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CERTIFIED PUBLIC ACCOUNTANTS

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May 26, 2016

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, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, 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 March 12, 2015. 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. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Accordingly, as a result of the adoption of these Statements, pensions require more prominent disclosure resulting in funding status being moved from the footnotes to the balance sheet as well as additional footnote and required supplementary information (RSI) disclosures.

Specifically, as further discussed in Note IV-A, the City was required to recognize their portion of the Net Pension Liability of the Municipal Police Officers' and Firefighters' Pension Trust Fund Plans, along with the deferred outflows and inflows of resources, on their government-wide Statement of Net Position which resulted in a \$242,949 increase in the City's beginning net position. (Deferred outflows and inflows result from the effects of actuarial differences and changes in assumptions related to economic or demographic factors; differences between actual and projected earnings on plan investments; and employer contributions made directly by the employer subsequent to the measurement date.)

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.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure of the deficit fund equity of the Community Redevelopment Fund in Note III-B to the financial statements:

At September 30, 2015, the Community Redevelopment Fund, a major fund, has a deficit fund balance of \$4,336. The reason for the deficit continues to be the depressed revenue stream of the Tax Increment Financing used to operate the Community Redevelopment Agency (CRA) and to pay back loans.

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 May 26, 2016.

#### *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*

During our audit, we noted that the bait shop does not perform inventory procedures. Although the inventory is not large, with business increasing each year, we discussed with management that it would be advantageous to design and perform such procedures now, before it becomes a material control deficiency.

- Our recommendations and basis for these recommendations were as follows:

Periodic physical inventories provide a basis for updating inventory balances and aid in detecting significant inventory shortages. Physical inventories also serve as checks on the performance of those responsible for inventory custody and related functions of purchasing and receiving. Employees responsible for these functions might have biased interests in the results of physical counts. We therefore recommend that they not be responsible for physical inventory procedures. Personnel from the accounting department should have the responsibility of planning, supervising, and test counting physical inventories. However, the department supervisors should have input during the planning phase so efficient and effective physical inventories can be achieved. Detailed written instructions, if followed, ensure that all pricing items are counted, each item is included only once, and proper summarization of counts is prepared. Pricing of the physical quantities counted should be consistent and well documented to be reliable. Persons responsible for pricing should indicate whether prices are from sources other than the most recent invoice. The computer can assist in keeping price records and computing extensions and footings.

- Management has responded to our above recommendations as follows:

The City is currently changing the management structure at the bait shop. The person in the manager position will be responsible for entering inventory into the point of sale system. A member of the staff (not the manager) will take a physical inventory at the end of the month and provide the results to the Finance Department. Finance will compare the results from the physical count to the computerized inventory on a monthly basis and provide a report. Periodically, Finance will conduct random inventory testing.

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

We applied certain limited procedures to the Management's Discussion and Analysis, Budgetary Comparison Schedules and Pensions Schedules which are 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.

We were engaged to report on the 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), which accompany the financial statements but are not RSI. With respect to this supplementary information,

we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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, PA, PA*

Dufresne & Associates, CPA, PA

**City of Flagler Beach, Florida  
Financial Statements  
For the Year Ended  
September 30, 2015**

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**City of Flagler Beach, Florida**  
**Financial Statements**  
**September 30, 2015**

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**City of Flagler Beach, Florida**  
**Financial Statements**  
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# INTRODUCTORY SECTION

**City of Flagler Beach, Florida  
List of Principal Officials  
September 30, 2015**

**MAYOR**

HONORABLE  
LINDA PROVENCHER

**CHAIRPERSON**

MARSHALL SHUPE

**VICE-CHAIRPERSON**

JANE MEALY

**CITY COMMISSIONERS**

KIM CARNEY

STEVE SETTLE

JOY MCGREW

**CITY MANAGER**

BRUCE CAMPBELL

**FINANCE DIRECTOR**

KATHLEEN DOYLE

**CITY ATTORNEY**

DREW SMITH

**INDEPENDENT AUDITORS**

DUFRESNE & ASSOCIATES, CPA, PA

**FINANCIAL SECTION**

DUFRESNE & ASSOCIATES, CPA, PA  
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May 26, 2016

**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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City as of September 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information on pages 4 - 12 and 52 - 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 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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, PA, 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, 2015.

### Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$42,300,751.
- The City's total net position before transfers increased by \$892,652 due largely to the purchase of capital equipment and completion of the Stormwater project.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,734,407, an increase of \$331,850 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,039,541 or 109% of total General Fund expenditures. Revenues exceeded expenditures in the General Fund by \$539,828, before internal transfers of \$245,800 are included in the \$312,038 increase in fund balance.
- The City's total long-term liabilities decreased by \$305,271. The liabilities consist of compensated absences, capital leases for two police vehicles, State Revolving Fund Loan for the water treatment plant, 2015 Refunding Revenue Note for CRA District Improvements and 2015 Refunding Revenue Note for Stormwater Improvements, Other Postemployment Benefits (OPEB) and net pension liability of the Municipal Police Officers' Pension Trust Fund Plan.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components:

1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

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

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

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

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities which can be found on pages 16 and 18.

The City maintains two individual governmental funds; General and Community Redevelopment Funds. Information is presented separately in the governmental fund Balance Sheet and in the Statement of Revenues, Expenditures, and Changes in Fund Balances for the governmental funds. The basic governmental fund financial statements can be found in this report on pages 15 and 17.

The City adopts an annual appropriated budget for its General Fund and Community Redevelopment Fund. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget and can be found on pages 52 and 53.

**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 19 through 21.

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

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found within this report on pages 24 through 51.

**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 and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$42,300,751 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	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 7,470,329	\$ 7,358,171	\$ 8,313,417	\$ 7,654,218	\$ 15,783,746	\$ 15,012,389
Capital assets	11,079,108	11,709,904	23,478,674	23,325,465	34,557,782	35,035,369
<b>Total assets</b>	<b>18,549,437</b>	<b>19,068,075</b>	<b>31,792,091</b>	<b>30,979,683</b>	<b>50,341,528</b>	<b>50,047,758</b>
Deferred outflows of resources	174,164	-	-	-	174,164	-
Long-term liabilities outstanding	1,220,887	1,200,797	6,141,736	6,467,097	7,362,623	7,667,894
Other liabilities	346,308	787,226	432,361	427,488	778,669	1,214,714
<b>Total liabilities</b>	<b>1,567,195</b>	<b>1,988,023</b>	<b>6,574,097</b>	<b>6,894,585</b>	<b>8,141,292</b>	<b>8,882,608</b>
Deferred inflows of resources	73,649	-	-	-	73,649	-
<b>Net position:</b>						
Net investment in capital assets	10,188,957	10,785,635	17,511,669	16,989,403	27,700,626	27,775,038
Restricted	1,027,343	1,528,187	2,949,029	2,651,323	3,976,372	4,179,510
Unrestricted	5,866,457	4,766,230	4,757,296	4,444,372	10,623,753	9,210,602
<b>Total net position</b>	<b>\$ 17,082,757</b>	<b>\$ 17,080,052</b>	<b>\$ 25,217,994</b>	<b>\$ 24,085,098</b>	<b>\$ 42,300,751</b>	<b>\$ 41,165,150</b>

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

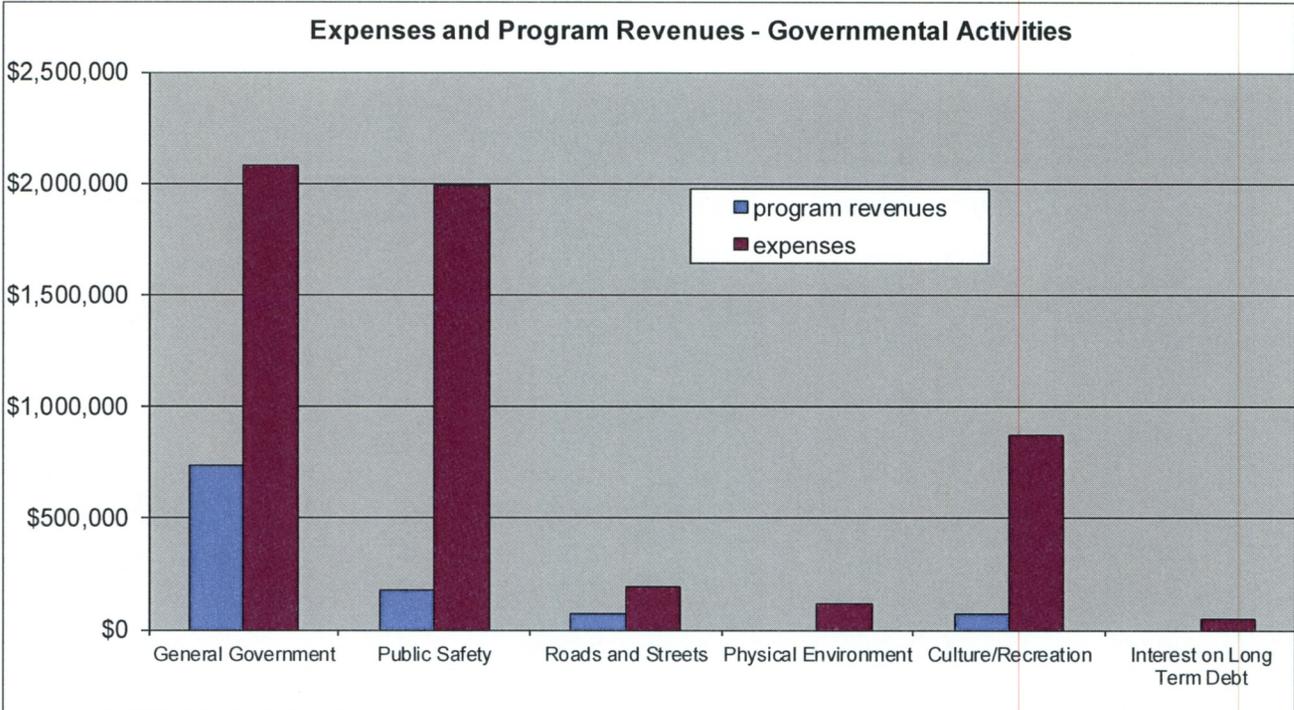
At the end of the current fiscal year, the City is able to report positive balances in all categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

**Governmental activities.** Governmental activities decreased the City's net position by \$240,244 or (27%) of the total increase in the net position of the City; this represents a decrease over last year largely due to the transfer of infrastructure surtax monies into the Water & Sewer fund for construction costs of the Public Works building.

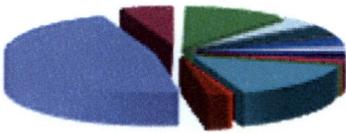
Overall, revenues in Governmental activities decreased by \$1,607,924 or 23%; expenses increased by \$106,468 or 2% when compared to last year's balances. The decrease in revenues was due to less capital grants and contributions received. Increases in expenses were in the Public Safety and General Government areas of the governmental funds.

## City of Flagler Beach's Change in Net Position

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for services	\$ 822,978	\$ 761,288	\$ 4,240,390	\$ 3,963,733	\$ 5,063,368	\$ 4,725,021
Operating grants and contributions	215,071	203,687	-	-	215,071	203,687
Capital grants and contributions	19,500	1,771,721	512,659	859,033	532,159	2,630,754
<b>General revenues:</b>						
Property taxes	2,494,568	2,471,194	-	-	2,494,568	2,471,194
Sales taxes	393,935	368,993	-	-	393,935	368,993
Franchise and utility taxes	1,087,004	1,081,870	-	-	1,087,004	1,081,870
Intergovernmental revenue	106,175	175,205	-	-	106,175	175,205
Unrestricted Investment earnings	34,612	27,871	78,565	68,303	113,177	96,174
Gain on disposal of capital assets	18,010	-	-	-	18,010	-
Other miscellaneous	109,170	47,118	-	-	109,170	47,118
<b>Total revenues</b>	<b>5,301,023</b>	<b>6,908,947</b>	<b>4,831,614</b>	<b>4,891,069</b>	<b>10,132,637</b>	<b>11,800,016</b>
<b>Expenses:</b>						
General government	2,078,484	2,200,136	-	-	2,078,484	2,200,136
Public safety	1,986,869	2,052,162	-	-	1,986,869	2,052,162
Roads and streets	192,141	152,831	-	-	192,141	152,831
Physical environment	116,970	35,955	-	-	116,970	35,955
Culture/recreation	873,933	709,991	-	-	873,933	709,991
Interest on long-term debt	47,070	37,924	-	-	47,070	37,924
Water and sewer	-	-	2,742,773	2,430,839	2,742,773	2,430,839
Sanitation	-	-	937,320	884,586	937,320	884,586
Stormwater	-	-	264,425	185,499	264,425	185,499
<b>Total expenses</b>	<b>5,295,467</b>	<b>5,188,999</b>	<b>3,944,518</b>	<b>3,500,924</b>	<b>9,239,985</b>	<b>8,689,923</b>
Increase in net position before transfers	5,556	1,719,948	887,096	1,390,145	892,652	3,110,093
Transfers	(245,800)	230,285	245,800	(230,285)	-	-
Increase (decrease) in net position	(240,244)	1,950,233	1,132,896	1,159,860	892,652	3,110,093
Net position-beginning of year, as previously reported	17,080,052	15,146,292	24,085,098	22,941,637	41,165,150	38,087,929
Prior period adjustment	242,949	(16,473)	-	(16,399)	242,949	(32,872)
Net position- beginning of year, as restated	17,323,001	15,129,819	24,085,098	22,925,238	41,408,099	38,055,057
<b>Net position - end of year</b>	<b>\$ 17,082,757</b>	<b>\$ 17,080,052</b>	<b>\$ 25,217,994</b>	<b>\$ 24,085,098</b>	<b>\$ 42,300,751</b>	<b>\$ 41,165,150</b>



### Revenues by Source - Governmental Activities



Property Tax 47.22%	Franchise Tax 5.85%	Utility Service Tax 11.08%
Community Services Tax 3.64%	Operating Grants 4.07%	Capital Grants .37%
Infrastructure Surtax 2.82%	Local Half Cent Sales Tax 2.83%	Local Option Gas Tax 1.81%
State Revenue Sharing 1.84%	Intergovernmental 1.17%	Charges for Services & Fees 15.58%
Unrestricted Investment Earnings .66%	Miscellaneous 2.07%	

**Business-type activities.** Business-type activities increased the City's net position by \$1,132,896 accounting for 127% of the total increase in the City's net position when compared to last fiscal year.

Overall the revenues in business-type activities decreased by \$59,455 or 1%. The expenses increased by \$443,594 or 13%.

### **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.

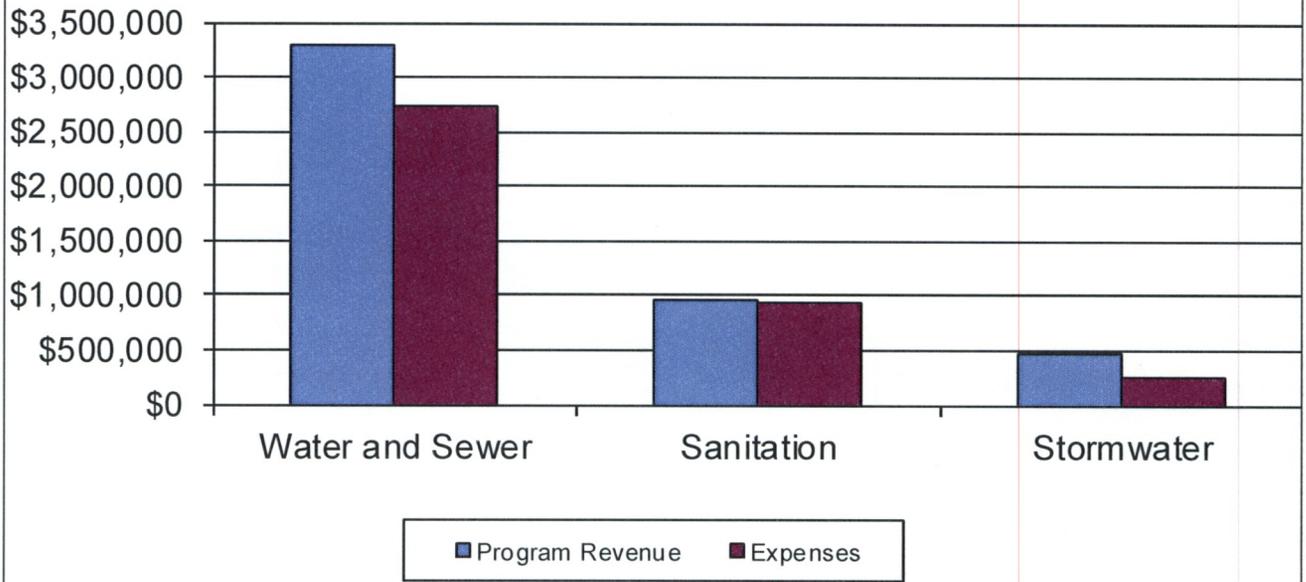
**Governmental funds.** As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,734,407, an increase of \$331,850 in comparison with prior year. 75% of the total amount, or \$5,039,541, constitutes *unassigned fund balance* in the General Fund, which is available for spending at the government's discretion. The Community Redevelopment Fund has an *unassigned fund balance* of (\$4,336). 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 TIF (Tax Incremental Funding) from the City of Flagler Beach and Flagler County annually. Property values continue to climb and, barring any unforeseen circumstances, the fund balance for the CRA will be positive by the end of September 2016. 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 \$685,518; *Restricted* items of \$632,759 including Infrastructure and Capital Assets \$578,120, Law Enforcement Automation \$7,383, Land Purchases \$18,490, and the Education of Building Inspectors \$24,026; *Committed* for Encumbrances \$232,237 including \$16,980 for paving and \$181,057 for construction; *Assigned* for encumbrances of \$148,688 including \$31,759 for the future purchase of a fire truck (slated for 2020-2021) and \$116,667 for the purchase of radios.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$5,039,541 while the total fund balance reached \$6,738,743. 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 109% of the total General Fund expenditures, while total fund balance represents 146% of General Fund expenditures.

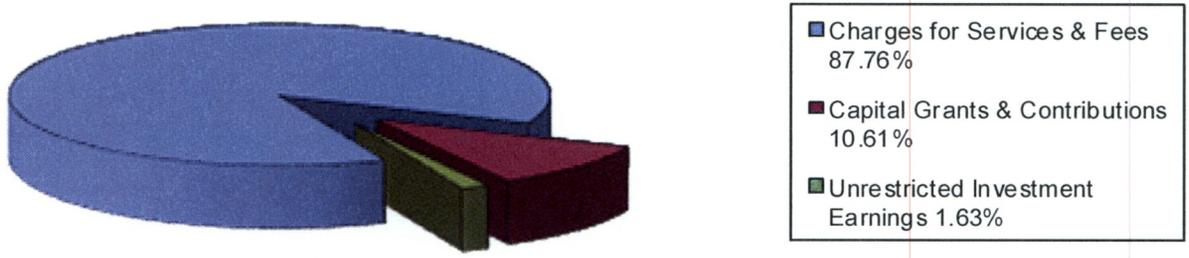
**Proprietary funds.** The City's proprietary funds financial statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the Water and Sewer, Sanitation, and Stormwater Funds at the end of the year amounted to \$2,872,080, \$1,536,298, and \$348,918, respectively. The total increase (decrease) in unrestricted net position was \$181,662, \$159,621, and \$(28,359), 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 52 of the Required Supplementary Information shows the differences between the original budget, the final amended budget and actual amounts.

Revenues were \$202,329 more than the final budget. The City was able to keep expenditures under budget by \$1,181,044 when compared to the amended budget. The net result was an increase of \$312,038 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, 2015, amounts to \$34,557,782. This investment in capital assets includes land and land improvements, buildings, improvements other than buildings, equipment, construction in progress, and infrastructure. The total decrease in the City's investment in capital assets for the current fiscal year was 1%.

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

- The City purchased a new fire truck during 2014-15 with infrastructure surtax revenue.
- 44% of the City's General Fund's fixed assets are fully depreciated.
- 38% of the City's Enterprise Funds' fixed assets are fully depreciated.

### City of Flagler Beach's Capital Assets

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Land and land improvements	\$ 2,152,123	\$ 2,170,133	\$ 1,648,235	\$ 1,648,235	\$ 3,800,358	\$ 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	3,714,832	3,706,416	15,920,051	15,561,819	19,634,883	19,268,235
Equipment	2,573,245	2,669,754	2,896,937	2,764,518	5,470,182	5,434,272
Construction in progress	67,312	8,516	295,255	859,421	362,567	867,937
Infrastructure	5,860,655	5,860,655	3,465,177	2,321,619	9,325,832	8,182,274
Less accumulated depreciation	(6,848,987)	(6,265,498)	(12,051,805)	(11,134,971)	(18,900,792)	(17,400,469)
Total	\$11,079,108	\$11,709,904	\$ 23,478,674	\$ 23,325,465	\$ 34,557,782	\$ 35,035,369

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 \$7,362,623, of which \$434,659 is due within one year.

The Revenue Notes for the Stormwater Fund and Community Redevelopment Fund were refinanced in 2015. The City was able to take advantage of the low interest rates while securing a 15 year note. The new note does not have a balloon payment.

The governmental activities' long-term liabilities amount to \$1,220,887 and consist of the Community Redevelopment 2015 Refunding Revenue Note, capital leases for vehicles, compensated absences, OPEB and net pension liability of the Municipal Police Officers' Pension Trust Fund.

The business-type activities' long-term liabilities amount to \$6,141,736 and include the State Revolving Fund Loan for the water treatment plant, Stormwater 2015 Refunding Revenue Note, compensated absences and OPEB.

## **Economic Factors and Next Year's Budgets and Rates**

- Property values continue to improve and new home starts are also increasing.
- Water and Sewer base rate increases to fund the Utility Capital Plan were added in 2015-16. The water base increased by 10% and the sewer base increased by 20%. This increase is forecasted to generate an additional \$148,000 in revenue. For the 2016-17 budget, an additional increase to support the needs of the infrastructure will be needed.
- Stormwater rates increased 6% in 2015-16. The City is working towards obtaining a grant for the remaining Stormwater project.

All of these factors were considered when the City prepared the budget for fiscal year 2015-16. 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 2016-17.

At the end of 2014-15 the fund balance in the General Fund increased to \$6,738,743. All appropriations lapse at year end. The City of Flagler Beach has appropriated \$380,925 to be available for the 2015-16 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 4.7074 (the rollback rate) for the 2015-16 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, 2015**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,356,514	\$ 1,895,657	\$ 5,252,171
Investments	2,750,654	2,678,878	5,429,532
Accounts receivable, net of allowance	114,043	593,514	707,557
Due from other governments	210,275	-	210,275
Internal balances	(41,259)	41,259	-
Prepays and other assets	685,518	-	685,518
Restricted cash and cash equivalents	-	155,080	155,080
Restricted investments	-	2,949,029	2,949,029
Net pension asset	394,584	-	394,584
Capital assets:			
Land and land improvements	2,152,123	1,648,235	3,800,358
Construction in progress	67,312	295,255	362,567
Buildings	3,559,928	11,304,824	14,864,752
Improvements other than buildings	3,714,832	15,920,051	19,634,883
Equipment	2,573,245	2,896,937	5,470,182
Infrastructure	5,860,655	3,465,177	9,325,832
Accumulated depreciation	(6,848,987)	(12,051,805)	(18,900,792)
Total assets	<u>18,549,437</u>	<u>31,792,091</u>	<u>50,341,528</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Contributions	<u>174,164</u>	<u>-</u>	<u>174,164</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	306,968	193,919	500,887
Unearned revenues	34,370	12,964	47,334
Customer deposits	-	199,750	199,750
Accrued interest payable	4,970	25,728	30,698
Non-current liabilities:			
Due within one year	66,456	368,203	434,659
Due in more than one year	1,154,431	5,773,533	6,927,964
Total liabilities	<u>1,567,195</u>	<u>6,574,097</u>	<u>8,141,292</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension Contributions	<u>73,649</u>	<u>-</u>	<u>73,649</u>
<b>NET POSITION</b>			
Net investment in capital assets	10,188,957	17,511,669	27,700,626
Restricted for:			
Infrastructure and capital assets	625,376	2,949,029	3,574,405
Law enforcement	7,383	-	7,383
Pensions	394,584	-	394,584
Unrestricted	5,866,457	4,757,296	10,623,753
Total net position	<u>\$ 17,082,757</u>	<u>\$ 25,217,994</u>	<u>\$ 42,300,751</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, 2015**

	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
<b>Functions/Programs</b>							
<b>Primary Government:</b>							
Governmental activities:							
General government	\$ 2,078,484	\$ 732,826	\$ -	\$ -	\$ (1,345,658)	\$ -	\$ (1,345,658)
Public safety	1,986,869	38,114	140,308	-	(1,808,447)	-	(1,808,447)
Roads and streets	192,141	-	71,218	-	(120,923)	-	(120,923)
Physical environment	116,970	-	-	-	(116,970)	-	(116,970)
Culture/recreation	873,933	52,038	3,545	19,500	(798,850)	-	(798,850)
Interest	47,070	-	-	-	(47,070)	-	(47,070)
Total governmental activities	<u>5,295,467</u>	<u>822,978</u>	<u>215,071</u>	<u>19,500</u>	<u>(4,237,918)</u>	<u>-</u>	<u>(4,237,918)</u>
Business-type activities:							
Water and sewer	2,742,773	3,017,798	-	286,745	-	561,770	561,770
Sanitation	937,320	971,489	-	-	-	34,169	34,169
Stormwater	264,425	251,103	-	225,914	-	212,592	212,592
Total business-type activities	<u>3,944,518</u>	<u>4,240,390</u>	<u>-</u>	<u>512,659</u>	<u>-</u>	<u>808,531</u>	<u>808,531</u>
<b>Total primary government</b>	<u>\$ 9,239,985</u>	<u>\$ 5,063,368</u>	<u>\$ 215,071</u>	<u>\$ 532,159</u>	<u>(4,237,918)</u>	<u>808,531</u>	<u>(3,429,387)</u>

**General Revenues:**

Property taxes	2,494,568	-	-	-	-	2,494,568
Franchise fees	309,318	-	-	-	-	309,318
Utility service taxes	585,587	-	-	-	-	585,587
Communication services tax	192,099	-	-	-	-	192,099
Infrastructure surtax	149,173	-	-	-	-	149,173
Local half-cent sales tax	149,400	-	-	-	-	149,400
Local option gas tax	95,362	-	-	-	-	95,362
State revenue sharing proceeds	97,174	-	-	-	-	97,174
Intergovernmental	9,001	-	-	-	-	9,001
Unrestricted investment earnings	34,612	78,565	-	-	-	113,177
Miscellaneous	109,170	-	-	-	-	109,170
Gain on disposal of capital assets	18,010	-	-	-	-	18,010
Transfers	(245,800)	245,800	-	-	-	-
Total general revenues and transfers	<u>3,997,674</u>	<u>324,365</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,322,039</u>
Changes in net position	<u>(240,244)</u>	<u>1,132,896</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>892,652</u>
Net position - beginning of year, as previously reported	<u>17,080,052</u>	<u>24,085,098</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,165,150</u>
Prior period adjustment	<u>242,949</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>242,949</u>
Net position - beginning of year, as restated	<u>17,323,001</u>	<u>24,085,098</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,408,099</u>
Net position - end of year	<u>\$ 17,082,757</u>	<u>\$ 25,217,994</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,300,751</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, 2015**

	<u>General</u>	<u>Community Redevelopment</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,205,469	\$ 151,045	\$ 3,356,514
Investments	2,750,654	-	2,750,654
Accounts receivable, net of allowance	114,043	-	114,043
Due from other funds	151,740	14,923	166,663
Due from other governments	210,275	-	210,275
Prepays	685,518	-	685,518
Total assets	<u>\$ 7,117,699</u>	<u>\$ 165,968</u>	<u>\$ 7,283,667</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 194,874	\$ 5,079	\$ 199,953
Accrued personal services	106,465	550	107,015
Deferred revenue	34,370	-	34,370
Due to other funds	43,247	164,675	207,922
Total liabilities	<u>378,956</u>	<u>170,304</u>	<u>549,260</u>
Fund balances:			
Nonspendable:			
Prepays	685,518	-	685,518
Restricted:			
Law enforcement automation	7,383	-	7,383
A1A land purchases	18,490	-	18,490
Infrastructure and capital assets	578,120	-	578,120
Building inspector education	24,026	-	24,026
Building Code Administration Fund	3,749	-	3,749
Surcharge fees	991	-	991
Committed:			
Repairs and maintenance	16,980	-	16,980
Training on fixed asset module	1,700	-	1,700
OPEB evaluation	2,500	-	2,500
Cooling unit - Police Department	10,000	-	10,000
Roads and streets	181,057	-	181,057
City portion of landscaping grant	10,000	-	10,000
Improvements to Wickline Building	10,000	-	10,000
Assigned:			
Fire truck	31,759	-	31,759
Beach related purchases	262	-	262
Radios	116,667	-	116,667
Unassigned	5,039,541	(4,336)	5,035,205
Total fund balances	<u>6,738,743</u>	<u>(4,336)</u>	<u>6,734,407</u>
Total liabilities and fund balances	<u>\$ 7,117,699</u>	<u>\$ 165,968</u>	<u>\$ 7,283,667</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, 2015**

Fund balances - governmental funds		\$ 6,734,407
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	17,928,095	
Accumulated depreciation	<u>(6,848,987)</u>	11,079,108
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.		
		(4,970)
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	394,584	
Net pension liability	(38,271)	
Deferred outflows - Contributions	174,164	
Deferred inflows - Contributions	(73,649)	
Other postemployment benefits liability	<u>(177,054)</u>	279,774
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as governmental fund liabilities.		
Notes payable	(873,000)	
Capital leases payable	(17,151)	
Compensated absences	<u>(115,411)</u>	<u>(1,005,562)</u>
Net position of governmental activities		<u>\$ 17,082,757</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, 2015**

	<u>General</u>	<u>Community Redevelopment</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes	\$ 3,305,876	\$ 115,551	\$ 3,421,427
Franchise fees	309,318	-	309,318
Licenses and permits	346,997	-	346,997
Intergovernmental	566,008	-	566,008
Charges for services	434,600	-	434,600
Fines and forfeitures	41,381	-	41,381
Grants and donations	19,500	-	19,500
Investment earnings	34,612	-	34,612
Miscellaneous	86,170	-	86,170
Total revenues	<u>5,144,462</u>	<u>115,551</u>	<u>5,260,013</u>
<b>EXPENDITURES</b>			
Current:			
General government	1,706,231	-	1,706,231
Public safety	1,852,332	-	1,852,332
Roads and streets	173,696	-	173,696
Physical environment	65,542	28,428	93,970
Culture/recreation	621,590	-	621,590
Debt service:			
Principal	11,118	46,000	57,118
Interest	574	44,311	44,885
Capital outlay	173,551	-	173,551
Total expenditures	<u>4,604,634</u>	<u>118,739</u>	<u>4,723,373</u>
Surplus (Deficiency) of revenues under expenditures	539,828	(3,188)	536,640
<b>OTHER FINANCING SOURCES AND USES</b>			
Transfers out	(245,800)	-	(245,800)
Sale of capital asset	18,010	-	18,010
2009 Revenue Note refunded		(850,000)	(850,000)
2015 Revenue Refunding Note issued	-	873,000	873,000
Total other financing sources and uses	<u>(227,790)</u>	<u>23,000</u>	<u>(204,790)</u>
Net changes in fund balances	312,038	19,812	331,850
Fund balances - beginning of year	6,426,705	(24,148)	6,402,557
Fund balances - end of year	<u>\$ 6,738,743</u>	<u>\$ (4,336)</u>	<u>\$ 6,734,407</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, 2015**

Net changes in fund balances - total governmental funds	\$	331,850
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	(47,307)	
Current year depreciation	<u>(583,489)</u>	(630,796)
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	(1,930)	
Interest payable	(2,189)	
Deferred outflows - Contributions	(174,164)	
Deferred inflows - Contributions	73,649	
Net pension asset	394,584	
Net pension liability	(251,359)	
Other postemployment benefits liability	<u>(14,007)</u>	24,584
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Position. In the current period, proceeds were issued from:		
Issuance of 2015 CRA Revenue Note		(873,000)
Repayment of long-term debt is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the Statement of Net Position. In the current year, these amounts consist of:		
Promissory note principal payments	46,000	
Refunding of 2009 CRA Note	850,000	
Capital leases principal payments	<u>11,118</u>	<u>907,118</u>
Changes in net position of governmental activities	\$	<u><u>(240,244)</u></u>

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, 2015**

	<u>Water and Sewer</u>	<u>Sanitation</u>	<u>Stormwater</u>	<u>Total</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 579,774	\$ 983,007	\$ 332,876	\$ 1,895,657
Restricted cash and cash equivalents:				
Debt service	155,080	-	-	155,080
Investments	2,178,759	500,119	-	2,678,878
Receivables (net of allowance for uncollectible accounts):				
Accounts receivable	299,560	96,501	24,184	420,245
Unbilled accounts	173,269	-	-	173,269
Due from other funds	36,584	53,010	26,788	116,382
Total current assets	<u>3,423,026</u>	<u>1,632,637</u>	<u>383,848</u>	<u>5,439,511</u>
Non-current assets:				
Restricted investments:				
Water impact fees	1,564,793	-	-	1,564,793
Sewer impact fees	1,384,236	-	-	1,384,236
Total restricted investments	<u>2,949,029</u>	<u>-</u>	<u>-</u>	<u>2,949,029</u>
Unrestricted:				
Land	75,562	-	1,572,673	1,648,235
Construction in progress	295,255	-	-	295,255
Buildings	11,234,803	70,021	-	11,304,824
Improvements other than buildings	15,920,051	-	-	15,920,051
Equipment	1,545,044	1,313,172	38,721	2,896,937
Infrastructure	-	-	3,465,177	3,465,177
Less accumulated depreciation	<u>(10,657,268)</u>	<u>(1,047,179)</u>	<u>(347,358)</u>	<u>(12,051,805)</u>
Total non-current unrestricted assets	<u>18,413,447</u>	<u>336,014</u>	<u>4,729,213</u>	<u>23,478,674</u>
Total non-current assets	<u>21,362,476</u>	<u>336,014</u>	<u>4,729,213</u>	<u>26,427,703</u>
Total assets	<u>24,785,502</u>	<u>1,968,651</u>	<u>5,113,061</u>	<u>31,867,214</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	70,039	49,695	8,752	128,486
Accrued personal services liabilities	48,595	13,420	3,418	65,433
Accrued interest payable	25,728	-	-	25,728
Unearned revenues	12,964	-	-	12,964
Current portion of long-term debt	346,075	-	-	346,075
Compensated absences payable	17,623	3,619	886	22,128
Customer deposits payable	199,750	-	-	199,750
Due to other funds	60,563	60	14,500	75,123
Total current liabilities	<u>781,337</u>	<u>66,794</u>	<u>27,556</u>	<u>875,687</u>
Non-current liabilities				
Loans payable	4,242,930	-	1,378,000	5,620,930
Compensated absences payable	27,390	3,942	1,133	32,465
Other postemployment benefits	88,294	25,603	6,241	120,138
Total non-current liabilities	<u>4,358,614</u>	<u>29,545</u>	<u>1,385,374</u>	<u>5,773,533</u>
Total liabilities	<u>5,139,951</u>	<u>96,339</u>	<u>1,412,930</u>	<u>6,649,220</u>
<b>NET POSITION</b>				
Net investment in capital assets	13,824,442	336,014	3,351,213	17,511,669
Restricted for:				
Water construction	1,564,793	-	-	1,564,793
Sewer construction	1,384,236	-	-	1,384,236
Unrestricted	2,872,080	1,536,298	348,918	4,757,296
Total net position	<u>\$ 19,645,551</u>	<u>\$ 1,872,312</u>	<u>\$ 3,700,131</u>	<u>\$ 25,217,994</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, 2015**

	Water and Sewer	Sanitation	Stormwater	Total
Operating revenues:				
Charges for services				
Water	\$ 1,663,768	\$ -	\$ -	\$ 1,663,768
Sewer	1,251,353	-	-	1,251,353
Sanitation	-	961,078	-	961,078
Stormwater	-	-	248,546	248,546
Other operating revenues	102,677	10,411	2,557	115,645
Total operating revenues	<u>3,017,798</u>	<u>971,489</u>	<u>251,103</u>	<u>4,240,390</u>
Operating expenses:				
Personal services	1,071,485	306,844	77,173	1,455,502
Materials, supplies, services and other operating expenses	837,799	512,243	32,299	1,382,341
Depreciation	706,687	118,233	91,914	916,834
Total operating expenses	<u>2,615,971</u>	<u>937,320</u>	<u>201,386</u>	<u>3,754,677</u>
Operating income	<u>401,827</u>	<u>34,169</u>	<u>49,717</u>	<u>485,713</u>
Nonoperating revenues (expenses):				
Impact fees	277,416	-	-	277,416
Investment earnings	70,369	7,219	977	78,565
Interest expense	(126,802)	-	(63,039)	(189,841)
Total nonoperating revenues (expenses)	<u>220,983</u>	<u>7,219</u>	<u>(62,062)</u>	<u>166,140</u>
Income before capital contributions and transfers	622,810	41,388	(12,345)	651,853
Capital contributions	9,329	-	225,914	235,243
Transfers in	245,800	-	-	245,800
Changes in net position	<u>877,939</u>	<u>41,388</u>	<u>213,569</u>	<u>1,132,896</u>
Total net position - beginning	<u>18,767,612</u>	<u>1,830,924</u>	<u>3,486,562</u>	<u>24,085,098</u>
Total net position - ending	<u>\$ 19,645,551</u>	<u>\$ 1,872,312</u>	<u>\$ 3,700,131</u>	<u>\$ 25,217,994</u>

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, 2015**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Water and Sewer</b>	<b>Sanitation</b>	<b>Stormwater</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 2,961,228	\$ 979,365	\$ 249,455	\$ 4,190,048
Payments to suppliers	(813,413)	(503,667)	(72,240)	(1,389,320)
Payments to employees	(1,019,335)	(306,089)	(74,338)	(1,399,762)
Other operating cash transfers	35,957	(21,439)	(5,305)	9,213
Net cash provided by operating activities	<u>1,164,437</u>	<u>148,170</u>	<u>97,572</u>	<u>1,410,179</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers to other funds	245,800	-	-	245,800
Net cash provided by noncapital financing activities	<u>245,800</u>	<u>-</u>	<u>-</u>	<u>245,800</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Capital grants and contributions	286,745	-	383,537	670,282
Acquisition and construction of capital assets	(768,201)	-	(301,842)	(1,070,043)
Principal paid on capital debt	(337,057)	-	(32,000)	(369,057)
Interest paid on capital debt	(128,692)	-	(63,039)	(191,731)
Net cash used in capital and related financing activities	<u>(947,205)</u>	<u>-</u>	<u>(13,344)</u>	<u>(960,549)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	(274,362)	(4,775)	-	(279,137)
Proceeds from sales and maturities of investments	16,537	-	-	16,537
Interest and other income	70,369	7,219	977	78,565
Net cash provided by (used in) investing activities	<u>(187,456)</u>	<u>2,444</u>	<u>977</u>	<u>(184,035)</u>
Net increase in cash and cash equivalents	275,576	150,614	85,205	511,395
Cash and cash equivalents, beginning of year	459,278	832,393	247,671	1,539,342
Cash and cash equivalents, end of year	<u>\$ 734,854</u>	<u>\$ 983,007</u>	<u>\$ 332,876</u>	<u>\$ 2,050,737</u>
<b>Reconciliation of cash and cash equivalents to the Statement of Net Position</b>				
Cash and cash equivalents in current assets:				
Cash and cash equivalents	\$ 579,774	\$ 983,007	\$ 332,876	\$ 1,895,657
Restricted cash and cash equivalents	155,080	-	-	155,080
Total cash and equivalents	<u>\$ 734,854</u>	<u>\$ 983,007</u>	<u>\$ 332,876</u>	<u>\$ 2,050,737</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>				
Operating income	\$ 401,827	\$ 34,169	\$ 49,717	\$ 485,713
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	706,687	118,233	91,914	916,834
Decrease (increase) in certain assets:				
Accounts receivable	(58,328)	7,876	(1,648)	(52,100)
Increase (decrease) in certain liabilities:				
Accounts payable and accrued liabilities	24,386	8,576	(39,941)	(6,979)
Accrued personal services liabilities	52,150	695	2,835	55,680
Customer deposits	(3,169)	-	-	(3,169)
Unearned revenues	4,927	-	-	4,927
Due to other funds	35,957	(21,379)	(5,305)	9,273
Total adjustments	<u>762,610</u>	<u>114,001</u>	<u>47,855</u>	<u>924,466</u>
Net cash provided by operating activities	<u>\$ 1,164,437</u>	<u>\$ 148,170</u>	<u>\$ 97,572</u>	<u>\$ 1,410,179</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, 2015**

	<b>Municipal Police Officers' Pension Trust Fund</b>	<b>Municipal Firefighters' Pension Trust Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Cash equivalents	\$ 33,308	\$ 14,162	\$ 47,470
Receivables:			
State contributions	-	13,189	13,189
Employer contributions	2,246	580	2,826
Employee contributions	2,581	-	2,581
Accrued income	1,704	821	2,525
Investments:			
Fixed income mutual funds	852,003	406,135	1,258,138
Equity mutual funds	1,826,455	830,783	2,657,238
Total assets	<u>2,718,297</u>	<u>1,265,670</u>	<u>3,983,967</u>
<b>LIABILITIES</b>			
Accounts payable	<u>9,478</u>	<u>1,488</u>	<u>10,966</u>
Total liabilities	<u>9,478</u>	<u>1,488</u>	<u>10,966</u>
<b>NET POSITION</b>			
Restricted for pension benefits	<u>\$ 2,708,819</u>	<u>\$ 1,264,182</u>	<u>\$ 3,973,001</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, 2015**

	<b>Municipal Police Officers' Pension Trust Fund</b>	<b>Municipal Firefighters' Pension Trust Fund</b>	<b>Total</b>
<b>ADDITIONS</b>			
Contributions:			
Employees	\$ 71,655	\$ 14,900	\$ 86,555
Employer	60,659	2,065	62,724
State insurance	38,667	43,458	82,125
Total contributions	<u>170,981</u>	<u>60,423</u>	<u>231,404</u>
Investment earnings:			
Net decrease in fair value of investments	(91,003)	(40,963)	(131,966)
Interest and dividends	62,862	30,261	93,123
Other income	615	406	1,021
Less investment expense	(16,413)	-	(16,413)
Net investment earnings	<u>(43,939)</u>	<u>(10,296)</u>	<u>(54,235)</u>
Total additions	<u>127,042</u>	<u>50,127</u>	<u>177,169</u>
<b>DEDUCTIONS</b>			
Professional services	33,062	37,922	70,984
Employee withdrawals	98,685	51,394	150,079
Total deductions	<u>131,747</u>	<u>89,316</u>	<u>221,063</u>
Change in net position	<u>(4,705)</u>	<u>(39,189)</u>	<u>(43,894)</u>
Net position - beginning	<u>2,713,524</u>	<u>1,303,371</u>	<u>4,016,895</u>
Net position - ending	<u>\$ 2,708,819</u>	<u>\$ 1,264,182</u>	<u>\$ 3,973,001</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, 2015**

**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, 2015**

**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, 2015**

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

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

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

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

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

**D. Assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position or equity**

**1. Cash and cash equivalents**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. 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, 2015**

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, 2014

Property Appraiser prepares the assessment roll with values as of January 1, 2014, submits this preliminary roll for approval by the State and notifies each taxing authority of their respective valuations. July 1, 2014

City Commission holds two required public hearings and adopts a budget and ad valorem tax millage rate for the coming fiscal year. September 8, 2014  
and  
September 22, 2014

Property Appraiser certifies the assessment roll and all real and tangible personal property taxes are due and payable (Levy Date). November 1, 2014

A Notice of Taxes is mailed to each property owner on the assessment roll. Taxes are paid November 2014 through March 2015, with the following applicable discounts:

<u>Month Paid</u>	<u>Discount (%)</u>	
November	4	
December	3	November 1, 2014
January	2	through
February	1	March 31, 2015
March	0	

All unpaid taxes on real and tangible personal property become delinquent. April 1, 2015

A list of unpaid tangible personal property taxes and a list of unpaid real property taxes are advertised. April and May 2015

Tax certificates are sold on all real estate parcels with unpaid real property taxes (Lien Date). June 1, 2015

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, 2015

**City of Flagler Beach, Florida**  
**Notes to the Financial Statements**  
**September 30, 2015**

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:

Assets	Years
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, 2015**

6. Deferred Outflows of Resources

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

7. Compensated absences

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

8. Long-term obligations

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

9. Deferred Inflows of Resources

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

10. Fund equity

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

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

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

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

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

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

**City of Flagler Beach, Florida**  
**Notes to the Financial Statements**  
**September 30, 2015**

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

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

The City does not have an established policy regarding its use of unrestricted fund balance amounts but chooses to follow GASB Statement No. 54, 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**

*GASB Statement No. 68, Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27 is effective for periods beginning after June 15, 2014 and replaces the requirements of GASB Statement Nos. 27 and 50 as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The standard requires government employers to recognize as a liability, for the first time, their long-term obligation for pension benefits. The employer liability is to be measured as the difference between the present value of projected benefit payments to be provided through the pension plan for past periods of service less the amount of the pension plan's fiduciary net position. Obligations for employers with cost sharing plans will be based on their proportionate share of contributions to the pension plan. The standard also requires more immediate recognition of annual service cost, interest and changes in benefits for pension expense; specifies requirements for discount rates and attribution methods; and changes disclosure requirements. GASB Statement No. 68 has been implemented for the year ended September 30, 2015.

*GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB Statement No. 68, which is to be applied simultaneously with GASB Statement No. 68. At the beginning of the period in which GASB Statement No. 68 is adopted, it may not be practical for a government to determine the amounts of all deferred inflows of resources and deferred outflows of resources related to pensions. In such circumstances, GASB Statement No. 71 requires the government to recognize a beginning net pension liability but before the start of the government's fiscal year. GASB Statement No. 71 has been implemented for the year ended September 30, 2015.

*GASB Statement No. 72, Fair Value Measurement and Application* – addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2015.

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*GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement Nos. 67 and 68* – establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB Statement No. 68. It also amends certain provisions of GASB Statement Nos. 67 and 68 for pension plans and pensions that are within their respective scopes. The provisions in GASB Statement No. 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016.

*GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* – replaces GASB Statement Nos. 43 and 57. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statement Nos. 25, 43, and 50. The provisions in GASB Statement No. 74 are effective for fiscal years beginning after June 15, 2016.

*GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – replaces the requirements of GASB Statement Nos. 45 and 57 for OPEB. GASB Statement No. 75 establishes new accounting and financial reporting requirements for OPEB plans. The provisions in GASB Statement No. 75 are effective for fiscal years beginning after June 15, 2017.

*GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* – supersedes GASB Statement No. 55. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively.

*GASB Statement No. 79, Certain External Investment Pools and Pool Participants* – addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015.

*GASB Statement No. 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* – amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

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GASB Statement No. 82, *Pension Issues* – an amendment of GASB Statement Nos. 67, 68, and 73. The objective of this Statement is to address certain issues that have been raised with respect to GASB Statement Nos. 67, 68, and 73. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

**II. Reconciliation of government-wide and fund financial statements**

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

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

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

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

**III. Stewardship, compliance, and accountability**

**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 re-appropriated and honored during the subsequent year.

As of September 30, 2015, 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, 2015 is \$380,925. Of this amount, \$232,237 is reported as committed and \$148,688 as assigned for general government expenditures at the fund level.

**City of Flagler Beach, Florida**  
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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, 2015, the Community Redevelopment Fund, a major fund, has a deficit fund balance of \$4,336. The reason for the deficit continues to be the depressed revenue stream of the Tax Increment Financing used to operate the CRA and to pay back loans.

**IV. Detailed notes on all funds**

**A. Restatements**

As mentioned in Note E to the financial statements, the City implemented GASB Statement Nos. 68 and 71. These statements require the City to recognize their portion of the Net Pension Liability of the Municipal Police Officers' Pension Trust Fund Plan and Municipal Firefighters' Pension Trust Fund Plan along with the Deferred Outflows and Inflows of Resources. This resulted in a \$242,949 increase in the City's beginning net position as follows:

	<b>Governmental Activities</b>
Total net position-beginning, as previously reported	\$ 17,080,052
Prior period adjustment	242,949
Total net position-beginning, as restated	\$ 17,323,001

**B. Deposits and investments**

At September 30, 2015, the carrying amount of the City's deposits was \$3,216,579 and the bank balances were \$3,137,891. 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*.

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

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

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

- i. SBA Investment Pool.
- ii. Bonds, notes, or other obligations of the United States guaranteed by the United States or for which the credit of the United States is pledged for the payment of principal and interest or dividends.
- iii. Interest bearing savings accounts in state-certified qualified public depositories.
- iv. Certificates of Deposit in state-certified qualified public depositories.
- v. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- vi. Federal Agencies and Instrumentalities, which are non-full faith and credit agencies.
- vii. Repurchase Agreements comprised of only those investments as authorized in Sections (ii) and (vi). All repurchase agreement transactions and institutions and dealers transacting repurchase agreements will be required to perform as stated in the Master Repurchase Agreement.
- viii. Commercial Paper rated at the time of purchase, "Prime-1" by Moody's Investors Service and "A-1" by Standard & Poor's Corporation.
- 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](http://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.

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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](http://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 had been 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.

At September 30, 2015, the cash deposits and investments controlled by the City included the following:

<b>Investments:</b>	
Florida PRIME	\$ 3,301,500
FMIT	<u>7,267,733</u>
Total investments	<u>10,569,233</u>
<b>Cash:</b>	
Cash deposits	<u>3,216,579</u>
Total cash and investments	<u><u>\$ 13,785,812</u></u>

**Risk**

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

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**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	\$ 3,301,500	\$ 3,301,500	\$ -
FMIT:			
0-2 Year High Quality Bond Fund	2,393,462	2,393,462	-
1-3 Year High Quality Bond Fund	3,394,567	-	3,394,567
Intermediate High Quality Bond Fund	1,479,704	-	1,479,704
Total investments controlled by the City	<u>10,569,233</u>	<u>5,694,962</u>	<u>4,874,271</u>
Pension Trust Funds investments:			
Money Market Funds	47,470	47,470	-
Mutual Funds - Fixed Income	1,258,138	1,258,138	-
Mutual Funds - Equity	2,657,238	2,657,238	-
Total Pension Trust Funds investments	<u>3,962,846</u>	<u>3,962,846</u>	<u>-</u>
Total investments	<u>\$ 14,532,079</u>	<u>\$ 9,657,808</u>	<u>\$ 4,874,271</u>

**Credit risk**

A credit rating is a measure of credit risk, the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investment policy and the Pension Trust Fund Plans utilize portfolio diversification in order to control this risk. The City's rated debt instruments as of September 30, 2015, were rated by Standard & Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below.

	Fair Value	Quality Ratings				
		AAAm (S&P)	AAA/V1 (Fitch)	AAA/V2 (Fitch)	AAA/V3 (Fitch)	Unrated
Investments controlled by the City:						
Florida PRIME	\$ 3,301,500	\$ 3,301,500	\$ -	\$ -	\$ -	\$ -
FMIT:						
0-2 Year High Quality Bond Fund	2,393,462	-	2,393,462	-	-	-
1-3 Year High Quality Bond Fund	3,394,567	-	-	3,394,567	-	-
Intermediate High Quality Bond Fund	1,479,704	-	-	-	1,479,704	-
Total investments controlled by the City	<u>10,569,233</u>	<u>3,301,500</u>	<u>2,393,462</u>	<u>3,394,567</u>	<u>1,479,704</u>	<u>-</u>
Pension Trust Funds investments:						
Money Market Funds	47,470	-	-	-	-	47,470
Mutual Funds - Fixed Income	1,258,138	-	-	-	-	1,258,138
Mutual Funds - Equity	2,657,238	-	-	-	-	2,657,238
Total Pension Trust Funds investments	<u>3,962,846</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,962,846</u>
Total investments	<u>\$ 14,532,079</u>	<u>\$ 3,301,500</u>	<u>\$ 2,393,462</u>	<u>\$ 3,394,567</u>	<u>\$ 1,479,704</u>	<u>\$ 3,962,846</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, 2015, the City's investments subject to this disclosure requirement did not exceed 5% of total investments in any single issuer.

**City of Flagler Beach, Florida**  
**Notes to the Financial Statements**  
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**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, 2015, 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 consisted of the following at September 30, 2015:

	<u>General</u>	<u>Water and Sewer</u>	<u>Sanitation</u>	<u>Stormwater</u>	<u>Total</u>
Receivables:					
Taxes, franchise fees	\$ 100,851	\$ 24,601	\$ -	\$ -	\$ 125,452
Accounts	-	282,700	96,501	24,184	403,385
Unbilled accounts	-	173,269	-	-	173,269
Utility payment plans receivable	-	12,183	-	-	12,183
Intergovernmental	210,275	-	-	-	210,275
Other	13,192	13,076	-	-	26,268
Gross receivables	<u>324,318</u>	<u>505,829</u>	<u>96,501</u>	<u>24,184</u>	<u>950,832</u>
Less: Allowance for uncollectible accounts	-	(33,000)	-	-	(33,000)
Receivables, net	<u>\$ 324,318</u>	<u>\$ 472,829</u>	<u>\$ 96,501</u>	<u>\$ 24,184</u>	<u>\$ 917,832</u>

**D. Interfund accounts**

Interfund receivables and payables at September 30, 2015, are as follows:

	<u>Due To Other Funds</u>	<u>Due From Other Funds</u>
Governmental funds:		
General Fund	\$ (43,247)	\$ 151,740
Community Redevelopment Fund	(164,675)	14,923
Total governmental funds	<u>(207,922)</u>	<u>166,663</u>
Enterprise funds:		
Water and Sewer Fund	(60,563)	36,584
Sanitation Fund	(60)	53,010
Stormwater Fund	(14,500)	26,788
Total enterprise funds	<u>(75,123)</u>	<u>116,382</u>
Total Due To/Due From	<u>\$ (283,045)</u>	<u>\$ 283,045</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 \$142,502 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.

In fiscal year 2015, the General Fund transferred \$245,800 of infrastructure surtax monies into the Water & Sewer Fund for construction costs of the Public Works Building.

**City of Flagler Beach, Florida**  
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**F. Capital assets**

A summary of changes in the City's capital assets for the year ended September 30, 2015, is as follows:

	Balance 10-1-2014	Additions and Transfers	Disposals and Transfers	Balance 9-30-15
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land and land improvements	\$ 2,170,133	\$ -	\$ (18,010)	\$ 2,152,123
Construction in progress	8,516	67,312	(8,516)	67,312
Total capital assets, not being depreciated	<u>2,178,649</u>	<u>67,312</u>	<u>(26,526)</u>	<u>2,219,435</u>
Capital assets, being depreciated:				
Buildings	3,559,928	-	-	3,559,928
Improvements other than buildings	3,706,416	8,416	-	3,714,832
Equipment	2,669,754	108,633	(205,142)	2,573,245
Infrastructure	5,860,655	-	-	5,860,655
Total capital assets, being depreciated	<u>15,796,753</u>	<u>117,049</u>	<u>(205,142)</u>	<u>15,708,660</u>
Accumulated depreciation for:				
Buildings	(1,549,096)	(124,998)	-	(1,674,094)
Improvements other than buildings	(1,377,853)	(193,255)	-	(1,571,108)
Equipment	(2,212,624)	(118,994)	167,590	(2,164,028)
Infrastructure	(1,125,925)	(313,832)	-	(1,439,757)
Total accumulated depreciation	<u>(6,265,498)</u>	<u>(751,079)</u>	<u>167,590</u>	<u>(6,848,987)</u>
Total capital assets, being depreciated, net	<u>9,531,255</u>	<u>(634,030)</u>	<u>(37,552)</u>	<u>8,859,673</u>
Governmental activities capital assets, net	<u>\$ 11,709,904</u>	<u>\$ (566,718)</u>	<u>\$ (64,078)</u>	<u>\$ 11,079,108</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land and land improvements	\$ 1,648,235	\$ -	\$ -	\$ 1,648,235
Construction in progress	859,421	277,550	(841,716)	295,255
Total capital assets, not being depreciated	<u>2,507,656</u>	<u>277,550</u>	<u>(841,716)</u>	<u>1,943,490</u>
Capital assets, being depreciated:				
Buildings	11,304,824	-	-	11,304,824
Improvements other than buildings	15,561,819	358,232	-	15,920,051
Equipment	2,764,518	132,419	-	2,896,937
Infrastructure	2,321,619	1,143,558	-	3,465,177
Total capital assets, being depreciated	<u>31,952,780</u>	<u>1,634,209</u>	<u>-</u>	<u>33,586,989</u>
Accumulated depreciation for:				
Buildings	(2,134,477)	(238,281)	-	(2,372,758)
Improvements other than buildings	(6,971,977)	(342,412)	-	(7,314,389)
Equipment	(1,789,715)	(249,538)	-	(2,039,253)
Infrastructure	(238,801)	(86,604)	-	(325,405)
Total accumulated depreciation	<u>(11,134,970)</u>	<u>(916,835)</u>	<u>-</u>	<u>(12,051,805)</u>
Total capital assets, being depreciated, net	<u>20,817,810</u>	<u>717,374</u>	<u>-</u>	<u>21,535,184</u>
Business-type activities capital assets, net	<u>\$ 23,325,466</u>	<u>\$ 994,924</u>	<u>\$ (841,716)</u>	<u>\$ 23,478,674</u>

Depreciation expense was charged to functions/programs as follows:

<b>Governmental activities:</b>	
General government	\$ 350,053
Public safety	151,680
Transportation	13,671
Culture/recreation	235,675
Total depreciation expense - governmental activities	<u>\$ 751,079</u>
<b>Business-type activities:</b>	
Water and sewer	\$ 706,688
Sanitation	118,233
Stormwater	91,914
Total depreciation expense - business-type activities	<u>\$ 916,835</u>

**City of Flagler Beach, Florida**  
**Notes to the Financial Statements**  
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**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 \$11,331 for the year ended September 30, 2015, based on revenues of \$175,767.

The City leases office equipment under noncancelable operating leases. The total costs of such leases were \$6,030 for the year ended September 30, 2015. The minimum lease payments for these leases are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2016	\$ 4,920
Total	<u>\$ 4,920</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	\$ 62,000
Total assets	<u>62,000</u>
Less: Accumulated depreciation	<u>(42,367)</u>
	<u>\$ 19,633</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, 2015 is \$17,151.

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.

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The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2015, are as follows:

Year Ending September 30,	Amount
2016	\$ 11,692
2017	5,846
Total minimum lease payments	17,538
Less: Amount representing interest	(387)
Present value of minimum lease payments	\$ 17,151

**G. Long-term liabilities**

The following is a summary of long-term liability activity for the year ended September 30, 2015:

	Balance 10/1/2014	Additions	(Reductions)	Balance 9/30/2015	Due Within One Year
<b>Governmental activities:</b>					
Notes payable	\$ 896,000	\$ 873,000	\$ (896,000)	\$ 873,000	\$ -
Capital leases	28,269	-	(11,118)	17,151	11,370
Compensated absences payable	113,481	107,320	(105,390)	115,411	55,086
Net pension liability	-	38,271	-	38,271	-
Other postemployment benefits	163,047	14,007	-	177,054	-
Governmental activities long-term liabilities	\$ 1,200,797	\$ 1,032,598	\$ (1,012,508)	\$ 1,220,887	\$ 66,456
<b>Business-type activities:</b>					
Revolving loan payable	\$ 4,926,062	\$ -	\$ (337,057)	\$ 4,589,005	\$ 346,075
Notes payable	1,410,000	1,448,000	(1,480,000)	1,378,000	-
Compensated absences payable	37,693	54,110	(37,210)	54,593	22,128
Other postemployment benefits	93,342	26,796	-	120,138	-
Business-type activities long-term liabilities	\$ 6,467,097	\$ 1,528,906	\$ (1,854,267)	\$ 6,141,736	\$ 368,203

Governmental Activities

Revenue Note

\$1,100,000 Community Redevelopment Revenue Note, Series 2009 (2009 CRA Note) - Principal payments due in annual installments commencing March 1, 2010 of \$38,000 to \$703,000 through March 1, 2019. Interest on the 2009 CRA Note at 3.73 % is due semiannually commencing September 1, 2009. The 2009 CRA 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 2009 CRA 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 2009 CRA Note Legislation, the Interlocal Agreement and the Loan Agreement. The 2009 CRA 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.

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Refunding Revenue Note

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

Principal and interest of \$46,000 and \$33,017, respectively for the current year was paid for the debt service of the 2009 CRA Note, due on March 1, 2015, before the 2009 CRA Note was refunded. As of September 30, 2015, the total amount of principal and accrued interest outstanding for the CRA's portion of the Series 2015 Note was \$1,047,444.

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

Fiscal Year Ending September 30,	Note Payable		
	Principal	Interest	Total
2016	\$ -	\$ 11,044	\$ 11,044
2017	53,000	21,416	74,416
2018	54,000	20,063	74,063
2019	56,000	18,671	74,671
2020	57,000	17,242	74,242
2021 - 2025	306,000	63,630	369,630
2026 - 2029	347,000	22,378	369,378
	<u>\$ 873,000</u>	<u>\$ 174,444</u>	<u>\$ 1,047,444</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, 2015, \$7,705,748 had been drawn by the City on the Loan and \$2,922,577 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 2015, annual principal and interest payments on the Loan were 46% of pledged revenues. As of September 30, 2015, the amount of total principal and accrued interest outstanding was \$5,356,120. Principal and interest paid for the current year and pledged revenues were \$465,750 and \$1,005,837, respectively.

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The following is a schedule of the future payments on the outstanding the Loan as of September 30, 2015:

<u>Fiscal Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	384,622	81,128	465,750
2021 - 2025	2,083,075	245,675	2,328,750
2026 - 2027	680,460	18,163	698,623
	<u>\$ 4,589,005</u>	<u>\$ 767,115</u>	<u>\$ 5,356,120</u>

Revenue Note

\$1,800,000 Stormwater Revenue Note, Series 2009 (2009 Stormwater Note) - Principal payments due in annual installments commencing October 1, 2009 of \$38,000 to \$1,077,000 through October 1, 2020. Interest on the 2009 Stormwater Note at 3.73 % is due semiannually commencing April 1, 2009. The 2009 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 2009 Stormwater Note was issued to finance the acquisition and construction of certain capital improvements to the City's stormwater system.

Refunding Revenue Note

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

Interest of \$26,297 for the current year was paid for the debt service of the 2009 Stormwater Note, due on April 1, 2015, before the 2009 Stormwater Note was refunded. Principal and interest paid for the current year for the Stormwater portion of the Series 2015 Note were \$70,000 and \$8,243, respectively. As of September 30, 2015, the total amount of principal and accrued interest outstanding for the Stormwater portion of the Series 2015 Note was \$1,653,593.

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

<u>Fiscal Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016*	\$ -	\$ 17,432	\$ 17,432
2017	83,000	33,813	116,813
2018	85,000	31,688	116,688
2019	88,000	29,500	117,500
2020	90,000	27,248	117,248
2021 - 2025	484,000	100,568	584,568
2026 - 2029	548,000	35,344	583,344
	<u>\$ 1,378,000</u>	<u>\$ 275,593</u>	<u>\$ 1,653,593</u>

\*Principal payment of \$70,000 due October 1, 2015, was paid on September 30, 2015

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**V. Other information**

**A. Risk management**

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

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

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

**B. Commitments, contingencies, and litigation**

**1. Construction commitments**

The City has active construction projects as of September 30, 2015. At year end the City's commitments were \$297,098 as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Spent - to - Date</u>	<u>Remaining Commitment</u>
City Hall roof repairs:			
Dacom	\$ 64,755	\$ 57,657	\$ 7,098
Wastewater Treatment Plant:			
Q L Hampton	43,320	19,320	24,000
McMahann Construction	266,000	-	266,000
Total	<u>\$ 374,075</u>	<u>\$ 76,977</u>	<u>\$ 297,098</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.

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**C. Retirement plans**

**Defined contribution plan**

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

The plan assets are administered by ICMA Retirement Corp. The City does not exercise any control over the plan assets. Contributions were approximately \$135,175 for the year ended September 30, 2015.

**Defined benefit pension plans**

*Plan Description* – The City has provided separate single-employer pension plans for all eligible police officers and firefighters. The Municipal Police Officers' Pension Trust Fund Plan (Police Plan) and the Municipal Firefighters' Pension Trust Fund Plan (Fire Plan) are collectively referred to as the Pension Trust Fund Plans. The City Commission is the authority under which obligations to contribute to the plans are established or may be amended. The Pension Trust Fund Plans do not issue a stand-alone financial report.

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

All full-time certified police officers and firefighters are eligible to participate in the Police Plan and Fire Plan, respectively. Benefits vest with eligible employees after ten years of participation. Employees who retire at age 52 with 25 years of active service or at age 55 or later with at least 10 years of active service are entitled to an earned benefit, payable monthly for life, in an amount equal to 3.19% (Police Plan) and 3% (Fire Plan) of the average monthly pay (for the best five years of the latest ten years of average monthly pay determined on October 1 of each year) times the number of benefit years served. Employees are eligible for early retirement with 10 years of service at age 50 with benefits reduced 3% for each year commencement occurs prior to age 55. The Pension Trust Fund Plans also provide death and disability benefits. In the event the employee dies after retirement but before receiving retirement benefits for a period of 10 years, the same monthly benefit will be paid to their beneficiary for the balance of such 10-year period.

The disability benefit is the greater of 42% (25% if not incurred in the line of duty) of the average monthly pay or the earned benefit for as long as there is a total disability. In addition to other benefits described, a monthly supplement of \$40 for each year of credited service is also payable to all full-time and volunteer firefighters.

Participants in the Police Plan and Fire Plan are required to contribute 10% and 5% of their annual salary to the Pension Trust Fund Plans, respectively. The City is required to contribute 6.5% of annual salaries for the Police Plan and, beginning June 2010, to the Fire Plan and the remaining amounts necessary to fund both Pension Trust Fund Plans, based upon actuarial valuations as required by State statutes (particularly Chapter 175 and Chapter 185, *Florida Statutes*) and City ordinances.

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Current membership in the Pension Trust Fund Plans as of the measurement date, is comprised of the following:

	<b>Municipal Police Officers' Pension Trust Fund Plan</b>	<b>Municipal Firefighters' Pension Trust Fund Plan</b>
Inactive Plan members or beneficiaries currently receiving benefits	1	5
Inactive Plan members entitled to but not yet receiving benefits	9	3
Active Plan members	15	20

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

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

**Net Pension Liability**

The City's net pension liability was measured as of September 30, 2014, and the total pension liability was determined by an actuarial valuation as of the measurement date.

*Actuarial assumptions and other inputs* – The total pension liability in the actuarial valuation as of October 1, 2013 updated to September 30, 2014 using the following actuarial assumptions, applied measurement periods:

	<b>Municipal Police Officers' Pension Trust Fund Plan</b>	<b>Municipal Firefighters' Pension Trust Fund Plan</b>
Inflation	3.00%	3.00%
Salary Increases	Service Based	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).

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The actuarial assumptions used in the October 1, 2013 valuation were based on the results of an actuarial experience study for the period 2003 – 2012.

The long-term expected rate of return on Pension Trust Fund Plans investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Pension Trust Fund Plans' target asset allocations as of September 30, 2014 are summarized in the following table:

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

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

**Changes in Net Pension Liability**

*Municipal Police Officers' Pension Trust Fund Plan*

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Pension (b)	Net Pension Liability (a)-(b)
Balances at September 30, 2013	\$ 2,475,771	\$ 2,359,582	\$ 116,189
Changes for the Year:			
Service cost	148,987	-	148,987
Interest	197,282	-	197,282
Contributions - employer	-	87,454	(87,454)
Contributions - State	-	38,340	(38,340)
Contributions - employee	-	71,530	(71,530)
Net investment income	-	246,855	(246,855)
Benefit payments, including refunds of employee contributions	(57,881)	(57,881)	-
Administrative expense	-	(19,992)	19,992
Net changes	<u>288,388</u>	<u>366,306</u>	<u>(77,918)</u>
Balances at September 30, 2014	<u>\$ 2,764,159</u>	<u>\$ 2,725,888</u>	<u>\$ 38,271</u>

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*Municipal Firefighters' Pension Trust Fund Plan*

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Pension (b)	Net Pension Liability (a)-(b)
Balances at September 30, 2013	\$ 804,842	\$ 1,134,119	\$ (329,277)
Changes for the Year:			
Service cost	63,454	-	63,454
Interest	63,195	-	63,195
Contributions - employer	-	24,723	(24,723)
Contributions - State	-	50,517	(50,517)
Contributions - employee	-	13,776	(13,776)
Net investment income	-	115,088	(115,088)
Benefit payments, including refunds of employee contributions	(51,394)	(51,394)	-
Administrative expense	-	(12,148)	12,148
Net changes	75,255	140,562	(65,307)
Balances at September 30, 2014	\$ 880,097	\$ 1,274,681	\$ (394,584)

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

*Municipal Police Officers' Pension Trust Fund Plan*

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
Net Pension Liability	\$ 380,489	\$ 38,271	\$ (248,547)

*Municipal Firefighters' Pension Trust Fund Plan*

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability	\$ (278,593)	\$ (394,584)	\$ (493,453)

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

For the year ended September 30, 2015, the City recognized pension expense of \$98,266 and \$33,192, respectively for Police Plan and Fire Plan.

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*Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions* – At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to the Pension Trust Fund Plans from the following sources:

*Municipal Police Officers' Pension Trust Fund Plan*

<b>Description</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual earnings on investments	\$ -	\$ 50,390
City contributions subsequent to the measurement date	99,326	-
<b>Total</b>	<b>\$ 99,326</b>	<b>\$ 50,390</b>

*Municipal Firefighters' Pension Trust Fund Plan*

<b>Description</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual earnings on investments	\$ -	\$ 23,259
City contributions subsequent to the measurement date	74,838	-
<b>Total</b>	<b>\$ 74,838</b>	<b>\$ 23,259</b>

\$99,326 and \$74,838, respectively, were reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date for Police Plan and Fire Plan and are recognized as a reduction of net pension liability in the year ended September 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pension Trust Fund Plans will be recognized as follows:

<b>Fiscal Year Ending September 30:</b>	<b>Police Plan</b>	<b>Fire Plan</b>
2016	\$ (12,597)	\$ (5,815)
2017	(12,597)	(5,815)
2018	(12,598)	(5,815)
2019	(12,598)	(5,814)
2020	-	-
Thereafter	-	-
<b>Total</b>	<b>\$ (50,390)</b>	<b>\$ (23,259)</b>

*Payable to the Pension Plan* – On September 30, 2014, the City reported a payable of \$40,959 for the outstanding amount of contributions of the Police Plan required for the year ended September 30, 2014. There was not a payable for the Fire Plan.

**Other Postemployment Benefits**

The City implemented GASB Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits other than Pensions* (OPEB) for certain postemployment health care benefits. The City provides optional postemployment healthcare and dental insurance coverage to eligible individuals pursuant to its single employer Other Postemployment Benefits Program (OPEB Plan). The OPEB Plan does not issue a stand-alone financial report. Authority to amend the OPEB Plan resides with the City Commission.

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

Retirees who choose to participate must pay a monthly premium as determined by the insurance carrier. The premium varies depending on whether the retiree elects single, couple, single plus children or family coverage and also varies depending on which medical plan is selected by the retiree. The City offers three different medical plan choices, which include a low-cost plan (a basic HMO with a high deductible), a medium-cost plan (an HMO with non-network coverage available at a higher deductible) and a high-cost plan (a traditional HMO with a low deductible). The following chart presents the premium contributions required to be paid by retirees for coverage as of September 30, 2015.

	Single	Couple	Single plus Dependents	Family
HMO Choice 8L-Q	\$ 569	\$ 1,217	\$ 1,160	\$ 1,739
HMO Choice 8P-L	601	1,287	1,227	1,840
HMO Choice Plus 8Q-K	604	1,292	1,231	1,847

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 2015 and the related information for the OPEB Plan are as follows:

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

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

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

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

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

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Actuarial methods and assumptions

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

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

Actuarial valuation date	October 1, 2014
Actuarial value of assets	Market value
Actuarial cost method	Entry age normal (level % of pay)
Amortization method	Level percentage of payroll (closed amortization over 30 years)
Investment return	4% per annum
Payroll growth/Inflation	0.00%
Healthcare cost trend rates:	
Pre-Medicare	8.0% in fiscal 2015; then trending to 5.0% in 2019
Post-Medicare	8.0% in fiscal 2015; then trending to 5.0% in 2019

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

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

**VI. Evaluation of subsequent events**

City management has evaluated subsequent events through May 26, 2016, the date which the financial statements are available to be issued.

On October 8, 2015, Resolution 2015-28, *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 base fee increased by 10%
- Sewer base fee increased by 20%
- Water and Sewer flow rates increased by 1.57%
- Stormwater monthly fee increased by 5.93%
- Sanitation increased by 1.57%

**City of Flagler Beach, Florida**  
**Notes to the Financial Statements**  
**September 30, 2015**

On November 20, 2015, the City entered into an agreement with Flagler Golf Management, LLC (FGM) (Agreement) to lease to FGM the 9-hole golf course, cart barn and clubhouse located at 3600 South Central Avenue. Initial term of the Agreement is for fifteen years. FGM shall have the option to extend for two successive ten year terms. Initial base rental payment is \$2,400. Beginning the 25th month after commencement and continuing through the 60th month, FGM is to pay the City, as additional percentage rent, 3% of all gross revenue over and above \$100,000 in each twelve month period. Beginning the 61st month, and continuing until expiration of the Agreement, FGM agrees to pay the City an additional 1%-5% of gross revenues, based on a range of gross revenues, as established in the Agreement. The grand opening of the golf course is scheduled for June 4, 2016.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**City of Flagler Beach, Florida  
Budgetary Comparison Schedule  
General Fund  
September 30, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 3,194,222	\$ 3,194,222	\$ 3,305,876	\$ 111,654
Franchise fees	265,000	265,000	309,318	44,318
Licenses and permits	311,781	311,781	346,997	35,216
Intergovernmental	557,001	581,204	566,008	(15,196)
Charges for services	416,174	416,174	434,600	18,426
Fines and forfeitures	55,100	55,100	41,381	(13,719)
Grants and donations	15,000	15,000	19,500	4,500
Investment earnings	27,608	27,608	34,612	7,004
Miscellaneous	50,775	76,044	86,170	10,126
Total revenues	4,892,661	4,942,133	5,144,462	202,329
<b>EXPENDITURES</b>				
Current:				
Commission	64,252	66,616	62,849	3,767
Executive	102,089	102,412	102,222	190
City clerk	121,243	121,243	119,703	1,540
Finance	137,515	137,515	135,251	2,264
Legal counsel	179,750	179,750	174,830	4,920
Building maintenance	220,110	220,110	216,174	3,936
General government	786,461	847,941	774,331	73,610
Police	1,194,049	1,209,571	1,178,870	30,701
VOCA	75,985	69,039	68,610	429
Fire	515,408	527,866	503,613	24,253
Building and zoning	121,030	125,830	112,931	12,899
Roads and streets	236,029	362,511	177,459	185,052
Library	92,352	94,453	87,537	6,916
Museum	6,860	6,860	4,869	1,991
Beach	162,409	163,802	163,798	4
Dune crossover	3,760	3,883	3,594	289
Fishing pier	346,308	346,308	304,902	41,406
Recreation	67,647	73,626	73,619	7
Building code inspections	126,895	126,895	124,766	2,129
Capital projects	906,667	999,447	214,706	784,741
Total expenditures	5,466,819	5,785,678	4,604,634	1,181,044
Excess (deficiency) of revenues over (under) expenditures	(574,158)	(843,545)	539,828	1,383,373
<b>OTHER FINANCING SOURCES</b>				
Transfers in	637,523	637,523	-	(637,523)
Transfers out	-	-	(245,800)	(245,800)
Other funding sources	-	-	18,010	18,010
Total other financing sources	637,523	637,523	(227,790)	(865,313)
Net change in fund balances	\$ 63,365	\$ (206,022)	\$ 312,038	\$ 518,060

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, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes - property	\$ 115,782	\$ 115,782	\$ 115,551	\$ (231)
Other income	-	14,500	-	(14,500)
Total revenues	115,782	130,282	115,551	(14,731)
<b>EXPENDITURES</b>				
Current:				
Professional services	15,953	29,823	28,253	1,570
Operational costs	-	175	175	-
Debt service:				
Interest	32,563	33,018	44,311	(11,293)
Principal	46,000	46,000	46,000	-
Total expenditures	94,516	109,016	118,739	(9,723)
Excess (deficiency) of revenues over (under) expenditures	21,266	21,266	(3,188)	(24,454)
<b>OTHER FINANCING SOURCES (USES)</b>				
2009 Revenue Note refunded	-	-	(850,000)	(850,000)
2015 Revenue Refunding Note issued	-	-	873,000	873,000
Total other financing sources (uses)	-	-	23,000	23,000
Net change in fund balances	\$ 21,266	\$ 21,266	\$ 19,812	\$ (1,454)

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, 2015**

**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 Funded Status and Funding Progress**  
**for Other Postemployment Benefits Other Than Pensions**  
**September 30, 2015**

The schedule below shows the balance of the actuarial accrued liability (AAL), all of which was unfunded as of September 30, 2015.

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

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

**City of Flagler Beach, Florida**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Municipal Police Officers' Pension Trust Fund Plan**  
**(Last 10 Fiscal Years)**  
**September 30, 2015**

Reporting Period Measurement Date	9/30/2015	9/30/2014
<b>TOTAL PENSION LIABILITY</b>		
Service cost	\$ 148,987	
Interest	197,282	
Benefit payments, including refunds of employee contributions	(57,881)	
Net change in total pension liability	288,388	
Total pension liability - beginning	<u>2,475,771</u>	
Total pension liability - ending (a)	<u>\$ 2,764,159</u>	
<b>PLAN FIDUCIARY NET POSITION</b>		
Contributions - employer	\$ 87,454	
Contributions - state	38,340	
Contributions - employee	71,530	
Net investment income	246,855	
Benefit payments, including refunds of employee contributions	(57,881)	
Administrative expense	(19,992)	
Net change in plan fiduciary net position	366,306	
Plan fiduciary net position - beginning	<u>2,359,582</u>	
Plan fiduciary net position - ending (b)	<u>\$ 2,725,888</u>	
Net pension liability - ending (a) - (b)	<u>\$ 38,271</u>	
Plan fiduciary net position as a percentage of the total pension liability	98.62%	
Covered employee payroll*	\$ 715,298	
Net pension liability as a percentage of covered employee payroll	5.35%	

\* For the Reporting Period, Covered Employee Payroll was not available. Pensionable Salary was reported instead.

**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, 2015**

Reporting Period Measurement Date	9/30/2015	9/30/2014	PRIOR INFORMATION NOT AVAILABLE
<b>TOTAL PENSION LIABILITY</b>			
Service cost	\$ 63,454		
Interest	63,195		
Benefit payments, including refunds of employee contributions	(51,394)		
Net change in total pension liability	75,255		
Total pension liability - beginning	804,842		
Total pension liability - ending (a)	<u>\$ 880,097</u>		
<b>PLAN FIDUCIARY NET POSITION</b>			
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	(12,148)		
Net change in plan fiduciary net position	140,562		
Plan fiduciary net position - beginning	1,134,119		
Plan fiduciary net position - ending (b)	<u>\$ 1,274,681</u>		
Net pension liability - ending (a) - (b)	<u>\$ (394,584)</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%		

\* For the Reporting Period, Covered Employee Payroll was not available. Pensionable Salary was reported instead.

**City of Flagler Beach, Florida**  
**Schedule of Contributions**  
**Municipal Police Officers' Pension Trust Fund Plan**  
**(Last 10 Fiscal Years)**  
**September 30, 2015**

Reporting Period Measurement Date	9/30/2015 9/30/2014	
Actuarially determined contribution	\$ 125,177	PRIOR INFORMATION NOT AVAILABLE
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%	

\* For the Reporting Period Ending 2015, the Covered Employee Payroll figure was based on Pensionable Salary.

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.  
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%

**City of Flagler Beach, Florida**  
**Schedule of Contributions**  
**Municipal Firefighters' Pension Trust Fund Plan**  
**(Last 10 Fiscal Years)**  
**September 30, 2015**

Reporting Period Measurement Date	9/30/2015 9/30/2014	
Actuarially determined contribution	\$ 75,240	PRIOR INFORMATION NOT AVAILABLE
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%	

\* For the Reporting Period Ending 2015, the Covered Employee Payroll figure was based on Pensionable Salary.

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%

**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, 2015**

**ASSETS**

Cash (Operating)	\$	151,045
Due from the Stormwater Fund		14,500
Due from the Agency Fund		423
Total assets	\$	165,968

**LIABILITIES AND FUND BALANCES**

Liabilities:

Accounts payable	\$	5,079
Payroll payable		550
Due to the General Fund		150,082
Due to the Utility Fund		432
Due to the Sanitation Fund		216
Due to the Stormwater Fund		13,945
Total liabilities		170,304

Fund balances:

Reserved, designated for:		
Unassigned		(4,336)
Total fund balances		(4,336)

Total liabilities and fund balances	\$	165,968
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**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, 2015**

**REVENUES**

Ad Valorem taxes	\$ 115,551
Total revenues	115,551

**EXPENDITURES**

Audit	3,000
Contractual services	11,094
Professional services	14,159
Membership subscription dues	175
Debt service:	
Principal	46,000
Interest	44,311
Total expenditures	118,739
Deficiency of revenues under expenditures	(3,188)

**OTHER FINANCING SOURCES AND USES**

2009 Revenue Note refunded	(850,000)
2015 Revenue Refunding Note issued	873,000
Total other financing sources and uses	23,000
Net changes in fund balance	19,812
Fund balance - beginning of year	(24,148)
Fund balance - end of year	\$ (4,336)

**OTHER REPORTS**

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May 26, 2016

**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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 26, 2016.

**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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May 26, 2016

**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, 2015, and have issued our report thereon dated May 26, 2016.

**Auditor's Responsibility**

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

**Other Reports and Schedule**

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, 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 May 26, 2016, should be considered in conjunction with this management letter.

**Prior Audit Findings**

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

**Official Title and Legal Authority**

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

## **Financial Condition**

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and 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. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the City for the fiscal year ended September 30, 2015, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2015. In connection with our audit, we determined that these two reports were in agreement.

## **Other Matters**

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

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

## **Purpose of this Letter**

Our management letter is intended solely for the information and use of the 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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May 26, 2016

**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, Florida

**Report on Compliance**

We have examined the City of Flagler Beach, Florida's (City) compliance with the requirements of Section 218.415, Florida Statutes, during the year ended September 30, 2015. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

**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, 2015.

*Dufresne & Associates, CPA, PA*

Dufresne & Associates, CPA, PA