

**City of Flagler Beach, Florida
Financial Statements
For the Year Ended
September 30, 2016**

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City of Flagler Beach, Florida
Financial Statements
September 30, 2016

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INTRODUCTORY SECTION

**City of Flagler Beach, Florida
List of Principal Officials
September 30, 2016**

MAYOR

HONORABLE
LINDA PROVENCHER

CHAIRPERSON

JANE MEALY

VICE-CHAIRPERSON

MARSHALL D. SHUPE

CITY COMMISSIONERS

KIM CARNEY
RICHARD BELHUMEUR
JOY MCGREW

CITY MANAGER

LARRY M. NEWSOM

FINANCE DIRECTOR

KATHLEEN DOYLE

CITY ATTORNEY

DREW SMITH

INDEPENDENT AUDITORS

DUFRESNE & ASSOCIATES, CPA, PA

FINANCIAL SECTION

DUFRESNE & ASSOCIATES, CPA, PA
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June 22, 2017

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, 2016, 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, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Dufresne & Associates, CPA, PA

Dufresne & Associates, CPA, PA

Management's Discussion and Analysis (Unaudited)

As management of the City of Flagler Beach, Florida (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2016.

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 \$42,812,692.
- The City's total net position increased by \$511,941 or about 1.2%. This is the result of an increase in business type activities of \$611,794 and a decrease to general fund activities of \$99,853. The increase in business type activities is due largely to an increase in charges for services of \$321,923 and a decrease in expenditures of \$329,702. For governmental activities, revenues increased slightly by \$144,860 and expenditures increased by \$250,269.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,693,248, a decrease of \$41,159 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,301,072 or 98% of total General Fund expenditures. Expenditures exceeded revenues in the General Fund by \$78,431, before sale of capital assets of \$1,000 are included in the \$77,431 decrease in fund balance.
- The City's total long-term liabilities decreased by \$244,594. 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 \$42,812,692 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	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 7,307,856	\$ 7,470,329	\$ 8,675,591	\$ 8,313,417	\$ 15,983,447	\$ 15,783,746
Capital assets	11,071,734	11,079,108	23,359,857	23,478,674	34,431,591	34,557,782
Total assets	18,379,590	18,549,437	32,035,448	31,792,091	50,415,038	50,341,528
Deferred outflows of resources	434,775	174,164	-	-	434,775	174,164
Long-term liabilities outstanding	1,397,989	1,220,887	5,720,040	6,141,736	7,118,029	7,362,623
Other liabilities	331,482	346,308	481,620	432,361	813,102	778,669
Total liabilities	1,729,471	1,567,195	6,201,660	6,574,097	7,931,131	8,141,292
Deferred inflows of resources	105,990	73,649	-	-	105,990	73,649
Net position:						
Net investment in capital assets	10,251,734	10,188,957	17,821,927	17,511,669	28,073,661	27,700,626
Restricted	918,649	1,027,343	3,148,662	2,949,029	4,067,311	3,976,372
Unrestricted	5,808,521	5,866,457	4,863,199	4,757,296	10,671,720	10,623,753
Total net position	\$ 16,978,904	\$ 17,082,757	\$ 25,833,788	\$ 25,217,994	\$ 42,812,692	\$ 42,300,751

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.

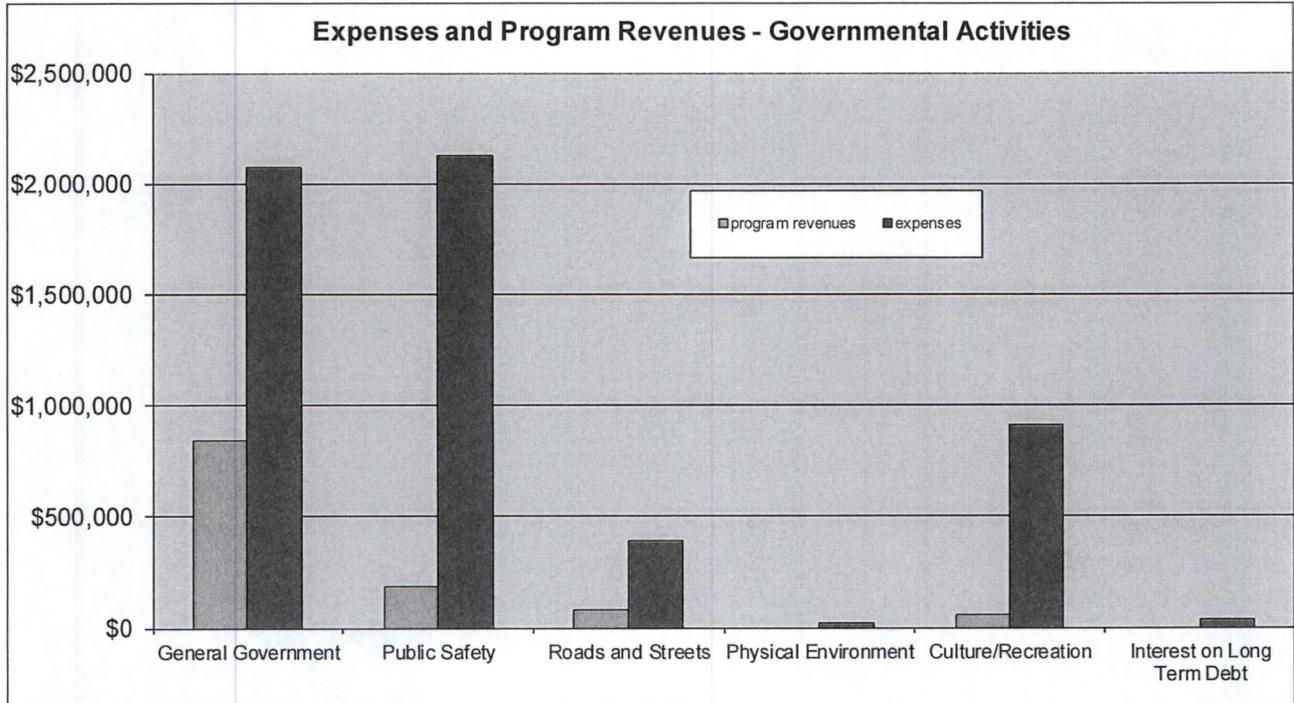
At the end of the current fiscal year, the City is able to report positive balances in all categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Governmental activities. Governmental activities decreased the City's net position by \$99,853; this represents a decrease over last year largely to the completion of paving projects.

Overall, revenues in governmental activities increased by \$144,860 or 3%; expenses increased by \$250,269 or 5% when compared to last year's balances. The increase in revenues was due to slight increases in ad valorem, sales taxes and franchise and utility taxes. Increases in expenses were in Public Safety and Roads and Streets areas of governmental funds.

City of Flagler Beach's Change in Net Position

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues:						
Charges for services	\$ 907,934	\$ 822,978	\$ 4,562,313	\$ 4,240,390	\$ 5,470,247	\$ 5,063,368
Operating grants and contributions	220,314	215,071	-	-	220,314	215,071
Capital grants and contributions	37,587	19,500	240,769	512,659	278,356	532,159
General revenues:						
Property taxes	2,535,224	2,494,568	-	-	2,535,224	2,494,568
Sales taxes	410,856	393,935	-	-	410,856	393,935
Franchise and utility taxes	1,112,384	1,087,004	-	-	1,112,384	1,087,004
Intergovernmental revenue	105,933	106,175	-	-	105,933	106,175
Unrestricted investment earnings	45,359	34,612	82,932	78,565	128,291	113,177
Gain on disposal of capital assets	1,000	18,010	4,000	-	5,000	18,010
Other miscellaneous	65,292	109,170	-	-	65,292	109,170
Total revenues	5,441,883	5,301,023	4,890,014	4,831,614	10,331,897	10,132,637
Expenses:						
General government	2,075,137	2,078,484	-	-	2,075,137	2,078,484
Public safety	2,125,844	1,986,869	-	-	2,125,844	1,986,869
Roads and streets	385,556	192,141	-	-	385,556	192,141
Physical environment	18,306	116,970	-	-	18,306	116,970
Culture/recreation	910,230	873,933	-	-	910,230	873,933
Interest on long-term debt	30,663	47,070	-	-	30,663	47,070
Water and sewer	-	-	3,015,273	2,742,773	3,015,273	2,742,773
Sanitation	-	-	1,051,853	937,320	1,051,853	937,320
Stormwater	-	-	207,094	264,425	207,094	264,425
Total expenses	5,545,736	5,295,467	4,274,220	3,944,518	9,819,956	9,239,985
Increase in net position before transfers	(103,853)	5,556	615,794	887,096	511,941	892,652
Transfers	-	(245,800)	-	245,800	-	-
Increase (decrease) in net position	(103,853)	(240,244)	615,794	1,132,896	511,941	892,652
Net position-beginning of year, as previously reported	17,082,757	17,080,052	25,217,994	24,085,098	42,300,751	41,165,150
Prior period adjustment	-	242,949	-	-	-	242,949
Net position- beginning of year, as restated	17,082,757	17,323,001	25,217,994	24,085,098	42,300,751	41,408,099
Net position - end of year	\$ 16,978,904	\$ 17,082,757	\$ 25,833,788	\$ 25,217,994	\$ 42,812,692	\$ 42,300,751



Revenues by Source - Governmental Activities



Property Tax 46.60%	Franchise Tax 5.69%	Utility Service Tax 11.28%	Community Services Tax 3.47%
Operating Grants 4.05%	Capital Grants 0.69%	Infrastructure Surtax 2.88%	Local Half Cent Sales Tax 2.65%
Local Option Gas Tax 1.82%	State Revenue Sharing 1.78%	Intergovernmental 0.16%	Charges for Services & Fees 16.69%
Unrestricted Investment Earnings 0.83%	Miscellaneous 1.20%		

Business-type activities. Business-type activities increased the City's net position by \$611,794.

Overall the revenues in business-type activities increased by \$54,400 or 1%. The expenses increased by \$329,702 or 8%.

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.

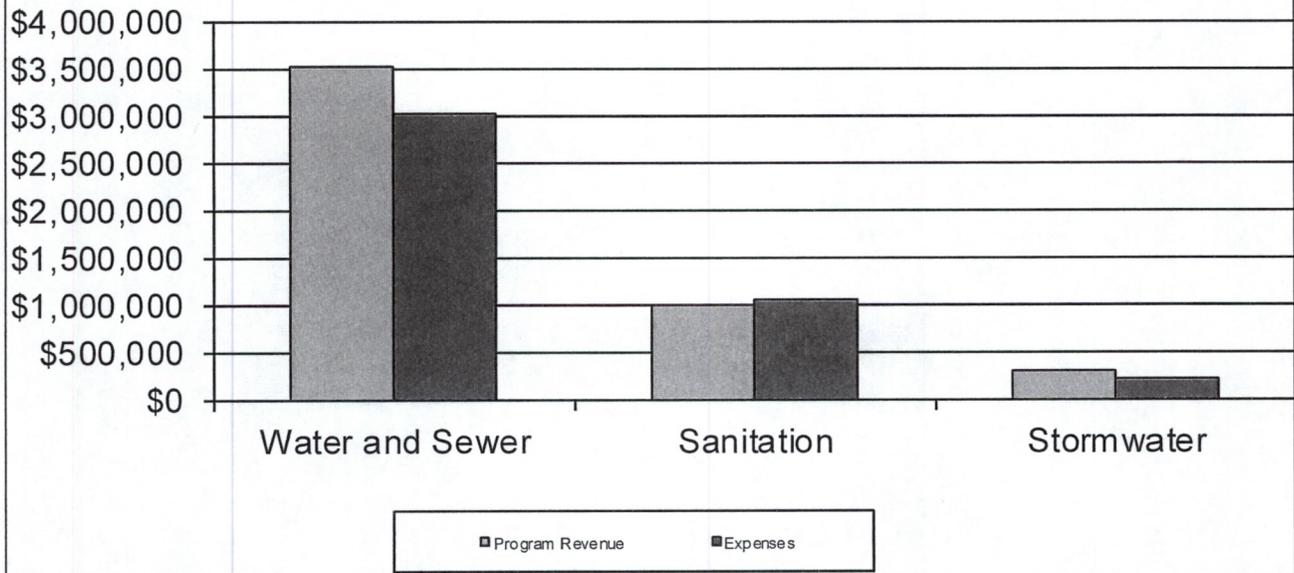
Governmental funds. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,693,248, a decrease of \$41,159 in comparison with prior year. 79% of the total amount, or \$5,301,072, constitutes *unassigned fund balance* in the General Fund, which is available for spending at the government's discretion. The Community Redevelopment Fund has an *unassigned fund balance* of \$31,936. The CRA receives TIF (Tax Incremental Funding) from the City of Flagler Beach and Flagler County annually. Property values continue to climb and, barring any unforeseen circumstances, the fund balance for the CRA will remain positive by the end of September 2017. 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 \$127,198; *Restricted* items of \$629,350 including Infrastructure and Capital Assets \$571,620, Land Purchases \$18,490, and the Education of Building Inspectors \$28,317; *Committed* for Encumbrances \$271,637 including \$261,070 for Roads and Streets; *Assigned* for encumbrances of \$322,055 including \$81,759 for the future purchase of a fire truck (slated for 2020-2021) and \$233,334 for the purchase of radios.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$5,301,072 while the total fund balance reached \$6,661,312. 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 98% of the total General Fund expenditures, while total fund balance represents 124% of General Fund expenditures.

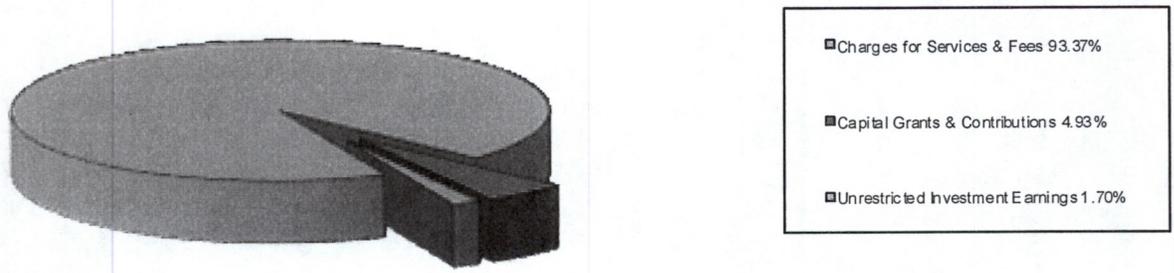
Proprietary funds. The City's proprietary funds financial statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the Water and Sewer, Sanitation, and Stormwater Funds at the end of the year amounted to \$3,067,116, \$1,422,381, and \$373,702, respectively. The total increase (decrease) in unrestricted net position was \$195,036, \$(113,917), and \$24,784, 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 \$15,715 more than the final budget. The City was able to keep expenditures under budget by \$293,801 when compared to the amended budget. The net result was an increase of \$309,516 to the fund balance for the General Fund.

Capital assets. The City's investment in capital assets for its governmental and business-type assets as of September 30, 2016, amounts to \$34,431,591. 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 .4%.

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

- New police vehicles, part of the Replacement Program.
- New air conditioning system at the Police Department.
- Remodeling of the Finance Department.

City of Flagler Beach's Capital Assets

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Land and land improvements	\$ 2,152,123	\$ 2,152,123	\$ 1,648,235	\$ 1,648,235	\$ 3,800,358	\$ 3,800,358
Buildings	3,627,631	3,559,928	11,304,824	11,304,824	14,932,455	14,864,752
Improvements other than buildings	3,774,165	3,714,832	16,311,641	15,920,051	20,085,806	19,634,883
Equipment	3,035,067	2,573,245	2,984,189	2,896,937	6,019,256	5,470,182
Construction in progress	2,797	67,312	440,081	295,255	442,878	362,567
Infrastructure	5,860,655	5,860,655	3,465,177	3,465,177	9,325,832	9,325,832
Less accumulated depreciation	(7,380,704)	(6,848,987)	(12,794,290)	(12,051,805)	(20,174,994)	(18,900,792)
Total	\$11,071,734	\$11,079,108	\$ 23,359,857	\$ 23,478,674	\$ 34,431,591	\$ 34,557,782

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 \$7,118,029, of which \$466,546 is due within one year.

The governmental activities' long-term liabilities amount to \$1,397,989 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 \$5,720,040 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; new home starts are still increasing.
- Water and Sewer Base Fee increases will still be needed to support City's aging infrastructure.
- Stormwater Fees will be increased to continue improvements and maintain current infrastructure.

All of these factors were considered when the City prepared the budget for fiscal year 2016-17. 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 2017-18.

At the end of 2015-16 the fund balance in the General Fund decreased to \$6,661,312. All appropriations lapse at year end. The City of Flagler Beach has appropriated \$603,692 to be available for the 2016-17 fiscal year budget. The use of current revenues and available reserved fund balance for ongoing projects allowed the City to adjust the millage rate to 5.2100 (the rollback rate) for the 2016-17 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, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 3,735,839	\$ 1,913,651	\$ 5,649,490
Investments	2,780,543	2,707,987	5,488,530
Accounts receivable, net of allowance	124,313	717,871	842,184
Due from other governments	236,603	25,785	262,388
Internal balances	9,861	(9,861)	-
Prepays and other assets	127,198	16,784	143,982
Restricted cash and cash equivalents	-	154,712	154,712
Restricted investments	-	3,148,662	3,148,662
Net pension asset	293,499	-	293,499
Capital assets:			
Land and land improvements	2,152,123	1,648,235	3,800,358
Construction in progress	2,797	440,081	442,878
Buildings	3,627,631	11,304,824	14,932,455
Improvements other than buildings	3,774,165	16,311,641	20,085,806
Equipment	3,035,067	2,984,189	6,019,256
Infrastructure	5,860,655	3,465,177	9,325,832
Accumulated depreciation	(7,380,704)	(12,794,290)	(20,174,994)
Total assets	<u>18,379,590</u>	<u>32,035,448</u>	<u>50,415,038</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Contributions	<u>434,775</u>	<u>-</u>	<u>434,775</u>
LIABILITIES			
Accounts payable and accrued liabilities	288,675	243,827	532,502
Unearned revenues	32,434	12,034	44,468
Customer deposits	-	201,971	201,971
Accrued interest payable	10,373	23,788	34,161
Non-current liabilities:			
Due within one year	68,492	398,054	466,546
Due in more than one year	1,329,497	5,321,986	6,651,483
Total liabilities	<u>1,729,471</u>	<u>6,201,660</u>	<u>7,931,131</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Contributions	<u>105,990</u>	<u>-</u>	<u>105,990</u>
NET POSITION			
Net investment in capital assets	10,251,734	17,821,927	28,073,661
Restricted for:			
Infrastructure and capital assets	618,879	3,148,662	3,767,541
Law enforcement	6,271	-	6,271
Pensions	293,499	-	293,499
Community redevelopment	-	-	-
Unrestricted	<u>5,808,521</u>	<u>4,863,199</u>	<u>10,671,720</u>
Total net position	<u>\$ 16,978,904</u>	<u>\$ 25,833,788</u>	<u>\$ 42,812,692</u>

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

City of Flagler Beach, Florida
Statement of Activities
For the Year Ended September 30, 2016

	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
\$	2,075,137	\$ 813,224	\$ -	\$ 27,087	\$ (1,234,826)	\$ -	\$ (1,234,826)
	2,125,844	48,088	138,612	-	(1,939,144)	-	(1,939,144)
	385,556	-	79,196	-	(306,360)	-	(306,360)
	18,306	-	-	-	(18,306)	-	(18,306)
	910,230	46,622	2,506	10,500	(850,602)	-	(850,602)
	30,663	-	-	-	(30,663)	-	(30,663)
Total governmental activities	5,545,736	907,934	220,314	37,587	(4,379,901)	-	(4,379,901)
	3,015,273	3,297,262	-	214,984	-	496,973	496,973
	1,051,853	997,276	-	-	(54,577)	-	(54,577)
	207,094	267,775	-	25,785	-	86,466	86,466
	4,274,220	4,562,313	-	240,769	-	528,862	528,862
Total business-type activities	\$ 9,819,956	\$ 5,470,247	\$ 220,314	\$ 278,356	(4,379,901)	528,862	(3,851,039)

Functions/Programs
Primary Government:
 Governmental activities:
 General government
 Public safety
 Roads and streets
 Physical environment
 Culture/recreation
 Interest
 Total governmental activities
 Business-type activities:
 Water and sewer
 Sanitation
 Stormwater
 Total business-type activities
 Total primary government

General Revenues:	
Property taxes	2,535,224
Franchise fees	309,847
Utility service taxes	613,510
Communication services tax	189,027
Infrastructure surtax	156,858
Local half-cent sales tax	154,850
Local option gas tax	99,148
State revenue sharing proceeds	97,101
Intergovernmental	8,832
Unrestricted investment earnings	82,932
Miscellaneous	65,292
Gain on disposal of capital assets	1,000
Total general revenues	4,276,048
Changes in net position	(103,853)
Net position - beginning of year	17,082,757
Net position - end of year	\$ 16,978,904

City of Flagler Beach, Florida
Balance Sheet
Governmental Funds
September 30, 2016

	<u>General</u>	<u>Community Redevelopment</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 3,584,244	\$ 151,595	\$ 3,735,839
Investments	2,780,543	-	2,780,543
Accounts receivable, net of allowance	124,313	-	124,313
Due from other funds	128,120	-	128,120
Due from other governments	236,603	-	236,603
Prepays	127,198	-	127,198
Total assets	\$ 6,981,021	\$ 151,595	\$ 7,132,616
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 203,773	\$ 1,400	\$ 205,173
Accrued personal services	83,502	-	83,502
Deferred revenue	32,434	-	32,434
Due to other funds	-	118,259	118,259
Total liabilities	319,709	119,659	439,368
Fund balances:			
Nonspendable:			
Prepays	127,198	-	127,198
Restricted:			
Police training	2,117	-	2,117
Law enforcement automation	4,154	-	4,154
A1A land purchases	18,490	-	18,490
Infrastructure and capital assets	571,620	-	571,620
Building inspector education	28,317	-	28,317
Building Code Administration Fund	4,200	-	4,200
Surcharge fees	452	-	452
Committed:			
Repairs and maintenance	5,067	-	5,067
Equipment - Beach	5,500	-	5,500
Roads and streets	261,070	-	261,070
Assigned:			
Fire truck	81,759	-	81,759
Beach related purchases	15,591	-	15,591
Radios	233,334	-	233,334
Computer hardware	1,371	-	1,371
Unassigned	5,301,072	31,936	5,333,008
Total fund balances	6,661,312	31,936	6,693,248
Total liabilities and fund balances	\$ 6,981,021	\$ 151,595	\$ 7,132,616

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, 2016

Fund balances - governmental funds		\$ 6,693,248
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	18,452,438	
Accumulated depreciation	<u>(7,380,704)</u>	11,071,734
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.		
		(10,373)
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	293,499	
Net pension liability	(271,251)	
Deferred outflows - Contributions	434,775	
Deferred inflows - Contributions	(105,990)	
Other postemployment benefits liability	<u>(177,054)</u>	173,979
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as governmental fund liabilities.		
Notes payable	(820,000)	
Capital leases payable	(5,781)	
Compensated absences	<u>(123,903)</u>	<u>(949,684)</u>
Net position of governmental activities		<u>\$ 16,978,904</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, 2016

	General	Community Redevelopment	Total Governmental Funds
REVENUES			
Taxes	\$ 3,363,101	\$ 131,518	\$ 3,494,619
Franchise fees	309,847	-	309,847
Licenses and permits	398,019	-	398,019
Intergovernmental	607,332	-	607,332
Charges for services	461,188	-	461,188
Fines and forfeitures	48,727	-	48,727
Grants and donations	10,500	-	10,500
Investment earnings	45,359	-	45,359
Miscellaneous	65,292	-	65,292
Total revenues	<u>5,309,365</u>	<u>131,518</u>	<u>5,440,883</u>
EXPENDITURES			
Current:			
General government	1,715,426	-	1,715,426
Public safety	1,821,530	-	1,821,530
Roads and streets	375,952	-	375,952
Physical environment	998	17,308	18,306
Culture/recreation	679,705	-	679,705
Debt service:			
Principal	11,370	53,000	64,370
Interest	322	24,938	25,260
Capital outlay	782,493	-	782,493
Total expenditures	<u>5,387,796</u>	<u>95,246</u>	<u>5,483,042</u>
Surplus (Deficiency) of revenues under expenditures	<u>(78,431)</u>	<u>36,272</u>	<u>(42,159)</u>
OTHER FINANCING SOURCES AND USES			
Sale of capital asset	1,000	-	1,000
Total other financing sources and uses	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Net changes in fund balances	<u>(77,431)</u>	<u>36,272</u>	<u>(41,159)</u>
Fund balances - beginning of year	6,738,743	(4,336)	6,734,407
Fund balances - end of year	<u>\$ 6,661,312</u>	<u>\$ 31,936</u>	<u>\$ 6,693,248</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, 2016

Net changes in fund balances - total governmental funds	\$	(41,159)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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.</p>		
Expenditures for capital assets	524,343	
Current year depreciation	<u>(531,717)</u>	(7,374)
<p>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.</p>		
Change in:		
Compensated absences payable	(8,492)	
Interest payable	(5,403)	
Deferred outflows - Contributions	260,611	
Deferred inflows - Contributions	(32,341)	
Net pension asset	(101,085)	
Net pension liability	<u>(232,980)</u>	(119,690)
<p>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:</p>		
Note principal payment	53,000	
Capital leases principal payments	<u>11,370</u>	<u>64,370</u>
Changes in net position of governmental activities	\$	<u><u>(103,853)</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, 2016

	<u>Water and Sewer</u>	<u>Sanitation</u>	<u>Stormwater</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 706,535	\$ 834,974	\$ 372,142	\$ 1,913,651
Restricted cash and cash equivalents:				
Customer deposits	154,712	-	-	154,712
Debt service	-	-	-	-
Investments	2,202,434	505,553	-	2,707,987
Receivables (net of allowance for uncollectible accounts):				
Accounts receivable	339,569	96,691	26,646	462,906
Unbilled accounts	254,965	-	-	254,965
Due from other governments	-	-	25,785	25,785
Due from other funds	-	50,929	14,151	65,080
Prepays and other assets	10,708	5,344	732	16,784
Total current assets	<u>3,668,923</u>	<u>1,493,491</u>	<u>439,456</u>	<u>5,601,870</u>
Non-current assets:				
Restricted investments:				
Water impact fees	1,626,705	-	-	1,626,705
Sewer impact fees	1,521,957	-	-	1,521,957
Total restricted investments	<u>3,148,662</u>	<u>-</u>	<u>-</u>	<u>3,148,662</u>
Unrestricted:				
Land	75,562	-	1,572,673	1,648,235
Construction in progress	369,311	-	70,770	440,081
Buildings	11,234,803	70,021	-	11,304,824
Improvements other than buildings	16,311,641	-	-	16,311,641
Equipment	1,564,286	1,381,182	38,721	2,984,189
Infrastructure	-	-	3,465,177	3,465,177
Less accumulated depreciation	(11,309,217)	(1,045,776)	(439,297)	(12,794,290)
Total non-current unrestricted assets	<u>18,246,386</u>	<u>405,427</u>	<u>4,708,044</u>	<u>23,359,857</u>
Total non-current assets	<u>21,395,048</u>	<u>405,427</u>	<u>4,708,044</u>	<u>26,508,519</u>
Total assets	<u>25,063,971</u>	<u>1,898,918</u>	<u>5,147,500</u>	<u>32,110,389</u>
LIABILITIES				
Current liabilities:				
Accounts payable	129,991	27,688	55,297	212,976
Accrued personal services liabilities	22,215	6,311	2,325	30,851
Accrued interest payable	23,788	-	-	23,788
Unearned revenues	12,034	-	-	12,034
Current portion of long-term debt	355,334	-	-	355,334
Compensated absences payable	34,022	6,987	1,711	42,720
Customer deposits payable	201,971	-	-	201,971
Due to other funds	74,881	60	-	74,941
Total current liabilities	<u>854,236</u>	<u>41,046</u>	<u>59,333</u>	<u>954,615</u>
Non-current liabilities				
Loans payable	3,887,596	-	1,295,000	5,182,596
Other postemployment benefits	88,294	25,601	6,241	120,136
Compensated absences payable	14,611	4,463	180	19,254
Total non-current liabilities	<u>3,990,501</u>	<u>30,064</u>	<u>1,301,421</u>	<u>5,321,986</u>
Total liabilities	<u>4,844,737</u>	<u>71,110</u>	<u>1,360,754</u>	<u>6,276,601</u>
NET POSITION				
Net investment in capital assets	14,003,456	405,427	3,413,044	17,821,927
Restricted for:				
Water construction	1,626,705	-	-	1,626,705
Sewer construction	1,521,957	-	-	1,521,957
Unrestricted	3,067,116	1,422,381	373,702	4,863,199
Total net position	<u>\$ 20,219,234</u>	<u>\$ 1,827,808</u>	<u>\$ 3,786,746</u>	<u>\$ 25,833,788</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, 2016

	Water and Sewer	Sanitation	Stormwater	Total
Operating revenues:				
Charges for services				
Water	\$ 1,862,963	\$ -	\$ -	\$ 1,862,963
Sewer	1,393,462	-	-	1,393,462
Sanitation	-	983,994	-	983,994
Stormwater	-	-	265,138	265,138
Other operating revenues	40,837	13,282	2,637	56,756
Total operating revenues	<u>3,297,262</u>	<u>997,276</u>	<u>267,775</u>	<u>4,562,313</u>
Operating expenses:				
Personal services	1,132,561	343,278	76,549	1,552,388
Materials, supplies, services and other operating expenses	1,014,780	593,390	4,429	1,612,599
Depreciation	750,198	114,494	91,939	956,631
Total operating expenses	<u>2,897,539</u>	<u>1,051,162</u>	<u>172,917</u>	<u>4,121,618</u>
Operating income	<u>399,723</u>	<u>(53,886)</u>	<u>94,858</u>	<u>440,695</u>
Nonoperating revenues (expenses):				
Impact fees	214,984	-	-	214,984
Investment earnings	72,710	9,382	840	82,932
Interest expense	(117,734)	-	(34,868)	(152,602)
Gain on sale of fixed assets	4,000	-	-	4,000
Total nonoperating revenues (expenses)	<u>173,960</u>	<u>9,382</u>	<u>(34,028)</u>	<u>149,314</u>
Income before capital contributions	573,683	(44,504)	60,830	590,009
Capital contributions	-	-	25,785	25,785
Changes in net position	<u>573,683</u>	<u>(44,504)</u>	<u>86,615</u>	<u>615,794</u>
Total net position - beginning	19,645,551	1,872,312	3,700,131	25,217,994
Total net position - ending	<u>\$ 20,219,234</u>	<u>\$ 1,827,808</u>	<u>\$ 3,786,746</u>	<u>\$ 25,833,788</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, 2016

	Business-type Activities - Enterprise Funds			
	Water and Sewer	Sanitation	Stormwater	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 3,176,848	\$ 997,086	\$ 265,313	\$ 4,439,247
Payments to suppliers	(965,536)	(620,741)	41,384	(1,544,893)
Payments to employees	(1,155,321)	(346,500)	(77,770)	(1,579,591)
Other operating cash transfers	50,902	2,081	(1,863)	51,120
Net cash provided by operating activities	<u>1,106,893</u>	<u>31,926</u>	<u>227,064</u>	<u>1,365,883</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital grants and contributions	214,984	-	-	214,984
Acquisition and construction of capital assets	(579,137)	(183,907)	(70,770)	(833,814)
Principal paid on capital debt	(346,075)	-	(83,000)	(429,075)
Interest paid on capital debt	(119,674)	-	(34,868)	(154,542)
Net cash used in capital and related financing activities	<u>(829,902)</u>	<u>(183,907)</u>	<u>(188,638)</u>	<u>(1,202,447)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(234,421)	(6,809)	-	(241,230)
Proceeds from sales and maturities of investments	11,113	1,375	-	12,488
Interest and other income	72,710	9,382	840	82,932
Net cash provided by (used in) investing activities	<u>(150,598)</u>	<u>3,948</u>	<u>840</u>	<u>(145,810)</u>
Net increase (decrease) in cash and cash equivalents	126,393	(148,033)	39,266	17,626
Cash and cash equivalents, beginning of year	734,854	983,007	332,876	2,050,737
Cash and cash equivalents, end of year	<u>\$ 861,247</u>	<u>\$ 834,974</u>	<u>\$ 372,142</u>	<u>\$ 2,068,363</u>
Reconciliation of cash and cash equivalents to the Statement of Net Position				
Cash and cash equivalents in current assets:				
Cash and cash equivalents	\$ 706,535	\$ 834,974	\$ 372,142	\$ 1,913,651
Restricted cash and cash equivalents	154,712	-	-	154,712
Total cash and equivalents	<u>\$ 861,247</u>	<u>\$ 834,974</u>	<u>\$ 372,142</u>	<u>\$ 2,068,363</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 399,723	\$ (53,886)	\$ 94,858	\$ 440,695
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	750,198	114,494	91,939	956,631
Increase in certain assets:				
Prepays	(10,708)	(5,344)	(732)	(16,784)
Accounts receivable	(121,705)	(190)	(2,462)	(124,357)
Increase (decrease) in certain liabilities:				
Accounts payable and accrued liabilities	59,952	(22,007)	46,545	84,490
Accrued personal services liabilities	(22,760)	(3,222)	(1,221)	(27,203)
Customer deposits	(930)	-	-	(930)
Unearned revenues	2,221	-	-	2,221
Due to other funds	50,902	2,081	(1,863)	51,120
Total adjustments	<u>707,170</u>	<u>85,812</u>	<u>132,206</u>	<u>925,188</u>
Net cash provided by operating activities	<u>\$ 1,106,893</u>	<u>\$ 31,926</u>	<u>\$ 227,064</u>	<u>\$ 1,365,883</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, 2016

	Municipal Police Officers' Pension Trust Fund	Municipal Firefighters' Pension Trust Fund	Total
ASSETS			
Cash equivalents	\$ 35,508	\$ 17,358	\$ 52,866
Receivables:			
State contributions	-	7,186	7,186
Employer contributions	-	-	-
Employee contributions	6,361	922	7,283
Accrued income	1,718	779	2,497
Investments:			
Fixed income mutual funds	932,675	427,746	1,360,421
Equity mutual funds	2,069,375	899,245	2,968,620
Prepaid expenses	-	800	800
Total assets	<u>3,045,637</u>	<u>1,354,036</u>	<u>4,399,673</u>
LIABILITIES			
Accounts payable	11,652	688	12,340
Total liabilities	<u>11,652</u>	<u>688</u>	<u>12,340</u>
NET POSITION			
Restricted for pension benefits	<u>\$ 3,033,985</u>	<u>\$ 1,353,348</u>	<u>\$ 4,387,333</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, 2016

	Municipal Police Officers' Pension Trust Fund	Municipal Firefighters' Pension Trust Fund	Total
ADDITIONS			
Contributions:			
Employees	\$ 77,668	\$ 16,840	\$ 94,508
Employer	63,571	-	63,571
State insurance	42,952	35,714	78,666
Total contributions	<u>184,191</u>	<u>52,554</u>	<u>236,745</u>
Investment earnings:			
Net increase in fair value of investments	237,235	104,620	341,855
Interest and dividends	64,024	28,375	92,399
Other income	33	-	33
Net investment earnings	<u>301,292</u>	<u>132,995</u>	<u>434,287</u>
Total additions	<u>485,483</u>	<u>185,549</u>	<u>671,032</u>
DEDUCTIONS			
Professional services	57,572	44,026	101,598
Employee withdrawals	102,745	52,357	155,102
Total deductions	<u>160,317</u>	<u>96,383</u>	<u>256,700</u>
Change in net position	<u>325,166</u>	<u>89,166</u>	<u>414,332</u>
Net position - beginning	<u>2,708,819</u>	<u>1,264,182</u>	<u>3,973,001</u>
Net position - ending	<u>\$ 3,033,985</u>	<u>\$ 1,353,348</u>	<u>\$ 4,387,333</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, 2016

I. Summary of significant accounting policies

A. Reporting entity

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

Blended component unit. The Flagler Beach Community Redevelopment Agency (CRA) was created and established by City Ordinances 95-24 and 97-21, for the purpose of rehabilitation, conservation and redevelopment of specific downtown areas of the City. The CRA is a blended component unit of the City as both entities are governed by the City Commission. The applicable requirements of Florida Statutes 163.387 are met as a result of the CRA's inclusion in the audited financial statements of the City.

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
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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
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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
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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, 2015

Property Appraiser prepares the assessment roll with values as of January 1, 2015, submits this preliminary roll for approval by the State and notifies each taxing authority of their respective valuations. July 1, 2015

City Commission holds two required public hearings and adopts a budget and ad valorem tax millage rate for the coming fiscal year. September 9, 2015
and
September 23, 2015

Property Appraiser certifies the assessment roll and all real and tangible personal property taxes are due and payable (Levy Date). November 1, 2015

A Notice of Taxes is mailed to each property owner on the assessment roll. Taxes are paid November 2015 through March 2016, with the following applicable discounts:

<u>Month Paid</u>	<u>Discount (%)</u>	
November	4	
December	3	November 1, 2015
January	2	through
February	1	March 31, 2016
March	0	

All unpaid taxes on real and tangible personal property become delinquent. April 1, 2016

A list of unpaid tangible personal property taxes and a list of unpaid real property taxes are advertised. April and May 2016

Tax certificates are sold on all real estate parcels with unpaid real property taxes (Lien Date). June 1, 2016

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, 2016

City of Flagler Beach, Florida
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3. Inventories and prepaid items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than purchased.

4. Restricted assets

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

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

5. Capital assets

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

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Interest capitalization ceases when the construction project is substantially complete. Interest is not capitalized for construction projects of governmental funds or for assets acquired by contributions and grants that restrictively specify the type of asset that may be purchased or constructed.

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

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

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

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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.

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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. 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. GASB Statement No. 72 has been implemented for the year ended September 30, 2016.

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. GASB Statement No. 76 has been implemented for the year ended September 30, 2016.

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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. GASB Statement No. 79 has been implemented for the year ended September 30, 2016.

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.

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.

City of Flagler Beach, Florida
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III. Stewardship, compliance, and accountability

Budgetary information

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

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

As of September 30, 2016, 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, 2016 is \$603,692. Of this amount, \$271,637 is reported as committed and \$322,055 as assigned for general government expenditures at the fund level.

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

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

IV. Detailed notes on all funds

A. Deposits and investments

At September 30, 2016, the carrying amount of the City's deposits was \$2,596,856 and the bank balances were \$2,887,102. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each bank. Any balance in excess of FDIC insurance is covered by collateral held by the City's custodial banks, which is pledged to a state trust fund that provides security in accordance with Florida Security for Public Deposits Act, Chapter 280, *Florida Statutes*.

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

City of Flagler Beach, Florida
Notes to the Financial Statements
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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), is operated as a 2a-7-like pool, carried at amortized cost. A 2a-7-like pool is an external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940, which regulates money market funds. Therefore, Florida PRIME operates essentially as a money market fund and the City's position in Florida PRIME is considered to be equivalent to its fair value.

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

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

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

As of September 30, 2016, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant's daily access to 100 percent of their account value.

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

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

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

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

City of Flagler Beach, Florida
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At September 30, 2016, the cash deposits and investments controlled by the City included the following:

Investments:	
Florida PRIME	\$ 4,497,832
FMIT	7,346,706
Total investments	11,844,538
Cash:	
Cash deposits	2,596,856
Total cash and investments	\$ 14,441,394

Risk

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

Interest rate risk

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

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

	Fair Value	Investment Maturities (in years)	
		Less Than 1	1 - 5
Investments controlled by the City:			
Florida PRIME	\$ 4,497,832	\$ 4,497,832	\$ -
FMIT:			
0-2 Year High Quality Bond Fund	2,408,877	2,408,877	-
1-3 Year High Quality Bond Fund	3,420,835	-	3,420,835
Intermediate High Quality Bond Fund	1,516,994	-	1,516,994
Total investments controlled by the City	11,844,538	6,906,709	4,937,829
Pension Trust Funds investments:			
Vanguard Total Bond Market Index Fund	1,360,421	1,360,421	-
Vanguard Total International Stock Market Index Fund	544,951	544,951	-
Vanguard Total Stock Market Index Fund	2,423,669	2,423,669	-
Total Pension Trust Funds investments	4,329,041	4,329,041	-
Total investments	\$ 16,173,579	\$ 11,235,750	\$ 4,937,829

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Credit risk

A credit rating is a measure of credit risk, the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investment policy and the Pension Trust Fund Plans utilize portfolio diversification in order to control this risk. The City's rated debt instruments as of September 30, 2016, 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				Unrated
		AAAm (S&P)	AAA/S1 (Fitch)	AAA/S2 (Fitch)	AAA/S3 (Fitch)	
Investments controlled by the City:						
Florida PRIME	\$ 4,497,832	\$ 4,497,832	\$ -	\$ -	\$ -	\$ -
FMIT:						
0-2 Year High Quality Bond Fund	2,408,877	-	2,408,877	-	-	-
1-3 Year High Quality Bond Fund	3,420,835	-	-	3,420,835	-	-
Intermediate High Quality Bond Fund	1,516,994	-	-	-	1,516,994	-
Total investments controlled by the City	<u>11,844,538</u>	<u>4,497,832</u>	<u>2,408,877</u>	<u>3,420,835</u>	<u>1,516,994</u>	<u>-</u>
Pension Trust Funds investments:						
Vanguard Total Bond Market Index Fund	1,360,421	-	-	-	-	1,360,421
Vanguard Total International Stock Market Index Fund	544,951	-	-	-	-	544,951
Vanguard Total Stock Market Index Fund	2,423,669	-	-	-	-	2,423,669
Total Pension Trust Funds investments	<u>4,329,041</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,329,041</u>
Total investments	<u>\$ 16,173,579</u>	<u>\$ 4,497,832</u>	<u>\$ 2,408,877</u>	<u>\$ 3,420,835</u>	<u>\$ 1,516,994</u>	<u>\$ 4,329,041</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, 2016, the City's investments subject to this disclosure requirement did not exceed 5% of total investments in any single issuer.

Custodial credit risk

Custodial credit risk for investments is the risk that, in the event of failure of a counterparty, the City will not be able to recover the value of the investment or collateral securities that are in possession of an outside party. Consistent with the City's investment policy, as of September 30, 2016, all investments were held with an appropriate custodian or trustee and are held in accounts in the name of and belonging to the City.

Fair value measurements

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

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

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

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

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

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

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

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

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

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Investments controlled by the City:			
FMIT:			
0-2 Year High Quality Bond Fund	\$ 2,408,877	\$ -	\$ 2,408,877
1-3 Year High Quality Bond Fund	3,420,835	-	3,420,835
Intermediate High Quality Bond Fund	1,516,994	-	1,516,994
Total Investments controlled by the City	<u>\$ 7,346,706</u>	<u>\$ -</u>	<u>\$ 7,346,706</u>
Pension Trust Funds investments:			
Vanguard Total Bond Market Index Fund	\$ 1,360,421	\$ 1,360,421	\$ -
Vanguard Total International Stock Market Index Fund	544,951	544,951	-
Vanguard Total Stock Market Index Fund	2,423,669	2,423,669	-
Total Pension Trust Funds investments	<u>4,329,041</u>	<u>4,329,041</u>	<u>-</u>
Total investments	<u>\$ 11,675,747</u>	<u>\$ 4,329,041</u>	<u>\$ 7,346,706</u>

B. Receivables

Receivables consisted of the following at September 30, 2016:

	<u>General</u>	<u>Water and Sewer</u>	<u>Sanitation</u>	<u>Stormwater</u>	<u>Total</u>
Receivables:					
Taxes, franchise fees	\$ 107,604	\$ 26,159	\$ -	\$ -	\$ 133,763
Accounts	-	341,190	96,691	26,646	464,527
Unbilled accounts	-	254,965	-	-	254,965
Intergovernmental	236,603	-	-	25,785	262,388
Other	16,709	12,220	-	-	28,929
Gross receivables	<u>360,916</u>	<u>634,534</u>	<u>96,691</u>	<u>52,431</u>	<u>1,144,572</u>
Less: Allowance for uncollectible accounts	<u>-</u>	<u>(40,000)</u>	<u>-</u>	<u>-</u>	<u>(40,000)</u>
Receivables, net	<u>\$ 360,916</u>	<u>\$ 594,534</u>	<u>\$ 96,691</u>	<u>\$ 52,431</u>	<u>\$ 1,104,572</u>

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C. Interfund accounts

Interfund receivables and payables at September 30, 2016, are as follows:

	<u>Due To Other Funds</u>	<u>Due From Other Funds</u>
Governmental funds:		
General Fund	\$ -	\$ 128,120
Community Redevelopment Fund	(118,259)	-
Total governmental funds	<u>(118,259)</u>	<u>128,120</u>
Enterprise funds:		
Water and Sewer Fund	(74,881)	-
Sanitation Fund	(60)	50,929
Stormwater Fund	-	14,151
Total enterprise funds	<u>(74,941)</u>	<u>65,080</u>
Total Due To/Due From	<u>\$ (193,200)</u>	<u>\$ 193,200</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) an interfund loan balance from the General Fund to the CRA in the amount of \$115,119 for the city portion of the 2013 Phase II C Project. The loan accrues 2% interest annually. The loan repayment paid back from the General Fund to the CRA was \$27,383 principal and \$2,851 interest for the year ended September 30, 2016.

D. Interfund transfers

Transfers of resources from a fund receiving revenue to the fund through which the resources are to be expended are recorded as transfers and are reported as other financing sources (uses) in the governmental funds and as transfers in (out) in the enterprise funds. The City reported \$0 transfers of resources for the year ended September 30, 2016.

E. Capital assets

A summary of changes in the City's capital assets for the year ended September 30, 2016, is as follows:

	<u>Balance 10-1-2015</u>	<u>Additions and Transfers</u>	<u>and Transfers</u>	<u>Balance 9-30-16</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 2,152,123	\$ -	\$ -	\$ 2,152,123
Construction in progress	67,312	2,797	(67,312)	2,797
Total capital assets, not being depreciated	<u>2,219,435</u>	<u>2,797</u>	<u>(67,312)</u>	<u>2,154,920</u>
Capital assets, being depreciated:				
Buildings	3,559,928	67,703	-	3,627,631
Improvements other than buildings	3,714,832	59,333	-	3,774,165
Equipment	2,573,245	709,794	(247,972)	3,035,067
Infrastructure	5,860,655	-	-	5,860,655
Total capital assets, being depreciated	<u>15,708,660</u>	<u>836,830</u>	<u>(247,972)</u>	<u>16,297,518</u>
Accumulated depreciation for:				
Buildings	(1,674,094)	(128,607)	-	(1,802,701)
Improvements other than buildings	(1,571,108)	(190,739)	-	(1,761,847)
Equipment	(2,164,028)	(146,509)	247,972	(2,062,565)
Infrastructure	(1,439,757)	(313,834)	-	(1,753,591)
Total accumulated depreciation	<u>(6,848,987)</u>	<u>(779,689)</u>	<u>247,972</u>	<u>(7,380,704)</u>
Total capital assets, being depreciated, net	<u>8,859,673</u>	<u>57,141</u>	<u>-</u>	<u>8,916,814</u>
Governmental activities capital assets, net	<u>\$ 11,079,108</u>	<u>\$ 59,938</u>	<u>\$ (67,312)</u>	<u>\$ 11,071,734</u>

City of Flagler Beach, Florida
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	Balance 10-1-2015	Additions and Transfers	Disposals and Transfers	Balance 9-30-16
Business-type activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 1,648,235	\$ -	\$ -	\$ 1,648,235
Construction in progress	295,255	164,246	(19,420)	440,081
Total capital assets, not being depreciated	<u>1,943,490</u>	<u>164,246</u>	<u>(19,420)</u>	<u>2,088,316</u>
Capital assets, being depreciated:				
Buildings	11,304,824	-	-	11,304,824
Improvements other than buildings	15,920,051	391,590	-	16,311,641
Equipment	2,896,937	301,398	(214,146)	2,984,189
Infrastructure	3,465,177	-	-	3,465,177
Total capital assets, being depreciated	<u>33,586,989</u>	<u>692,988</u>	<u>(214,146)</u>	<u>34,065,831</u>
Accumulated depreciation for:				
Buildings	(2,372,758)	(238,281)	-	(2,611,039)
Improvements other than buildings	(7,314,389)	(363,375)	-	(7,677,764)
Equipment	(2,039,253)	(268,346)	214,146	(2,093,453)
Infrastructure	(325,405)	(86,629)	-	(412,034)
Total accumulated depreciation	<u>(12,051,805)</u>	<u>(956,631)</u>	<u>214,146</u>	<u>(12,794,290)</u>
Total capital assets, being depreciated, net	<u>21,535,184</u>	<u>(263,643)</u>	<u>-</u>	<u>21,271,541</u>
Business-type activities capital assets, net	<u>\$ 23,478,674</u>	<u>\$ (99,397)</u>	<u>\$ (19,420)</u>	<u>\$ 23,359,857</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 354,711
Public safety	186,977
Transportation	9,837
Culture/recreation	228,164
Total depreciation expense - governmental activities	<u>\$ 779,689</u>
Business-type activities:	
Water and sewer	\$ 750,198
Sanitation	114,494
Stormwater	91,939
Total depreciation expense - business-type activities	<u>\$ 956,631</u>

F. 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 \$11,565 for the year ended September 30, 2016, based on revenues of \$186,552.

The City leases office equipment under noncancelable operating leases. The total costs of such leases were \$13,054 for the year ended September 30, 2016. The minimum lease payments for these leases are as follows:

Year Ending September 30,	Amount
2017	\$ 7,694
2018	3,576
2019	3,576
2020	1,419
Total	<u>\$ 16,265</u>

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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:

	Governmental Activities
Asset:	
2 Chevy Tahoes	\$ 62,000
Total assets	62,000
Less: Accumulated depreciation	(54,767)
	\$ 7,233

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, 2016 is \$5,781.

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.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2016, are as follows:

Year Ending September 30,	Amount
2017	\$ 5,846
Total minimum lease payments	5,846
Less: Amount representing interest	(65)
Present value of minimum lease payments	\$ 5,781

G. Long-term liabilities

The following is a summary of long-term liability activity for the year ended September 30, 2016:

	Balance 10/1/2015	Additions	(Reductions)	Balance 9/30/2016	Due Within One Year
Governmental activities:					
Notes payable	\$ 873,000	\$ -	\$ (53,000)	\$ 820,000	\$ -
Capital leases	17,151	-	(11,370)	5,781	5,781
Compensated absences payable	115,411	135,474	(126,982)	123,903	62,711
Net pension liability	38,271	232,980	-	271,251	-
Other postemployment benefits	177,054	-	-	177,054	-
Governmental activities long-term liabilities	\$ 1,220,887	\$ 368,454	\$ (191,352)	\$ 1,397,989	\$ 68,492
Business-type activities:					
Revolving loan payable	\$ 4,589,005	\$ -	\$ (346,075)	\$ 4,242,930	\$ 355,334
Notes payable	1,378,000	-	(83,000)	1,295,000	-
Compensated absences payable	54,583	144,889	(137,510)	61,972	42,720
Other postemployment benefits	120,138	-	-	120,138	-
Business-type activities long-term liabilities	\$ 6,141,736	\$ 144,889	\$ (566,585)	\$ 5,720,040	\$ 398,054

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Governmental Activities

Refunding Revenue Note

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

Principal and interest of \$53,000 and \$22,087, respectively for the current year was paid for the debt service of the CRA's portion of the Series 2015 Note. As of September 30, 2016, the total amount of principal and accrued interest outstanding for the CRA's portion of the Series 2015 Note was \$983,400.

The following is a schedule of the future payments on the CRA's portion of the outstanding Series 2015 Note as of September 30, 2016:

Fiscal Year Ending September 30,	Note Payable		
	Principal	Interest	Total
2017*	\$ -	\$ 21,416	\$ 21,416
2018	54,000	20,063	74,063
2019	56,000	18,671	74,671
2020	57,000	17,243	74,243
2021	58,000	15,787	73,787
2022 - 2026	314,000	52,232	366,232
2027 - 2029	281,000	17,988	298,988
	<u>\$ 820,000</u>	<u>\$ 163,400</u>	<u>\$ 983,400</u>

*Principal payment of \$53,000 due October 1, 2016 was paid on September 30, 2016.

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, 2016, \$7,705,748 had been drawn by the City on the Loan and \$3,268,652 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

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Plan Expansion Project. The Loan is payable solely from the utility net revenues and is payable through 2027. In 2016, annual principal and interest payments on the Loan were 42% of pledged revenues. As of September 30, 2016, the amount of total principal and accrued interest outstanding was \$4,890,372. Principal and interest paid for the current year were \$346,075 and \$119,674, respectively. Pledged revenues were \$1,119,704.

The following is a schedule of the future payments on the outstanding Loan as of September 30, 2016:

Fiscal Year Ending September 30,	Principal	Interest	Total
2017	\$ 355,333	\$ 110,416	\$ 465,749
2018	364,840	100,909	465,749
2019	374,600	91,149	465,749
2020	384,621	81,128	465,749
2021	394,911	70,838	465,749
2022 - 2026	2,138,803	189,948	2,328,751
2027	229,822	3,054	232,876
	<u>\$ 4,242,930</u>	<u>\$ 647,442</u>	<u>\$ 4,890,372</u>

Refunding Revenue Note

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

Principal and interest of \$83,000 and \$34,864, respectively for the current year was paid for the debt service of the Stormwater portion of the Series 2015 Note. As of September 30, 2016, the total amount of principal and accrued interest outstanding for the Stormwater portion of the Series 2015 Note was \$1,553,161.

The following is a schedule of the future payments on the outstanding Stormwater portion of the Series 2015 Note as of September 30, 2016:

Fiscal Year Ending September 30,	Principal	Interest	Total
2017*	\$ -	\$ 33,813	\$ 33,813
2018	85,000	31,688	116,688
2019	88,000	29,500	117,500
2020	90,000	27,248	117,248
2021	92,000	24,946	116,946
2022 - 2026	496,000	88,171	584,171
2027 - 2029	444,000	22,795	466,795
	<u>\$ 1,295,000</u>	<u>\$ 258,161</u>	<u>\$ 1,553,161</u>

*Principal payment of \$83,000 due October 1, 2016 was paid on September 30, 2016.

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.

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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, 2016. At year end the City's commitments were \$611,182 as follows:

Project	Contract Amount	Spent - to - Date	Remaining Commitment
General Fund:			
Commission room carpet:			
Palm Coast Flooring Outlet	\$ 2,270	\$ -	\$ 2,270
Fire Department repairs:			
Davis Wallace Construction, Inc.	5,594	2,797	2,797
Water and Sewer:			
WTP driveway coating:			
Liberty Seal Coat LTD Co.	3,150	-	3,150
Conditional Use Permit (CUP) renewal:			
Quentin L Hampton Associates, Inc.	59,670	10,613	49,057
Seaside Landing inspections:			
Quentin L Hampton Associates, Inc.	28,440	10,528	17,912
WWTP Improvements Phase II:			
Quentin L Hampton Associates, Inc.	40,920	11,160	29,760
Plumbing- Public Works Building			
Kehle Plumbing	7,100	3,968	3,132
Drill and complete PWS FB-12R:			
Connect Consulting	214,500	-	214,500
WTP Degassifier Odor Control repairs:			
Quentin L Hampton Associates, Inc.	12,180	6,970	5,210
SGS Contracting Service, Inc.	98,500	-	98,500
Wastewater Treatment Plant Phase III:			
HDR Engineering, Inc.	13,000	-	13,000
Hydrant Lateral at SR 100 & Old Kings:			
Jon M. Hall Company, Inc.	13,415	-	13,415
Valves at Water Treatment Plant:			
Power & Pumps, Inc.	18,603	-	18,603
Stormwater:			
South Central Ave. Drainage Improvements:			
Quentin L Hampton Associates, Inc.	9,920	8,689	1,231
S.E. Cline Construction, Inc.	52,000	-	52,000
Ocean Palm Subdivision Stormwater Project:			
Quentin L Hampton Associates, Inc.	112,430	25,785	86,645
Total	<u>\$ 691,692</u>	<u>\$ 80,510</u>	<u>\$ 611,182</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

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already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

3. Legal matters

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

C. Retirement plans

Defined contribution plan

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

The plan assets are administered by ICMA Retirement Corp. The City does not exercise any control over the plan assets. Contributions were approximately \$116,825 for the year ended September 30, 2016.

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.

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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.

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

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

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, 2015, 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, 2014 updated to September 30, 2015 using the following actuarial assumptions, applied measurement periods:

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2016

	Municipal Police Officers' Pension Trust Fund Plan**	Municipal Firefighters' Pension Trust Fund Plan***
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).

**The date of the most recent experience study for which significant assumptions are based upon is not available.

***The significant assumptions are based upon the most recent experience study dated April 22, 2013 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, 2015 are summarized in the following table:

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

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

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2016

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, 2014	\$ 2,764,159	\$ 2,725,888	\$ 38,271
Changes for the Year:			
Service cost	152,425	-	152,425
Interest	218,206	-	218,206
Differences between expected and actual experience	(58,880)	-	(58,880)
Contributions - employer	-	60,659	(60,659)
Contributions - State	-	38,667	(38,667)
Contributions - employee	-	71,655	(71,655)
Net investment income	-	(40,277)	40,277
Benefit payments, including refunds of employee contributions	(90,905)	(90,905)	-
Administrative expense	-	(51,933)	51,933
Net changes	<u>220,846</u>	<u>(12,134)</u>	<u>232,980</u>
Balances at September 30, 2015	<u>\$ 2,985,005</u>	<u>\$ 2,713,754</u>	<u>\$ 271,251</u>

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, 2014	\$ 880,097	\$ 1,274,681	\$ (394,584)
Changes for the Year:			
Service cost	74,954	-	74,954
Interest	69,702	-	69,702
Differences between expected and actual experience	(1,875)	-	(1,875)
Contributions - employer	-	12,764	(12,764)
Contributions - State	-	62,074	(62,074)
Contributions - employee	-	14,900	(14,900)
Net investment income	-	(19,545)	19,545
Benefit payments, including refunds of employee contributions	(51,394)	(51,394)	-
Administrative expense	-	(28,497)	28,497
Net changes	<u>91,387</u>	<u>(9,698)</u>	<u>101,085</u>
Balances at September 30, 2015	<u>\$ 971,484</u>	<u>\$ 1,264,983</u>	<u>\$ (293,499)</u>

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2016

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	\$ 653,168	\$ 271,251	\$ (47,748)

Municipal Firefighters’ Pension Trust Fund Plan

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability	\$ (160,555)	\$ (293,499)	\$ (403,277)

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

For the year ended September 30, 2016, the City recognized pension expense of \$169,962 and \$79,385, respectively for Police Plan and Fire Plan.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to the Pension Trust Fund Plans from the following sources:

Municipal Police Officers’ Pension Trust Fund Plan

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 49,066
Net difference between projected and actual earnings on investments	161,021	-
Total	\$ 161,021	\$ 49,066

Municipal Firefighters’ Pension Trust Fund Plan

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,688
Net difference between projected and actual earnings on investments	74,967	-
Total	\$ 74,967	\$ 1,688

\$105,703 and \$38,692, respectively, were reported as deferred outflows of resources related to pensions resulting from the City’s contributions subsequent to the measurement date for Police

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2016

Plan and Fire Plan and are recognized as a reduction of net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pension Trust Fund Plans will be recognized as follows:

Fiscal Year Ending September 30:	Police Plan	Fire Plan
2017	\$ 27,292	\$ 17,101
2018	27,293	17,101
2019	27,293	17,101
2020	39,890	22,916
2021	(9,813)	(188)
Thereafter	-	(752)
Total	\$ 111,955	\$ 73,279

Payable to the Pension Plan – On September 30, 2016, the City had no payables for outstanding amounts of contributions of the Police Plan and 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.

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, 2016.

	Single	Employee + Spouse	Employee + Dependents	Employee + Family
HMO Choice 8L-Q	\$ 597	\$ 1,278	\$ 1,218	\$ 1,827
HMO Choice 8P-L	631	1,351	1,288	1,932
HMO Choice Plus 8Q-K	634	1,356	1,293	1,939

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

For financial reporting purposes, GASB Statement No. 45 requires that an actuarial valuation be performed at least triennially for plans with a total membership of fewer than 200. The projection of benefits should include all benefits covered by the current substantive plan (the

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2016

plan as understood by the employer and plan members) at the time of each valuation and should take into consideration the pattern of sharing of benefit costs between the employer and plan members to that point, as well as certain legal or contractual caps on benefits to be provided. The City's most recent actuarial valuation was as of October 1, 2014 for contributions applicable to the plan/fiscal year ending September 30, 2015.

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		<u>(17,916)</u>
Annual OPEB cost		63,469
Estimated contributions made		<u>(22,666)</u>
Increase in net OPEB obligation		40,803
Net OPEB obligation, beginning of year ended September 30, 2015		<u>256,389</u>
Net OPEB obligation, end of year ended September 30, 2015	\$	<u><u>297,192</u></u>

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

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

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

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

Actuarial methods and assumptions

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

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2016

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

On October 7, 2016, Hurricane Matthew impacted both the residents of the City and the City's pier and dune walkovers. Immediately after the storm, the City expended approximately \$300,000 for debris removal throughout the City. Up to 92% of these costs are expected to be reimbursed by FEMA and the State of Florida. The City's original Preliminary Damage Assessment submitted to FEMA was in excess of \$9.4 million dollars. The Flagler Beach Pier lost 166 feet and several of the City's dune walkovers will need to be totally replaced. The City has worked diligently with FEMA and the State to get estimates and begin work on these large projects. Several smaller scale damages were experienced with City buildings and equipment. The City expects that up to 87.5% of the City's storm costs will be reimbursed by FEMA and the State for all damages. Any required spending matches and any costs that are not deemed reimbursable by FEMA and the State will be spent from the City's unrestricted reserves.

On February 9, 2017, the City awarded Bid No. FB2017-202-02 "Fishing Pier-Hurricane Matthew Emergency Safety Temporary Repairs" in the amount of \$917,917 to Construct Co., Inc.

On April 13, 2017, the City awarded Bid No. FB2017-202-03 "Ocean Palm Subdivision Stormwater Improvements" in the amount of \$817,968 to S.E. Cline Construction, Inc.

City management has evaluated subsequent events through June 22, 2017, the date which the financial statements are available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

City of Flagler Beach, Florida
Budgetary Comparison Schedule
General Fund
September 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 3,275,507	\$ 3,275,507	\$ 3,363,101	\$ 87,594
Franchise fees	300,000	300,000	309,847	9,847
Licenses and permits	333,187	334,392	398,019	63,627
Intergovernmental	595,609	818,243	607,332	(210,911)
Charges for services	417,643	436,143	461,188	25,045
Fines and forfeitures	40,550	40,571	48,727	8,156
Grants and donations	25,000	25,000	10,500	(14,500)
Investment earnings	22,000	22,000	45,359	23,359
Miscellaneous	38,215	41,794	65,292	23,498
Total revenues	<u>5,047,711</u>	<u>5,293,650</u>	<u>5,309,365</u>	<u>15,715</u>
EXPENDITURES				
Current:				
Commission	61,874	67,874	64,692	3,182
Executive	102,843	124,486	120,072	4,414
City clerk	127,669	128,651	123,336	5,315
Finance	155,091	156,791	154,761	2,030
Legal counsel	170,900	170,900	110,001	60,899
Building maintenance	241,030	286,274	240,871	45,403
General government	778,579	1,008,636	737,992	270,644
Police	1,206,253	1,218,851	1,146,036	72,815
VOCA	96,059	70,039	69,957	82
Fire	515,676	520,120	509,351	10,769
Building and zoning	107,826	116,738	108,428	8,310
Roads and streets	248,256	450,813	375,952	74,861
Library	98,637	101,489	83,059	18,430
Museum	5,080	5,480	5,442	38
Beach	163,929	201,129	200,784	345
Dune crossover	6,000	6,000	3,377	2,623
Recreation	75,458	75,907	60,055	15,852
Building code inspections	158,112	161,222	154,602	6,620
Bait shop	309,928	364,068	336,535	27,533
Capital projects	342,834	446,129	782,493	(336,364)
Total expenditures	<u>4,972,034</u>	<u>5,681,597</u>	<u>5,387,796</u>	<u>293,801</u>
Excess (deficiency) of revenues over (under) expenditures	<u>75,677</u>	<u>(387,947)</u>	<u>(78,431)</u>	<u>309,516</u>
OTHER FINANCING SOURCES				
Sale of capital asset	-	-	1,000	1,000
Total other financing sources	<u>-</u>	<u>-</u>	<u>1,000</u>	<u>1,000</u>
Net change in fund balances	<u>\$ 75,677</u>	<u>\$ (387,947)</u>	<u>\$ (77,431)</u>	<u>\$ 310,516</u>

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

**City of Flagler Beach, Florida
Budgetary Comparison Schedule
Community Redevelopment Fund
September 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes - property	\$ 132,551	\$ 132,551	\$ 131,518	\$ (1,033)
Total revenues	<u>132,551</u>	<u>132,551</u>	<u>131,518</u>	<u>(1,033)</u>
EXPENDITURES				
Current:				
Professional services	5,000	3,285	3,000	285
Operational costs	10,944	14,569	14,308	261
Debt service:				
Interest	24,938	24,938	24,938	-
Principal	80,383	80,383	53,000	27,383
Total expenditures	<u>121,265</u>	<u>123,175</u>	<u>95,246</u>	<u>27,929</u>
Excess (deficiency) of revenues over (under) expenditures	<u>11,286</u>	<u>9,376</u>	<u>36,272</u>	<u>26,896</u>
Net change in fund balances	<u>\$ 11,286</u>	<u>\$ 9,376</u>	<u>\$ 36,272</u>	<u>\$ 26,896</u>

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

City of Flagler Beach, Florida
Note to the Budgetary Comparison Schedules
For the Year Ended September 30, 2016

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, 2016

The schedule below shows the balance of the actuarial accrued liability (AAL), all of which was unfunded as of September 30, 2016.

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	\$2,681,708	\$0
10/1/2013	N/A	N/A	N/A	N/A	N/A	N/A
10/1/2012	N/A	N/A	N/A	N/A	N/A	N/A
10/1/2011	N/A	\$235,321	\$235,321	0.0%	\$2,376,554	9.9%
10/1/2010	N/A	\$318,000	\$318,000	0.0%	\$2,482,000	12.8%

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

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

City of Flagler Beach, Florida
Schedule of Changes in Net Pension Liability and Related Ratios
Municipal Police Officers' Pension Trust Fund Plan
(Last 10 Fiscal Years)
September 30, 2016

Reporting Period Measurement Date	9/30/2016	9/30/2015	9/30/2014	PRIOR INFORMATION NOT AVAILABLE
	9/30/2015	9/30/2014	9/30/2013	
TOTAL PENSION LIABILITY				
Service cost	\$ 152,425	\$ 148,987		
Interest	218,206	197,282		
Differences between expected and actual experience	(58,880)	-		
Benefit payments, including refunds of employee contributions	(90,905)	(57,881)		
Net change in total pension liability	220,846	288,388		
Total pension liability - beginning	2,764,159	2,475,771		
Total pension liability - ending (a)	\$ 2,985,005	\$ 2,764,159		
PLAN FIDUCIARY NET POSITION				
Contributions - employer	\$ 60,659	\$ 87,454		
Contributions - state	38,667	38,340		
Contributions - employee	71,655	71,530		
Net investment income	(40,277)	246,855		
Benefit payments, including refunds of employee contributions	(90,905)	(57,881)		
Administrative expense	(51,933)	(19,992)		
Net change in plan fiduciary net position	(12,134)	366,306		
Plan fiduciary net position - beginning	2,725,888	2,359,582		
Plan fiduciary net position - ending (b)	\$ 2,713,754	\$ 2,725,888		
Net pension liability - ending (a) - (b)	\$ 271,251	\$ 38,271		
Plan fiduciary net position as a percentage of the total pension liability	90.91%	98.62%		
Covered employee payroll*	\$ 716,550	\$ 715,298		
Net pension liability as a percentage of covered employee payroll	37.86%	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, 2016

Reporting Period	9/30/2016	9/30/2015	9/30/2014	9/30/2013
Measurement Date	9/30/2015	9/30/2014	9/30/2013	9/30/2012
TOTAL PENSION LIABILITY				
Service cost	\$ 74,954	\$ 63,454		
Interest	69,702	63,195		
Differences between expected and actual experience	(1,875)	-		
Benefit payments, including refunds of employee contributions	(51,394)	(51,394)		
Net change in total pension liability	91,387	75,255		
Total pension liability - beginning	880,097	804,842		
Total pension liability - ending (a)	<u>\$ 971,484</u>	<u>\$ 880,097</u>		
PLAN FIDUCIARY NET POSITION				
Contributions - employer	\$ 12,764	\$ 24,723		
Contributions - state	62,074	50,517		
Contributions - employee	14,900	13,776		
Net investment income	(19,545)	115,088		
Benefit payments, including refunds of employee contributions	(51,394)	(51,394)		
Administrative expense	(28,497)	(12,148)		
Net change in plan fiduciary net position	(9,698)	140,562		
Plan fiduciary net position - beginning	1,274,681	1,134,119		
Plan fiduciary net position - ending (b)	<u>\$ 1,264,983</u>	<u>\$ 1,274,681</u>		
Net pension liability - ending (a) - (b)	<u>\$ (293,499)</u>	<u>\$ (394,584)</u>		
Plan fiduciary net position as a percentage of the total pension liability	130.21%	144.83%		
Covered employee payroll*	\$ 297,990	\$ 275,505		
Net pension liability as a percentage of covered employee payroll	-98.49%	-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 Pension Trust Fund Plan
(Last 10 Fiscal Years)
September 30, 2016

Reporting Period Measurement Date	9/30/2016 9/30/2015	9/30/2015 9/30/2014	
Actuarially determined contribution	\$ 98,884	\$ 125,177	PRIOR INFORMATION NOT AVAILABLE
Contributions in relation to the actuarially determined contributions	99,326	125,794	
Contribution excess	\$ (442)	\$ (617)	
Covered employee payroll*	\$ 716,550	\$ 715,298	
Contributions as a percentage of covered employee payroll	13.86%	17.59%	

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

Notes to Schedule

Valuation date: 10/1/2013

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

Methods and assumptions used to determine contributions rates:

Funding Method: Aggregate Actuarial Cost Method. The following load is utilized for determination of the Total Required Contribution:

Interest - A half-year, based on the current 7.7% assumption.

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

Inflation: 3.0% per year.

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

Cost-of-Living Adjustment: None

Interest rate: 7.7% 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 Fire Pension Trust Fund Plan
(Last 10 Fiscal Years)
September 30, 2016

Reporting Period Measurement Date	9/30/2016 9/30/2015	9/30/2015 9/30/2014	
Actuarially determined contribution	\$ 67,942	\$ 75,240	PRIOR INFORMATION NOT AVAILABLE
Contributions in relation to the actuarially determined contributions	74,838	75,240	
Contribution deficiency (excess)	\$ (6,896)	\$ -	
Covered employee payroll*	\$ 297,990	\$ 275,505	
Contributions as a percentage of covered employee payroll	25.11%	27.31%	

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

Notes to Schedule

Valuation date: 10/1/2013
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 REPORTS

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June 22, 2017

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 22, 2017.

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, P.A., PA

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June 22, 2017

**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, 2016, and have issued our report thereon dated June 22, 2017.

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 June 22, 2017, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. 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, 2016, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2016. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

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

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

Purpose of this Letter

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

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June 22, 2017

**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, 2016. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

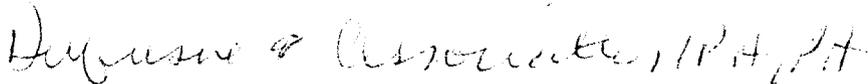
Scope

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, 2016.



Dufresne & Associates, CPA, PA