

DUFRESNE & ASSOCIATES, CPA, PA
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June 11, 2015

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the related notes to the financial statements of the City of Flagler Beach, Florida (City) for the year ended September 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 26, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note I to the financial statements.

As described in Note I-E, the City adopted new accounting guidance, GASB Statement No. 65, Items Previously Reported as Assets and Liabilities; GASB Statement No. 66, Technical Corrections – 2013; and GASB Statement No. 67, Financial Reporting for Pension Plans. Accordingly, as a result of the adoption of GASB Statement No. 65 and further discussed in Note IV-A, note issuance costs previously reported as assets had to be removed from the financial statements, resulting in a restatement of beginning net position for both the City's governmental activities and business-type activities.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the City's financial statements was the allowance for uncollectible accounts:

Management's estimate of the allowance for uncollectible accounts is based on historical water and sewer revenues, historical loss levels, consideration of overall economic conditions, and analysis of collectability of individual accounts. Management reviews current aging receivables on a quarterly basis. Any adjustment that exceeds the amount budgeted for bad debt requires the City Manager's or City Commission's approval. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 11, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

Required Supplementary Information (RSI)

We applied certain limited procedures to the MD&A, Budgetary Comparison Schedules and Pension Schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Honorable Mayor, City Commissioners and the City Manager of the City and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Dufresne & Associates, CPA, PA

Dufresne & Associates, CPA, PA

**City of Flagler Beach, Florida
Financial Statements
For the Year Ended
September 30, 2014**

**Dufresne & Associates, CPA, PA
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City of Flagler Beach, Florida
Financial Statements
September 30, 2014

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City of Flagler Beach, Florida
Financial Statements
September 30, 2014

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INTRODUCTORY SECTION

**City of Flagler Beach, Florida
List of Principal Officials
September 30, 2014**

MAYOR

HONORABLE
LINDA PROVENCHER

CHAIRPERSON

KIM CARNEY

VICE-CHAIRPERSON

MARSHALL SHUPE

CITY COMMISSIONERS

JANE MEALY

STEVE SETTLE

JOY MCGREW

CITY MANAGER

BRUCE CAMPBELL

FINANCE DIRECTOR

KATHLEEN DOYLE

CITY ATTORNEY

DREW SMITH

INDEPENDENT AUDITORS

DUFRESNE & ASSOCIATES, CPA, PA

FINANCIAL SECTION

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June 11, 2015

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, 2014, 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, 2014, 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.

Emphasis of Matter

As described in Note I-E to the financial statements, in 2014, the City adopted new accounting guidance, GASB Statement No. 65, Items Previously Reported as Assets and Liabilities; GASB Statement No. 66, Technical Corrections -2013; and GASB Statement No. 67, Financial Reporting for Pension Plans. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information on pages 5 - 13 and 51 - 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

The Reconciliation of Actuarial Net Position to the Fiduciary Net Position for the Municipal Police Officers' and Firefighters' Pension Trust Fund Plans (Reconciliation) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Reconciliation has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2015, 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.

Dufresne & Associates, CPA, PA

Dufresne & Associates, CPA, PA

Management's Discussion and Analysis (Unaudited)

As management of the City of Flagler Beach, Florida (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2014.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$41,165,150.
- The City's total net position increased by \$3,110,093 due largely to the completion of Pier Hardening Project, the Ocean Promenade and equipment purchases.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,402,557, an increase of \$545,384 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,690,741 or 72.42% of total General Fund expenditures. Revenues exceeded expenditures in the General Fund by \$338,247, before internal transfers and other funding sources of \$228,390 are included in the \$566,637 increase in fund balance.
- The City's total long-term liabilities decreased by \$428,969. The liabilities consist of compensated absences, capital leases for police motorcycles and two police vehicles, State Revolving Fund Loan for the water treatment plant, the Revenue Bond Note for CRA District improvements and the Revenue Bond Note for Stormwater Improvements throughout the City and the Other Postemployment Benefits (OPEB).

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, and stormwater. The government-wide financial statements can be found on pages 14 and 15 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 17 and 19.

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 16 and 18.

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 51 and 52.

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, and stormwater activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer, Sanitation, and Stormwater Funds, all of which are considered major funds. The basic proprietary fund financial statements can be found in this report on pages 20 through 22.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found within this report on pages 23 and 24.

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 25 through 50.

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

Government-wide Financial Analysis

As noted earlier, net position might serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceed liabilities by \$41,165,150 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 debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Flagler Beach's Net Position

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 7,358,171	\$ 6,446,183	\$ 7,654,218	\$ 7,215,010	\$ 15,012,389	\$ 13,661,193
Capital assets	11,709,904	10,321,760	23,325,465	23,029,125	35,035,369	33,350,885
Total assets	19,068,075	16,767,943	30,979,683	30,244,135	50,047,758	47,012,078
Long-term liabilities outstanding	1,203,582	1,248,052	6,689,538	7,065,918	7,893,120	8,313,970
Other liabilities	784,441	373,599	205,047	236,580	989,488	610,179
Total liabilities	1,988,023	1,621,651	6,894,585	7,302,498	8,882,608	8,924,149
Net position:						
Net investment in capital assets	10,785,635	9,352,255	16,989,403	16,305,186	27,775,038	25,657,441
Restricted	1,528,187	1,588,504	2,651,323	2,450,068	4,179,510	4,038,572
Unrestricted	4,766,230	4,205,533	4,444,372	4,186,383	9,210,602	8,391,916
Total net position	\$ 17,080,052	\$ 15,146,292	\$ 24,085,098	\$ 22,941,637	\$ 41,165,150	\$ 38,087,929

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.

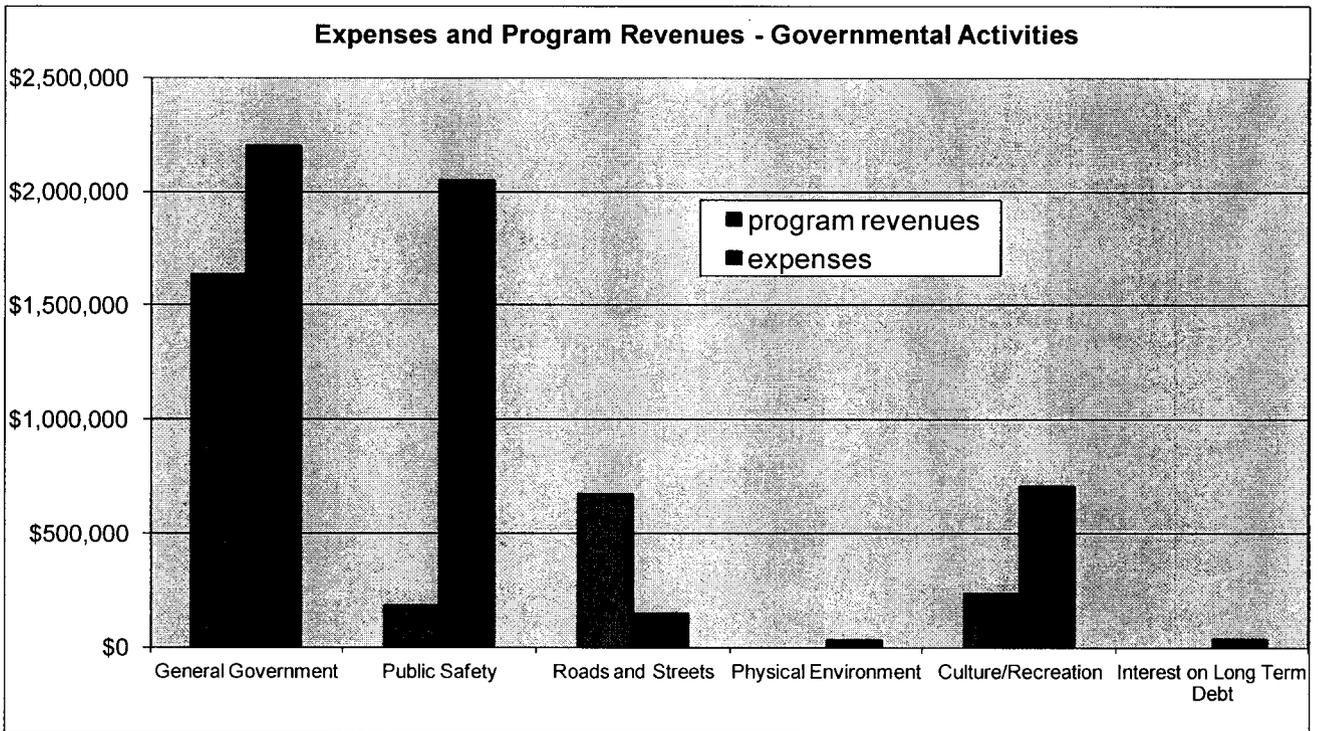
At the end of the current fiscal year, the City is able to report positive balances in all categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Governmental activities. Governmental activities increased the City's net position by \$1,950,233 thereby accounting for 62.71% of the total increase in the net position of the City; this represents an increase over last year due to the completion of Pier Hardening Project and the Ocean Promenade.

Overall, revenues in Governmental activities increased by \$815,880 or 13.39%; expenses increased by \$357,534 or 6.64% when compared to last year's balances. The increase in revenues was generated by the receipt of grant monies for the Pier Hardening and Ocean Promenade Projects. Increases in expenses were in the Public Safety and General Government areas of the governmental funds.

City of Flagler Beach's Change in Net Position

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues:						
Charges for services	\$ 761,288	\$ 771,230	\$ 3,963,733	\$ 3,932,543	\$ 4,725,021	\$ 4,703,773
Operating grants and contributions	203,687	189,227	-	-	203,687	189,227
Capital grants and contributions	1,771,721	1,226,986	859,033	201,494	2,630,754	1,428,480
General revenues:						
Property taxes	2,471,194	2,350,771	-	-	2,471,194	2,350,771
Sales taxes	368,993	366,850	-	-	368,993	366,850
Franchise and utility taxes	1,081,870	1,039,639	-	-	1,081,870	1,039,639
Intergovernmental revenue	175,205	100,850	-	-	175,205	100,850
Unrestricted Investment earnings	27,871	1,351	68,303	15,108	96,174	16,459
Other miscellaneous	47,118	46,163	-	-	47,118	46,163
Total revenues	6,908,947	6,093,067	4,891,069	4,149,145	11,800,016	10,242,212
Expenses:						
General government	2,200,136	2,018,861	-	-	2,200,136	2,018,861
Public safety	2,052,162	1,876,333	-	-	2,052,162	1,876,333
Roads and streets	152,831	142,000	-	-	152,831	142,000
Physical environment	35,955	59,166	-	-	35,955	59,166
Culture/recreation	709,991	697,615	-	-	709,991	697,615
Interest on long-term debt	37,924	37,490	-	-	37,924	37,490
Water and sewer	-	-	2,430,839	2,259,668	2,430,839	2,259,668
Sanitation	-	-	884,586	846,150	884,586	846,150
Stormwater	-	-	185,499	179,692	185,499	179,692
Total expenses	5,188,999	4,831,465	3,500,924	3,285,510	8,689,923	8,116,975
Increase in net position before transfers	1,719,948	1,261,602	1,390,145	863,635	3,110,093	2,125,237
Transfers	230,285	321,779	(230,285)	(321,779)	-	-
Increase in net position	1,950,233	1,583,381	1,159,860	541,856	3,110,093	2,125,237
Net position-beginning of year, as previously reported	15,146,292	13,562,911	22,941,637	22,399,781	38,087,929	35,962,692
Prior period adjustment	(16,473)	-	(16,399)	-	(32,872)	-
Net position- beginning of year, as restated	15,129,819	13,562,911	22,925,238	22,399,781	38,055,057	35,962,692
Net position - end of year	\$ 17,080,052	\$ 15,146,292	\$ 24,085,098	\$ 22,941,637	\$ 41,165,150	\$ 38,087,929



Revenues by Source - Governmental Activities



■ Property Tax 35.77%	■ Franchise Tax 4.41%
■ Utility Service Tax 8.37%	■ Community Services Tax 2.88%
■ Operating Grants 2.95%	■ Capital Grants 25.64%
■ Infrastructure Surtax 2.00%	■ Local Half Cent Sales Tax 2.00%
■ Local Option Gas Tax 1.34%	■ State Revenue Sharing 1.39%
■ Intergovernmental 1.15%	■ Charges for Services & Fees 11.02%
■ Unrestricted Investment Earnings .40%	■ Miscellaneous .68%

Business-type activities. Business-type activities increased the City's net position by \$1,159,860 accounting for 32.79% of the total increase in the City's net position when compared to last fiscal year.

Overall the revenues in business-type activities increased by \$741,924 or 17.88%, due largely to grant revenue for the Stormwater Projects. The expenses increased \$215,414 or 6.55%.

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.

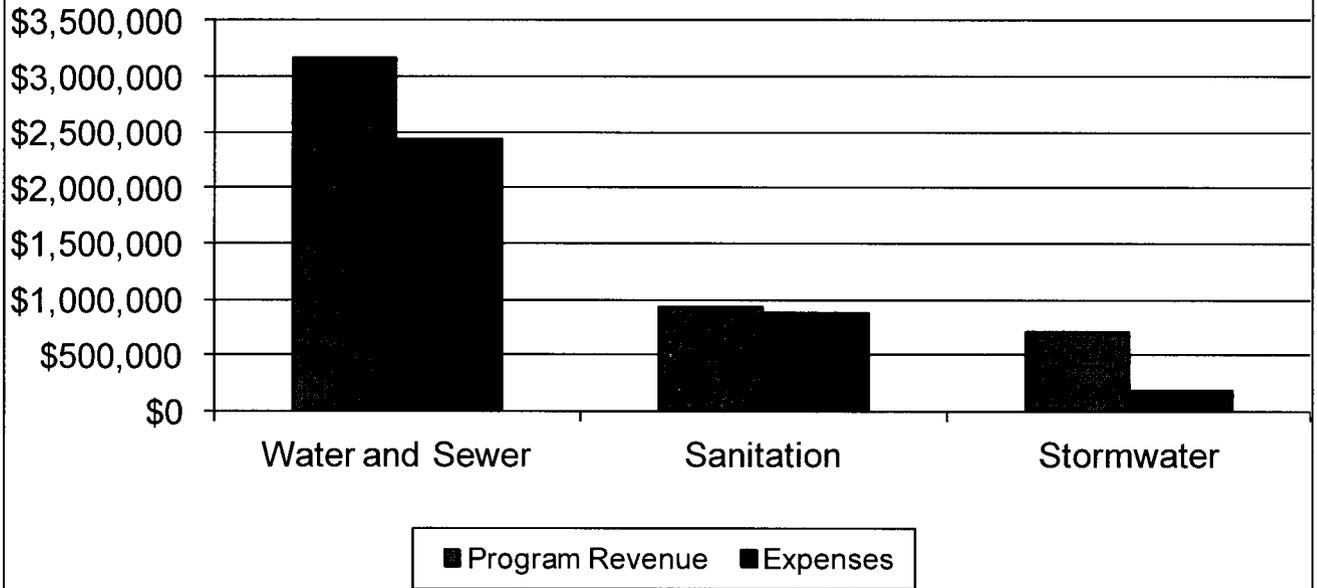
Governmental funds. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,402,557, an increase of \$545,384 in comparison with prior year. 72.89% of the total amount, or \$4,666,593, constitutes *unassigned fund balance* in the General Fund, which is available for spending at the government's discretion. The Community Redevelopment Fund has an *unassigned fund balance* of \$(24,148). A combination of reduced property values over the past seven years, and the cost to the city for CRA Phase II C were the cause of this deficit. The CRA receives TIFF (Tax Incremental Funding) from the City of Flagler Beach and Flagler County annually and with an increase to the property values the fund should have a positive balance by year end 2015. The remainder of the fund balance in the General Fund is not available for new spending because it has already been designated *Nonspendable* – Prepaid amounts of \$76,426; *Restricted* for Infrastructure and Capital Assets \$1,296,294, *Restricted* for Law Enforcement and Training \$25,085, *Restricted* for Land Purchases \$18,490 and *Restricted* for the Education of Building Inspectors \$17,145; *Committed* for Encumbrances \$152,524 including \$126,482 for paving, \$18,562 for construction, \$7,480 for Firefighter Education, \$5,351 for Promenade Parking and \$10,000 for the city's portion of a landscaping grant; *Assigned* as an encumbrance was the amount of \$150,000 for a Fire truck purchase.

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 \$4,690,741 while the total fund balance reached \$6,426,705. 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 72.42% of the total General Fund expenditures, while total fund balance represents 99.22% 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, and Stormwater Funds at the end of the year amounted to \$2,690,418, \$1,376,677, and \$377,277, respectively. The total increase (decrease) in unrestricted net position was \$352,208, \$92,951, \$(187,170), respectively.

Base Rate increases for the Utility and Stormwater Funds will be necessary to fund future projects and general maintenance of aging infrastructure.

Expenses and Program Revenues Business-Type Activities



Revenues by Source - Business-Type Activities



General Fund Budgetary Highlights

The Budgetary Comparison Schedule for the General Fund found on page 51 of the Required Supplementary Information shows the differences between the original budget, the final amended budget and actual amounts.

Revenues were \$241,065 more than the final budget. The City was able to keep expenditures under budget by \$619,849 when compared to the amended budget. The net result was an increase of \$566,637 to the fund balance for General Fund.

Capital assets. The City's investment in capital assets for its governmental and business-type assets as of September 30, 2014, amounts to \$35,035,369. This investment in capital assets includes land and land improvements, buildings, improvements other than buildings, equipment, construction in progress, and infrastructure. The total increase in the City's investment in capital assets for the current fiscal year was 5.05%.

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

- Completion of the Oceanwalk Promenade along A1A extended our older boardwalk and improved our beach access. The project was paid with grant and city funds.
- The Pier Hardening Project which improved the stability of the pilings was completed during 2013-14. This project was funded with FEMA Mitigation Funds, as well as funding from the Flagler County, Tourist Development Council, the City of Bunnell and our local portion.
- Emergency Repairs to the Palm Avenue Culvert were completed at a cost of \$55,000; this can be paid from our restricted street paving funds.
- Emergency repairs led to the rebuilding of the South 12th Street Lift Station. The total cost was \$129,353 and was paid with Restricted Sewer Impact Fees.
- Stormwater Projects for Palma Vista and South Flagler neighborhoods are underway during current fiscal year and were completed in 2014-15. They were funded with Federal Grant and Stormwater Reserves.
- A Fire line was installed for Ocean Palm Villa's South. The total cost was \$51,954; Ocean Palm Villa HOA paid for one-third of the cost.

City of Flagler Beach's Capital Assets

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Land and land improvements	\$ 2,170,133	\$ 2,170,133	\$ 1,648,235	\$ 1,648,235	\$ 3,818,368	\$ 3,818,368
Buildings	3,559,928	3,559,928	11,304,824	11,304,824	14,864,752	14,864,752
Improvements other than buildings	3,706,416	1,682,294	15,561,819	15,362,681	19,268,235	17,044,975
Equipment	2,669,754	2,528,374	2,764,518	2,415,288	5,434,272	4,943,662
Construction in progress	8,516	178,290	859,421	275,381	867,937	453,671
Infrastructure	5,860,655	5,860,655	2,321,619	2,321,619	8,182,274	8,182,274
Less accumulated depreciation	(6,265,498)	(5,657,914)	(11,134,971)	(10,298,903)	(17,400,469)	(15,956,817)
Total	\$11,709,904	\$10,321,760	\$ 23,325,465	\$ 23,029,125	\$ 35,035,369	\$ 33,350,885

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 \$7,667,894, of which \$471,788 is due within one year.

The governmental activities' long-term liabilities amount to \$1,200,797 and consist of the Community Redevelopment Revenue Note, capital leases for vehicles, compensated absences and OPEB.

The business-type activities' long-term liabilities amount to \$6,467,097 and include the State Revolving Fund Loan for the water treatment plant, Stormwater Revenue Note, compensated absences and OPEB.

Economic Factors and Next Year's Budgets and Rates

- Property values continue to improve; early estimates from Flagler and Volusia County indicate a 5% increase.
- New homes starts have increased
- At the end of the fiscal year, the City settled litigation with two former employees. While the settlement was paid by our insurance company, it could impact the cost of insuring the City in the future.
- Continued decline in investment earning opportunities will affect both governmental and business-type activities.
- Base rate increases are still needed for the Utility Fund to fund the 5 year capital plan, which calls for \$3.9 million in Water & Sewer Projects. For 2014-15, both sewer and water base fees were increase by 7%.
- The Stormwater Fees have not been increased since the City established this Enterprise Fund in 2004-05 Fiscal Year. The current fee structure covers the debt service and operations. In 2013-14 we are completing the South Flagler and Palma Vista Projects with FEMA Mitigation and City Funding; this cost will deplete our reserves. In order to build reserves for future projects, a fee increase or other revenue source will be required. In 2014-15 fees were increased by \$.72 per month. The increased cost to a residential customer is \$8.64 annually.

All of these factors were considered when the City prepared the budget for fiscal year 2014-15. 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 2015-16.

At the end of 2013-14 the fund balance in the General Fund increased to \$6,426,705. All appropriations lapse at year end. The City of Flagler Beach has appropriated \$302,504 to be available for the 2014-15 fiscal year budget. The use of current revenues and available reserved fund balance for ongoing projects allowed the City to adjust the millage rate to 5.05753 (the rollback rate) for the 2014-15 fiscal year budget. Management continues to enforce reduction of spending and restructuring of staff positions, services and other expenditures in the General and Enterprise Funds to balance the budget in the future.

Requests for Information

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

City of Flagler Beach, Florida
Statement of Net Position
September 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,426,830	\$ 1,500,185	\$ 4,927,015
Investments	2,724,391	2,713,984	5,438,375
Accounts receivable, net of allowance	118,945	541,414	660,359
Due from other governments	890,938	157,623	1,048,561
Internal balances	(50,532)	50,532	-
Prepays and other assets	76,426	-	76,426
Restricted cash and cash equivalents	-	39,157	39,157
Restricted investments	-	2,651,323	2,651,323
Net pension asset	171,173	-	171,173
Capital assets:			
Land and land improvements	2,170,133	1,648,235	3,818,368
Construction in progress	8,516	859,421	867,937
Buildings	3,559,928	11,304,824	14,864,752
Improvements other than buildings	3,706,416	15,561,819	19,268,235
Equipment	2,669,754	2,764,518	5,434,272
Infrastructure	5,860,655	2,321,619	8,182,274
Accumulated depreciation	(6,265,498)	(11,134,971)	(17,400,469)
Total assets	<u>19,068,075</u>	<u>30,979,683</u>	<u>50,047,758</u>
LIABILITIES			
Accounts payable and accrued liabilities	750,325	188,914	939,239
Unearned revenues	34,116	16,133	50,249
Customer deposits	-	194,823	194,823
Accrued interest payable	2,785	27,618	30,403
Non-current liabilities:			
Due within one year	114,425	357,363	471,788
Due in more than one year	1,086,372	6,109,734	7,196,106
Total liabilities	<u>1,988,023</u>	<u>6,894,585</u>	<u>8,882,608</u>
NET POSITION			
Net investment in capital assets	10,785,635	16,989,403	27,775,038
Restricted for:			
Infrastructure and capital assets	1,331,929	2,651,323	3,983,252
Law enforcement	25,085	-	25,085
Pensions	171,173	-	171,173
Unrestricted	4,766,230	4,444,372	9,210,602
Total net position	<u>\$ 17,080,052</u>	<u>\$ 24,085,098</u>	<u>\$ 41,165,150</u>

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

City of Flagler Beach, Florida
Statement of Activities
For the Year Ended September 30, 2014

Functions/Programs	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
Primary Government:							
General government activities:							
General government	\$ 2,200,136	\$ 647,293	\$ -	\$ 987,333	\$ (565,510)	\$ -	\$ (565,510)
Public safety	2,052,162	55,413	131,854	-	(1,864,895)	-	(1,864,895)
Roads and streets	152,831	-	67,929	607,888	522,986	-	522,986
Physical environment	35,955	-	-	-	(35,955)	-	(35,955)
Culture/recreation	709,991	58,582	3,904	176,500	(471,005)	-	(471,005)
Interest	37,924	-	-	-	(37,924)	-	(37,924)
Total general government activities	<u>5,188,999</u>	<u>761,288</u>	<u>203,687</u>	<u>1,771,721</u>	<u>(2,452,303)</u>	<u>-</u>	<u>(2,452,303)</u>
Business-type activities:							
Water and sewer	2,430,839	2,820,817	-	349,697	-	739,675	739,675
Sanitation	884,586	933,371	-	-	-	48,785	48,785
Stormwater	185,499	209,545	-	509,336	-	533,382	533,382
Total business-type activities	<u>3,500,924</u>	<u>3,963,733</u>	<u>-</u>	<u>859,033</u>	<u>-</u>	<u>1,321,842</u>	<u>1,321,842</u>
Total primary government	\$ 8,689,923	\$ 4,725,021	\$ 203,687	\$ 2,630,754	(2,452,303)	1,321,842	(1,130,461)
General Revenues:							
Property taxes					2,471,194		2,471,194
Franchise fees					304,516		304,516
Utility service taxes					578,490		578,490
Communication services tax					198,864		198,864
Infrastructure surtax					138,353		138,353
Local half-cent sales tax					138,255		138,255
Local option gas tax					92,385		92,385
State revenue sharing proceeds					95,986		95,986
Intergovernmental					79,219		79,219
Unrestricted investment earnings					27,871	68,303	96,174
Miscellaneous					47,118		47,118
Transfers					230,285	(230,285)	-
Total general revenues and transfers					<u>4,402,536</u>	<u>(161,982)</u>	<u>4,240,554</u>
Change in net position					<u>1,950,233</u>	<u>1,159,860</u>	<u>3,110,093</u>
Net position - beginning of year, previously reported					<u>15,146,292</u>	<u>22,941,637</u>	<u>38,087,929</u>
Prior period adjustment					<u>(16,473)</u>	<u>(16,399)</u>	<u>(32,872)</u>
Net position - beginning of year, as restated					<u>15,129,819</u>	<u>22,925,238</u>	<u>38,055,057</u>
Net position - end of year					<u>\$ 17,080,052</u>	<u>\$ 24,085,098</u>	<u>\$ 41,165,150</u>

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

City of Flagler Beach, Florida
Balance Sheet
Governmental Funds
September 30, 2014

	General	Community Redevelopment	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,298,533	\$ 128,297	\$ 3,426,830
Investments	2,724,391	-	2,724,391
Accounts receivable, net of allowance	118,945	-	118,945
Due from other funds	101,913	-	101,913
Due from other governments	890,938	-	890,938
Prepays	76,426	-	76,426
Total assets	<u>\$ 7,211,146</u>	<u>\$ 128,297</u>	<u>\$ 7,339,443</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 570,125	\$ -	\$ 570,125
Accrued personal services	180,200	-	180,200
Deferred revenue	34,116	-	34,116
Due to other funds	-	152,445	152,445
Total liabilities	<u>784,441</u>	<u>152,445</u>	<u>936,886</u>
Fund balances:			
Nonspendable:			
Prepays	76,426	-	76,426
Restricted:			
Police training	3,025	-	3,025
Law enforcement automation	22,060	-	22,060
A1A land purchases	18,490	-	18,490
Infrastructure and capital assets	1,296,294	-	1,296,294
Building inspector education	17,145	-	17,145
Committed:			
Remodeling	3,211	-	3,211
Firefighter education	7,480	-	7,480
Promenade parking	5,351	-	5,351
City portion of landscaping grant	10,000	-	10,000
Roads and streets	126,482	-	126,482
Assigned:			
Fire truck	150,000	-	150,000
Unassigned	4,690,741	(24,148)	4,666,593
Total fund balances	<u>6,426,705</u>	<u>(24,148)</u>	<u>6,402,557</u>
Total liabilities and fund balances	<u>\$ 7,211,146</u>	<u>\$ 128,297</u>	<u>\$ 7,339,443</u>

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

City of Flagler Beach, Florida
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
September 30, 2014

Fund balances - governmental funds		\$ 6,402,557
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	17,975,402	
Accumulated depreciation	<u>(6,265,498)</u>	11,709,904
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.		
		(2,785)
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	171,173	
Other postemployment benefits liability	<u>(163,047)</u>	8,126
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as governmental fund liabilities.		
Notes payable	(896,000)	
Capital leases payable	(28,269)	
Compensated absences	<u>(113,481)</u>	<u>(1,037,750)</u>
Net position of governmental activities		<u>\$ 17,080,052</u>

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

City of Flagler Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2014

	General	Community Redevelopment	Total Governmental Funds
REVENUES			
Taxes	\$ 3,295,736	\$ 91,165	\$ 3,386,901
Franchise fees	304,516	-	304,516
Licenses and permits	321,575	-	321,575
Intergovernmental	2,204,753	-	2,204,753
Charges for services	380,990	-	380,990
Fines and forfeitures	58,723	-	58,723
Grants and donations	176,500	-	176,500
Investment earnings	27,843	28	27,871
Miscellaneous	44,551	2,567	47,118
Total revenues	<u>6,815,187</u>	<u>93,760</u>	<u>6,908,947</u>
EXPENDITURES			
Current:			
General government	1,848,552	-	1,848,552
Public safety	1,864,951	-	1,864,951
Roads and streets	130,152	-	130,152
Physical environment	-	38,694	38,694
Culture/recreation	597,918	-	597,918
Debt service:			
Principal	17,706	44,000	61,706
Interest	1,108	34,214	35,322
Capital outlay	<u>2,016,553</u>	<u>-</u>	<u>2,016,553</u>
Total expenditures	<u>6,476,940</u>	<u>116,908</u>	<u>6,593,848</u>
Surplus (Deficiency) of revenues under expenditures	<u>338,247</u>	<u>(23,148)</u>	<u>315,099</u>
OTHER FINANCING SOURCES			
Transfers in	<u>228,390</u>	<u>1,895</u>	<u>230,285</u>
Total other financing sources	<u>228,390</u>	<u>1,895</u>	<u>230,285</u>
Net changes in fund balances	566,637	(21,253)	545,384
Fund balances - beginning of year	5,860,068	(2,895)	5,857,173
Fund balances - end of year	<u>\$ 6,426,705</u>	<u>\$ (24,148)</u>	<u>\$ 6,402,557</u>

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

City of Flagler Beach, Florida
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2014

Net changes in fund balances - total governmental funds \$ 545,384

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

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

Expenditures for capital assets	1,995,728	
Current year depreciation	<u>(607,584)</u>	1,388,144

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	7,195	
Interest payable	137	
Net pension asset	(27,765)	
Other postemployment benefits liability	<u>(24,571)</u>	(45,004)

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

Promissory note principal payments	44,000	
Capital leases principal payments	17,709	
		<u>61,709</u>

Change in net position of governmental activities \$ 1,950,233

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

City of Flagler Beach, Florida
Statement of Net Position
Enterprise Funds
September 30, 2014

	<u>Water and Sewer</u>	<u>Sanitation</u>	<u>Stormwater</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 420,121	\$ 832,393	\$ 247,671	\$ 1,500,185
Restricted cash and cash equivalents:				
Debt service	39,157	-	-	39,157
Investments	2,218,640	495,344	-	2,713,984
Receivables (net of allowance for uncollectible accounts):				
Accounts receivable	295,484	104,377	22,536	422,397
Unbilled accounts	119,017	-	-	119,017
Due from other governments	-	-	157,623	157,623
Due from other funds	11,978	31,571	6,983	50,532
Total current assets	<u>3,104,397</u>	<u>1,463,685</u>	<u>434,813</u>	<u>5,002,895</u>
Non-current assets:				
Restricted investments:				
Water impact fees	1,468,413	-	-	1,468,413
Sewer impact fees	1,182,910	-	-	1,182,910
Total restricted investments	<u>2,651,323</u>	<u>-</u>	<u>-</u>	<u>2,651,323</u>
Unrestricted:				
Land	75,562	-	1,572,673	1,648,235
Construction in progress	17,705	-	841,716	859,421
Buildings	11,234,803	70,021	-	11,304,824
Improvements other than buildings	15,561,819	-	-	15,561,819
Equipment	1,412,625	1,313,172	38,721	2,764,518
Infrastructure	-	-	2,321,619	2,321,619
Less accumulated depreciation	(9,950,581)	(928,946)	(255,444)	(11,134,971)
Total non-current unrestricted assets	<u>18,351,933</u>	<u>454,247</u>	<u>4,519,285</u>	<u>23,325,465</u>
Total non-current assets	<u>21,003,256</u>	<u>454,247</u>	<u>4,519,285</u>	<u>25,976,788</u>
Total assets	<u>24,107,653</u>	<u>1,917,932</u>	<u>4,954,098</u>	<u>30,979,683</u>
LIABILITIES				
Current liabilities:				
Accounts payable	45,653	41,119	48,693	135,465
Accrued personal services liabilities	38,067	12,364	3,018	53,449
Accrued interest payable	27,618	-	-	27,618
Unearned revenues	16,133	-	-	16,133
Current portion of long-term debt	337,057	-	-	337,057
Compensated absences payable	13,972	5,933	401	20,306
Customer deposits payable	194,823	-	-	194,823
Total current liabilities	<u>673,323</u>	<u>59,416</u>	<u>52,112</u>	<u>784,851</u>
Non-current liabilities				
Loans payable	4,589,005	-	1,410,000	5,999,005
Compensated absences payable	10,411	6,760	216	17,387
Other postemployment benefits	67,302	20,832	5,208	93,342
Total non-current liabilities	<u>4,666,718</u>	<u>27,592</u>	<u>1,415,424</u>	<u>6,109,734</u>
Total liabilities	<u>5,340,041</u>	<u>87,008</u>	<u>1,467,536</u>	<u>6,894,585</u>
NET POSITION				
Net investment in capital assets	13,425,871	454,247	3,109,285	16,989,403
Restricted for:				
Water construction	1,468,413	-	-	1,468,413
Sewer construction	1,182,910	-	-	1,182,910
Unrestricted	2,690,418	1,376,677	377,277	4,444,372
Total net position	<u>\$ 18,767,612</u>	<u>\$ 1,830,924</u>	<u>\$ 3,486,562</u>	<u>\$ 24,085,098</u>

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

City of Flagler Beach, Florida
Statement of Revenues, Expenses, and Changes in Net Position
Enterprise Funds
For the Year Ended September 30, 2014

	Water and Sewer	Sanitation	Stormwater	Total
Operating revenues:				
Charges for services				
Water	\$ 1,596,423	\$ -	\$ -	\$ 1,596,423
Sewer	1,179,720	-	-	1,179,720
Sanitation	-	921,729	-	921,729
Stormwater	-	-	207,297	207,297
Other operating revenues	44,674	11,642	2,248	58,564
Total operating revenues	2,820,817	933,371	209,545	3,963,733
Operating expenses:				
Personal services	867,306	276,931	62,262	1,206,499
Materials, supplies, services and other operating expenses	770,100	491,901	5,303	1,267,304
Depreciation	657,799	115,754	62,514	836,067
Total operating expenses	2,295,205	884,586	130,079	3,309,870
Operating income	525,612	48,785	79,466	653,863
Nonoperating revenues (expenses):				
Impact fees	332,379	-	-	332,379
Investment earnings	60,031	7,632	640	68,303
Interest expense	(135,634)	-	(55,420)	(191,054)
Total nonoperating revenues (expenses)	256,776	7,632	(54,780)	209,628
Income before capital contributions and transfers	782,388	56,417	24,686	863,491
Capital contributions	17,318	-	509,336	526,654
Transfers out	(191,654)	(35,496)	(3,135)	(230,285)
Changes in net position	608,052	20,921	530,887	1,159,860
Total net position - beginning, as previously reported	18,159,560	1,810,003	2,972,074	22,941,637
Prior period adjustment	-	-	(16,399)	(16,399)
Total net position - beginning, as restated	18,159,560	1,810,003	2,955,675	22,925,238
Total net position - ending	\$ 18,767,612	\$ 1,830,924	\$ 3,486,562	\$ 24,085,098

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

City of Flagler Beach, Florida
Statement of Cash Flows
Enterprise Funds
For the Year Ended September 30, 2014

	<u>Business-type Activities - Enterprise Funds</u>			
	<u>Water and Sewer</u>	<u>Sanitation</u>	<u>Stormwater</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 2,879,071	\$ 936,030	\$ 209,961	\$ 4,025,062
Payments to suppliers	(878,465)	(479,301)	43,043	(1,314,723)
Payments to employees	(842,128)	(275,503)	(58,789)	(1,176,420)
Other operating cash transfers	(229,066)	176,915	(1,667)	(53,818)
Net cash provided by operating activities	<u>929,412</u>	<u>358,141</u>	<u>192,548</u>	<u>1,480,101</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	(191,654)	(35,496)	(3,135)	(230,285)
Net cash used in noncapital financing activities	<u>(191,654)</u>	<u>(35,496)</u>	<u>(3,135)</u>	<u>(230,285)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital grants and contributions	349,697	-	351,713	701,410
Acquisition and construction of capital assets	(384,113)	(43,724)	(704,571)	(1,132,408)
Principal paid on capital debt	(328,276)	-	(76,000)	(404,276)
Interest paid on capital debt	(137,474)	-	(55,420)	(192,894)
Net cash used in capital and related financing activities	<u>(500,166)</u>	<u>(43,724)</u>	<u>(484,278)</u>	<u>(1,028,168)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(147,847)	(5,020)	-	(152,867)
Proceeds from sales and maturities of investments	37,205	2,059	2,306	41,570
Interest and other income	60,031	7,632	640	68,303
Net cash provided (used in) by investing activities	<u>(50,611)</u>	<u>4,671</u>	<u>2,946</u>	<u>(42,994)</u>
Net increase (decrease) in cash and cash equivalents	186,981	283,592	(291,919)	178,654
Cash and cash equivalents, beginning of year	272,297	548,801	539,590	1,360,688
Cash and cash equivalents, end of year	<u>\$ 459,278</u>	<u>\$ 832,393</u>	<u>\$ 247,671</u>	<u>\$ 1,539,342</u>
Reconciliation of cash and cash equivalents to the Statement of Net Position				
Cash and cash equivalents in current assets:				
Cash and cash equivalents	\$ 420,121	\$ 832,393	\$ 247,671	\$ 1,500,185
Restricted cash and cash equivalents	39,157	-	-	39,157
Total cash and equivalents	<u>\$ 459,278</u>	<u>\$ 832,393</u>	<u>\$ 247,671</u>	<u>\$ 1,539,342</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 525,612	\$ 48,785	\$ 79,466	\$ 653,863
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	657,799	115,754	62,514	836,067
Decrease in certain assets:				
Accounts receivable	42,710	2,659	416	45,785
Increase (decrease) in certain liabilities:				
Accounts payable and accrued liabilities	(108,365)	12,600	48,346	(47,419)
Accrued personal services liabilities	25,178	1,428	3,473	30,079
Customer deposits	2,708	-	-	2,708
Unearned revenues	12,836	-	-	12,836
Due to other funds	(229,066)	176,915	(1,667)	(53,818)
Total adjustments	<u>403,800</u>	<u>309,356</u>	<u>113,082</u>	<u>826,238</u>
Net cash provided by operating activities	<u>\$ 929,412</u>	<u>\$ 358,141</u>	<u>\$ 192,548</u>	<u>\$ 1,480,101</u>

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

City of Flagler Beach, Florida
Statement of Fiduciary Net Position
Pension Trust Funds
September 30, 2014

	Municipal Police Officers' Pension Trust Fund	Municipal Firefighters' Pension Trust Fund	Total
ASSETS			
Cash equivalents	\$ 39,378	\$ 19,283	\$ 58,661
Receivables:			
State contributions	38,340	18,616	56,956
Employer contributions	42,582	651	43,233
Employee contributions	2,499	501	3,000
Accrued income	1,655	818	2,473
Investments:			
Fixed income mutual funds	792,919	400,777	1,193,696
Equity mutual funds	1,808,514	863,350	2,671,864
Total assets	<u>2,725,887</u>	<u>1,303,996</u>	<u>4,029,883</u>
LIABILITIES			
Accounts payable	<u>12,363</u>	<u>625</u>	<u>12,988</u>
Total liabilities	<u>12,363</u>	<u>625</u>	<u>12,988</u>
NET POSITION			
Restricted for pension benefits	<u>\$ 2,713,524</u>	<u>\$ 1,303,371</u>	<u>\$ 4,016,895</u>

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

City of Flagler Beach, Florida
Statement of Changes in Fiduciary Net Position
Pension Trust Funds
For the Year Ended September 30, 2014

	Municipal Police Officers' Pension Trust Fund	Municipal Firefighters' Pension Trust Fund	Total
ADDITIONS			
Contributions:			
Employees	\$ 72,158	\$ 13,827	\$ 85,985
Employer	97,743	17,976	115,719
State insurance	38,340	52,277	90,617
Total contributions	<u>208,241</u>	<u>84,080</u>	<u>292,321</u>
Investment income:			
Net increase in fair value of investments	203,135	97,544	300,679
Interest and dividends	58,651	30,701	89,352
Less investment expense	(19,415)	(554)	(19,969)
Net investment income	<u>242,371</u>	<u>127,691</u>	<u>370,062</u>
Total additions	<u>450,612</u>	<u>211,771</u>	<u>662,383</u>
DEDUCTIONS			
Professional services	28,055	24,425	52,480
Employee withdrawals	57,750	51,394	109,144
Total deductions	<u>85,805</u>	<u>75,819</u>	<u>161,624</u>
Change in net position	<u>364,807</u>	<u>135,952</u>	<u>500,759</u>
Net position - beginning	<u>2,348,717</u>	<u>1,167,419</u>	<u>3,516,136</u>
Net position - ending	<u>\$ 2,713,524</u>	<u>\$ 1,303,371</u>	<u>\$ 4,016,895</u>

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

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2014

I. Summary of significant accounting policies

A. Reporting entity

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

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

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the Statement of Net 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, 2014

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

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

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

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

The City reports the following major governmental funds:

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

The City reports the following major enterprise funds:

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

Additionally, the City reports the following fiduciary funds:

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

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

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2014

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

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

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

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

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

D. Assets, liabilities, and equity

1. 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. Not all investments that qualify are required to be treated as cash equivalents. Before 2013, the City treated amounts invested with the State Board of Administration (SBA) Florida PRIME investment as investments. Beginning in the fiscal year 2013, the City has determined that when not restricted, it will treat these short-term, highly liquid investments as cash equivalents.

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, 2014

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, 2013

Property Appraiser prepares the assessment roll with values as of January 1, 2013, submits this preliminary roll for approval by the State and notifies each taxing authority of their respective valuations. July 1, 2013

City Commission holds two required public hearings and adopts a budget and ad valorem tax millage rate for the coming fiscal year. September 4, 2013
and
September 18, 2013

Property Appraiser certifies the assessment roll and all real and tangible personal property taxes are due and payable (Levy Date). November 1, 2013

A Notice of Taxes is mailed to each property owner on the assessment roll. Taxes are paid November 2013 through March 2014, with the following applicable discounts:

<u>Month Paid</u>	<u>Discount (%)</u>	
November	4	
December	3	November 1, 2013
January	2	through
February	1	March 31, 2014
March	0	

All unpaid taxes on real and tangible personal property become delinquent. April 1, 2014

A list of unpaid tangible personal property taxes and a list of unpaid real property taxes are advertised. April and May 2014

Tax certificates are sold on all real estate parcels with unpaid real property taxes (Lien Date). June 1, 2014

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, 2014

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2014

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, 2014

6. Compensated absences

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

7. Long-term obligations

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

8. Fund equity

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

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

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

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

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

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

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

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2014

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, para 18 and considers that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

E. Recently issued accounting standards

In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This Statement, effective for fiscal years beginning after December 15, 2012, resulted from the GASB's review of assets and liabilities to determine which ones are appropriately reported in the financial statement elements, deferred outflows of resources and deferred inflows of resources, required by GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position. This standard has been implemented with the new requirements for the fiscal year 2013-14 financial statements. Implementation of this new statement resulted in a restatement of the City's government-wide and proprietary fund financial statements (See Note IV.A).

In June 2012, GASB issued Statement No. 67 Financial Reporting for Pension Plans and No. 68 Accounting and Financial Reporting for Pensions. The new pension accounting and financial reporting standards represent the most significant fundamental changes in reporting requirements for pension plans and plan sponsors in over a decade. The standards require plan sponsors to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The standards also enhance accountability and transparency through revised and new note disclosures and required supplementary information. For plans, the standards build upon the existing framework for financial reports, enhance the note disclosures and required supplementary information, and require the presentation of new information about annual money-weighted rates of return in the notes to the financial statements. GASB Statement No. 67 provisions for plans are effective for financial statements for periods beginning after June 15, 2013, and GASB Statement No. 68 for plan sponsors, are effective for fiscal years beginning after June 15, 2014. The City implemented the new requirements of GASB Statement No. 67 for the fiscal year 2013-14 financial statements and will implement GASB Statement No. 68 for the fiscal year 2014-15 financial statements.

In March 2013, the GASB issued Statement No. 66, Technical Corrections—2013. The objective of this Statement is to improve accounting and financial reporting for government reporting by resolving conflicting guidance that resulted from the issuance of GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions and GASB Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This standard, implemented for the fiscal year 2013-14 did not have any material impact on the financial statements.

II. Reconciliation of government-wide and fund financial statements

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

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2014

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

Following the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances, there is a reconciliation between *net changes in fund balances - total governmental funds* and *change in net 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

A. Budgetary information

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

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

As of September 30, 2014, the City has encumbered amounts in the General Fund that they intend to honor in the subsequent year. The amount encumbered in the General Fund at September 30, 2014 is \$302,524. Of this amount, \$152,524 is reported as committed and \$150,000 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.
- 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.

B. Deficit fund equity

At September 30, 2014, the Community Redevelopment Fund, a major fund, has a deficit fund balance of \$24,148. The reason for the deficit is an interfund loan from the General Fund to the CRA in the amount of \$139,707 for the City portion of the Phase II C Project. This loan is to accrue 2% interest annually, with repayment to the General Fund due to begin in fiscal year 2015-2016.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2014

IV. Detailed notes on all funds

A. Restatements

As mentioned in Note I.E to the financial statements, the City implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. The provisions of this statement require that note issuance costs be expensed in the year they are incurred. Previously, note issuance costs had been treated as an asset and amortized over the life of the related debt. In order to implement GASB Statement No. 65, note issuance costs previously reported as assets had to be removed from the financial statements. This resulted in a restatement of beginning net position as follows:

	Governmental Activities	Business-type Activities
Total net position-beginning, as previously reported	\$ 15,146,292	\$ 22,941,637
Prior period adjustment	(16,473)	(16,399)
Total net position-beginning, as restated	\$ 15,129,819	\$ 22,925,238

B. Deposits and investments

At September 30, 2014, the carrying amount of the City's deposits was \$2,786,322 and the bank balances were \$2,644,151. 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.

City of Flagler Beach, Florida
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- vii. Repurchase Agreements comprised of only those investments as authorized in Sections (ii) and (vi). All repurchase agreement transactions and institutions and dealers transacting repurchase agreements will be required to perform as stated in the Master Repurchase Agreement.
- viii. Commercial Paper rated at the time of purchase, "Prime-1" by Moody's Investors Service and "A-1" by Standard & Poor's Corporation.
- ix. Inventory-based Banker's Acceptances issued by a domestic bank, which has a rating of at least "Prime-1" by Moody's Investors Service and "A-1" and "A" by Standard & Poor's Corporation and ranked in the top fifty (50) United States Banks in terms of total assets by The American Banker's yearly report.
- x. The Florida Municipal Investment Trust.

The City'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.

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

As payments were received from the assets in Fund B, cash was transferred periodically to Florida PRIME and distributions were withdrawn. At September 30, 2014, all distributions from Fund B were withdrawn, leaving a zero balance.

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.

City of Flagler Beach, Florida
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At September 30, 2014, the cash deposits and investments controlled by the City included the following:

Investments:

Florida PRIME	\$	3,071,206
FMIT		7,198,342
		10,269,548
Total investments		10,269,548

Cash:

Cash deposits		2,786,322
Total cash and investments	\$	13,055,870

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.

	Fair Value	Investment Maturities (in years)	
		Less Than 1	1 - 5
Investments controlled by the City:			
Florida PRIME	\$ 3,071,206	\$ 3,071,206	\$ -
FMIT:			
0-2 Year High Quality Bond Fund	2,387,563	2,387,563	-
1-3 Year High Quality Bond Fund	3,370,335	-	3,370,335
Intermediate High Quality Bond Fund	1,440,444	-	1,440,444
Total investments controlled by the City	10,269,548	5,458,769	4,810,779
Pension Trust Funds investments:			
Money Market Funds	58,661	58,661	-
Mutual Funds - Fixed Income	1,193,696	1,193,696	-
Mutual Funds - Equity	2,671,864	2,671,864	-
Total Pension Trust Funds investments	3,924,221	3,924,221	-
Total investments	\$ 14,193,769	\$ 9,382,990	\$ 4,810,779

City of Flagler Beach, Florida
Notes to the Financial Statements
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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, 2014, were rated by Standard & Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below.

Instrument type	Fair Value	Quality Ratings				
		AAAm (S&P)	AAA/V1 (Fitch)	AAA/V2 (Fitch)	AAA/V3 (Fitch)	Unrated
Controlled by the City:						
Florida PRIME	\$ 3,071,206	\$ 3,071,206	\$ -	\$ -	\$ -	\$ -
FMIT:						
0-2 Year High Quality Bond Fund	2,387,563	-	2,387,563	-	-	-
1-3 Year High Quality Bond Fund	3,370,335	-	-	3,370,335	-	-
Intermediate High Quality Bond Fund	1,440,444	-	-	-	1,440,444	-
Total controlled by the City	<u>10,269,548</u>	<u>3,071,206</u>	<u>2,387,563</u>	<u>3,370,335</u>	<u>1,440,444</u>	<u>-</u>
Pension Trust Funds:						
Money Market Funds	58,661	-	-	-	-	58,661
Mutual Funds - Fixed Income	1,193,696	-	-	-	-	1,193,696
Mutual Funds - Equity	2,671,864	-	-	-	-	2,671,864
Total Pension Trust Funds	<u>3,924,221</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,924,221</u>
Total investments	<u>\$ 14,193,769</u>	<u>\$ 3,071,206</u>	<u>\$ 2,387,563</u>	<u>\$ 3,370,335</u>	<u>\$ 1,440,444</u>	<u>\$ 3,924,221</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, 2014, the City's investments subject to this disclosure requirement did not exceed 5% of total investments in any single issuer.

Custodial credit risk

Custodial credit risk for investments is the risk that, in the event of failure of a counterparty, the City will not be able to recover the value of the investment or collateral securities that are in possession of an outside party. Consistent with the City's investment policy, as of September 30, 2014, all investments were held with an appropriate custodian or trustee and are held in accounts in the name of and belonging to the City.

C. Receivables

Receivables consist of the following at September 30, 2014:

Receivables:	General	Water and			Total
		Sewer	Sanitation	Stormwater	
Taxes, franchise fees	\$ 108,047	\$ 26,877	\$ -	\$ -	\$ 134,924
Accounts	-	282,045	104,377	22,536	408,958
Unbilled accounts	-	119,017	-	-	119,017
Intergovernmental	890,938	-	-	-	890,938
Other	10,898	19,562	-	-	30,460
Gross receivables	<u>1,009,883</u>	<u>447,501</u>	<u>104,377</u>	<u>22,536</u>	<u>1,584,297</u>
Less: Allowance for uncollectible accounts	<u>-</u>	<u>(33,000)</u>	<u>-</u>	<u>-</u>	<u>(33,000)</u>
Receivables, net	<u>\$ 1,009,883</u>	<u>\$ 414,501</u>	<u>\$ 104,377</u>	<u>\$ 22,536</u>	<u>\$ 1,551,297</u>

City of Flagler Beach, Florida
Notes to the Financial Statements
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D. Interfund accounts

Interfund receivables and payables at September 30, 2014, are as follows:

	<u>Due To Other Funds</u>	<u>Due From Other Funds</u>
Governmental funds:		
General Fund	\$ (202,644)	\$ 304,557
Community Redevelopment Fund	(296,319)	143,874
Total governmental funds	<u>(498,963)</u>	<u>448,431</u>
Enterprise funds:		
Water and Sewer Fund	(44,476)	56,454
Sanitation Fund	-	31,571
Stormwater Fund	-	6,983
Total enterprise funds	<u>(44,476)</u>	<u>95,008</u>
Total Due To/Due From	<u>\$ (543,439)</u>	<u>\$ 543,439</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 from the General Fund to the CRA in the amount of \$139,707 for the city portion of the Phase II C Project. The loan will accrue 2% interest annually; repayment will begin in fiscal year 2015-2016.

E. Interfund transfers

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

	<u>Transfer in</u>		<u>Total Transfers</u>
	<u>General Fund</u>	<u>Community Redevelopment</u>	
Transfer out:			
Governmental funds:			
General Fund	\$ -	\$ 1,895	\$ 1,895
Total governmental funds	<u>-</u>	<u>1,895</u>	<u>1,895</u>
Enterprise funds:			
Water & Sewer Funds	191,654	-	191,654
Sanitation Fund	35,496	-	35,496
Stormwater Fund	3,135	-	3,135
Total enterprise funds	<u>230,285</u>	<u>-</u>	<u>230,285</u>
Total transfers	<u>\$ 230,285</u>	<u>\$ 1,895</u>	<u>\$ 232,180</u>

In fiscal year 2014, the General Fund transferred \$1,895 to the Community Redevelopment Fund for reimbursable expenditures.

The Water & Sewer Fund, Sanitation Fund and Stormwater Fund transferred \$191,654, \$35,496 and \$3,135, respectively to the General Fund for utility billing services (administration, customer service, billing and related overhead), paid directly from the General Fund.

City of Flagler Beach, Florida
Notes to the Financial Statements
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F. Capital assets

A summary of changes in the City's capital assets for the year ended September 30, 2014, is as follows:

	Balance 10-1-2013	Additions and Transfers	Disposals and Transfers	Balance 9-30-14
Governmental activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 2,170,133	\$ -	\$ -	\$ 2,170,133
Construction in progress	178,290	8,517	(178,291)	8,516
Total capital assets, not being depreciated	<u>2,348,423</u>	<u>8,517</u>	<u>(178,291)</u>	<u>2,178,649</u>
Capital assets, being depreciated:				
Buildings	3,559,928	-	-	3,559,928
Improvements other than buildings	1,682,294	2,024,122	-	3,706,416
Equipment	2,528,374	165,380	(24,000)	2,669,754
Infrastructure	5,860,655	-	-	5,860,655
Total capital assets, being depreciated	<u>13,631,251</u>	<u>2,189,502</u>	<u>(24,000)</u>	<u>15,796,753</u>
Accumulated depreciation for:				
Buildings	(1,423,956)	(125,140)	-	(1,549,096)
Improvements other than buildings	(1,300,720)	(77,133)	-	(1,377,853)
Equipment	(2,121,147)	(115,477)	24,000	(2,212,624)
Infrastructure	(812,091)	(313,834)	-	(1,125,925)
Total accumulated depreciation	<u>(5,657,914)</u>	<u>(631,584)</u>	<u>24,000</u>	<u>(6,265,498)</u>
Total capital assets, being depreciated, net	<u>7,973,337</u>	<u>1,557,918</u>	<u>-</u>	<u>9,531,255</u>
Governmental activities capital assets, net	<u>\$ 10,321,760</u>	<u>\$ 1,566,435</u>	<u>\$ (178,291)</u>	<u>\$ 11,709,904</u>
	Balance 10-1-2013	Additions and Transfers	Disposals and Transfers	Balance 9-30-14
Business-type activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 1,648,235	\$ -	\$ -	\$ 1,648,235
Construction in progress	275,381	701,696	(117,656)	859,421
Total capital assets, not being depreciated	<u>1,923,616</u>	<u>701,696</u>	<u>(117,656)</u>	<u>2,507,656</u>
Capital assets, being depreciated:				
Buildings	11,304,824	-	-	11,304,824
Improvements other than buildings	15,362,681	199,138	-	15,561,819
Equipment	2,415,288	349,230	-	2,764,518
Infrastructure	2,321,619	-	-	2,321,619
Total capital assets, being depreciated	<u>31,404,412</u>	<u>548,368</u>	<u>-</u>	<u>31,952,780</u>
Accumulated depreciation for:				
Buildings	(1,896,196)	(238,281)	-	(2,134,477)
Improvements other than buildings	(6,643,851)	(328,126)	-	(6,971,977)
Equipment	(1,578,095)	(211,620)	-	(1,789,715)
Infrastructure	(180,761)	(58,040)	-	(238,801)
Total accumulated depreciation	<u>(10,298,903)</u>	<u>(836,067)</u>	<u>-</u>	<u>(11,134,970)</u>
Total capital assets, being depreciated, net	<u>21,105,509</u>	<u>(287,699)</u>	<u>-</u>	<u>20,817,810</u>
Business-type activities capital assets, net	<u>\$ 23,029,125</u>	<u>\$ 413,997</u>	<u>\$ (117,656)</u>	<u>\$ 23,325,466</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 341,863
Public safety	155,195
Transportation	21,732
Culture/recreation	112,794
Total depreciation expense - governmental activities	<u>\$ 631,584</u>
Business-type activities:	
Water and sewer	\$ 657,799
Sanitation	115,754
Stormwater	62,514
Total depreciation expense - business-type activities	<u>\$ 836,067</u>

City of Flagler Beach, Florida
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G. Leases

Operating Leases

On October 30, 2007, the City renewed a submerged land lease agreement with the Florida Department of Environmental Protection for its Pier. The lease expires on October 30, 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 \$8,891 for the year ended September 30, 2014, based on revenues of \$147,768.

The City leases office equipment under noncancelable operating leases. The total costs of such leases were \$9,319 for the year ended September 30, 2014. The minimum lease payments for these leases are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2015	\$ 6,030
2016	4,920
Total	<u>\$ 10,950</u>

Capital Leases

The City has entered into a lease agreement as lessee for financing the acquisition of certain vehicles for its police department. The related assets acquired through this capital lease is as follows:

	<u>Governmental Activities</u>
Asset:	
2 Chevy Tahoes	\$ 30,558
Total assets	30,558
Less: Accumulated depreciation	(29,030)
	<u>\$ 1,528</u>

Details of the lease agreement are as follows:

On February 22, 2012, the City entered into a lease agreement in the amount of \$55,000 with RBC Bank to finance two 2012 Chevrolet Tahoe Police Vehicles. Payments of \$5,846 are due semi-annually beginning August 15, 2012 through February 15, 2017 and have an interest of 2.25%. The balance of this obligation at September 30, 2014 is \$28,269.

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

The above lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

City of Flagler Beach, Florida
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The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2014, are as follows:

Year Ending September 30,	Amount
2015	\$ 11,692
2016	11,692
2017	5,846
Total minimum lease payments	29,230
Less: Amount representing interest	(961)
Present value of minimum lease payments	\$ 28,269

H. Long-term liabilities

The following is a summary of long-term liability activity for the year ended September 30, 2014:

	Balance 10/1/2013	Additions	(Reductions)	Balance 9/30/2014	Due Within One Year
Governmental activities:					
Notes payable	\$ 940,000	\$ -	\$ (44,000)	\$ 896,000	\$ 46,000
Capital leases	45,978	-	(17,709)	28,269	11,118
Compensated absences payable	120,676	108,568	(115,763)	113,481	57,307
Other postemployment benefits	138,476	24,571	-	163,047	-
Governmental activities long-term liabilities	\$ 1,245,130	\$ 133,139	\$ (177,472)	\$ 1,200,797	\$ 114,425
Business-type activities:					
Revolving loan payable	\$ 5,254,338	\$ -	\$ (328,276)	\$ 4,926,062	\$ 337,057
Notes payable	1,486,000	-	(76,000)	1,410,000	-
Compensated absences payable	35,179	46,533	(44,019)	37,693	20,306
Other postemployment benefits	76,216	17,126	-	93,342	-
Business-type activities long-term liabilities	\$ 6,851,733	\$ 63,659	\$ (448,295)	\$ 6,467,097	\$ 357,363

Governmental Activities

Revenue Note

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

In 2014, annual principal and interest payments on the Loan were 100% of pledged revenues. As of September 30, 2014, the amount of total principal and accrued interest outstanding was \$898,785. Pledged Revenues for the year ended September 30, 2014 was \$78,214. Principal and interest for the current year was \$44,000 and \$34,214, respectively.

City of Flagler Beach, Florida
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The following is a schedule of the future payments on the outstanding Community Redevelopment Revenue Note as of September 30, 2014:

Fiscal Year Ending September 30,	Note Payable		
	Principal	Interest	Total
2015	\$ 46,000	\$ 32,563	\$ 78,563
2016	47,000	30,829	77,829
2017	49,000	29,038	78,038
2018	51,000	27,173	78,173
2019	703,000	13,111	716,111
	<u>\$ 896,000</u>	<u>\$ 132,714</u>	<u>\$ 1,028,714</u>

Business-type Activities

State Revolving Fund Construction Loans

On January 18, 2005, the City was approved for a Drinking Water State Revolving Fund Construction Loan (Loan) from the Florida Department of Environmental Protection (FDEP) for the Water Treatment Plant Expansion Project. The amount of the original Loan was \$3,375,000 with an interest rate of 2.67%. In June 2006, the Loan was amended to include an additional \$3,158,750 with an interest rate of 2.65%. In July 2007, the Loan was amended to include an additional \$3,280,134 with an interest rate of 2.64%. As of the year ended September 30, 2014, \$7,705,748 had been drawn by the City on the Loan and \$2,585,519 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 2014, annual principal and interest payments on the Loan were 40% of pledged revenues. As of September 30, 2014, the amount of total principal and accrued interest outstanding was \$4,953,681. Principal and interest paid for the current year and pledged revenues were \$465,750 and \$1,138,737, respectively.

The following is a schedule of the future payments on the outstanding the Loan as of September 30, 2014:

Fiscal Year Ending September 30,	Principal	Interest	Total
2015	\$ 337,058	\$ 128,692	\$ 465,750
2016	346,075	119,675	465,750
2017	355,333	110,416	465,749
2018	364,840	100,909	465,749
2019	374,600	91,149	465,749
2020 - 2024	2,028,797	299,952	2,328,749
2025 - 2027	1,119,359	45,015	1,164,374
	<u>\$ 4,926,062</u>	<u>\$ 895,808</u>	<u>\$ 5,821,870</u>

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2014

Revenue Note

\$1,800,000 Stormwater Revenue Note, Series 2009 - Principal payments due in annual installments commencing October 1, 2009 of \$38,000 to \$1,077,000 through October 1, 2020. Interest on the Note at 3.73 % is due semiannually commencing April 1, 2009. The Stormwater Note is payable from the Pledged Revenues, which consist of net revenues of the City's stormwater system, in the manner and to the extent provided in the Stormwater Note Legislation and the Loan Agreement. The Stormwater Note was issued to finance the acquisition and construction of certain capital improvements to the City's stormwater system.

In 2014, annual principal and interest payments on the Loan were 93% of pledged revenues. As of September 30, 2014, the amount of total principal outstanding was \$1,410,000. Pledged revenues for the year ended September 30, 2014 were \$144,983. Principal and interest paid for the current year were \$76,000 and \$55,428, respectively.

The following is a schedule of the future payments on the outstanding Stormwater Revenue Note as of September 30, 2014:

Fiscal Year Ending September 30,	Principal	Interest	Total
2015	\$ -	\$ 26,297	\$ 26,297
2016	79,000	51,120	130,120
2017	81,000	48,136	129,136
2018	85,000	45,040	130,040
2019	88,000	41,813	129,813
2020	1,077,000	20,086	1,097,086
	<u>\$ 1,410,000</u>	<u>\$ 232,492</u>	<u>\$ 1,642,492</u>

V. Other information

A. Risk management

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

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

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

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2014

B. Commitments, contingencies, and litigation

1. Construction commitments

The City has active construction projects as of September 30, 2014. At year end the City's commitments were \$703,420 as follows:

Project	Contract Amount	Spent - to - Date	Remaining Commitment
Ocean Promenade:			
Q L Hampton	\$ 20,980	\$ 15,629	\$ 5,351
Portable Water Well #12:			
Q L Hampton	29,820	11,622	18,198
Stormwater:			
Q L Hampton	95,390	93,218	2,172
4C's Trucking and Excavation	1,043,818	611,919	431,899
Public Works Building:			
Sabounqi	250,000	4,200	245,800
Total	<u>\$ 1,440,008</u>	<u>\$ 736,588</u>	<u>\$ 703,420</u>

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. Defined contribution plan

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

The plan assets are administered by ICMA Retirement Corp. The City does not exercise any control over the plan assets. Contributions were approximately \$123,518 for the year ended September 30, 2014.

D. Defined benefit pension plans

1. Plan Description

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

The 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.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2014

All full-time certified police officers and firefighters are eligible to participate in the respective Pension Trust Fund Plans. Benefits vest with eligible employees after ten years of participation. Employees who retire at age 52 with 25 years of active service or at age 55 or later with at least ten years of active service are entitled to an earned benefit, payable monthly for life, in an amount equal to 3.19% (Police Officers) and 3% (Firefighters) of the average monthly pay (for the best five years of the latest ten years of average monthly pay determined on October 1 of each year) times the number of benefit years served. 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 ten years, the same monthly benefit will be paid to their beneficiary for the balance of such ten-year period.

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

Current membership in the Pension Trust Fund Plans as of September 30, 2014, is comprised of the following:

	Municipal Police Officers' Pension Trust Fund Plan	Municipal Firefighters' Pension Trust Fund Plan
Inactive Plan members or beneficiaries currently receiving benefits	3	5
Inactive Plan members entitled to but not yet receiving benefits	9	3
Active Plan members	15	20

2. Employer funding policy

Statewide pension funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. The valuation method used for funding both Pension Trust Fund Plans is the aggregate actuarial cost method. The aggregate 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 defined benefit plans. The Florida Division of Retirement reviews and approves each local government's actuarial report to ensure its appropriateness for use for funding purposes. Additionally, the State collects two locally authorized insurance premium surcharges (one for the Police Officers' Pension Trust Fund Plan on casualty insurance policies and one for the Firefighters' Pension Trust Fund Plan on certain real and personal property insurance policies within the corporate limits) which can only be distributed after the State has ascertained that the local government has met their actuarial funding requirement for the then most recently completed fiscal year.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2014

3. Investments

Investment Policy

The following was the Board's adopted asset allocation policy as of September 30, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	50%
International Equity	15%
Broad Market Fixed Income	35%
Total	<u>100%</u>

Concentrations

The Plans did not hold investments in any one organization that represent 5 percent or more of the Pension Plans' fiduciary net position.

Rate of Return

For the year ended September 30, 2014 the annual money-weighted rates of return on the Police Pension Plan and the Firefighters Pension Plan investments, net of pension plan investment expense, were 10.4% and 9.98%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

Current Year Annual Pension Cost and Net Pension Asset

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

All of the NPA is attributable to governmental funds and therefore is not reflected in the fund financial statements in accordance with the modified accrual basis of accounting for governmental funds. The NPA has been reported in the government-wide financial statements in accordance with the full accrual method of accounting. The development of the NPA as of September 30, 2014, is shown below.

Reserves

There are no assets legally reserved for purposes other than the payment of plan member benefits for either plan. There are no long-term contracts for contributions.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2014

The estimated annual pension cost and net pension asset of the Municipal Police Officers' and Municipal Firefighters' Pension Trust Fund Plans, as of October 1, 2012, actuarial valuations are as follows:

Three-Year Trend Information

Fiscal Year Ending September 30,	Municipal Police Officers' Pension Trust Fund Plan			Municipal Firefighters' Pension Trust Fund Plan		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
2014	\$ 126,875	99%	\$ 35,340	\$ 73,653	102%	\$ 135,833
2013	158,452	99%	36,421	56,476	103%	134,246
2012	164,001	99%	37,897	86,707	101%	132,494

The City's actuarially determined contribution for the year ended September 30, 2014, for the Municipal Police Officers' and Municipal Firefighters' Pension Trust Fund Plans was approximately \$125,177 and \$75,240, respectively. This was based on the October 1, 2012 actuarial valuation using 17.5% and 27.31% of covered payroll, respectively. The City's actual contributions to the Plans were \$125,794 and \$75,240, respectively.

	Municipal Police Officers' Pension Trust Fund Plan	Municipal Firefighters' Pension Trust Fund Plan
Actuarially determined contribution (A)	\$ (125,177)	\$ (75,240)
Interest on NPA	2,841	10,740
Actuarial adjustment to A	(4,539)	(9,153)
Annual pension cost (APC)	(126,875)	(73,653)
Contributions made	125,794	75,240
Increase (decrease) in NPA	(1,081)	1,587
NPA, beginning of year	(17,928)	216,866
Adjustment to NPA	54,349	(82,620)
NPA, beginning of year as adjusted	36,421	134,246
NPA, end of year	<u>\$ 35,340</u>	<u>\$ 135,833</u>

Actuarial Methods and Significant Assumptions

	Municipal Police Officers' Pension Trust Fund Plan	Municipal Firefighters' Pension Trust Fund Plan
Valuation date	October 1, 2012	October 1, 2012
Actuarial cost method	Aggregate	Aggregate
Amortization method	N/A	N/A
Actuarial asset valuation method	Fair Market Value	Fair Market Value
Actuarial assumptions:		
Investment rate of return	7.8%	8.0%
Projected salary increases (includes inflation at 3.0%)	4.5% - 12.0%	7.5%
Post Retirement COLA	0.0%	0.0%

Aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2014

The following table summarizes assumptions used in actuarial computations for the Pension Trust Fund Plans for the October 1, 2012 valuations:

Mortality	RP-2000 Combined Healthy Mortality Table
Interest	8.0% per year
Retirement age	Earlier of age 52 and 25 years of service or 55 and 10 years of service; any member who has reached normal retirement is assumed to continue employment for one additional year.
Early retirement	It is assumed that members who are eligible for early retirement (age 50) will retire at a rate of 5% per year.
Salary increases	7.5% per year until the assumed retirement age; see table below
Payroll growth	N/A

Age	% Becoming Disabled During the Year	% Terminating During the Year	Current Salary as % of Salary at Age 55
20	0.03%	6.0%	8.0%
30	0.04%	5.0%	16.4%
40	0.07%	2.6%	33.8%
50	0.18%	0.8%	69.7%

5. Net Pension Liability

The components of the net pension liability for the Municipal Officers' and Municipal Firefighters' Pension Trust Plans on September 30, 2014 were as follows:

	Municipal Police Officers' Pension Trust Fund Plan	Municipal Firefighters' Pension Trust Fund Plan
Total Pension Liability	\$ 2,764,159	\$ 880,097
Plan Fiduciary Net Position	(2,725,887)	(1,274,681)
Net Pension Liability	<u>\$ 38,272</u>	<u>\$ (394,584)</u>
Plan Fiduciary Net Position as a percentage of Total Pension Liability	98.62%	144.83%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of October 1, 2013 updated to September 30, 2014 using the following actuarial assumptions applied to all measurement periods:

	Municipal Police Officers' Pension Trust Fund Plan	Municipal Firefighters' Pension Trust Fund Plan
Inflation	3.00%	3.00%
Salary Increases	4.5% - 12%	7.50%
Investment Rate of Return	7.60%	7.50%
Mortality*	RP-2000 Table (Combined Healthy - Sex Distinct)	RP-2000 Table (with no projection)

* Mortality tables are based on a study of over 650 public safety funds and reflects a 10% margin for future mortality improvements (disabled lives set forward 5 years).

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2014

The long-term expected rate of return on pension plan 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 plans' target asset allocations of September 30, 2014 are summarized in the following table:

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

The discount rates used to measure the total pension liability for the Municipal Officers' and Municipal Firefighters' Pension Trust Plans 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 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 plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following represents the effect of changes in the discount rate on the net pension liability:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Municipal Police Officers' Pension Trust Fund Plan			
Net Pension Liability	380,489	38,272	(248,547)
Municipal Firefighters' Pension Trust Fund Plan			
Net Pension Liability	(278,593)	(394,584)	(490,453)

6. 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 (Plan). The Plan does not issue a stand-alone financial report. Authority to amend the 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 plans sponsored by the City. Under certain conditions, eligible individuals for healthcare coverage also include spouses and dependent children.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2014

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, 2014.

	<u>Single</u>	<u>Couple</u>	<u>Single plus Dependents</u>	<u>Family</u>
Balance HMO L60	\$ 542	\$ 1,052	\$ 1,052	\$ 1,296
POS Balance L62	597	1,158	1,158	1,426
Balance HMO L66	570	1,106	1,106	1,362

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

The City's annual OPEB cost for the fiscal year ended 2014 and the related information for each plan are as follows:

Actuarially required contribution (ARC)	\$ 68,997
Interest on net OPEB obligation	8,588
Adjustment to annual required contribution	<u>(15,128)</u>
Annual OPEB cost	62,457
Estimated contributions made	<u>(20,760)</u>
Increase in net OPEB obligation	41,697
Net OPEB obligation, beginning of year	<u>214,692</u>
Net OPEB obligation, end of year	<u><u>\$ 256,389</u></u>

The numbers shown above do not reflect a decision to fund the Plan. Therefore, the contributions made to the 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 plan) and the net OPEB obligation for the fiscal year ended 2014 were as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 62,457	33.20%	\$ 256,389
2013	60,641	27.70%	214,692
2012	60,067	22.00%	170,845

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.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2014

Actuarial methods and assumptions

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

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

Actuarial valuation date	October 1, 2011
Actuarial 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	7.5% in fiscal 2014; then trending to 4.5% in 2017
Post-Medicare	7.5% in fiscal 2014; then trending to 4.5% in 2017

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. Evaluation of subsequent events

City management has evaluated subsequent events through June 11, 2015, the date which the financial statements are available to be issued.

On October 9, 2014, Resolution 2014-28, *For Water, Sewer, Stormwater and Sanitation Fee Increases to Provide Revenues that will be Sufficient to Operate Financially Self-Supporting Utilities* was approved.

The increases are as follows:

- Water and Sewer Base Fee increased by 7%
- Water and Sewer Flow rates increased by 1.41%
- Stormwater monthly fee increased by 18% or .72 per month
- Sanitation increased by 1.41%

On January 8, 2015, the City entered into a supplemental agreement with Quentin L. Hampton Associates, Inc. for waste water treatment plant improvements to be constructed in fiscal year 2015, in the amount of \$43,420.

REQUIRED SUPPLEMENTARY INFORMATION

City of Flagler Beach, Florida
Budgetary Comparison Schedule
General Fund
September 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 3,131,499	\$ 3,131,499	\$ 3,295,736	\$ 164,237
Franchise fees	253,000	253,000	304,516	51,516
Licenses and permits	284,608	284,608	321,575	36,967
Intergovernmental	519,054	2,139,925	2,204,753	64,828
Charges for services	425,461	425,461	380,990	(44,471)
Fines and forfeitures	38,550	38,550	58,723	20,173
Grants and donations	15,000	175,000	176,500	1,500
Investment earnings	28,000	28,000	27,843	(157)
Miscellaneous	25,700	98,079	44,551	(53,528)
Total revenues	<u>4,720,872</u>	<u>6,574,122</u>	<u>6,815,187</u>	<u>241,065</u>
EXPENDITURES				
Current:				
Commission	61,783	61,783	55,370	6,413
Executive	150,518	164,745	164,727	18
City clerk	130,175	130,175	126,670	3,505
Finance	266,294	266,294	260,475	5,819
Legal counsel	169,500	169,500	162,640	6,860
Building maintenance	224,805	224,805	200,929	23,876
General government	863,556	3,017,832	2,691,265	326,567
Police	1,238,263	1,240,594	1,235,033	5,561
VOCA	60,215	61,682	61,234	448
Fire	508,040	514,593	482,034	32,559
Building and zoning	125,882	125,882	108,318	17,564
Roads and streets	230,865	323,186	196,773	126,413
Library	79,679	81,172	79,774	1,398
Museum	6,862	6,862	3,727	3,135
Beach	163,656	175,866	173,904	1,962
Dune crossover	7,360	7,360	5,994	1,366
Fishing pier	351,361	351,361	294,241	57,120
Recreation	69,718	69,718	66,534	3,184
Building code inspections	98,836	103,379	98,215	5,164
Capital projects	-	-	9,083	(9,083)
Total expenditures	<u>4,807,368</u>	<u>7,096,789</u>	<u>6,476,940</u>	<u>619,849</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(86,496)</u>	<u>(522,667)</u>	<u>338,247</u>	<u>860,914</u>
OTHER FINANCING SOURCES				
Transfers in	<u>328,740</u>	<u>328,740</u>	<u>228,390</u>	<u>(100,350)</u>
Total other financing sources	<u>328,740</u>	<u>328,740</u>	<u>228,390</u>	<u>(100,350)</u>
Net change in fund balances	<u>\$ 242,244</u>	<u>\$ (193,927)</u>	<u>\$ 566,637</u>	<u>\$ 760,564</u>

The Note to the Budgetary Comparison Schedules is an integral part of these schedules.

**City of Flagler Beach, Florida
Budgetary Comparison Schedule
Community Redevelopment Fund
September 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Taxes - property	\$ 84,882	\$ 84,882	\$ 91,165	\$ 6,283
Interest income	100	100	28	(72)
Other income	7,200	7,200	2,567	(4,633)
Total revenues	<u>92,182</u>	<u>92,182</u>	<u>93,760</u>	<u>1,578</u>
EXPENDITURES				
Current:				
Personnel costs	-	-	-	-
Professional services	29,180	28,685	15,074	13,611
Operational costs	23,900	24,395	20,881	3,514
Debt service:				
Interest	36,586	38,586	36,953	1,633
Principal	72,577	70,577	44,000	26,577
Total expenditures	<u>162,243</u>	<u>162,243</u>	<u>116,908</u>	<u>45,335</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(70,061)</u>	<u>(70,061)</u>	<u>(23,148)</u>	<u>46,913</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	2,151	2,151
Transfers out	(388)	(388)	(256)	132
Total other financing sources (uses)	<u>(388)</u>	<u>(388)</u>	<u>1,895</u>	<u>2,283</u>
Net change in fund balances	<u>\$ (70,449)</u>	<u>\$ (70,449)</u>	<u>\$ (21,253)</u>	<u>\$ 49,196</u>

The Note to the Budgetary Comparison Schedules is an integral part of these schedules.

City of Flagler Beach, Florida
Note to the Budgetary Comparison Schedules
For the Year Ended September 30, 2014

A. Budgetary Information

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

City of Flagler Beach, Florida
Schedule of Funding Progress
Municipal Police Officers' and Firefighters' Pension Trust Fund Plans
For the Year Ended September 30, 2014

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)
Police Officers' ⁽³⁾						
10/1/2010	\$ 1,440,319	\$ 2,251,935	\$ 811,616	63.96% ⁽²⁾	\$ 637,661	127.28%
10/1/2007	1,158,788	1,317,694	158,906	87.94% ⁽¹⁾	534,054	29.75%
Firefighters'						
10/1/2012	\$ 1,026,197	\$ 996,389	\$ (29,808)	102.99% ⁽²⁾	\$ 245,463	-12.14%
10/1/2011	826,353	914,226	87,873	90.39%	250,266	35.11%
10/1/2010	783,956	1,071,819	287,863	73.14%	249,053	115.58%

- (1) Beginning with the October 1, 2007, actuarial valuation report, GASB Statement 50 requires that plans utilizing the aggregate actuarial cost method disclose the funded ratio the plan would have if it were utilizing the entry age normal cost method.
- (2) Information about funded status and funding progress was prepared using the entry age normal cost method and serves as a surrogate for the funded status and funding progress of the plan.
- (3) Multi-year trend information is only available for the two valuations presented.

City of Flagler Beach, Florida
Schedule of Funded Status and Funding Progress
for Other Postemployment Benefits Other Than Pensions
September 30, 2014

The schedule below shows the balance of the actuarial accrued liability (AAL), all of which was unfunded as of September 30, 2014.

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)
10/1/2013	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	\$0	\$235,321	\$235,321	0.0%	\$2,376,554	9.9%
10/1/2010	\$0	\$318,000	\$318,000	0.0%	\$2,482,000	12.8%

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 Firefighters' Pension Trust Fund Plan
(Last 10 Fiscal Years)*
September 30, 2014

TOTAL PENSION LIABILITY		
Service cost	\$	63,454
Interest		63,195
Benefit payments, including refunds of employee contributions		<u>(51,394)</u>
Net change in total pension liability		75,255
Total pension liability - beginning		<u>804,842</u>
Total pension liability - ending (a)	\$	<u><u>880,097</u></u>
 PLAN FIDUCIARY NET POSITION		
Contributions - employer	\$	24,723
Contributions - state		50,517
Contributions - employee		13,776
Net investment income		115,088
Benefit payments, including refunds of employee contributions		(51,394)
Administrative expense		<u>(12,148)</u>
Net change in plan fiduciary net position		140,562
Plan fiduciary net position - beginning		<u>1,134,119</u>
Plan fiduciary net position - ending (b)	\$	<u><u>1,274,681</u></u> (1)
Net pension liability - ending (a) - (b)	\$	<u><u>(394,584)</u></u>
Plan fiduciary net position as a percentage of the total pension liability		144.83%
Covered employee payroll	\$	275,505
Net pension liability as a percentage of covered employee payroll		-143.22%

(1) See Reconciliation of Actuarial Net Position to Fiduciary Net Position for the Municipal Police Officers' and Firefighters' Pension Trust Fund Plans

* Only one year is presented because GASB Statement No. 67 was implemented in 2014.

City of Flagler Beach, Florida
Schedule of Contributions
Municipal Police Officers' Pension Trust Fund Plan
(Last 10 Fiscal Years)*
September 30, 2014

Actuarially determined contribution	\$ 125,177	
Contributions in relation to the actuarially determined contributions	125,794	
Contribution excess	\$ (617)	
Covered employee payroll	\$ 715,298	
Contributions as a percentage of covered employee payroll		17.59%

Notes to Schedule

Valuation date: 10/1/2012
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. The following load is utilized for determination of the total required contribution:
Interest - A half-year, based on the current 7.8% assumption.

Actuarial Asset Method: The actuarial value of assets is equal to the market value of assets.

Inflation: 3.0% 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.

Interest rate: 7.8% per year, compounded annually, net of investment related expenses.

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.

Mortality: RP 2000 Combined Healthy - Sex District. Disabled lives are set forward 5 years. Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements.

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%

* Only one year is presented because GASB Statement No. 67 was implemented in 2014.

City of Flagler Beach, Florida
Schedule of Contributions
Municipal Firefighters' Pension Trust Fund Plan
(Last 10 Fiscal Years)*
September 30, 2014

Actuarially determined contribution	\$ 75,240	
Contributions in relation to the actuarially determined contributions	75,240	
Contribution deficiency (excess)	\$ -	
Covered employee payroll	\$ 275,505	
Contributions as a percentage of covered employee payroll	27.31%	

Notes to Schedule

Valuation date: 10/1/2012
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:	3.0% per year.
Salary increases:	7.5% per year until the assumed retirement age.
Interest rate:	8% per year, compounded annually, net of investment related expenses.
Payroll growth:	N/A
Retirement age:	Earlier of age 55 with 10 years of credited service or age 52 with 25 years of credited service. Also any member who has reached normal retirement age is assumed to continue employment for one additional year.
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.
Termination rates:	See table below.
Disability rates:	See table below. It is assumed that 75% of disabilities and active member deaths are service related.
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	% Terminating During the Year	% Becoming Disabled During the Year
20	6.0%	0.03%
30	5.0%	0.04%
40	2.6%	0.07%
50	0.8%	0.18%

* Only one year is presented because GASB Statement No. 67 was implemented in 2014.

City of Flagler Beach, Florida
Schedule of Investment Returns
Municipal Police Officers' and Firefighters' Pension Trust Fund Plans
(Last 10 Fiscal Years)*
September 30, 2014

Police Officers' Pension Trust Fund Plan	
Annual Money-Weighted Rate of Return	
Net of Investment Expense	10.40%
Firefighters' Pension Trust Fund Plan	
Annual Money-Weighted Rate of Return	
Net of Investment Expense	9.98%

* Only one year is presented because GASB Statement No. 67 was implemented in 2014.

OTHER SUPPLEMENTARY INFORMATION

City of Flagler Beach, Florida
Community Redevelopment Agency
Balance Sheet
(As Required and Defined by *Florida Statutes 163.387(8)*)
September 30, 2014

ASSETS	
Cash (Operating)	\$ 128,297
Due from the General Fund	143,874
Total assets	<u>\$ 272,171</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Due to the General Fund	\$ 295,513
Due to the Utility Fund	432
Due to the Sanitation Fund	216
Due to the Stormwater Fund	108
Due to the Agency Fund	50
Total liabilities	<u>296,319</u>
Fund balances:	
Reserved, designated for:	
Unassigned	<u>(24,148)</u>
Total fund balances	<u>(24,148)</u>
Total liabilities and fund balances	<u>\$ 272,171</u>

City of Flagler Beach, Florida
Community Redevelopment Agency
Statement of Revenues, Expenditures and Changes in Fund Balance
(As Required and Defined by *Florida Statutes 163.387(8)*)
For the Fiscal Year Ended September 30, 2014

REVENUES	
Ad Valorem taxes	\$ 35,817
CRA-AD Valorem taxes (County)	53,646
CRA-AD Valorem taxes (EFMCD)	1,702
Interest income	28
Wayfinder signs	2,567
Total revenues	<u>93,760</u>
EXPENDITURES	
Audit	3,000
Contractual services	12,074
Telephone	106
Utilities	19,765
Repairs and maintenance	440
Other current charges	217
Office supplies	153
Membership subscription dues	200
Interest from interfund loan	2,739
Debt service:	
Interest	34,214
Principal	44,000
Total expenditures	<u>116,908</u>
Deficiency of revenues under expenditures	<u>(23,148)</u>
OTHER FINANCING USES	
Transfers in	1,895
Total other financing uses	<u>1,895</u>
Net changes in fund balance	<u>(21,253)</u>
Fund balance - beginning of year	<u>(2,895)</u>
Fund balance - end of year	<u>\$ (24,148)</u>

City of Flagler Beach, Florida
Reconciliation of Actuarial Net Position to Fiduciary Net Position for the
Municipal Police Officers' and Firefighters' Pension Trust Fund Plans
September 30, 2014

Police Officers' Pension Trust Fund Plan

Plan fiduciary net position per actuary's schedule	\$ 2,725,887
Less:	
Liability accrued on the financial statements for 2014 expenses paid in October	(12,363)
	(12,363)
Plan fiduciary net position per financial statements	\$ 2,713,524

Firefighters' Pension Trust Fund Plan

Plan fiduciary net position per actuary's schedule	\$ 1,274,681
Add:	
Funds received from the City in excess of amounts required by the actuary, recorded as revenue on the financial statements	10,699
Receivable accrued on the financial statements for funds received from the State in October	18,616
Less:	
Liability accrued on the financial statements for 2014 expenses paid in October	(625)
Plan fiduciary net position per financial statements	\$ 1,303,371

OTHER REPORTS

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June 11, 2015

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, 2014, 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 11, 2015.

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.

Dufresne & Associates, CPA, PA

Dufresne & Associates, CPA, PA

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June 11, 2015

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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Flagler Beach, Florida's (City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Report on Internal Control over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Dufresne & Associates, CPA, PA

Dufresne & Associates, CPA, PA

City of Flagler Beach, Florida
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2014

Federal Grantor/Pass - through Grantor/Federal Program Title	Catalog of Federal Domestic Assistance Number	Contract/Grant Number	Federal Expenditures
UNITED STATES DEPARTMENT OF JUSTICE			
Pass through programs from:			
State Department of Legal Affairs - Office of the Attorney General Division:			
Crime Victim Assistance	16.575	12020	\$ 57,142
Florida Department of Law Enforcement:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-JAG-FLAG-E6-048	700
Total United States Department of Justice			<u>\$ 57,842</u>
UNITED STATES DEPARTMENT OF TRANSPORTATION			
Pass through program from:			
Florida Department of Transportation:			
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	426029-1-38-01	\$ 608,738
Total United States Department of Transportation			<u>608,738</u>
UNITED STATES DEPARTMENT OF HOMELAND SECURITY			
Direct:			
Hazard Mitigation Grant	97.039	13HM-3E-04-28-01-287	\$ 987,333
Pre-Disaster Mitigation	97.047	13DM-5J-04-28-02	509,335
Total United States Department of Homeland Security			<u>\$ 1,496,668</u>
Total expenditures of federal awards			<u>\$ 2,163,248</u>

Note to the Schedule of Expenditure of Federal Awards: Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the City of Flagler Beach, Florida and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

City of Flagler Beach, Florida
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2014

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of Auditor's Report Issued:	Unmodified
Internal Control over Financial Reporting:	
Material Weakness Identified?	No
Significant deficiency identified that is not Considered to be a Material Weakness?	No
Noncompliance Material to Financial Statements Noted?	No

Federal Awards

Internal Control over Major Program:	
Material Weaknesses Identified?	No
Significant Deficiency Identified that is not Considered to be a Material Weakness?	No
Type of Auditor's Report Issued on Compliance for Major Program	Unmodified
Any Audit Finding Disclosed that is Required to be Reported in Accordance with Section 510(a) of Circular A-133?	No
Identification of Major Program:	
97.039	Hazard Mitigation Grant
97.047	Pre-Disaster Mitigation
Dollar Threshold used to Distinguish Between Type A and Type B Programs:	\$300,000
Auditee Qualified as Low-Risk Auditee?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

This section identifies significant deficiencies, material weaknesses and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

This section identifies significant deficiencies, material weaknesses and instances of noncompliance, including questioned costs related to the audit of major federal programs as required to be reported by OMB Circular A-133, Section 510(a).

No matters were reported.

**City of Flagler Beach, Florida
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2014**

There were no findings for the prior year ended September 30, 2013.

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June 11, 2015

**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, 2014, and have issued our report thereon dated June 11, 2015.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, Rules of the 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*; Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133; Schedule of Findings and Questioned Costs; and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated June 11, 2015, 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., Rules of the Auditor General, requires that we report the results of our determination as to whether or not the City has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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

Annual Financial Report

Section 10.554(1)(i)5.b., Rules of the Auditor General, requires that we report the results of our determination as to whether the annual financial report for the City for the fiscal year ended September 30, 2014, 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, 2014. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

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

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the 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.

Dufresne & Associates, CPA, PA

Dufresne & Associates, CPA, PA

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June 11, 2015

**REPORT OF INDEPENDENT ACCOUNTANT
ON COMPLIANCE WITH LOCAL GOVERNMENT
INVESTMENT POLICIES**

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

Report on Compliance

We have examined the City of Flagler Beach, Florida's (the "City") compliance with the requirements of Section 218.415, Florida Statutes, during the year ended September 30, 2014. 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, 2014.

Dufresne & Associates, CPA, PA

Dufresne & Associates, CPA, PA