

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS**

**CITY OF ST. AUGUSTINE BEACH
ST. AUGUSTINE BEACH, FLORIDA**

SEPTEMBER 30, 2014

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS**

**CITY OF ST. AUGUSTINE BEACH
ST. AUGUSTINE BEACH, FLORIDA**

SEPTEMBER 30, 2014

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor, Members of the City Commission
and City Manager
St. Augustine Beach, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining funds of the City of St. Augustine Beach, Florida, (the City), as of and for the year ended September 30, 2014, and the related notes, 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.

Auditors' 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 of 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 estimates made by management, as well as evaluating the overall financial statement presentation.

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

Certified Public Accountants

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Honorable Mayor, Members of the City Commission
and City Manager
St. Augustine Beach, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund, and the aggregate remaining fund information of the City as of September 30, 2014, and the respective changes in financial position thereof for the year then ended, in conformity 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 budgetary comparison information as listed in the table of contents 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 the basic 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 inquires of management about the methods of preparing the information and comparing the information for the consistency with management's responses to our inquires, 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 a report, dated April 7, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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.



April 7, 2015
Gainesville, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CITY OF ST. AUGUSTINE BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014**

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

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$19,955,022 (net position).
- The governments' total net position increased by \$389,884.
- The City's total long-term obligations decreased during the current year by \$210,747.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

The first financial statement is the *Statement of Net Position*. This statement includes all of the City's assets and liabilities using the accrual basis of accounting. Accrual accounting is similar to the accounting used by most private sector companies. All of the current year revenues and expenses are recorded, regardless of when cash is received or paid. Net Position - the difference between assets and liabilities - can be used to measure the City's financial position.

The second financial statement, the *Statement of Activities*, presents information showing how the City's net position has changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to change occurs, regardless of the timing of the 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 (i.e., uncollected revenues and earned but unused vacation leave).

Fund Financial Statements

Following the government-wide financial statements are the fund financial statements. The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, road and bridge fund, debt service fund and capital projects fund.

A budgetary comparison statement has been provided for the general fund and road and bridge funds to demonstrate compliance with their budgets.

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.

Condensed Financial Information

The following tables represent condensed, government-wide comparative data about net position and changes in net position:

**CITY OF ST. AUGUSTINE BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014
(Continued)**

Net Position

	<u>2014</u>	<u>2013</u>
Current and Other Assets	\$ 6,195,138	\$ 6,455,285
Capital Assets	21,158,895	20,988,364
Total Assets	<u>27,354,033</u>	<u>27,443,649</u>
Long-term Liabilities Outstanding	6,821,547	7,043,969
Other Liabilities	577,464	740,399
Total Liabilities	<u>7,399,011</u>	<u>7,784,368</u>
Net Position:		
Net Investment in Capital Assets	14,661,309	14,228,639
Restricted	457,383	1,030,901
Unrestricted	4,836,330	4,399,741
Total Net Position	<u>\$ 19,955,022</u>	<u>\$ 19,659,281</u>

Changes in Net Position

	<u>2014</u>	<u>2013</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 656,205	\$ 593,118
Operating Grants and Contributions	294,453	421,767
Capital Grants and Contributions	16,700	125
General Revenues:		
Property Taxes	2,069,441	2,004,417
Other Taxes	2,132,099	2,042,924
Other	740,859	344,009
Total Revenues	<u>5,909,757</u>	<u>5,406,360</u>
Expenses:		
General Government	1,291,421	1,170,842
Public Safety	1,939,549	1,750,830
Physical Environment	977,584	989,680
Transportation	731,991	808,600
Economic Environment	5,250	200
Human Services	46	47
Culture and Recreation	293,539	418,488
Interest on Long-Term Debt	280,493	291,949
Total Expenses	<u>5,519,873</u>	<u>5,430,636</u>
Change in Net Position	389,884	(24,276)
Net Position - October 1, 2013 *	<u>19,565,138</u>	<u>19,683,557</u>
Net Position - September 30, 2014	<u>\$ 19,955,022</u>	<u>\$ 19,659,281</u>

* Net Position as of October 1, 2013, has been reduced by \$94,143 to reflect a prior period adjustment related to the implementation of GASB Statement No. 65, which eliminated the unamortized issuance costs in the governmental activities statement of net position.

**CITY OF ST. AUGUSTINE BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014
(Concluded)**

Overall Financial Position and Results of Operations

The governmental activities generated \$951,158 in program revenues and \$4,958,599 in general revenues, and incurred \$5,519,873 of program expenses. This resulted in a \$389,884 increase in net position.

The City's Individual Funds

The General Fund's fund balance increased by \$221,039 from \$5,190,724 to \$5,411,763. Revenues were higher than budgeted amounts and expenditures were less than budgeted amounts, however transfers needed to other funds resulted in a decrease in the excess of revenues over expenditures.

The Road and Bridge fund balance decreased by \$307,826, from \$753,593 to \$445,770. Revenues were less than budgeted amounts and expenditures were less than budgeted amounts, and was subsidized by the General Fund.

General Fund Budgetary Highlights

The City continues monitoring the status of intergovernmental revenues during the first quarter of the fiscal year. As is typical, the budget is reevaluated at the six-month mark and adjusted where necessary. The City received \$560,000 from a hotel developer to vacate a right of way which translates to perpetual access to the right of way allowing the hotel to move forward with construction.

The City received more than the overall budgeted amount for revenues, and spent less than the budgeted amounts for expenditures.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets as of September 30, 2014, amounts to \$21,158,895 (net of accumulated depreciation). See Note 3 for details. Capital assets include land, buildings and improvements, machinery and equipment, and infrastructure. The total increase in the City's investment in capital assets net of depreciation for the current fiscal year was less than one percent. Though capital purchases were made, obsolete or non-functional equipment and vehicles were disposed of.

Debt Administration

The City decreased its debt during the current fiscal year by \$210,747 which is a decrease of 2.86 percent. See Note 4 for details.

Economic Factors

We are not currently aware of any conditions that are expected to have a significant effect on the City's financial position or results of operations.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all of those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Finance Director, 2200 A1A South, St. Augustine Beach, Florida 32080.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION
SEPTEMBER 30, 2014
CITY OF ST. AUGUSTINE BEACH, FLORIDA

Assets

Current Assets

Cash and Equivalents	\$ 2,047,062
Investments	3,814,348
Accounts Receivable	143,511
Due from Other Governments	128,870
Inventory	6,049
Prepaid Expenses	55,298
Total Current Assets	<u>6,195,138</u>

Noncurrent Assets

Capital Assets:	
Nondepreciable	7,276,810
Depreciable, Net	13,882,085
Total Noncurrent Assets	<u>21,158,895</u>

Total Assets	<u>27,354,033</u>
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Liabilities

Current Liabilities

Accounts Payable and Accrued Liabilities	171,036
Deposits	1,500
Due to Other Governments	4,021
Accrued Interest	80,735
Current Portion of Long-term Obligations	320,172
Total Current Liabilities	<u>577,464</u>

Noncurrent Liabilities	<u>6,821,547</u>
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Total Liabilities	<u>7,399,011</u>
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Net Position

Net Investment in Capital Assets	14,661,309
Restricted for:	
Debt Service	
Impact Fees - General Fund	213,395
Police Department Communications	41,137
Law Enforcement - Forfeiture and Seizure	39,772
Building Department Training	152,593
Law Enforcement - Education	10,486
Unrestricted	4,836,330
Total Net Position	<u>\$ 19,955,022</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2014
CITY OF ST. AUGUSTINE BEACH, FLORIDA

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental Activities					
General Government	\$ 1,291,421	\$ 41,291	\$ 0	\$ 0	\$ (1,250,130)
Public Safety	1,939,549	261,628	17,019	16,200	(1,644,702)
Physical Environment	977,584	295,084	167,366	0	(515,134)
Transportation	731,991	51,458	20,000	0	(660,533)
Economic Environment	5,250	0	0	0	(5,250)
Human Services	46	329	0	0	283
Culture and Recreation	293,539	6,415	90,068	500	(196,556)
Interest on Long-term Debt	280,493	0	0	0	(280,493)
Total Governmental Activities	\$ 5,519,873	\$ 656,205	\$ 294,453	\$ 16,700	(4,552,515)
General Revenues					
Property Taxes					2,069,441
Sales Tax and Other State-shared Revenues					914,920
Franchise Fees					407,781
Utility Taxes					591,555
Communications Service Tax					217,843
Interest Earnings					1,508
Vacation of Right of Way					560,000
Miscellaneous					179,351
Total General Revenues					4,942,399
Change in Net Position					389,884
Net Position, Beginning of Year					19,659,281
Prior Period Adjustment					(94,143)
Net Position, Beginning of Year As Restated					19,565,138
Net Position, End of Year					\$ 19,955,022

The accompanying notes are an integral part of the financial statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014
CITY OF ST. AUGUSTINE BEACH, FLORIDA

	General Fund	Road and Bridge	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and Equivalents	\$ 1,733,667	\$ 137,991	\$ 175,404	\$ 0	\$ 2,047,062
Investments	3,547,013	267,335	0	0	3,814,348
Accounts Receivable	143,511	0	0	0	143,511
Due from Other					
Governments	106,039	22,831	0	0	128,870
Due from Other Funds	10,721	42,835	3,140	0	56,696
Inventory	5,560	489	0	0	6,049
Prepaid Items	55,298	0	0	0	55,298
Total Assets	5,601,809	471,481	178,544	0	6,251,834
Liabilities					
Accounts Payable and					
Accrued Liabilities	144,591	25,711	734	0	171,036
Due to Other Funds	39,934	0	0	16,762	56,696
Due to Other					
Governments	4,021	0	0	0	4,021
Deposits	1,500	0	0	0	1,500
Total Liabilities	190,046	25,711	734	16,762	233,253
Fund Balance					
Nonspendable:					
Inventory	5,560	489	0	0	6,049
Prepaid Items	55,298	0	0	0	55,298
Restricted:					
Impact Fees	213,395	0	0	0	213,395
Police Department:					
Communications	41,137	0	0	0	41,137
Law Enforcement:					
Forfeiture and Seizure	39,772	0	0	0	39,772
Education	10,486	0	0	0	10,486
Building Department	152,593	0	0	0	152,593
Committed:					
Debt Service	0	0	177,810	0	177,810
Assigned:					
Parks and Recreation	749,613	0	0	0	749,613
Capital Projects	600,000	0	0	0	600,000
Land Acquisition	131,196	0	0	0	131,196
Beach Blast Off	26,921	0	0	0	26,921
Emergencies and					
Contingencies	50,000	25,000	0	0	75,000
Transportation	0	420,281	0	0	420,281
Unassigned	3,335,792	0	0	(16,762)	3,319,030
Total Fund Balances	5,411,763	445,770	177,810	(16,762)	6,018,581
Total Liabilities and Fund Balances	\$ 5,601,809	\$ 471,481	\$ 178,544	\$ 0	\$ 6,251,834

The accompanying notes are an integral part of the financial statements.

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2014
CITY OF ST. AUGUSTINE BEACH, FLORIDA**

Total Fund Balance of Governmental Funds	\$ 6,018,581
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Amounts Reported in the Statement of Net Position are Different Because:

Capital assets used in governmental activities are not reported in the governmental funds:

Capital Assets, Net	21,158,895
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Long-term liabilities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. Interest on long-term debt is generally not accrued in the governmental funds, but rather recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position. Long-term liabilities at year-end consist of:

Bonds and Loans Payable	(6,497,586)
Compensated Absences	(226,958)
Net OPEB Obligation	(417,175)
Accrued Interest Payable	(80,735)
	(7,122,454)

Total Net Position, Statement of Net Position	<u><u>\$ 19,955,022</u></u>
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The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014
CITY OF ST. AUGUSTINE BEACH, FLORIDA

	General Fund	Road and Bridge	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 2,527,167	\$ 230,841	\$ 372,913	\$ 0	\$ 3,130,921
Licenses and Permits	636,186	80,406	0	0	716,592
Intergovernmental	687,078	233,817	0	0	920,895
Charges for Services	362,253	51,457	0	0	413,710
Fines and Forfeitures	21,321	0	0	0	21,321
Investment Income	1,465	0	386	16	1,867
Miscellaneous	688,610	0	0	0	688,610
Total Revenues	4,924,080	596,521	373,299	16	5,893,916
Expenditures					
Current:					
General Government	1,160,620	0	0	0	1,160,620
Public Safety	1,766,910	0	0	0	1,766,910
Physical Environment	637,145	0	0	0	637,145
Transportation	0	704,106	0	0	704,106
Economic Environment	5,250	0	0	0	5,250
Human Services	46	0	0	0	46
Culture and Recreation	97,344	0	0	111,018	208,362
Capital Outlay	284,516	673,067	0	0	957,583
Debit Services:					
Principal	0	98,609	163,529	0	262,138
Interest	0	68,757	211,736	0	280,493
(Total Expenditures)	(3,951,831)	(1,544,539)	(375,265)	(111,018)	(5,982,653)
Excess (Deficiency) of Revenues Over (Under) Expenditures					
	972,249	(948,018)	(1,966)	(111,002)	(88,737)
Other Financing Sources (Uses)					
Transfers in	0	640,192	0	111,018	751,210
Transfers (out)	(751,210)	0	0	0	(751,210)
Total Other Financing Sources (Uses)	(751,210)	640,192	0	111,018	0
Net Change in Fund Balances					
	221,039	(307,826)	(1,966)	16	(88,737)
Fund Balances, Beginning of Year					
	5,190,724	753,596	179,776	(16,778)	6,107,318
Fund Balances, End of Year					
	<u>\$ 5,411,763</u>	<u>\$ 445,770</u>	<u>\$ 177,810</u>	<u>\$ (16,762)</u>	<u>\$ 6,018,581</u>

The accompanying notes are an integral part of the financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014
CITY OF ST. AUGUSTINE BEACH, FLORIDA**

Net Change in Fund Balances - Statement of Revenues, Expenditures, and Changes in Fund Balance	\$ (88,737)
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Amounts Reported in the Statement of Activities are Different Because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives:

Expenses for Capital Assets	895,704
Contributions of Capital Assets	16,200
Current Year Depreciation Expense	(647,230)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment does not effect net position of governmental activities.

Principal Payments	262,138
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Accrued Interest Payable	3,200
Compensated Absences	30,481
Increase in Net OPEB Obligation	(81,872)

Change in Net Position of Governmental Activities	\$ 389,884
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The accompanying notes are an integral part of the financial statements.

**NOTES TO FINANCIAL STATEMENTS
CITY OF ST. AUGUSTINE BEACH, FLORIDA**

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of St. Augustine Beach, Florida (the City) conform to U.S. generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Reporting Entity

The City was constituted a municipality on June 20, 1959, under the provisions of Chapter 59-1790, Laws of Florida, Acts of 1959. The City operates under a commission/manager form of government and provides the following services as authorized by its charter: law enforcement, planning and zoning, code enforcement, building inspection, solid waste collections, road and right-of-way maintenance, maintenance of City buildings, drainage and storm water management, and street lighting.

As required by U.S. generally accepted accounting principles, the accompanying financial statements present the City as a primary government. Component units, if any, would also be presented. Component units are entities for which a primary government is considered to be financially accountable.

There are no component units included in the City's financial reporting entity.

The City did not participate in any joint ventures during the fiscal year.

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all nonfiduciary activities. 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 on fees charged to external parties. The City has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: charges for services that are directly related to a given function; and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Separate financial statements are provided for the governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements, but any nonmajor funds are aggregated and displayed in a single column. The governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The City reports the following major governmental funds:

NOTES TO FINANCIAL STATEMENTS
CITY OF ST. AUGUSTINE BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Financial Statements (Concluded)

- **General Fund**—the primary operating fund, used to account for and report all activities except those accounted for and reported in another fund.
- **Road and Bridge Fund**—to account for and report activities of the Road and Bridge Department. Resources are primarily provided by gas taxes, impact fees, and intergovernmental revenue.
- **Debt Service Fund**—to account for and report resources to be used for debt service.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Taxes and intergovernmental revenues constitute the most significant sources of revenue considered susceptible to accrual.

In governmental funds, expenditures are generally recognized when the related liability is incurred. However, debt service expenditures, expenditures for compensated absences, other postemployment benefits, and claims and judgments, are recorded only when payment is due.

Accounts Receivable

Receivables are stated at net realizable value. An allowance for uncollectable accounts was not considered necessary.

Investments

The City follows the provisions of Section 218.415, Florida Statutes, which allows for surplus funds to be invested in the Local Government Surplus Funds Trust fund (the State Pool) or any intergovernmental investment pool; Securities and Exchange Commission registered money market funds; certificates of deposit and savings accounts in state-certified qualified public depositories and direct obligations of the U.S. Treasury.

**NOTES TO FINANCIAL STATEMENTS
CITY OF ST. AUGUSTINE BEACH, FLORIDA
(Continued)**

Note 1 - Summary of Significant Accounting Policies (Continued)

Inventory and Prepaids

Inventory is valued at cost under the first-in, first-out method and is accounted for using the consumption method. 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. An offsetting “nonspendable” fund balance is reported in the fund financial statements to indicate that inventories and prepaids do not represent available spendable resources.

Capital Assets

Capital assets are recorded at historical cost or estimated historical cost, except for contributed assets, which are recorded at fair value at the date of contribution. The City uses a capitalization threshold of \$1,000 for all classes of capital assets.

In accordance with Government Accounting Standards Board (GASB) Statement No. 34, the City has elected not to record and depreciate infrastructure assets acquired prior to October 1, 2003.

Depreciation of capital assets is provided using the straight-line method over the estimated useful lives of the assets, which range as follows:

	Years
Infrastructure	40
Buildings and Improvements	10-40
Machinery and Equipment	3-20

Compensated Absences

Since the liability for employees’ leave time will not be liquidated with expendable available financial resources, the liability has not been reported in the governmental funds. A liability for compensated absences is accrued when incurred in the government-wide financial statements.

Property Taxes

Details of the City’s property tax calendar are presented below:

Lien Date	January 1
Levy Date	October 1
Discount Period	November – February
Delinquent Date	April 1

Restricted Net Position

In the accompanying government-wide statement of net position, the restricted component of net position is subject to restrictions beyond the City’s control. The restriction is either externally imposed (for instance, by creditors, grantors, contributors, or laws/regulations of other governments) or is imposed by law through constitutional provisions or enabling legislation.

NOTES TO FINANCIAL STATEMENTS
CITY OF ST. AUGUSTINE BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Net Position (Concluded)

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

The City has \$213,395 of net position restricted by enabling legislation.

Fund Balance

The City follows the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, to classify fund balances for governmental funds into specifically defined classifications. The classifications comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent.

Fund balance classifications are described below:

- **Nonspendable Fund Balance**—Nonspendable fund balances are amounts that cannot be spent because they are either: (a) not in spendable form; or (b) legally or contractually required to be maintained intact.
- **Restricted Fund Balance**—Restricted fund balances are restricted when constraints placed on the use of resources are either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed Fund Balance**—Committed fund balances are amounts that can only be used for specific purposes as a result of constraints imposed by formal action of the City's highest level of decision-making authority, which is an ordinance of the City Commission. Committed amounts cannot be used for any other purpose unless the City removes those constraints by taking the same type of action.
- **Assigned Fund Balance**—Assigned fund balances are amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by: (a) the City Commission; or (b) a body or official to which the Commission has delegated the authority to assign amounts to be used for specific purposes.
- **Unassigned Fund Balance**—Unassigned fund balance is the residual classification for the general fund.

The City's policy is to expend resources in the following order: restricted, committed, assigned, and unassigned.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make various estimates and assumptions. Actual results could vary from the estimates that were used.

NOTES TO FINANCIAL STATEMENTS
CITY OF ST. AUGUSTINE BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Concluded)

Implementation of Governmental Accounting Standards Statements

The City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*: This statement provides more guidance for the items listed in GASB 63, and adds additional changes. It requires that statements avoid the use of the word “deferred” except as it relates to items that are deferred outflows or are deferred inflows. It addresses the calculation of a deferred outflow or inflow for the refunding of debt. For non-exchange transactions, like grants, amounts received before the time period of eligibility are treated as deferred inflows. This Statement also addresses taxes received prior to the period to which they relate. GASB 65 also requires debt issuance costs to be expensed in the period that the debt was issued. In the past, subsequent to the implementation of GASB 34, these costs were amortized over the life of the issue. The effects of this change are required to be disclosed on the statements in the period it is implemented. Losses on debt refundings are not expenses, but rather, treated as deferred outflows. For operating leases, any initial direct costs are recognized in the period incurred, instead of being amortized over the life of the lease. When an asset is recorded in governmental fund statements, but the revenue is not available until a future period, a deferred inflow is reported until the revenue becomes available.

New Accounting Standards

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, effective for the City’s fiscal year ending September 30, 2015, which establishes standards for measuring and recognizing liabilities, deferred outflows and inflows of resources, and expenses/expenditures for pensions. This statement requires recognition of the liability of employers to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees’ past periods of service (total pension liability), less the amount of the pension plan’s fiduciary net position.

As described in Note 6, the City participates in the FRS, a cost-sharing, multiple-employer defined benefit public retirement plan. Upon implementation of GASB Statement No. 68, the City will be required to recognize a liability for its proportionate share of the collective net pension liability of all employers for benefits provided through the pension plan, and related pension expense/expenditure and deferred outflows and inflows of resources. The effect of the application of GASB Statement No. 68 has not yet been determined.

Note 2 - Deposits and Investments

Deposits

All deposits are placed in a bank that qualifies as a public depository, as required by law (*Florida Security for Public Deposits Act*). Accordingly, all deposits are insured by Federal depository insurance and/or entirely collateralized pursuant to Chapter 280, Florida Statutes.

Investments

The City’s investments are summarized below:

Florida PRIME, at Amortized Costs	\$ 3,814,348
Total	\$ 3,814,348

NOTES TO FINANCIAL STATEMENTS
CITY OF ST. AUGUSTINE BEACH, FLORIDA
(Continued)

Note 2 - Deposits and Investments (Concluded)

Investments (Concluded)

The Florida PRIME has adopted operating procedures consistent with the requirements for a 2a7-like fund. The City's investment in the Florida PRIME is stated at amortized cost. The fair value of the position in the pool is equal to the value of the pool shares.

The City's investment in the State Pool exposes it to credit risk. The City does not have a formal investment policy relating to these risks, which are hereafter described:

- **Credit Risk**—the risk that an issuer or other counterparty to an investment will not fulfill its obligations.
 - The Florida PRIME is rated by Standards & Poor's and has a rating at September 30, 2014, of AAAM.
- **Interest Rate Risk**—the risk that changes in interest rates will adversely affect the fair value of an investment.
 - The dollar weighted-average days to maturity (WAM) of the Florida PRIME at September 30, 2014, is 39 days.

Note 3 - Capital Assets

Capital asset activity for the fiscal year ended September 30, 2014, is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 7,273,180	\$ 0	\$ 0	\$ 7,273,180
Construction in Progress	<u>113,776</u>	<u>3,630</u>	<u>(113,776)</u>	<u>3,630</u>
Total Capital Assets Not Being Depreciated	<u>7,386,956</u>	<u>3,630</u>	<u>(113,776)</u>	<u>7,276,810</u>
Capital Assets Being Depreciated:				
Machinery and Equipment	2,370,448	229,766	(81,571)	2,518,643
Buildings and Improvements	4,250,850	78,467	0	4,329,317
Infrastructure	<u>10,611,338</u>	<u>713,817</u>	<u>0</u>	<u>11,325,155</u>
Total Capital Assets Being Depreciated	<u>17,232,636</u>	<u>1,022,050</u>	<u>(81,571)</u>	<u>18,173,115</u>
Less Accumulated Depreciation for:				
Machinery and Equipment	(1,452,266)	(230,989)	81,571	(1,601,684)
Buildings and Improvements	(1,450,853)	(137,032)	0	(1,587,885)
Infrastructure	<u>(822,252)</u>	<u>(279,209)</u>	<u>0</u>	<u>(1,101,461)</u>
Total Accumulated Depreciation	<u>(3,725,371)</u>	<u>(647,230)</u>	<u>81,571</u>	<u>(4,291,030)</u>
Total Capital Assets Being Depreciated, Net	<u>13,507,265</u>	<u>374,820</u>	<u>0</u>	<u>13,882,085</u>
Net Capital Assets	<u>\$ 20,894,221</u>	<u>\$ 378,450</u>	<u>\$ (113,776)</u>	<u>\$ 21,158,895</u>

**NOTES TO FINANCIAL STATEMENTS
CITY OF ST. AUGUSTINE BEACH, FLORIDA
(Continued)**

Note 3 - Capital Assets (Concluded)

Depreciation expense was charged to functions/programs as follows:

General Governmental	\$ 130,824
Public Safety	147,114
Physical Environment	335,916
Transportation	7,699
Culture and Recreation	<u>25,677</u>
Total Depreciation Expense	<u>\$ 647,230</u>

Note 4 - Long-term Obligations

A summary of changes in long-term obligations follows:

	Balance October 1, 2013	Additions	Reductions	Balance September 30, 2014	Due Within One Year
Bonds Payable	\$ 4,380,561	\$ 0	\$ (163,529)	\$ 4,217,032	\$ 165,061
Loans Payable	2,379,163	0	(98,609)	2,280,554	101,509
Compensated Absences	257,439	0	(30,481)	226,958	53,602
Net OPEB Obligation	<u>335,303</u>	<u>81,872</u>	<u>0</u>	<u>417,175</u>	<u>0</u>
Total	<u>\$ 7,352,466</u>	<u>\$ 81,872</u>	<u>\$ (292,619)</u>	<u>\$ 7,141,719</u>	<u>\$ 320,172</u>

Bonds Payable

- \$2,500,000 serial bond used for the purchase of land and capital improvements, issued through the Florida League of Cities, at interest rates between 3% and 5.13%. Interest payments are payable semiannually on January 1 and July 1. Principal payments are due annually on July 1, maturing on July 1, 2034. The principal balance at September 30, 2014, was \$2,005,000. The bond issue is secured by and is payable from the discretionary communications service tax revenue. The approximate amount of the pledge is equal to the remaining principal and interest of \$3,238,438. During 2014, \$210,503 of discretionary communications service tax revenue was recognized and \$162,469 was paid for debt service.
- \$5,350,000 serial bond used for the purchase of land issued through the Florida Municipal Loan Council at a fixed rate of interest of 5.37%. The principal balance at September 30, 2014, was \$667,032. Interest payments are payable semiannually on January 1 and July 1. Principal payments are due annually on July 1, maturing on July 1, 2029. The bond issue is payable from and secured by certain ad valorem revenues. The approximate amount of the pledge is equal to the remaining principal and interest of \$988,209. During 2014, \$66,741 in ad valorem revenues was recognized and \$65,881 was paid for debt service.
- \$1,835,000 serial bond issued for a current refunding of \$1,785,000 Florida Municipal Loan Council Bond, Series 1999, at a fixed rate of interest of 4.26%. The principal balance at September 30, 2014, was \$1,545,000. Interest payments are payable semiannually on April 1 and October 1. Principal payments are due annually on April 1, maturing on April 1, 2029. The bond issue is payable from the secured by non-ad valorem revenues. The approximate amount of the pledge is equal to the remaining principal and interest of \$2,119,674. During 2014, \$142,415 was paid for debt service.

NOTES TO FINANCIAL STATEMENTS
CITY OF ST. AUGUSTINE BEACH, FLORIDA
(Continued)

Note 4 - Long-term Obligations (Concluded)

Loans Payable

\$2,520,323 loan payable used to connect approximately 620 residential units to the St. Johns County Utility System, issued through the Department of Environmental Protection's Clean Water State Revolving Loan Fund at an interest rate of 2.92%. The principal outstanding at September 30, 2014, was \$2,280,554. Principal and interest payments of \$83,683 are payable semiannually on January 15 and July 15. The loan is secured by revenue received from St. Johns County equal to the semiannual debt service payment to the City as each payment comes due. See Note 9 for further discussion of this activity.

Aggregate maturities of the bonds and loans are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 266,570	\$ 267,487	\$ 534,057
2016	281,170	257,142	538,312
2017	290,945	246,116	537,061
2018	305,901	234,613	540,514
2019	316,046	222,484	538,530
2020-2024	1,769,614	910,201	2,679,815
2025-2029	2,171,646	511,171	2,682,817
2030-2034	1,095,694	128,420	1,224,114
Total	<u>\$ 6,497,586</u>	<u>\$ 2,777,634</u>	<u>\$ 9,275,220</u>

Note 5 - Interfund Balances and Transfers

The interfund balances resulted from the normal course of operations and are expected to be paid within one year. Interfund transfers were generally made in the normal course of operations and are consistent with the activities of the fund making the transfer.

Interfund balances at September 30, 2014, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Total</u>
General Fund	Other Nonmajor Funds	\$ 10,721
Road and Bridge	General Fund	36,794
	Other Nonmajor Funds	6,041
Debt Service	General Fund	3,140
Total		<u>\$ 56,696</u>

Interfund transfers at September 30, 2014, consisted of the following:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Total</u>
General Fund	Road and Bridge	\$ 640,192
	Other Governmental Funds	111,018
Total		<u>\$ 751,210</u>

NOTES TO FINANCIAL STATEMENTS
CITY OF ST. AUGUSTINE BEACH, FLORIDA
(Continued)

Note 6 - Defined Benefit Pension Plan

Plan Description

The City contributes to the Florida Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Florida, Department of Management Services, Division of Retirement. The System provides retirement, disability or death benefits to retirees or their designated beneficiaries. Chapter 121, Florida Statutes, establishes the authority for benefit provisions. Changes to the law can only occur through an act of the Florida Legislature. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Florida Retirement System, PO Box 9000, Tallahassee, Florida 32315, or by calling (850) 488-5706.

If employed prior to July 1, 2011, the System provides for vesting of benefits after six years of creditable service. The vesting requirement changes to eight years of creditable service for those employed on or after July 1, 2011. For those employed prior to July 1, 2011, normal retirement is after thirty years of service or age sixty-two except for the Special Risk service class. Those hired prior to July 1, 2011, who are assigned the Special Risk service class must have twenty-five years of service or must reach age fifty-five. If employed on or after July 1, 2011, normal retirement is after thirty-three years of service or age sixty-five except for the Special Risk service class. Those hired on or after July 1, 2011, who are assigned the Special Risk service class must have thirty years of service or must reach age sixty. Early retirement may be taken after meeting the appropriate vesting requirement with a 5% benefit reduction for each year prior to the normal retirement requirement. The FRS also offers eligible employees the ability to participate in an alternative defined contribution plan (the Investment Plan). Employees participating in the Investment Plan are vested after one year of service with no age requirement. Generally, membership is compulsory for all full-time and part-time employees, except for elected officials who may elect not to participate in the System. Prior to July 1, 2011, retirement coverage for an employee was noncontributory. Effective July 1, 2011, all FRS members (except those in DROP) are required to contribute 3% of their gross compensation on a pre-tax basis.

The Deferred Retirement Option Program (DROP) is available under the FRS Pension Plan when the member first reaches eligibility for normal retirement. DROP allows a member to retire while continuing employment for up to sixty months. While in the DROP, the member's retirement benefits accumulate in the FRS trust fund (increased by a cost-of-living adjustment each July). DROP participants starting the program prior to July 1, 2011, earn monthly interest equivalent to an annual rate of 6.5%. Participants starting the program on or after July 1, 2011, earn an effective annual rate of 1.3%. When the DROP period ends, the DROP account is paid out as a lump-sum payment, a rollover, or a combination, and monthly benefits are subsequently paid to the member in the amount as calculated upon entry into DROP, plus cost-of-living adjustments for intervening years. In most cases, the DROP participant must cease employment when the DROP period ends.

The contribution requirements of plan members are established, and may be amended, by the Florida Legislature. The City and its employees are required to contribute at an actuarially determined rate. The rates at September 30, 2014, are as follows:

**NOTES TO FINANCIAL STATEMENTS
CITY OF ST. AUGUSTINE BEACH, FLORIDA
(Continued)**

Note 6 - Defined Benefit Pension Plan (Concluded)

Plan Description (Concluded)

FRS Membership Class	Employee Contribution Rate	Employer Contribution Rate	Total Contribution Rate
Regular Employees	3.00%	7.37%	10.37%
Special Risk Employees	3.00%	19.82%	22.82%
Elected Officials	3.00%	33.17%	36.17%
Senior Management Services	3.00%	21.14%	24.14%
Deferred Retirement Option Program (DROP)	N/A	12.28%	12.28%

The City's contributions to the System for the years ended September 30, 2014, 2013, and 2012, were \$285,011, \$191,532, and \$160,610, respectively, equal to the required contributions for each year.

Note 7 - Risk Management

The City is exposed to various risks of loss related to general liability, workers' compensation, public liability, health benefits, property damage, and errors and omissions. To manage its risks, the City participates in the Florida League of Cities Self-Insurance Fund (the Fund) a public entity risk pool currently operating as a common risk management and insurance program for member cities. The City pays an annual premium to the Fund for its coverage. The premiums are designed to fund the liability risks assumed by the Fund and are based on certain actual exposures of each member. The City's settled claims have not exceeded coverage in any of the past three fiscal years.

Note 8 - Other Postemployment Benefit Plan

Plan Description

The City administers a single-employer defined benefit plan for postemployment benefits other than pension benefits (OPEB Plan). The OPEB Plan provides postemployment health insurance benefits for retirees and eligible dependents.

All retirees participating in the group insurance plans offered by the City are required to contribute 100% of the active premiums, less the System subsidy. In future years, contributions are assumed to increase at the same rate as premiums.

A separate stand-alone financial statement is not prepared for the OPEB Plan.

Funding Policy

The contribution requirements of the OPEB Plan members and the City are established and may be amended by the St. Augustine Beach City Commission. A trust has not been established. Contributions are being made on a pay-as-you-go financing requirement.

NOTES TO FINANCIAL STATEMENTS
CITY OF ST. AUGUSTINE BEACH, FLORIDA
(Continued)

Note 8 - Other Postemployment Benefit Plan (Continued)

Annual OPEB Cost and Net OPEB Obligations

The City has elected to calculate the Annual Required Contribution (ARC) and related information using the Alternative Measurement Method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The annual cost (expense) of the City's OPEB Plan is calculated based on the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB Plan cost for the year, the amount actually contributed by the employers, and the changes in the net OPEB Plan obligation.

Annual Required Contribution	\$ 98,008
Interest on Net OPEB Obligation	5,147
Adjustments to ARC	<u>(6,564)</u>
Annual OPEB Cost	96,591
(Contributions Made)	<u>(14,719)</u>
Increase in Net OPEB Obligation	81,872
Net OPEB Obligation, Beginning of Year	<u>335,303</u>
Net OPEB Obligation, End of Year	<u><u>\$ 417,175</u></u>

Trend Information

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Net Percentage Contributed</u>	<u>OPEB Obligation</u>
9/30/12	\$ 96,591	\$ 14,720	15.24%	\$ 253,431
9/30/13	96,591	14,720	15.24%	335,303
9/30/14	96,591	14,720	15.24%	417,175

Actuarial Methods and Assumptions

Calculations of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Funded Status and Funding Progress

As of September 30, 2012, the date of the most recent valuation, the actuarial value of assets was \$0, the actuarial accrued liability for benefits was \$523,820, the unfunded actuarial accrued liability (UAAL) was also \$523,820, the funded ratio was 0%, the covered payroll was \$1,643,984, and the UAAL as a percentage of covered payroll was 32%.

NOTES TO FINANCIAL STATEMENTS
CITY OF ST. AUGUSTINE BEACH, FLORIDA
(Continued)

Note 8 - Other Postemployment Benefit Plan (Continued)

Funded Status and Funding Progress (Concluded)

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the City and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

A discount rate of 3.00% was used. A general price inflation of 1.8% was assumed. In addition, the Entry Age Normal Cost actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at September 30, 2014, was 25 years. As authorized by GASB Statement No. 45, the Alternative Measurement Method, with its simplifications of certain assumptions, was employed in measuring actuarial accrued liabilities and the ARC.

The following simplifying assumptions were made pursuant to the Alternative Measurement Method:

- Retirement age for active employees was calculated based on the earlier of age 65 years of age or 30 years of service for general employees. The earlier of age 60 or 25 years of service was used for Public Safety employees.
- The assumption of marital status for active employees has been incorporated in the acceptance probability for spousal coverage. Using this approach, the percentage of future retired plan members taking spousal coverage was assumed at 15%. For active employees, spouses' genders were assumed to be opposite to the members' genders and females were assumed 3 years younger than their spouses. Covered spouse data were collected for current retired plan members of the valuation date, and were assumed to remain unchanged until the assumed death of the spouses.
- Life expectancies were based on the 2004 United States male and female life tables.
- Nongroup specific age based turnover data provided in GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

NOTES TO FINANCIAL STATEMENTS
CITY OF ST. AUGUSTINE BEACH, FLORIDA
(Concluded)

Note 8 - Other Postemployment Benefit Plan (Concluded)

Methods and Assumptions (Concluded)

- The health care trend rate selected for the fiscal year ending September 30, 2014, was the actual increase in health care costs for the year. The trend rate assumed for the fiscal year ending September 30, 2014, was 9% trending down to 5% over the next seven years.
- Health insurance premiums for retirees in effect on the fiscal year ending date were used as the basis for calculating the present value of total benefits to be paid.

Note 9 - Interlocal Agreement

Through the Department of Environmental Protection's State Revolving Loan Program, the City obtained funding to connect approximately 620 residential units in seven neighborhoods to the St. Johns County Utility System.

The City contracted with St. Johns County to extend their current utility system into these neighborhoods. The new lines are in place, and will be both operated and maintained by St. Johns County. The City is the owner of the new utility lines until such time as the debt instrument that has been used to finance the project has been retired, upon which the ownership shall vest solely with St. Johns County.

St. Johns County will share the revenues generated from the new utility connections with the City in an amount equal to the debt service on the City's loans not forgiven, as it becomes due and payable.

Note 10 - Commitments and Contingencies

On July 1, 2005, the City entered into an agreement with St. Johns County, Florida, to acquire land and build a park. The City has agreed to reimburse the County for 50% of the costs to be paid over a period of 12 years. For the year ended September 30, 2014, the City reimbursed the County \$111,018, with a remaining obligation of \$239,010.

Note 11 - Other Disclosures

Deficits in Fund Balance

The Capital Projects Fund had a deficit fund balance of \$16,762 as of September 30, 2014.

Note 12 - Prior Period Adjustment

As disclosed in Note 1, the City implemented GASB Statement 65, which resulted in the elimination of \$94,143 of unamortized issuance costs in the governmental activities net position as shown on the statement of activities.

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014
CITY OF ST. AUGUSTINE BEACH, FLORIDA**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues				
Taxes	\$ 2,503,745	\$ 2,523,745	\$ 2,527,167	\$ 3,422
Licenses and Permits	480,350	500,350	636,186	135,836
Intergovernmental Revenues	640,004	648,548	687,078	38,530
Charges for Services	312,975	326,147	362,253	36,106
Fines and Forfeitures	38,600	38,600	21,321	(17,279)
Interest	10,700	10,700	1,465	(9,235)
Miscellaneous	75,300	679,800	688,610	8,810
Total Revenues	<u>4,061,674</u>	<u>4,727,890</u>	<u>4,924,080</u>	<u>196,190</u>
Expenditures				
Current:				
General Government	1,196,699	1,241,709	1,160,620	81,089
Public Safety	1,801,978	1,852,717	1,766,910	85,807
Physical Environment	679,111	683,304	637,145	46,159
Economic Environment	200	5,250	5,250	0
Human Services	65	65	46	19
Culture and Recreation	108,500	112,100	97,344	14,756
Capital Outlay	653,749	690,126	284,516	405,610
Reserve for Contingencies	95,780	613,095	0	613,095
(Total Expenditures)	<u>(4,536,082)</u>	<u>(5,198,366)</u>	<u>(3,951,831)</u>	<u>1,246,535</u>
Excess of Revenues Over Expenditures	<u>(474,408)</u>	<u>(470,476)</u>	<u>972,249</u>	<u>1,442,725</u>
Other Financing Sources (Uses)				
Transfers (out)	(717,610)	(751,210)	(751,210)	0
Total Other Financing Sources (Uses)	<u>(717,610)</u>	<u>(751,210)</u>	<u>(751,210)</u>	<u>0</u>
Net Change in Fund Balance	(1,192,018)	(1,221,686)	221,039	1,442,725
Fund Balance, Beginning of Year	<u>1,192,018</u>	<u>1,221,686</u>	<u>5,190,724</u>	<u>3,969,038</u>
Fund Balance, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,411,763</u>	<u>\$ 5,411,763</u>

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014
CITY OF ST. AUGUSTINE BEACH, FLORIDA**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues				
Taxes	\$ 224,357	\$ 224,357	\$ 230,841	\$ 6,484
Licenses and Permits	65,000	65,000	80,406	15,406
Intergovernmental Revenues	231,506	231,506	233,817	2,311
Charges for Services	51,592	51,592	51,457	(135)
Interest	2,510	2,510	0	(2,510)
Miscellaneous Revenue	1,000	1,000	0	(1,000)
Total Revenues	<u>575,965</u>	<u>575,965</u>	<u>596,521</u>	<u>20,556</u>
Expenditures				
Current:				
Transportation	700,191	729,895	704,106	25,789
Capital Outlay	833,950	837,846	673,067	164,779
Debt Service:				
Principal	68,757	98,609	98,609	0
Interest	98,609	68,757	68,757	0
(Total Expenditures)	<u>(1,701,507)</u>	<u>(1,735,107)</u>	<u>(1,544,539)</u>	<u>190,568</u>
(Deficiency) of Revenues (Under)				
Expenditures	<u>(1,125,542)</u>	<u>(1,159,142)</u>	<u>(948,018)</u>	<u>211,124</u>
Other Financing Sources (Uses)				
Transfers in	606,592	640,192	640,192	0
Total Other Financing Sources (Uses)	<u>606,592</u>	<u>640,192</u>	<u>640,192</u>	<u>0</u>
Net Change in Fund Balance	(518,950)	(518,950)	(307,826)	211,124
Fund Balance, Beginning of Year	<u>518,950</u>	<u>518,950</u>	<u>753,596</u>	<u>234,646</u>
Fund Balance, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 445,770</u>	<u>\$ 445,770</u>

**OTHER POSTEMPLOYMENT BENEFITS PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2014
CITY OF ST. AUGUSTINE BEACH, FLORIDA**

SCHEDULE OF FUNDING PROGRESS

<u>Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as Percentage of Covered Payroll</u>
9/30/12	\$ 0	\$ 523,820	\$ 523,820	0.00%	\$ 1,643,984	31.9%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended September 30</u>	<u>Amount Contributed</u>	<u>Percentage of Annual OPEB Cost Contributed</u>
2010	\$ 5,032	5.42%
2011	10,804	11.42%
2012	14,720	15.24%
2013	14,720	15.24%
2014	14,720	15.24%

Notes:

- (1) 2010 was the transition year and the City has elected to implement GASB Statement No. 45 prospectively. The information will be built prospectively as subsequent actuarial valuations are obtained.
- (2) See Note 8 to the financial statements for detailed information on the City's OPEB Plan.

**ADDITIONAL ELEMENTS OF REPORT PREPARED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*, ISSUED BY THE
COMPTROLLER GENERAL OF THE UNITED STATES AND THE
*RULES OF THE AUDITOR GENERAL***

**INDEPENDENT AUDITORS' 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***

Honorable Mayor, Members of the City Commission
and City Manager
City of St. Augustine 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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of St. Augustine Beach, Florida, (the City) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 7, 2015.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City'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 and was not designed to identify all deficiencies in internal control over financial reporting 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.

Certified Public Accountants

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Honorable Mayor, Members of the City Commission
and City Manager
City of St. Augustine Beach, Florida

**INDEPENDENT AUDITORS' 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
(Concluded)**

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the City in a separate letter dated April 7, 2015.

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 City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pursuant to Chapter 119, Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America requires us to indicate that this report is intended solely for the information and use of the Mayor, City Commission, management, the Florida Auditor General, and applicable federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

April 7, 2015
Gainesville, Florida

MANAGEMENT LETTER

Honorable Mayor, Members of the City Commission
and City Manager
St. Augustine Beach, Florida

Report on the Financial Statements

We have audited the financial statements of the City of St. Augustine Beach, Florida, (the City) as of and for the year ended September 30, 2014, and have issued our report thereon dated April 7, 2015.

Auditors' Responsibility

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.

Other Reports and Schedule

We have issued our Independent Auditors' 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 Accountants' 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 that report, which is dated April 7, 2015, should be considered in conjunction with this management letter.

Prior Audit Findings

- Section 10.554(1)(i)1., *Rules of the Auditor General*, require that we comment as to whether or not corrective actions have been taken to address findings and recommendations made in the preceding audit. If the audit findings in the preceding audit report are uncorrected, we are required to identify those findings that were also included in the second preceding audit report. Corrective action has been taken to address findings and recommendations made in the preceding annual financial 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 included in Note 1 to the financial statements.

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Honorable Mayor, Members of the City Commission
and City Manager
St. Augustine Beach, Florida

MANAGEMENT LETTER
(Concluded)

Financial Condition

- Section 10.554(1)(i)5.a., *Rules of the Auditor General*, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)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 the same.

Annual Financial Report

- Section 10.554(1)(i)5.b., *Rules of the Auditor General*, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2014, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2014. In connection with our audit, we determined that these two reports were in agreement.

Special District Component Units

- Section 10.554(1)(i)5.d., *Rules of the Auditor General*, requires that we determine whether or not a special district that is a component unit of a county, municipality, or special district, provided the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. In connection with our audit, we determined that there were no special district components that were required to be reported in accordance with Section 218.39(3)(b), Florida Statutes.

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 had no such findings.
- 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

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and Florida House of Representatives, the Florida Auditor General, federal and other granting agencies, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

April 7, 2015
Gainesville, Florida

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE
WITH SECTION 218.415, FLORIDA STATUTES**

Honorable Mayor, Members of the City Commission
and City Manager
St. Augustine Beach, Florida

We have examined the City of St. Augustine Beach, Florida's (the City) compliance with Section 218.415, Florida Statutes, as of and for the year ended September 30, 2014, as required by Section 10.556(10)(a), *Rules of the Auditor General*. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

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 legal determination of the City's compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2014.

This report 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 and pass-through entities, the Mayor, and City Council members, and applicable management, and is not intended and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

April 7, 2015
Gainesville, Florida

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