities amount to \$5,282,066, which includes the State Revolving Fund Loan for the water treatment plant, Stormwater 2015 Refunding Revenue Note, compensated absences, and OPEB.

Economic Factors and Next Year's Budgets and Rates

- Property values improved for budget year 2017-18.
- Development has begun on John Anderson Corridor, which is located in Unincorporated Flagler County; the City provides water and sewer to this area per an Interlocal Agreement with the County. Early estimates of development indicate that several thousand living units will be built over the coming years. Our Waste Water Treatment Plant will need to be expanded in order to provide service for this future impact.
- Water and Sewer Base Fee increases will still be needed to support City's aging infrastructure.
- Sanitation Fees will be reviewed to insure rates are adequate with increased use of our area restaurants, beaches and vacation rental units.
- Stormwater Fees will be increased to continue improvements and maintain current infrastructure.

All of these factors were considered when the City prepared the budget for fiscal year 2017-18.

When the property tax value estimates for the 2018-19 budget were received on June 1, 2018, the City discovered that we had lost over \$7,500,000 of taxable value. Due to flooding damages from Hurricane Irma, the property appraiser removed values from the tax rolls as some dwellings were considered uninhabitable on January 1, 2018. 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 2018-19.

At the end of 2016-17, the fund balance in the General Fund decreased to \$5,919,835. All appropriations lapsed at year end. The City of Flagler Beach encumbered \$2,079,010 from the 2016-17 budget into the 2017-18 budget to continue projects that were underway in this audited period. The use of current revenues and available reserved fund balance for ongoing projects allowed the City to adjust the millage rate to 5.3600 for the 2017-18 fiscal year budget. This was an increase of .15 mills or 15 cents per \$1,000 of taxable value. 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 Position
September 30, 2017

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 3,397,996	\$ 1,671,487	\$ 5,069,483
Investments	2,794,358	2,721,442	5,515,800
Accounts receivable, net of allowance	145,412	629,712	775,124
Due from other governments	300,024	286,628	586,652
Internal balances	6,552	(6,552)	-
Prepays and other assets	7,257	209,307	216,564
Restricted cash and cash equivalents	-	154,327	154,327
Restricted investments	-	3,482,207	3,482,207
Net pension asset	209,451	-	209,451
Capital assets:			
Land and land improvements	2,152,123	1,648,235	3,800,358
Construction in progress	67,853	1,069,488	1,137,341
Buildings	2,799,016	11,631,203	14,430,219
Improvements other than buildings	2,084,329	18,403,368	20,487,697
Equipment	2,905,639	2,902,904	5,808,543
Infrastructure	5,874,664	3,534,728	9,409,392
Accumulated depreciation	(6,463,505)	(14,558,031)	(21,021,536)
Total assets	<u>16,281,169</u>	<u>33,780,453</u>	<u>50,061,622</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Contributions	602,485	-	602,485
LIABILITIES			
Accounts payable and accrued liabilities	567,521	907,606	1,475,127
Unearned revenues	34,494	14,418	48,912
Customer deposits	-	200,521	200,521
Accrued interest payable	11,056	21,796	32,852
Non-current liabilities:			
Due within one year	61,619	397,968	459,587
Due in more than one year	1,432,791	4,884,098	6,316,889
Total liabilities	<u>2,107,481</u>	<u>6,426,407</u>	<u>8,533,888</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Contributions	40,753	-	40,753
NET POSITION			
Net investment in capital assets	8,657,041	19,534,299	28,191,340
Restricted for:			
Infrastructure and capital assets	786,526	3,482,207	4,268,733
Law enforcement	8,303	-	8,303
Pensions	209,451	-	209,451
Community redevelopment	80,128	-	80,128
Unrestricted	4,993,971	4,337,540	9,331,511
Total net position	<u>\$ 14,735,420</u>	<u>\$ 27,354,046</u>	<u>\$ 42,089,466</u>

See accompanying notes.

City of Flagler Beach, Florida
Statement of Activities
For the Year Ended September 30, 2017

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs							
Primary Government:							
Governmental activities:							
General government	\$ 2,731,320	\$ 432,152	\$ -	\$ 233,436	\$ (2,065,732)	\$ -	\$ (2,065,732)
Public safety	2,768,311	67,494	172,766	-	(2,528,051)	-	(2,528,051)
Roads and streets	317,773	-	79,987	-	(237,786)	-	(237,786)
Physical environment	59,760	-	-	-	(59,760)	-	(59,760)
Culture/recreation	583,931	50,615	-	22,750	(510,566)	-	(510,566)
Interest	23,796	-	-	-	(23,796)	-	(23,796)
Total governmental activities	<u>6,484,891</u>	<u>550,261</u>	<u>252,753</u>	<u>256,186</u>	<u>(5,425,691)</u>	<u>-</u>	<u>(5,425,691)</u>
Business-type activities:							
Water and sewer	3,116,744	3,408,354	-	197,152	-	488,762	488,762
Sanitation	1,803,953	1,066,585	-	-	-	(737,368)	(737,368)
Stormwater	295,025	276,926	-	343,446	-	325,347	325,347
Pier	493,163	206,758	-	-	-	(286,405)	(286,405)
Total business-type activities	<u>5,708,885</u>	<u>4,958,623</u>	<u>-</u>	<u>540,598</u>	<u>-</u>	<u>(209,664)</u>	<u>(209,664)</u>
Total primary government	<u>\$ 12,193,776</u>	<u>\$ 5,508,884</u>	<u>\$ 252,753</u>	<u>\$ 796,784</u>	<u>(5,425,691)</u>	<u>(209,664)</u>	<u>(5,635,355)</u>
General Revenues:							
Property taxes					3,029,327	-	3,029,327
Franchise fees					303,935	-	303,935
Utility service taxes					624,350	-	624,350
Communication services tax					180,024	-	180,024
Infrastructure surtax					162,426	-	162,426
Local half-cent sales tax					160,984	-	160,984
Local option gas tax					104,879	-	104,879
State revenue sharing proceeds					98,798	-	98,798
Intergovernmental					7,417	-	7,417
Unrestricted investment earnings					43,653	59,362	103,015
Miscellaneous					98,578	142	98,720
Gain (loss) on disposal of capital assets					14,150	(32,808)	(18,658)
Transfers					(1,671,067)	1,671,067	-
Total general revenues and transfers					<u>3,157,454</u>	<u>1,697,763</u>	<u>4,855,217</u>
Changes in net position					<u>(2,268,237)</u>	<u>1,488,099</u>	<u>(780,138)</u>
Net position - beginning of year, as previously reported					16,978,904	25,833,788	42,812,692
Prior period adjustment					24,753	32,159	56,912
Net position - beginning of year, as restated					<u>17,003,657</u>	<u>25,865,947</u>	<u>42,869,604</u>
Net position - end of year					<u>\$ 14,735,420</u>	<u>\$ 27,354,046</u>	<u>\$ 42,089,466</u>

See accompanying notes.

City of Flagler Beach, Florida
Balance Sheet
Governmental Funds
September 30, 2017

	General	Community Redevelopment	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,212,969	\$ 185,027	\$ 3,397,996
Investments	2,794,358	-	2,794,358
Accounts receivable, net of allowance	145,412	-	145,412
Due from other funds	122,600	5,124	127,724
Due from other governments	300,024	-	300,024
Prepays	7,257	-	7,257
Total assets	\$ 6,582,620	\$ 190,151	\$ 6,772,771
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 449,853	\$ 477	\$ 450,330
Accrued personal services	117,191	-	117,191
Deferred revenue	34,494	-	34,494
Due to other funds	11,626	109,546	121,172
Total liabilities	613,164	110,023	723,187
Fund balances:			
Nonspendable:			
Prepays	7,257	-	7,257
Restricted:			
Police training	4,078	-	4,078
Special law enforcement	71	-	71
Law enforcement automation	4,154	-	4,154
A1A land purchases	18,490	-	18,490
Infrastructure and capital assets	734,694	-	734,694
Building inspector education	33,342	-	33,342
Building Code Administration Fund	5,206	-	5,206
Committed:			
Repairs and maintenance	91,378	16,105	107,483
Consulting	165,106	-	165,106
Roads and streets	25,201	-	25,201
City Hall roof	37,000	-	37,000
Software improvements	16,080	-	16,080
Dune restoration	7,070	-	7,070
Feral cat project	559	-	559
Assigned:			
Fire truck	81,759	-	81,759
Beach related purchases	20,456	-	20,456
Radios	233,334	-	233,334
Computer hardware	16,901	-	16,901
Unassigned	4,467,320	64,023	4,531,343
Total fund balances	5,969,456	80,128	6,049,584
Total liabilities and fund balances	\$ 6,582,620	\$ 190,151	\$ 6,772,771

See accompanying notes.

City of Flagler Beach, Florida
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
September 30, 2017

Fund balances - governmental funds \$ 6,049,584

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

Governmental capital assets	15,883,624	
Accumulated depreciation	<u>(6,463,505)</u>	
		9,420,119

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.

(11,056)

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 Position, 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	209,451	
Net pension liability	(419,516)	
Deferred outflows - Contributions	602,485	
Deferred inflows - Contributions	(40,753)	
Other postemployment benefits liability	<u>(177,054)</u>	
		174,613

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as governmental fund liabilities.

Notes payable	(766,000)	
Compensated absences	<u>(131,840)</u>	
		<u>(897,840)</u>

Net position of governmental activities \$ 14,735,420

See accompanying notes.

City of Flagler Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2017

	<u>General</u>	<u>Community Redevelopment</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 3,811,127	\$ 185,000	\$ 3,996,127
Franchise fees	303,935	-	303,935
Licenses and permits	388,045	-	388,045
Intergovernmental	860,569	-	860,569
Charges for services	58,150	-	58,150
Fines and forfeitures	104,066	-	104,066
Grants and donations	22,750	-	22,750
Investment earnings	41,351	-	41,351
Miscellaneous	95,390	-	95,390
Total revenues	<u>5,685,383</u>	<u>185,000</u>	<u>5,870,383</u>
EXPENDITURES			
Current:			
General government	2,358,312	-	2,358,312
Public safety	2,527,409	-	2,527,409
Roads and streets	312,977	-	312,977
Physical environment	-	59,760	59,760
Culture/recreation	483,535	-	483,535
Debt service:			
Principal	5,846	54,000	59,846
Interest	-	23,048	23,048
Capital outlay	453,814	-	453,814
Total expenditures	<u>6,141,893</u>	<u>136,808</u>	<u>6,278,701</u>
Surplus (Deficiency) of revenues under expenditures	<u>(456,510)</u>	<u>48,192</u>	<u>(408,318)</u>
OTHER FINANCING SOURCES AND USES			
Transfers out	(249,496)	-	(249,496)
Sale of capital asset	14,150	-	14,150
Total other financing sources and uses	<u>(235,346)</u>	<u>-</u>	<u>(235,346)</u>
Net changes in fund balances	(691,856)	48,192	(643,664)
Beginning fund balances - beginning of year	6,661,312	31,936	6,693,248
Fund balances - end of year	<u>\$ 5,969,456</u>	<u>\$ 80,128</u>	<u>\$ 6,049,584</u>

See accompanying notes.

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, 2017

Net changes in fund balances - total governmental funds \$ (643,664)

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.

Nonreciprocal transfer of fixed assets to enterprise pier fund	(1,416,231)	
Net purchase/disposals of fixed assets	(20,703)	
Current year depreciation	<u>(239,434)</u>	(1,676,368)

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	(7,937)	
Interest payable	(683)	
Deferred outflows - Contributions	167,710	
Deferred inflows - Contributions	65,237	
Net pension asset	(84,048)	
Net pension liability	<u>(148,265)</u>	(7,986)

Repayment of long-term debt is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the Statement of Net Position. In the current year, these amounts consist of:

Promissory note principal payments	54,000	
Capital leases principal payments	<u>5,781</u>	<u>59,781</u>

Changes in net position of governmental activities \$ (2,268,237)

See accompanying notes.

City of Flagler Beach, Florida
Statement of Net Position
Enterprise Funds
September 30, 2017

	<u>Water and Sewer</u>	<u>Sanitation</u>	<u>Stormwater</u>	<u>Pier</u>	<u>Total</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 742,065	\$ 456,004	\$ 170,525	\$ 302,893	\$ 1,671,487
Restricted cash and cash equivalents:					
Customer deposits	154,327	-	-	-	154,327
Investments	2,213,376	508,066	-	-	2,721,442
Receivables (net of allowance for uncollectible accounts):					
Accounts receivable	350,383	103,642	28,496	75	482,596
Unbilled accounts	147,116	-	-	-	147,116
Due from other governments	-	-	286,628	-	286,628
Due from other funds	5,024	37,136	9,407	-	51,567
Prepays and other assets	9,000	-	95,904	104,403	209,307
Total current assets	<u>3,621,291</u>	<u>1,104,848</u>	<u>590,960</u>	<u>407,371</u>	<u>5,724,470</u>
Non-current assets:					
Restricted investments:					
Water impact fees	1,708,507	-	-	-	1,708,507
Sewer impact fees	1,773,700	-	-	-	1,773,700
Total restricted investments	<u>3,482,207</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,482,207</u>
Unrestricted:					
Land	75,562	-	1,572,673	-	1,648,235
Construction in progress	613,497	-	451,286	4,705	1,069,488
Buildings	11,234,803	70,021	-	326,379	11,631,203
Improvements other than buildings	16,736,074	-	-	1,667,294	18,403,368
Equipment	1,483,001	1,381,182	38,721	-	2,902,904
Infrastructure	-	-	3,534,728	-	3,534,728
Less accumulated depreciation	<u>(11,921,262)</u>	<u>(1,139,891)</u>	<u>(532,396)</u>	<u>(964,482)</u>	<u>(14,558,031)</u>
Total non-current unrestricted assets	<u>18,221,675</u>	<u>311,312</u>	<u>5,065,012</u>	<u>1,033,896</u>	<u>24,631,895</u>
Total non-current assets	<u>21,703,882</u>	<u>311,312</u>	<u>5,065,012</u>	<u>1,033,896</u>	<u>28,114,102</u>
Total assets	<u>25,325,173</u>	<u>1,416,160</u>	<u>5,655,972</u>	<u>1,441,267</u>	<u>33,838,572</u>
LIABILITIES					
Current liabilities:					
Accounts payable	198,674	255,938	288,778	88,441	831,831
Accrued personal services liabilities	22,103	8,692	1,789	1,674	34,258
Retainage payable	-	-	32,433	-	32,433
Accrued interest payable	21,796	-	-	-	21,796
Unearned revenues	14,418	-	-	-	14,418
Current portion of long-term debt	364,840	-	-	-	364,840
Compensated absences payable	24,504	6,077	902	1,645	33,128
Customer deposits payable	200,521	-	-	9,000	209,521
Due to other funds	55,291	857	1,594	377	58,119
Due to other governments	-	-	-	84	84
Total current liabilities	<u>902,147</u>	<u>271,564</u>	<u>325,496</u>	<u>101,221</u>	<u>1,600,428</u>
Non-current liabilities					
Loans payable	3,522,756	-	1,210,000	-	4,732,756
Compensated absences payable	23,080	5,724	850	1,550	31,204
Other postemployment benefits	88,294	25,603	6,241	-	120,138
Total non-current liabilities	<u>3,634,130</u>	<u>31,327</u>	<u>1,217,091</u>	<u>1,550</u>	<u>4,884,098</u>
Total liabilities	<u>4,536,277</u>	<u>302,891</u>	<u>1,542,587</u>	<u>102,771</u>	<u>6,484,526</u>
NET POSITION					
Net investment in capital assets	14,334,079	311,312	3,855,012	1,033,896	19,534,299
Restricted for:					
Water construction	1,708,507	-	-	-	1,708,507
Sewer construction	1,773,700	-	-	-	1,773,700
Unrestricted	<u>2,972,610</u>	<u>801,957</u>	<u>258,373</u>	<u>304,600</u>	<u>4,337,540</u>
Total net position	<u>\$ 20,788,896</u>	<u>\$ 1,113,269</u>	<u>\$ 4,113,385</u>	<u>\$ 1,338,496</u>	<u>\$ 27,354,046</u>

See accompanying notes.

City of Flagler Beach, Florida
Statement of Revenues, Expenses, and Changes in Net Position
Enterprise Funds
For the Year Ended September 30, 2017

	Water and Sewer	Sanitation	Stormwater	Pier	Total
Operating revenues:					
Charges for services					
Water	\$ 1,953,919	\$ -	\$ -	\$ -	\$ 1,953,919
Sewer	1,414,995	-	-	-	1,414,995
Sanitation	-	1,052,365	-	-	1,052,365
Stormwater	-	-	274,348	-	274,348
Rent, admissions, and other fees	-	-	-	206,758	206,758
Other operating revenues	39,440	14,220	2,578	142	56,380
Total operating revenues	<u>3,408,354</u>	<u>1,066,585</u>	<u>276,926</u>	<u>206,900</u>	<u>4,958,765</u>
Operating expenses:					
Personal services	1,184,040	381,428	69,517	97,216	1,732,201
Materials, supplies, services and other operating expenses	1,052,921	1,314,340	99,645	300,909	2,767,815
Depreciation	771,359	108,185	93,099	95,038	1,067,681
Total operating expenses	<u>3,008,320</u>	<u>1,803,953</u>	<u>262,261</u>	<u>493,163</u>	<u>5,567,697</u>
Operating income (loss)	<u>400,034</u>	<u>(737,368)</u>	<u>14,665</u>	<u>(286,263)</u>	<u>(608,932)</u>
Nonoperating revenues (expenses):					
Impact fees	197,152	-	-	-	197,152
Investment earnings	49,311	8,759	1,292	-	59,362
Interest expense	(108,424)	-	(32,764)	-	(141,188)
Gain (loss) on sale/impairment of fixed assets	13,500	-	-	(46,308)	(32,808)
Total nonoperating revenues (expenses)	<u>151,539</u>	<u>8,759</u>	<u>(31,472)</u>	<u>(46,308)</u>	<u>82,518</u>
Income (loss) before capital contributions and transfers	551,573	(728,609)	(16,807)	(332,571)	(526,414)
Capital contributions	-	-	343,446	1,421,571	1,765,017
Transfers in	-	-	-	249,496	249,496
Changes in net position	<u>551,573</u>	<u>(728,609)</u>	<u>326,639</u>	<u>1,338,496</u>	<u>1,488,099</u>
Total net position - beginning	<u>20,219,234</u>	<u>1,827,808</u>	<u>3,786,746</u>	<u>-</u>	<u>25,833,788</u>
Prior period adjustment	18,089	14,070	-	-	32,159
Total net position - beginning, as restated	<u>20,237,323</u>	<u>1,841,878</u>	<u>3,786,746</u>	<u>-</u>	<u>25,865,947</u>
Total net position - ending	<u>\$ 20,788,896</u>	<u>\$ 1,113,269</u>	<u>\$ 4,113,385</u>	<u>\$ 1,338,496</u>	<u>\$ 27,354,046</u>

See accompanying notes.

City of Flagler Beach, Florida
Statement of Cash Flows
Enterprise Funds
For the Year Ended September 30, 2017

	Business-type Activities - Enterprise Funds				
	Water and Sewer	Sanitation	Stormwater	Pier	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 3,506,323	\$ 1,059,634	\$ 275,076	\$ 206,825	\$ 5,047,858
Payments to suppliers	(982,531)	(1,080,746)	71,097	(232,962)	(2,225,142)
Payments to employees	(1,185,201)	(378,694)	(70,192)	(95,745)	(1,729,832)
Other operating cash transfers	(24,614)	14,590	6,338	216	(3,470)
Net cash provided by (used in) operating activities	<u>1,313,977</u>	<u>(385,216)</u>	<u>282,319</u>	<u>(121,666)</u>	<u>1,089,414</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital grants and contributions	197,152	-	82,603	-	279,755
Acquisition and construction of capital assets	(715,059)	-	(450,067)	(1,163,842)	(2,328,968)
Principal paid on capital debt	(355,334)	-	(85,000)	-	(440,334)
Interest paid on capital debt	(110,416)	-	(32,764)	-	(143,180)
Insurance proceeds	-	-	-	1,410,171	1,410,171
Net cash provided by (used in) capital and related financing activities	<u>(983,657)</u>	<u>-</u>	<u>(485,228)</u>	<u>246,329</u>	<u>(1,222,556)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	(397,387)	(9,099)	-	-	(406,486)
Proceeds from sales and maturities of investments	52,901	6,586	-	-	59,487
Interest and other income	49,311	8,759	1,292	-	59,362
Net cash provided by (used in) investing activities	<u>(295,175)</u>	<u>6,246</u>	<u>1,292</u>	<u>-</u>	<u>(287,637)</u>
Net increase (decrease) in cash and cash equivalents	35,145	(378,970)	(201,617)	124,663	(420,779)
Cash and cash equivalents, beginning of year	861,247	834,974	372,142	178,230	2,246,593
Cash and cash equivalents, end of year	<u>\$ 896,392</u>	<u>\$ 456,004</u>	<u>\$ 170,525</u>	<u>\$ 302,893</u>	<u>\$ 1,825,814</u>
Reconciliation of cash and cash equivalents to the Statement of Net Position					
Cash and cash equivalents in current assets:					
Cash and cash equivalents	\$ 742,065	\$ 456,004	\$ 170,525	\$ 302,893	\$ 1,671,487
Restricted cash and cash equivalents	154,327	-	-	-	154,327
Total cash and equivalents	<u>\$ 896,392</u>	<u>\$ 456,004</u>	<u>\$ 170,525</u>	<u>\$ 302,893</u>	<u>\$ 1,825,814</u>
Reconciliation of operating income to net cash provided by operating activities					
Operating income (loss)	\$ 400,034	\$ (737,368)	\$ 14,665	\$ (286,263)	\$ (608,932)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	771,359	108,185	93,099	95,038	1,067,681
Decrease (increase) in certain assets:					
Prepays	1,708	5,344	(95,172)	(6,807)	(94,927)
Accounts receivable	97,035	(6,951)	(1,850)	(75)	88,159
Increase (decrease) in certain liabilities:					
Accounts payable and accrued liabilities	68,682	228,250	265,914	74,754	637,600
Accrued personal services liabilities	(1,161)	2,734	(675)	1,471	2,369
Customer deposits	2,384	-	-	-	2,384
Due to other governments	-	-	-	(161)	(161)
Unearned revenues	(1,450)	-	-	-	(1,450)
Due to other funds	(24,614)	14,590	6,338	377	(3,309)
Total adjustments	<u>913,943</u>	<u>352,152</u>	<u>267,654</u>	<u>164,597</u>	<u>1,698,346</u>
Net cash provided by (used in) operating activities	<u>\$ 1,313,977</u>	<u>\$ (385,216)</u>	<u>\$ 282,319</u>	<u>\$ (121,666)</u>	<u>\$ 1,089,414</u>

See accompanying notes.

City of Flagler Beach, Florida
Statement of Fiduciary Net Position
Pension Trust Funds
September 30, 2017

	Municipal Police Officers' Pension Trust Fund	Municipal Firefighters' Pension Trust Fund	Total
ASSETS			
Cash equivalents	\$ 41,916	\$ 24,592	\$ 66,508
Receivables:			
State contributions	-	1,644	1,644
Employer contributions	59,134	65,513	124,647
Employee contributions	-	10	10
Accrued income	1,950	888	2,838
Investments:			
Fixed income mutual funds	930,859	424,497	1,355,356
Equity mutual funds	2,455,498	1,062,299	3,517,797
Total assets	<u>3,489,357</u>	<u>1,579,443</u>	<u>5,068,800</u>
LIABILITIES			
Accounts payable	<u>686</u>	<u>688</u>	<u>1,374</u>
Total liabilities	<u>686</u>	<u>688</u>	<u>1,374</u>
NET POSITION			
Restricted for pension benefits	<u>\$ 3,488,671</u>	<u>\$ 1,578,755</u>	<u>\$ 5,067,426</u>

See accompanying notes.

City of Flagler Beach, Florida
Statement of Changes in Fiduciary Net Position
Pension Trust Funds
For the Year Ended September 30, 2017

	Municipal Police Officers' Pension Trust Fund	Municipal Firefighters' Pension Trust Fund	Total
ADDITIONS			
Contributions:			
Employees	\$ 81,895	\$ 25,211	\$ 107,106
Employer	132,439	83,552	215,991
State insurance	42,424	31,867	74,291
Total contributions	<u>256,758</u>	<u>140,630</u>	<u>397,388</u>
Investment earnings:			
Net increase in fair value of investments	313,840	135,670	449,510
Interest and dividends	71,646	31,457	103,103
Less: investment expense	(12,250)	(8,750)	(21,000)
Net investment earnings	<u>373,236</u>	<u>158,377</u>	<u>531,613</u>
Total additions	<u>629,994</u>	<u>299,007</u>	<u>929,001</u>
DEDUCTIONS			
Professional services	37,544	34,578	72,122
Employee withdrawals	137,764	39,022	176,786
Total deductions	<u>175,308</u>	<u>73,600</u>	<u>248,908</u>
Change in net position	<u>454,686</u>	<u>225,407</u>	<u>680,093</u>
Net position - beginning	<u>3,033,985</u>	<u>1,353,348</u>	<u>4,387,333</u>
Net position - ending	<u>\$ 3,488,671</u>	<u>\$ 1,578,755</u>	<u>\$ 5,067,426</u>

See accompanying notes.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

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) 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. The CRA is a blended component unit of the City as both entities are governed by the City Commission. The applicable requirements of Florida Statutes 163.387 are met as a result of the CRA's inclusion in the audited financial statements of the City.

Change in fund reporting

Effective October 1, 2016, the pier activities, previously reported within the General Fund, was closed into an enterprise fund. The effect was a \$249,496 transfer to the Pier Fund.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all 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, 2017

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.

The City reports the following non-major enterprise fund:

- The Pier Fund is the City's only non-major fund and accounts for the operations and maintenance of the City Pier.

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.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

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.

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, deferred outflows of resources, liabilities, deferred inflows of resources and net position or equity

1. Cash and cash equivalents

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

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).

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

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.

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, 2016																		
Property Appraiser prepares the assessment roll with values as of January 1, 2016, submits this preliminary roll for approval by the State and notifies each taxing authority of their respective valuations.	July 1, 2016																		
City Commission holds two required public hearings and adopts a budget and ad valorem tax millage rate for the coming fiscal year.	September 7, 2016 and September 21, 2016																		
Property Appraiser certifies the assessment roll and all real and tangible personal property taxes are due and payable (Levy Date).	November 1, 2016																		
A Notice of Taxes is mailed to each property owner on the assessment roll. Taxes are paid November 2016 through March 2017, with the following applicable discounts:																			
<table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>Month Paid</u></th> <th style="text-align: left;"><u>Discount (%)</u></th> <th></th> </tr> </thead> <tbody> <tr> <td>November</td> <td style="text-align: center;">4</td> <td></td> </tr> <tr> <td>December</td> <td style="text-align: center;">3</td> <td style="text-align: right;">November 1, 2016</td> </tr> <tr> <td>January</td> <td style="text-align: center;">2</td> <td style="text-align: right;">through</td> </tr> <tr> <td>February</td> <td style="text-align: center;">1</td> <td style="text-align: right;">March 31, 2017</td> </tr> <tr> <td>March</td> <td style="text-align: center;">0</td> <td></td> </tr> </tbody> </table>	<u>Month Paid</u>	<u>Discount (%)</u>		November	4		December	3	November 1, 2016	January	2	through	February	1	March 31, 2017	March	0		
<u>Month Paid</u>	<u>Discount (%)</u>																		
November	4																		
December	3	November 1, 2016																	
January	2	through																	
February	1	March 31, 2017																	
March	0																		
All unpaid taxes on real and tangible personal property become delinquent.	April 1, 2017																		
A list of unpaid tangible personal property taxes and a list of unpaid real property taxes are advertised.	April and May 2017																		
Tax certificates are sold on all real estate parcels with unpaid real property taxes (Lien Date).	June 1, 2017																		
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, 2017																		

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

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. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than purchased.

4. Restricted assets

Certain proceeds of the City's enterprise Stormwater Fund's revenue notes are classified as restricted assets on the Balance Sheet and Statement of Net Position 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. Interest is not capitalized for construction projects of governmental funds or for assets acquired by contributions and grants that restrictively specify the type of asset that may be purchased or constructed.

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, 2017

6. Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that future time.

7. 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.

8. 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 position.

9. Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

10. 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 of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

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.

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 Statement No. 54, paragraph 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

GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement Nos. 67 and 68 – establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB Statement No. 68. It also amends certain provisions of GASB Statement Nos. 67 and 68 for pension plans and pensions that are within their respective scopes. All provisions of GASB Statement No. 73 have been implemented for the year ended September 30, 2017.

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans – replaces GASB Statement Nos. 43 and 57. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statement Nos. 25, 43, and 50. The provisions in GASB Statement No. 74 have been implemented for the year ended September 30, 2017.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – replaces the requirements of GASB Statement Nos. 45 and 57 for OPEB. GASB Statement No. 75 establishes new accounting and financial reporting requirements for OPEB plans. The provisions in GASB Statement No. 75 are effective for fiscal ending September 30, 2018.

GASB Statement No. 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14 – amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39. The requirements of this Statement have been implemented for the year ended September 30, 2017.

GASB Statement No. 82, Pension Issues – an amendment of GASB Statement Nos. 67, 68, and 73. The objective of this Statement is to address certain issues that have been raised with respect to GASB Statement Nos. 67, 68, and 73. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

II. Reconciliation of government-wide and fund financial statements

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

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

B. Explanation of certain differences between the governmental funds 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 position 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

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 re-appropriated and honored during the subsequent year.

As of September 30, 2017, the City has encumbered amounts in the General and CRA Fund that they intend to honor in the subsequent year. The aggregate amount encumbered in the General and CRA Fund at September 30, 2017 is \$710,949. Of this amount, \$358,499 is reported as committed and \$352,450 as assigned for general government expenditures at the fund level.

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.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

- 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. Deposits and investments

At September 30, 2017, the carrying amount of the City's deposits was \$1,981,628 and the bank balances were \$2,342,835. 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*.

The Florida Security for Public Deposits Act (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.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

- 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's investments include investments with Florida PRIME, which is administered by the SBA. The SBA administers the Florida PRIME investments pursuant to Chapter 19-7 of the Florida Administrative Code. These rules provide guidance and establish the general operating procedures for the administration of Florida PRIME.

The Florida PRIME (investment policies can be found at www.sbafla.com/prime), is operated as 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.

GASB Statement No. 79 says that if a participant has an investment in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost it should disclose the presence of any limitations or restrictions on withdrawals (such as redemption notice periods, maximum transaction amounts and the qualifying external investment pool's authority to impose liquidity fees or redemption gates) in notes to the financial statements.

With regard to redemption gates, Chapter 218.409(8)(a), *Florida Statutes*, states that "The principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the Executive Director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the Trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council and the Participant Local Government Advisory Council. The Trustees shall convene an emergency meeting as soon as practicable from the time the Executive Director has instituted such measures and review the necessity of those measures. If the Trustees are unable to convene an emergency meeting before the expiration of the 48-hour moratorium on contributions and withdrawals, the moratorium may be extended by the Executive Director until the Trustees are able to meet to review the necessity for the moratorium. If the Trustees agree with such measures, the Trustees shall vote to continue the measures for up to an additional 15 days. The Trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the Trustees exceed 15 days."

With regard to liquidity fees, *Florida Statute* 218.409(4) provides authority for the SBA to impose penalties for early withdrawal, subject to disclosure in the enrollment materials of the amount and purpose of such fees. At present, no such disclosure has been made.

As of September 30, 2017, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant's daily access to 100 percent of their account value.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

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, 2017, the cash deposits and investments controlled by the City included the following:

Investments:	
Florida PRIME	\$ 4,856,981
FMIT	<u>7,383,208</u>
Total investments	<u>12,240,189</u>
Cash:	
Cash deposits	<u>1,981,628</u>
Total cash and investments	<u>\$ 14,221,817</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.

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.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

	Fair Value	Investment Maturities (in years)	
		Less Than 1	1 - 5
Investments controlled by the City:			
Florida PRIME	\$ 4,856,981	\$ 4,856,981	\$ -
FMIT:			
0-2 Year High Quality Bond Fund	2,426,919	2,426,919	-
1-3 Year High Quality Bond Fund	3,437,849	-	3,437,849
Intermediate High Quality Bond Fund	1,518,440	-	1,518,440
Total investments controlled by the City	<u>12,240,189</u>	<u>7,283,900</u>	<u>4,956,289</u>
Pension Trust Funds investments:			
Vanguard Total Bond Market Index Fund	1,355,356	1,355,356	-
Vanguard Total International Stock Market Index Fund	648,008	648,008	-
Vanguard Total Stock market Index Fund	2,869,789	2,869,789	-
Total Pension Trust Funds investments	<u>4,873,153</u>	<u>4,873,153</u>	<u>-</u>
Total investments	<u>\$ 17,113,342</u>	<u>\$ 12,157,053</u>	<u>\$ 4,956,289</u>

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, 2017, were rated by Standard & Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below.

	Fair Value	Quality Ratings				
		AAAm (S&P)	AAAf/S1 (Fitch)	AAAf/S2 (Fitch)	AAAf/S3 (Fitch)	Unrated
Investments controlled by the City:						
Florida PRIME	\$ 4,856,981	\$ 4,856,981	\$ -	\$ -	\$ -	\$ -
FMIT:						
0-2 Year High Quality Bond Fund	2,426,919	-	2,426,919	-	-	-
1-3 Year High Quality Bond Fund	3,437,849	-	-	3,437,849	-	-
Intermediate High Quality Bond Fund	1,518,440	-	-	-	1,518,440	-
Total investments controlled by the City	<u>12,240,189</u>	<u>4,856,981</u>	<u>2,426,919</u>	<u>3,437,849</u>	<u>1,518,440</u>	<u>-</u>
Pension Trust Funds investments:						
Vanguard Total Bond Market Index Fund	1,355,356	-	-	-	-	1,355,356
Vanguard Total International Stock Market Index Fund	648,008	-	-	-	-	648,008
Vanguard Total Stock market Index Fund	2,869,789	-	-	-	-	2,869,789
Total Pension Trust Funds investments	<u>4,873,153</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,873,153</u>
Total investments	<u>\$ 17,113,342</u>	<u>\$ 4,856,981</u>	<u>\$ 2,426,919</u>	<u>\$ 3,437,849</u>	<u>\$ 1,518,440</u>	<u>\$ 4,873,153</u>

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, 2017, the City's investments subject to this disclosure requirement did not exceed 5% of total investments in any single issuer.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

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, 2017, all investments were held with an appropriate custodian or trustee and are held in accounts in the name of and belonging to the City.

Fair value measurements

The City's investments measured and reported at fair value are classified according to the following hierarchy:

Level 1 Inputs – directly observable, quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs are derived from or corroborated by observable market data through correlation or by other means.

Level 3 Inputs – unobservable inputs used only when relevant Level 1 and Level 2 inputs are unavailable.

The level in which an asset is assigned is not indicative of its quality but an indication of the source of valuation inputs.

Florida PRIME – Florida PRIME currently meets all of the necessary criteria to elect to measure all of the investments in Florida PRIME at amortized cost, therefore, the City's participant account balance is considered the fair value of the City's investment. It is the Florida PRIME State Board of Administration's interpretation that the City's Florida PRIME investments are exempt from the GASB 72 fair value hierarchy disclosures and are appropriately excluded from the table below.

FMIT 0-2 Year High Quality Bond Fund – This fund invests mainly in US government and agency securities and asset-backed securities. Most of the security prices were obtained from a pricing service, Interactive Data Corporation (IDC). While the underlying asset values are based on quoted prices or market-corroborated inputs, the net asset value of the portfolio is not publicly quoted.

FMIT 1-3 Year High Quality Bond Fund – This fund invests mainly in US government and agency securities and asset-backed securities. Most of the security prices were obtained from a pricing service, Interactive Data Corporation (IDC). While the underlying asset values are based on quoted prices or market-corroborated inputs, the net asset value of the portfolio is not publicly quoted.

FMIT Intermediate High Quality Bond Fund – This fund invests mainly in US government and agency securities, asset-backed securities and corporate bonds and notes. Most of the security prices were obtained from a pricing service, Interactive Data Corporation (IDC). While the underlying asset values are based on quoted prices or market-corroborated inputs, the net asset value of the portfolio is not publicly quoted.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

	Fair Value	Level 1	Level 2	Level 3
Investments controlled by the City:				
FMIT:				
0-2 Year High Quality Bond Fund	2,426,919	-	2,426,919	-
1-3 Year High Quality Bond Fund	3,437,849	-	3,437,849	-
Intermediate High Quality Bond Fund	1,518,440	-	1,518,440	-
Total investments controlled by the City	<u>7,383,208</u>	<u>-</u>	<u>7,383,208</u>	<u>-</u>
Pension Trust Funds investments:				
Vanguard Total Bond Market Index Fund	1,355,356	1,355,356	-	-
Vanguard Total International Stock Market Index Fund	648,008	648,008	-	-
Vanguard Total Stock market Index Fund	2,869,789	2,869,789	-	-
Total Pension Trust Funds investments	<u>4,873,153</u>	<u>4,873,153</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 12,256,361</u>	<u>\$ 4,873,153</u>	<u>\$ 7,383,208</u>	<u>\$ -</u>

B. Receivables

Receivables consisted of the following at September 30, 2017:

	General	Water and Sewer	Sanitation	Stormwater	Pier	Total
Receivables:						
Taxes, franchise fees	\$ 101,651	\$ 31,850	\$ -	\$ -	\$ -	\$ 133,501
Accounts	-	348,595	103,642	28,496	-	480,733
Unbilled accounts	-	147,116	-	-	-	147,116
Utility payment plans receivable	-	-	-	-	-	-
Intergovernmental	300,024	-	-	286,628	-	586,652
Other	43,761	9,938	-	-	75	53,774
Gross receivables	445,436	537,499	103,642	315,124	75	1,401,776
Less: Allowance for uncollectible accounts	-	(40,000)	-	-	-	(40,000)
Receivables, net	<u>\$ 445,436</u>	<u>\$ 497,499</u>	<u>\$ 103,642</u>	<u>\$ 315,124</u>	<u>\$ 75</u>	<u>\$ 1,361,776</u>

C. Interfund accounts

Interfund receivables and payables at September 30, 2017, are as follows:

	Due To Other Funds	Due From Other Funds
Governmental funds:		
General Fund	\$ (11,626)	\$ 122,600
Community Redevelopment Fund	(109,546)	5,124
Total governmental funds	<u>(121,172)</u>	<u>127,724</u>
Enterprise funds:		
Water and Sewer Fund	(55,291)	5,024
Sanitation Fund	(857)	37,136
Stormwater Fund	(1,594)	9,407
Pier Fund	(377)	-
Total enterprise funds	<u>(58,119)</u>	<u>51,567</u>
Total Due To/Due From	<u>\$ (179,291)</u>	<u>\$ 179,291</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) an interfund loan balance from the General Fund to the CRA in the amount of \$87,188 for the City portion of the 2013 Phase II C Project. The loan accrues 2% interest annually. The loan repayment paid back from the General Fund to the CRA was \$27,931 principal and \$2,302 interest for the year ended September 30, 2017.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

D. 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.

The City began reporting the Pier Fund as an enterprise fund at October 1, 2016, transferring \$249,496 of net assets previously reported within the General Fund on the fund financial statements to the Pier Fund. The capital assets of the pier, previously recorded within the General Fund before October 1, 2016 were transferred from the General Fund to the Pier Fund on the Government-wide financial statements, representing a transfer from the Governmental Activities to the Business-type Activities of \$1,421,571. Combined with the \$249,496 of net assets transferred noted above, the Government-wide financial statements report total interfund transfers of \$1,671,067. Because governmental funds do not report capital assets, on the governmental fund statements, there was no real interfund activity, strictly speaking. Accordingly, the enterprise fund reports a capital contribution rather than a transfer. Therefore, on the Pier Fund financial statements, the transfer of these capital assets is reported as a capital contribution in the same amount of \$1,421,571

E. Capital assets

A summary of changes in the City's capital assets for the year ended September 30, 2017, is as follows:

	<u>Balance 10-1-2016</u>	<u>Additions and Transfers</u>	<u>Disposals and Transfers</u>	<u>Balance 9-30-17</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 2,152,123	\$ -	\$ -	\$ 2,152,123
Construction in progress	2,797	67,853	(2,797)	67,853
Total capital assets, not being depreciated	<u>2,154,920</u>	<u>67,853</u>	<u>(2,797)</u>	<u>2,219,976</u>
Capital assets, being depreciated:				
Buildings	3,627,631	-	(828,615)	2,799,016
Improvements other than buildings	3,774,165	75,585	(1,765,421)	2,084,329
Equipment	3,035,067	332,183	(461,611)	2,905,639
Infrastructure	5,860,655	14,009	-	5,874,664
Total capital assets, being depreciated	<u>16,297,518</u>	<u>421,777</u>	<u>(3,055,647)</u>	<u>13,663,648</u>
Accumulated depreciation for:				
Buildings	(1,802,701)	(102,250)	590,755	(1,314,196)
Improvements other than buildings	(1,761,847)	(99,902)	592,154	(1,269,595)
Equipment	(2,062,565)	(187,134)	436,857	(1,812,842)
Infrastructure	(1,753,591)	(313,281)	-	(2,066,872)
Total accumulated depreciation	<u>(7,380,704)</u>	<u>(702,567)</u>	<u>1,619,766</u>	<u>(6,463,505)</u>
Total capital assets, being depreciated, net	<u>8,916,814</u>	<u>(280,790)</u>	<u>(1,435,881)</u>	<u>7,200,143</u>
Governmental activities capital assets, net	<u>\$ 11,071,734</u>	<u>\$ (212,937)</u>	<u>\$ (1,438,678)</u>	<u>\$ 9,420,119</u>

Disposals and transfers include \$2,598,743 of buildings and improvements, net of \$1,177,172 accumulated depreciation previously reported in the General Fund transferred to the Pier Fund on October 1, 2016. (Refer to Note D – Interfund transfers)

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

	10/1/2016	Additions and Transfers	Disposals and Transfers	9/30/2017
Business-type activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 1,648,235	\$ -	\$ -	\$ 1,648,235
Construction in progress	440,081	681,362	(51,955)	1,069,488
Total capital assets, not being depreciated	2,088,316	681,362	(51,955)	2,717,723
Capital assets, being depreciated:				
Buildings	11,304,824	844,364	(517,985)	11,631,203
Improvements other than buildings	16,311,641	3,337,947	(1,246,220)	18,403,368
Equipment	2,984,189	60,480	(141,765)	2,902,904
Infrastructure	3,465,177	69,551	-	3,534,728
Total capital assets, being depreciated	34,065,831	4,312,342	(1,905,970)	36,472,203
Accumulated depreciation for:				
Buildings	(2,611,039)	(855,099)	373,342	(3,092,796)
Improvements other than buildings	(7,677,764)	(1,100,843)	-	(8,778,607)
Equipment	(2,093,453)	(201,122)	107,770	(2,186,805)
Infrastructure	(412,034)	(87,789)	-	(499,823)
Total accumulated depreciation	(12,794,290)	(2,244,853)	481,112	(14,558,031)
Total capital assets, being depreciated, net	21,271,541	2,067,489	(1,424,858)	21,914,172
Business-type activities capital assets, net	\$ 23,359,857	\$ 2,748,851	\$ (1,476,813)	\$ 24,631,895

Additions and transfers include \$2,598,743 of buildings and improvements, net of \$1,177,172 accumulated depreciation previously reported in the General Fund transferred to the Pier Fund on October 1, 2016. (Refer to Note D – Interfund transfers)

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 365,782
Public safety	226,131
Roads and streets	9,352
Culture/recreation	101,302
Total depreciation expense - governmental activities	<u>\$ 702,567</u>
Business-type activities:	
Water and sewer	\$ 771,359
Sanitation	108,185
Stormwater	93,099
Pier	95,038
Total depreciation expense - business-type activities	<u>\$ 1,067,681</u>

Impairment Loss

Pier expenses include an impairment loss of \$46,308 from the loss of 19.2% of the Pier Hardening Project, 100% of the Turtle Lighting Project and other pier improvements as a result of hurricane damage. In accordance with GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, insurance recoveries during the fiscal year ended September 30, 2017 were used to offset the amount of loss that was recognized. During the fiscal year ended September 30, 2017, a final insurance recovery payment in the amount of \$1,410,171 was received and appropriately netted against repair disbursements. The impairment loss for the fiscal year ended September 30, 2017 was determined as follows:

Pier impairment calculation:	
Insurance proceeds	\$ 1,410,171
Repair disbursements	(1,148,094)
Loss on improvements	(308,385)
Net impairment	<u>\$ (46,308)</u>

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

F. 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, 2017. The annual lease payment is based on the amount of revenue generated by the Pier for fishing and walking. The lease payment paid was \$2,935 for the year ended September 30, 2017, based on revenues of \$43,301.

The City leases office equipment under noncancelable operating leases. The total costs of such leases were \$9,971 for the year ended September 30, 2017. The minimum lease payments for these leases are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Amount</u>
2018	\$ 9,948
2019	9,948
2020	5,763
2021	4,344
2022	<u>2,140</u>
Total	<u>\$ 32,143</u>

G. Long-term liabilities

The following is a summary of long-term liability activity for the year ended September 30, 2017:

	<u>Balance</u> <u>10/1/2016</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance</u> <u>9/30/2017</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Notes payable	\$ 820,000	\$ -	\$ (54,000)	\$ 766,000	\$ -
Capital leases	5,781	-	(5,781)	-	-
Compensated absences payable	123,903	123,631	(115,694)	131,840	61,619
Net pension liability	271,251	452,780	(304,515)	419,516	-
Other postemployment benefits	<u>177,054</u>	<u>-</u>	<u>-</u>	<u>177,054</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 1,397,989</u>	<u>\$ 576,411</u>	<u>\$ (479,990)</u>	<u>\$ 1,494,410</u>	<u>\$ 61,619</u>
Business-type activities:					
Revolving loan payable	\$ 4,242,930	\$ -	\$ (355,334)	\$ 3,887,596	\$ 364,840
Notes payable	1,295,000	-	(85,000)	1,210,000	-
Compensated absences payable	61,972	70,663	(68,303)	64,332	33,128
Other postemployment benefits	<u>120,138</u>	<u>-</u>	<u>-</u>	<u>120,138</u>	<u>-</u>
Business-type activities long-term liabilities	<u>\$ 5,720,040</u>	<u>\$ 70,663</u>	<u>\$ (508,637)</u>	<u>\$ 5,282,066</u>	<u>\$ 397,968</u>

Governmental Activities

Refunding Revenue Note

On July 10, 2015, the \$2,321,000 Refunding Revenue Note, Series 2015 (Series 2015 Note) was issued to refund the outstanding principal amount of the City's Stormwater Revenue Note, Series 2009 (2009 Stormwater Note) and the outstanding principal amount of the 2009 CRA Note, and to pay the costs of issuing the Series 2015 Note. The Series 2015 Note's par amount for the portion attributable to the CRA was \$873,000. Principal payments for the CRA's portion of the Series 2015 Note are due in annual installments commencing October 1, 2016 of \$53,000 to \$73,000 through October 1, 2029. Interest on the Series 2015 Note at 2.530% is due semiannually commencing October 1, 2015. The Series 2015 Note is secured solely by the City's covenant to budget and appropriate from legally available non-ad valorem revenues of the City.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

Principal and interest of \$54,000 and \$20,746, respectively for the current year was paid for the debt service of the CRA's portion of the Series 2015 Note. As of September 30, 2017, the total amount of principal and accrued interest outstanding for the CRA's portion of the Series 2015 Note was \$897,611.

The following is a schedule of the future payments on the CRA's portion of the outstanding Series 2015 Note as of September 30, 2017:

Fiscal Year Ending September 30,	Note Payable		
	Principal	Interest	Total
2018*	\$ -	\$ 9,690	\$ 9,690
2019	56,000	18,671	74,671
2020	57,000	17,242	74,242
2021	58,000	15,787	73,787
2022	60,000	14,295	74,295
2023 - 2027	322,000	47,741	369,741
2028 - 2030	213,000	8,185	221,185
	<u>\$ 766,000</u>	<u>\$ 131,611</u>	<u>\$ 897,611</u>

*Principal payment of \$54,000 due October 1, 2017 was paid on September 30, 2017.

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, 2017, \$7,705,748 had been drawn by the City on the Loan and \$3,623,986 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 2017, annual principal and interest payments on the Loan were 41% of pledged revenues. As of September 30, 2017, the amount of total principal and accrued interest outstanding was \$4,424,621. Principal and interest paid for the current year were \$355,334 and \$110,416, respectively. Pledged revenues were \$1,137,987.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

The following is a schedule of the future payments on the outstanding Loan as of September 30, 2017:

Fiscal Year Ending September 30,	Note Payable		
	Principal	Interest	Total
2018	\$ 364,840	\$ 100,909	\$ 465,749
2019	374,600	91,149	465,749
2020	384,621	81,128	465,749
2021	394,911	70,838	465,749
2022	405,479	60,273	465,752
2023 - 2027	1,963,145	132,728	2,095,873
	<u>\$3,887,596</u>	<u>\$ 537,025</u>	<u>\$ 4,424,621</u>

Refunding Revenue Note

On July 10, 2015, the Series 2015 Note was issued to refund the outstanding principal amount of the City's 2009 Stormwater Note and the outstanding principal amount of the City's 2009 CRA Note and to pay the costs of issuing the Series 2015 Note. The Series 2015 Note's par amount for the portion attributable to Stormwater was \$1,448,000. Principal payments of the Stormwater portion of the Series 2015 Note are due in annual installments commencing October 1, 2015 of \$70,000 to \$115,000 through October 1, 2029. Interest on the Series 2015 Note at 2.530% is due semiannually commencing October 1, 2015.

Principal and interest of \$85,000 and \$32,764, respectively for the current year was paid for the debt service of the Stormwater portion of the Series 2015 Note. As of September 30, 2017, the total amount of principal and accrued interest outstanding for the Stormwater portion of the Series 2015 Note was \$1,417,967.

The following is a schedule of the future payments on the outstanding Stormwater portion of the Series 2015 Note as of September 30, 2017:

Fiscal Year Ending September 30,	Note Payable		
	Principal	Interest	Total
2018*	\$ -	\$ 15,307	\$ 15,307
2019	88,000	29,500	117,500
2020	90,000	27,248	117,248
2021	92,000	24,946	116,946
2022	94,000	22,593	116,593
2023 - 2027	509,000	75,457	584,457
2028 - 2030	337,000	12,916	349,916
	<u>\$1,210,000</u>	<u>\$ 207,967</u>	<u>\$ 1,417,967</u>

*Principal payment of \$85,000 due October 1, 2017 was paid on September 30, 2017.

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.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

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, contingencies, and litigation

1. Construction commitments

The City has the following active significant construction projects as of September 30, 2017. At year end these commitments were \$1,843,618 as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Spent - to - Date</u>	<u>Remaining Commitment</u>
General Fund:			
Consulting services for Hurricane Irma CDR Maguire, Inc.	\$ 131,952	\$ -	\$ 131,952
CRA:			
Decorative lights, parking lot lights, Cedar Island Breakers Electrical Construction	16,105	-	16,105
Water & Sewer Fund:			
WWTP Phase 2 Base Bide & Alternates 1-4 SGS Contracting Service, Inc.	794,347	13,500	780,847
By-Pass Systems for Lift Stations DANUS Utilities	50,000	8,050	41,950
Pumps and control panels for lift stations Tom Evans Environmental Inc.	86,657	26,776	59,881
Drill and complete PWE FB-12R Connect Consulting	214,500	120,500	94,000
Sanitation Fund:			
Monitoring Hurricane Irma Thompson Consulting Services, LLC	75,000	30,684	44,316
Hurricane Irma Debris Removal Crowder Gulf	190,000	82,876	107,124
Stormwater Fund:			
Ocean Palm GC and Subdivision SW Project S.E. Cline Construction, Inc	822,315	324,326	497,989
WWTP Phase II Quentin L. Hampton Associates, Inc.	115,431	81,748	33,683
Pier Enterprise Fund:			
Hurricane Irma Pier Safety Inspection Mott Macdonald Consultants, Inc.	45,800	10,029	35,771
Total:	<u>\$ 2,542,107</u>	<u>\$ 698,489</u>	<u>\$ 1,843,618</u>

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

2. 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.

3. 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.

C. Retirement plans

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 \$124,147 for the year ended September 30, 2017.

Defined benefit pension plans

Plan Description – The City has provided separate single-employer pension plans for all eligible police officers and firefighters. The Municipal Police Officers' Pension Trust Fund Plan (Police Plan) and the Municipal Firefighters' Pension Trust Fund Plan (Fire Plan) are collectively referred to as the Pension Trust Fund Plans. 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.

The Pension Trust Fund Plans are each administered by a Board of Trustees (Board) comprised of two Commission/Council appointees, two members of the Department elected by the Membership and a member elected by the other four members and approved by the Commission/Council.

All full-time certified police officers and firefighters are eligible to participate in the Police Plan and Fire Plan, respectively. 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 10 years of active service are entitled to an earned benefit, payable monthly for life, in an amount equal to 3.19% (Police Plan) and 3% (Fire Plan) 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. Employees are eligible for early retirement with 10 years of service at age 50 with benefits reduced 3% for each year commencement occurs prior to age 55. 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 10 years, the same monthly benefit will be paid to their beneficiary for the balance of such 10-year period.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

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. In addition to other benefits described, a monthly supplement of \$40 for each year of credited service is also payable to all full-time and volunteer firefighters.

Participants in the Police Plan and Fire Plan 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 Plan and, beginning June 2010, to the Fire 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.

Contributions – 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 actuarial 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 actuarial 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 Pension Trust Fund 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 one surcharge for the Police Plan on casualty insurance policies and another for the Fire 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.

Measurement date

As permitted by GASB Statement No. 68, Accounting and Financial Reporting for Pensions, the City elected to use a measurement date to value the net pension liability and related deferred inflows and outflows as of September 30, 2016, one year prior to the reporting date. Because the City's Pension Trust Fund Plans do not issue separate financial statements, the disclosures required by GASB 67 as of September 30, 2017 are also included below.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

Plan Membership

Plan membership in the City's Pension Trust Fund Plans as of October 1, 2016 is as follows:

	Municipal Police Officers' Pension Trust Fund Plan	Municipal Firefighters' Pension Trust Fund Plan
Retirees and beneficiaries		
Inactive Plan members or beneficiaries currently receiving benefits	4	4
Inactive Plan members entitled to but not yet receiving benefits	9	3
Active Plan members	15	18
Total retirees and beneficiaries	28	25

Changes in Net Pension Liability

Municipal Police Officers' Pension Trust Fund Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Pension (b)	Net Pension Liability (a)-(b)
Balances at September 30, 2015	\$ 2,985,005	\$ 2,713,754	\$ 271,251
Changes for the Year:			
Service cost	140,418	-	140,418
Interest	233,628	-	233,628
Differences between expected and actual experience	114,638	-	114,638
Changes of assumptions	87,160	-	87,160
Contributions - employer	-	62,751	(62,751)
Contributions - State	-	42,952	(42,952)
Contributions - employee	-	72,128	(72,128)
Net investment income	-	289,042	(289,042)
Benefit payments, including refunds of employee contributions	(102,745)	(102,745)	-
Administrative expense	-	(39,294)	39,294
Net changes	473,099	324,834	148,265
Balances at September 30, 2016	\$ 3,458,104	\$ 3,038,588	\$ 419,516

The components of the net pension liability of the sponsor of the Police Plan on September 30, 2017 were as follows:

September 30, 2017	
Total pension liability	\$ 3,663,340
Plan net position	(3,488,671)
Net Pension Liability	\$ 174,669

Plan net position as a percentage of total pension liability	95.23%
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City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

Municipal Firefighters' Pension Trust Fund Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Pension (b)	Net Pension Liability (a)-(b)
Balances at September 30, 2015	\$ 971,484	\$ 1,264,983	\$ (293,499)
Changes for the Year:			
Service cost	81,822	-	81,822
Interest and actual experience	77,035	-	77,035
Changes of assumptions	16,460	-	16,460
Contributions - employer	50,710	-	50,710
Contributions - State	-	2,978	(2,978)
Contributions - employee	-	35,714	(35,714)
Net investment income	-	15,917	(15,917)
Benefit payments, including refunds of employee contributions	-	124,245	(124,245)
Administrative expense	(52,357)	(52,357)	-
Net changes	-	(36,875)	36,875
Balances at September 30, 2016	173,670	89,622	84,048
	<u>\$ 1,145,154</u>	<u>\$ 1,354,605</u>	<u>\$ (209,451)</u>

The components of the net pension liability of the sponsor of the Fire Plan on September 30, 2017 were as follows:

September 30, 2017	
Total pension liability	\$ 1,161,462
Plan net position	<u>(1,578,755)</u>
Net Pension Liability	<u>\$ (417,293)</u>

Plan net position as a percentage of total pension liability	135.93%
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Actuarial assumptions and other inputs – The total pension liability in the actuarial valuation as of October 1, 2015 updated to September 30, 2016 using the following actuarial assumptions, applied to all measurement periods:

	Municipal Police Officers' Pension Trust Fund Plan	Municipal Firefighters' Pension Trust Fund Plan
Inflation	2.50%	2.50%
Salary Increases	Service Based	7.50%
Discount rate	7.60%	7.50%
Investment Rate of Return	7.60%	7.50%
Mortality	RP2000 Generational, Scale BB	RP2000 Generational, Scale BB
Mortality Disabled	RP2000 Disabled, No Projection Scale	RP2000 Disabled, No Projection Scale

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

The long-term expected rate of return on Pension Trust Fund Plans investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Pension Trust Fund Plans' target asset allocations are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	50%	7.5%
International Equity	15%	8.5%
Broad Market Fixed Income	35%	2.5%
	<u>100%</u>	

Discount Rate – The discount rates used to measure the total pension liability for the Police Plan and Fire Plan were 7.60% and 7.50%, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the Pension Trust Fund Plans' fiduciary net positions were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on Pension Trust Fund Plans investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability – The following presents the net pension liability of the City, calculated using the discount rate of 7.60% and 7.50% for Police Plan and Fire Plan, respectively, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60% and 6.50%) or 1-percentage-point higher (8.60% and 8.50%) than the current rate:

Municipal Police Officers' Pension Trust Fund Plan

	<u>1% Decrease (6.60%)</u>	<u>Current Discount Rate (7.60%)</u>	<u>1% Increase (8.60%)</u>
Net Pension Liability	\$ 872,356	\$ 419,516	\$ 45,539

Municipal Firefighters' Pension Trust Fund Plan

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Net Pension Liability	\$ (38,834)	\$ (209,451)	\$ (348,518)

Pension expense, deferred outflows of resources and deferred inflows of resources related to pension

For the year ended September 30, 2017, the City recognized pension expense of \$184,970 and \$104,670, respectively for Police Plan and Fire Plan.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to the Pension Trust Fund Plans from the following sources:

Municipal Police Officers' Pension Trust Fund Plan

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 91,711	\$ 39,252
Change of assumptions	69,728	-
Net difference between projected and actual earnings on pension plan investments	58,766	-
Employer and State contributions subsequent to the measurement date	174,863	-
Total	<u>\$ 395,068</u>	<u>\$ 39,252</u>

Municipal Firefighters' Pension Trust Fund Plan

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 14,632	\$ 1,501
Change of assumptions	45,075	-
Net difference between projected and actual earnings on pension plan investments	33,143	-
Employer and State contributions subsequent to the measurement date	115,411	-
Total	<u>\$ 208,261</u>	<u>\$ 1,501</u>

\$174,863 and \$115,411, respectively, were reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date for Police Plan and Fire Plan and are recognized as a reduction of net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pension Trust Fund Plans will be recognized as follows:

Fiscal Year Ending September 30:	Police Plan	Fire Plan
2018	\$ 51,364	\$ 18,431
2019	51,366	18,431
2020	63,963	24,246
2021	14,260	1,141
2022	-	7,275
Thereafter	-	21,827
Total	<u>\$ 180,953</u>	<u>\$ 91,351</u>

Payable to the Pension Plan – On September 30, 2017, the City had \$124,647 payables for outstanding amounts of contributions of the Police Plan and Fire Plan.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

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 pursuant to its single employer Other Postemployment Benefits Program (OPEB Plan). The OPEB Plan does not issue a stand-alone financial report. Authority to amend the OPEB Plan resides with the City Commission.

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 Trust Fund Plans sponsored by the City. Under certain conditions, eligible individuals for healthcare coverage also include spouses and dependent children.

Retirees who choose to participate 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 coverage as of September 30, 2017.

	<u>Single</u>	<u>Couple</u>	<u>Single plus Dependents</u>	<u>Family</u>
HMO Choice 8L-Q	\$ 651	\$ 1,393	\$ 1,328	\$ 1,992
HMO Choice 8P-L	688	1,473	1,404	2,106
HMO Choice Plus 8Q-K	691	1,478	1,409	2,114

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.

For financial reporting purposes, GASB Statement No. 45 requires that an actuarial valuation be performed at least triennially for plans with a total membership of fewer than 200. The projection of benefits should include all benefits covered by the current substantive plan (the plan as understood by the employer and plan members) at the time of each valuation and should take into consideration the pattern of sharing of benefit costs between the employer and plan members to that point, as well as certain legal or contractual caps on benefits to be provided. The City's most recent actuarial valuation was as of October 1, 2014 for contributions applicable to the plan/fiscal year ending September 30, 2015.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

The City's annual OPEB cost for the fiscal year ended 2015 and the related information for the OPEB Plan are as follows:

Actuarially required contribution (ARC)	\$	71,129
Interest on net OPEB obligation		10,256
Adjustment to annual required contributio		<u>(17,916)</u>
Annual OPEB cost		63,469
Estimated contributions made		<u>(22,666)</u>
Increase in net OPEB obligation		40,803
Net OPEB obligation, beginning of year ended September 30, 2015		<u>256,389</u>
Net OPEB obligation, end of year ended September 30, 2015	\$	<u><u>297,192</u></u>

The numbers shown above do not reflect a decision to fund the OPEB Plan. Therefore, the contributions made to the OPEB Plan are assumed to be the future benefits paid to retirees and administrative expenses.

The City's annual OPEB cost (the percentage of annual OPEB cost contributed to the OPEB Plan) and the net OPEB obligation for the fiscal year ended 2015 were as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 63,469	35.70%	\$ 297,192
2014	62,457	33.20%	256,389
2013	60,641	27.70%	214,692

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 OPEB 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.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

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

Actuarial valuation date	October 1, 2014
Actuarial value of assets	Market value
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
Payroll growth/Inflation	0.00%
Healthcare cost trend rates:	
Pre-Medicare	8.0% in fiscal 2015; then trending to 5.0% in 2019
Post-Medicare	8.0% in fiscal 2015; then trending to 5.0% in 2019

This actuarial valuation involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to constant revision as actual experience is compared with past expectations and new estimates are made about the future.

The Schedule of Funded Status and Funding Progress for Other Postemployment Benefits Other Than Pensions, presented as Required Supplementary Information following the Notes to the Financial Statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

VI. Restatement of Net Position

During fiscal year 2017, errors in prior years' accumulated depreciation were identified in the General, Water and Sewer and Sanitation Funds.

Governmental and Business Type activities net position and Enterprise Fund net position as of October 1, 2016 have been restated as follows:

	Governmental Activities	Business-type Activities	
		Water and Sewer Fund	Sanitation Fund
Total net position-beginning, as previously reported	\$ 16,978,904	\$ 20,219,234	\$ 1,827,808
Prior period adjustment	24,753	18,089	14,070
Total net position-beginning, as restated	<u>\$ 17,003,657</u>	<u>\$ 20,237,323</u>	<u>\$ 1,841,878</u>

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2017

VII. Evaluation of subsequent events

After October 1, 2017, the City received Federal and State Obligations totaling \$1,735,763 from its Hurricane Matthew Disaster Declaration (FEMA-4283-DR-FL) Federally Funded Public Assistance State Agreement for reimbursement of the City's verified expenses related to Hurricane Mathew in October 2016. As of June 28, 2018, \$678,130 of these obligations have been received.

On December 7, 2017, the City entered into a governmental lease agreement with Ring Investments, LLC for the use and an option to purchase at the end of the lease term a 2017 Caterpillar Model 420F2IT Backhoe Loader. Principal and interest payments are in 60 consecutive monthly installments of \$1,682, commencing January 1, 2018.

City management has evaluated subsequent events through June 28, 2018, 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, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 3,661,809	\$ 3,661,809	\$ 3,811,127	\$ 149,318
Franchise fees	300,000	300,000	303,935	3,935
Licenses and permits	309,700	329,375	388,045	58,670
Intergovernmental	716,182	1,594,567	860,569	(733,998)
Charges for services	59,533	59,553	58,150	(1,403)
Fines and forfeitures	42,550	42,550	104,066	61,516
Grants and donations	23,500	38,533	22,750	(15,783)
Investment earnings	27,000	27,000	41,351	14,351
Miscellaneous	23,670	144,637	95,390	(49,247)
Total revenues	<u>5,163,944</u>	<u>6,198,024</u>	<u>5,685,383</u>	<u>(512,641)</u>
EXPENDITURES				
Current:				
Commission	75,892	81,894	71,817	10,077
Executive	123,393	149,859	134,353	15,506
City clerk	188,174	196,792	174,373	22,419
Human Resources	78,532	85,227	72,237	12,990
Finance	172,564	180,582	171,724	8,858
Legal counsel	158,400	158,400	129,018	29,382
Building maintenance	320,307	417,333	411,404	5,929
General government	569,897	1,192,000	1,002,726	189,274
Police	1,304,704	1,382,495	1,424,284	(41,789)
VOCA	107,005	114,425	107,364	7,061
Fire	782,524	848,437	873,683	(25,246)
Building and zoning	138,744	150,668	128,030	22,638
Fund capital	-	5,500	-	5,500
Roads and streets	289,194	439,570	312,977	126,593
Library	107,488	128,330	109,913	18,417
Museum	14,280	14,280	9,660	4,620
Beach	303,396	308,049	275,191	32,858
Recreation	107,698	129,395	88,771	40,624
Building code inspections	189,540	218,017	190,554	27,463
Capital projects	428,000	793,373	453,814	339,559
Total expenditures	<u>5,459,732</u>	<u>6,994,626</u>	<u>6,141,893</u>	<u>852,733</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(295,788)</u>	<u>(796,602)</u>	<u>(456,510)</u>	<u>340,092</u>
OTHER FINANCING SOURCES				
Transfers out	(5,100)	(5,100)	(249,496)	(244,396)
Other funding sources	-	-	14,150	14,150
Total other financing sources	<u>(5,100)</u>	<u>(5,100)</u>	<u>(235,346)</u>	<u>(230,246)</u>
Net change in fund balances	<u>\$ (300,888)</u>	<u>\$ (801,702)</u>	<u>\$ (691,856)</u>	<u>\$ 109,846</u>

See accompanying notes.

**City of Flagler Beach, Florida
Budgetary Comparison Schedule
Community Redevelopment Fund
September 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 183,794	\$ 183,794	\$ 185,000	\$ 1,206
Grants	-	2,802	-	(2,802)
Other income	-	401	-	(401)
Total revenues	<u>183,794</u>	<u>186,997</u>	<u>185,000</u>	<u>(1,997)</u>
EXPENDITURES				
Current:				
Professional services	-	3,000	3,000	-
Audit	3,500	5,000	5,000	-
Contractual services	40,000	39,583	39,583	-
Utilities	22,000	4,355	4,580	(225)
Repairs & maintenance	-	20,309	7,022	13,287
Legal and personal notices	-	963	82	881
Operating supplies	5,000	318	318	-
Memberships and subscriptions	-	175	175	-
Debt service:				
Interest	81,931	81,931	54,000	27,931
Principal	23,048	23,048	23,048	-
Total expenditures	<u>175,479</u>	<u>178,682</u>	<u>136,808</u>	<u>41,874</u>
Excess of revenues over expenditures	<u>8,315</u>	<u>8,315</u>	<u>48,192</u>	<u>39,877</u>
Net change in fund balances	<u>\$ 8,315</u>	<u>\$ 8,315</u>	<u>\$ 48,192</u>	<u>\$ 39,877</u>

See accompanying notes.

City of Flagler Beach, Florida
Note to the Budgetary Comparison Schedules
For the Year Ended September 30, 2017

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.

The following departments incurred expenditures in excess of appropriations in the following amounts for the year ended September 30, 2017:

Fire	\$25,246
Police	\$41,789

The excess expenditures were covered by available fund balances in the funds.

City of Flagler Beach, Florida
Schedule of Funded Status and Funding Progress
for Other Postemployment Benefits Other Than Pensions
September 30, 2017

The schedule below shows the balance of the actuarial accrued liability (AAL), all of which was unfunded as of September 30, 2017.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
10/1/2014*	N/A	\$289,187	\$289,187	0.0%	\$2,681,708	10.8%
10/1/2013	N/A	N/A	N/A	N/A	N/A	N/A
10/1/2012	N/A	N/A	N/A	N/A	N/A	N/A
10/1/2011	N/A	\$235,321	\$235,321	0.0%	\$2,376,554	9.9%
10/1/2010	N/A	\$318,000	\$318,000	0.0%	\$2,482,000	12.8%

*10/1/2014 was the City's most recent actuarial valuation.

This information is intended to help users assess the City's OPEB Plan's status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employers.

City of Flagler Beach, Florida
Schedule of Changes in Net Pension Liability and Related Ratios
Municipal Police Officers' Pension Trust Fund Plan
(Last 10 Fiscal Years)
September 30, 2017

	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>	<u>9/30/2014</u>	
TOTAL PENSION LIABILITY					
Service cost	\$ 163,804	\$ 140,418	\$ 152,425	\$ 148,987	PRIOR INFORMATION NOT AVAILABLE
Interest	270,030	233,628	218,206	197,282	
Share plan allocation	764	-	-	-	
Differences between expected and actual experience	(91,598)	114,638	(58,880)	-	
Changes of assumptions	-	87,160	-	-	
Benefit payments, including refunds of employee contributions	(137,764)	(102,745)	(90,905)	(57,881)	
Net change in total pension liability	205,236	473,099	220,846	288,388	
Total pension liability - beginning	3,458,104	2,985,005	2,764,159	2,475,771	
Total pension liability - ending (a)	<u>\$ 3,663,340</u>	<u>\$ 3,458,104</u>	<u>\$ 2,985,005</u>	<u>\$ 2,764,159</u>	
PLAN FIDUCIARY NET POSITION					
Contributions - employer	\$ 130,382	\$ 62,751	\$ 60,659	\$ 87,454	
Contributions - state	44,481	42,952	38,667	38,340	
Contributions - employee	81,895	72,128	71,655	71,530	
Net investment income	373,236	289,042	(40,277)	246,855	
Benefit payments, including refunds of employee contributions	(137,764)	(102,745)	(90,905)	(57,881)	
Administrative expense	(42,147)	(39,294)	(51,933)	(19,992)	
Net change in plan fiduciary net position	450,083	324,834	(12,134)	366,306	
Plan fiduciary net position - beginning	3,038,588	2,713,754	2,725,888	2,359,582	
Plan fiduciary net position - ending (b)	<u>\$ 3,488,671</u>	<u>\$ 3,038,588</u>	<u>\$ 2,713,754</u>	<u>\$ 2,725,888</u>	
Net pension liability - ending (a) - (b)	<u>\$ 174,669</u>	<u>\$ 419,516</u>	<u>\$ 271,251</u>	<u>\$ 38,271</u>	
Plan fiduciary net position as a percentage of the total pension liability	95.23%	87.87%	90.91%	98.62%	
Covered employee payroll*	\$ 818,946	\$ 721,277	\$ 716,550	\$ 715,298	
Net pension liability as a percentage of covered employee payroll	21.33%	58.16%	37.86%	5.35%	

Notes to Schedule:

*The covered employee payroll numbers shown are in compliance with GASB 82.

Changes of assumptions:

For measurement date 9/30/16, as a result of Chapter 2015-157, Laws of Florida, the assumed rates of mortality were changed to the assumptions used by the Florida Retirement System for special risk employees.

The inflation assumption rate was lowered from 3.00% to 2.50%, matching the long-term inflation assumption utilized by the Plan's investment consultant.

City of Flagler Beach, Florida
Schedule of Changes in Net Pension Liability and Related Ratios
Municipal Firefighters' Pension Trust Fund Plan
(Last 10 Fiscal Years)
September 30, 2017

	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>	<u>9/30/2014</u>		
TOTAL PENSION LIABILITY						
Service cost	\$ 82,884	\$ 81,822	\$ 74,954	\$ 63,454	PRIOR INFORMATION NOT AVAILABLE	
Interest	90,640	77,035	69,702	63,195		
Differences between expected and actual experience	(118,194)	16,460	(1,875)	-		
Changes of assumptions	-	50,710	-	-		
Benefit payments, including refunds of employee contributions	<u>(39,022)</u>	<u>(52,357)</u>	<u>(51,394)</u>	<u>(51,394)</u>		
Net change in total pension liability	16,308	173,670	91,387	75,255		
Total pension liability - beginning	<u>1,145,154</u>	<u>971,484</u>	<u>880,097</u>	<u>804,842</u>		
Total pension liability - ending (a)	<u>\$ 1,161,462</u>	<u>\$ 1,145,154</u>	<u>\$ 971,484</u>	<u>\$ 880,097</u>		
PLAN FIDUCIARY NET POSITION						
Contributions - employer	\$ 83,554	\$ 2,978	\$ 12,764	\$ 24,723		
Contributions - state	31,857	35,714	62,074	50,517		
Contributions - employee	25,221	15,917	14,900	13,776		
Net investment income	158,378	124,245	(19,545)	115,088		
Benefit payments, including refunds of employee contributions	(39,022)	(52,357)	(51,394)	(51,394)		
Administrative expense	<u>(35,838)</u>	<u>(36,875)</u>	<u>(28,497)</u>	<u>(12,148)</u>		
Net change in plan fiduciary net position	224,150	89,622	(9,698)	140,562		
Plan fiduciary net position - beginning	<u>1,354,605</u>	<u>1,264,983</u>	<u>1,274,681</u>	<u>1,134,119</u>		
Plan fiduciary net position - ending (b)	<u>\$ 1,578,755</u>	<u>\$ 1,354,605</u>	<u>\$ 1,264,983</u>	<u>\$ 1,274,681</u>		
Net pension liability - ending (a) - (b)	<u>\$ (417,293)</u>	<u>\$ (209,451)</u>	<u>\$ (293,499)</u>	<u>\$ (394,584)</u>		
Plan fiduciary net position as a percentage of the total pension liability	135.93%	118.29%	130.21%	144.83%		
Covered employee payroll*	\$ 504,418	\$ 318,345	\$ 297,990	\$ 275,505		
Net pension liability as a percentage of covered employee payroll	-82.73%	-65.79%	-98.49%	-143.22%		

Notes to Schedule:

*The covered employee payroll numbers shown are in compliance with GASB 82.

Changes of assumptions:

For measurement date 9/30/16, as a result of Chapter 2015-157, Laws of Florida, the assumed rates of mortality were changed to the assumptions used by the Florida Retirement System for special risk employees.

The inflation assumption rate was lowered from 3.00% to 2.50%, matching the long-term inflation assumption utilized by the Plan's investment consultant.

City of Flagler Beach, Florida
Schedule of Contributions
Municipal Police Officers' Pension Trust Fund Plan
(Last 10 Fiscal Years)
September 30, 2017

	9/30/2017	9/30/2016	9/30/2015	9/30/2014	
Actuarially determined contribution	\$ 180,987	\$ 98,815	\$ 98,884	\$ 125,177	PRIOR INFORMATION NOT AVAILABLE
Contributions in relation to the actuarially determined contributions	174,099	105,703	99,326	125,794	
Contribution deficiency (excess)	\$ 6,888	\$ (6,888)	\$ (442)	\$ (617)	
Covered employee payroll*	\$ 818,946	\$ 721,277	\$ 716,550	\$ 715,298	
Contributions as a percentage of covered employee payroll	21.26%	14.65%	13.86%	17.59%	

*The covered employee payroll numbers shown are in compliance with GASB 82.

Notes to Schedule

Valuation date: October 1, 2015

Actuarially determined contribution rates are calculated as of October 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contributions rates:

Funding Method: Entry Age Normal Actuarial Cost Method, with level dollar amortization of the Unfunded Actuarial Accrued Liability. The amortization period for the October 1, 2015 Method Change Base is 20 years.

The following load is utilized for determination of the Plan's contribution requirements:
Interest - a half-year, based on the current 7.6% assumption.

Actuarial Asset Method: Actuarial Value of Assets is based on a four-year smoothing methodology. This annual difference between expected and actual investment earnings (Market Value, net of investment-related expenses), is phased in over a four-year period.

For the October 1, 2015 valuation, one-fourth of the difference between the actual and expected net investment earnings for fiscal year 2015 is recognized. The remainder of the difference will be phased on over the next three valuations.

Assets in the prior valuation were based on Fair Market Value, net of investment-related expenses.

Inflation: 2.5% per year.

Salary increases: Service based annual amount to assumed retirement age; 12% at 0 years of service, 5% from 1 - 10 years of service and 4.5% for 11 years of service and greater. Projected salary at retirement is increased 10% to account for non-regular payments for those hired prior to 10/1/2010.

Cost-of-Living Adjustment: None

Interest rate: 7.6% per year, compounded annually, net of investment related expenses. This assumption was lowered in conjunction with the October 1, 2014 valuation as approved by the Board of Trustees.

Retirement age: Earlier of:
1) age 55 and 10 years of service, or
2) age 52 and 25 years of service.
Also, any member who has reached normal retirement age 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 the rate of 5% per year.

Termination rates: Service based table, assuming 10% of participants with service from 0-5 years will terminate each year, and 0% thereafter.

Disability rates: See table below. It is assumed that 75% of disabilities that occur are service related. This assumption was developed from those used by other plans containing Florida municipal Police Officers.

Mortality: Entry Age Normal Actuarial Cost Method, with level dollar amortization of the Unfunded Actuarial Accrued Liability. The amortization period for the October 1, 2015 Method Change Base is 20 years.

Other information: Termination and Disability Rate Table.

Age	% Becoming Disabled During the Year
20	0.03%
30	0.04%
40	0.07%
50	0.18%

City of Flagler Beach, Florida
Schedule of Contributions
Municipal Firefighters' Pension Trust Fund Plan
(Last 10 Fiscal Years)
September 30, 2017

	9/30/2017	9/30/2016	9/30/2015	9/30/2014	
Actuarially determined contribution	\$ 115,411	\$ 45,588	\$ 67,942	\$ 75,240	PRIOR
Contributions in relation to the actuarially determined contributions	115,411	38,692	74,838	75,240	INFORMATION NOT
Contribution deficiency (excess)	\$ -	\$ 6,896	\$ (6,896)	\$ -	AVAILABLE
Covered employee payroll*	\$ 504,418	\$ 318,345	\$ 297,990	\$ 275,505	
Contributions as a percentage of covered employee payroll	22.88%	12.15%	25.11%	27.31%	

*The covered employee payroll numbers shown are in compliance with GASB 82.

Notes to Schedule

Valuation date: October 1, 2015

Actuarially determined contribution rates are calculated as of October 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contributions rates:

Funding Method: Aggregate Actuarial Cost Method.

Asset Method: Fair Market Value, net of investment-related expenses.

Inflation: 2.5% per year.

Salary increases: 7.5% per year until the assumed retirement age. This assumption is based on the results of an experience study issued April 22, 2013.

Interest rate: 7.5% per year, compounded annually, net of investment related expenses. This is supported by the target asset class allocation of the trust and the expected long-term return by asset class.

Payroll growth: N/A

Retirement age:	Number of Years after First Eligibility for	
	Normal Retirement	Probability of Retirement
	0	20%
	1-4	5%
	5 or more	100%

Early retirement: Commencing with the earliest retirement age (age 50 with 10 years of credited service), members are assumed to retire with an immediate subsidized benefit at the rate of 5% per year. These rates are based on the results of an experience study issued April 22, 2013.

Termination rates: 5.0% for all ages. These rates are based on the results of an experience study issued April 22, 2013.

Disability rates: See table below. It is assumed that 75% of disabilities and active member deaths are service related. These rates are consistent with rates used in other fire plans.

Mortality: RP-2000 Table with no projection - Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements. (Disabled lives set forward 5 years.)

Other information: Termination and Disability Rate Table.

Age	% Becoming Disabled During the Year
20	0.03%
30	0.04%
40	0.07%
50	0.18%

City of Flagler Beach, Florida
Schedule of Investment Returns
Pension Trust Fund Plans
(Last 10 Fiscal Years)
September 30, 2017

	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>	<u>9/30/2014</u>	
Police Officers' Pension Trust Fund Plan					
Annual Money-Weighted Rate of Return					PRIOR
Net of Investment Expense	12.32%	10.62%	-1.48%	10.40%	INFORMATION NOT AVAILABLE
Firefighters' Pension Trust Fund Plan					
Annual Money-Weighted Rate of Return					PRIOR
Net of Investment Expense	11.83%	10.10%	-1.52%	9.98%	INFORMATION NOT AVAILABLE

The data presented above was measured using actuarial methods prescribed by GASB Statements numbers 67 and 68.

Additional years will be added to this schedule annually until 10 years of data is presented.

OTHER REPORTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the City of Flagler Beach, Florida (City), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 28, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

The Nichols Group

The Nichols Group, P.A.
Certified Public Accountants
Fleming Island, Florida

June 28, 2018

**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

Report on the Financial Statements

We have audited the financial statements of the City of Flagler Beach, Florida (City), as of and for the fiscal year ended September 30, 2017, and have issued our report thereon dated June 28, 2018.

Auditor's Responsibility

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

Other Reports and Schedule

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated June 28, 2018, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations made in the preceding audit report.

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note 1-A in the Financial Statements.

Financial Condition

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and communicate the results of our determination as to whether or not the City has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the City. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Annual Financial Report

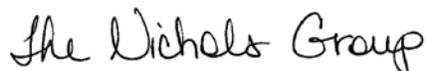
Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether the annual financial report for the City for the fiscal year ended September 30, 2017, filed with the Florida Department of Financial 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, 2017. In connection with our audit, we determined that these two reports were in agreement.

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but warrants the attention of those charged with governance. In connection with our audit, we did not note any such findings.

Purpose of this Letter

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



The Nichols Group, P.A.
Certified Public Accountants
Fleming Island, Florida

June 28, 2018



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

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

Report on Compliance

We have examined the City of Flagler Beach, Florida's (City) compliance with the requirements of Section 218.415, Florida Statutes, as and for the year ended September 30, 2017, as required by Section 10.556(10)(a), Rules of the Auditor General. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Scope

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

Opinion

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2017

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

The Nichols Group

The Nichols Group, P.A.
Certified Public Accountants
Fleming Island, Florida

June 28, 2018