

**City of Flagler Beach, Florida
Financial Statements
For the Year Ended
September 30, 2018**



THE NICHOLS GROUP, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

City of Flagler Beach, Florida
Financial Statements
September 30, 2018

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INTRODUCTORY SECTION

**City of Flagler Beach, Florida
List of Principal Officials
September 30, 2018**

MAYOR

HONORABLE
LINDA PROVENCHER

CHAIRPERSON

RICHARD BELHUMEUR

VICE-CHAIRPERSON

KIM CARNEY

CITY COMMISSIONERS

JANE MEALY
MARSHALL D. SHUPE
ERIC COOLEY

CITY MANAGER

LARRY M. NEWSOM

FINANCE DIRECTOR

KATHLEEN DOYLE

CITY ATTORNEY

DREW SMITH

INDEPENDENT AUDITORS

THE NICHOLS GROUP, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

FINANCIAL SECTION

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, 2018, 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, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As described in Note 1.E to the financial statements, in 2018, the City adopted new accounting guidance, *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



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

June 27, 2019

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, 2018.

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 \$44,736,726 (net position).
- The City's total net position increased overall by \$2,647,260 or 6.29%, after a prior period adjustment of (\$41,490) due to the implementation of GASB 75 (See Note VI on page 53) of which \$2,365,670 was from business type activities, while net position of governmental activities increased by \$281,590.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,117,092, an increase of \$67,508 or 1.12% in comparison with the prior year. This represents an increase of \$48,885 or 37.89%, in the CRA fund; General Fund Balance increased slightly 0.31%, or \$18,623
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,459,982 or 67% of total General Fund expenditures. Expenditures exceeded revenues in the General Fund by \$4,667, before the proceeds of the General Fund's allocation of the capital lease for the Backhoe Loader of \$23,290. Total change in fund balance amounted to an increase of \$18,623.
- The City's total long-term liabilities decreased by \$36,388. The liabilities consist of compensated absences, State Revolving Fund Loan for the water treatment plant, 2015 Refunding Revenue Notes for CRA District Improvements and Stormwater Improvements, capital leases; Other Postemployment Benefits (OPEB), and net pension liability of the Municipal Police Officers' Pension Trust Fund Plan.

Overview of the Financial Statements

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

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes, licenses and permits, and intergovernmental revenues (governmental activities)

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

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

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

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

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

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

Proprietary funds. The City maintains one type of proprietary fund, which is an enterprise fund. Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, sanitation, stormwater, and pier activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer, Sanitation, Stormwater, and Pier Funds, all of which are considered major funds, except for the Pier Fund, which is a non-major fund. The basic proprietary fund financial statements can be found in this report on pages 19 through 21.

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found within this report on pages 24 through 53.

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

Government-wide Financial Analysis

As noted earlier, net position might serve over time as a useful indicator of a City's financial position. In the case of the City, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$44,736,726 at the close of the most recent fiscal year compared to \$42,089,466 for the prior year. The City's net position increased by \$2,647,260 for the fiscal year ended September 30, 2018. In the current fiscal year, there was a prior period adjustment for (\$41,490) for the restatement for implementation of GASB Statement 75.

The largest portion of the City's net position reflects its investment in capital assets (e.g. land, land improvements, buildings, and equipment); less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Flagler Beach's Net Position

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 7,026,960	\$ 6,861,050	\$ 9,411,460	\$ 9,148,558	\$ 16,438,420	\$ 16,009,608
Capital assets	9,557,199	9,420,119	26,390,973	24,631,895	35,948,172	34,052,014
Total assets	16,584,159	16,281,169	35,802,433	33,780,453	52,386,592	50,061,622
Deferred outflows of resources	493,733	602,485	-	-	493,733	602,485
Long-term liabilities outstanding	1,250,006	1,494,410	5,490,082	5,282,066	6,740,088	6,776,476
Other liabilities	502,399	613,071	592,635	1,144,341	1,095,034	1,757,412
Total liabilities	1,752,405	2,107,481	6,082,717	6,426,407	7,835,122	8,533,888
Deferred inflows of resources	308,477	40,753	-	-	308,477	40,753
Net position:						
Net investment in capital assets	8,827,536	8,657,041	21,107,387	19,534,299	29,934,923	28,191,340
Restricted	1,042,969	1,084,408	3,693,485	3,482,207	4,736,454	4,566,615
Unrestricted	5,146,505	4,993,971	4,918,844	4,337,540	10,065,349	9,331,511
Total net position	\$15,017,010	\$14,735,420	\$ 29,719,716	\$ 27,354,046	\$ 44,736,726	\$ 42,089,466

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

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

Governmental activities. Governmental activities increased the City's net position by \$306,308. The increase over last year is primarily attributable to increased charges for services and decreased expenses as a result of less hurricane damage than in the prior year.

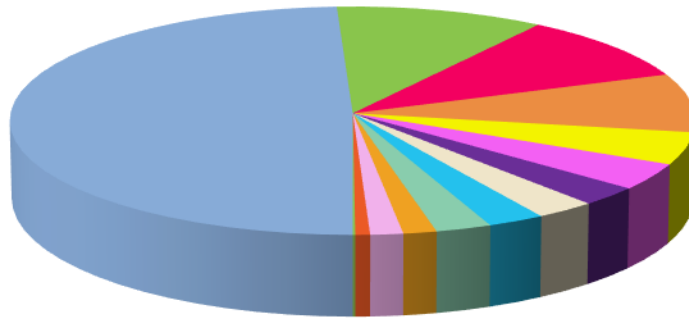
Overall, revenues in governmental activities increased by \$1,019,921 or 17.32%; whereas expenses increased by \$116,443 or 1.80% when compared to last year's balances. The increase in revenues was due to slight increases in ad valorem, sales, franchise and utility taxes, as well as a \$467,261 increase in capital grants and contributions.

City of Flagler Beach's Change in Net Position

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Charges for services	\$ 574,596	\$ 550,261	\$ 5,721,726	\$ 4,958,623	\$ 6,296,322	\$ 5,508,884
Operating grants and contributions	257,199	252,753	1,260,160	-	1,517,359	252,753
Capital grants and contributions	723,447	256,186	700,596	540,598	1,424,043	796,784
General revenues:						
Property taxes	3,399,077	3,029,327	-	-	3,399,077	3,029,327
Sales taxes	446,726	428,289	-	-	446,726	428,289
Franchise and utility taxes	1,167,516	1,108,309	-	-	1,167,516	1,108,309
Intergovernmental revenue	109,803	106,215	-	-	109,803	106,215
Unrestricted Investment earnings	44,678	43,653	89,520	59,362	134,198	103,015
Gain (loss) on disposal of capital assets	-	14,150	-	(32,808)	-	(18,658)
Other miscellaneous	184,600	98,578	-	142	184,600	98,720
Total revenues	6,907,642	5,887,721	7,772,002	5,525,917	14,679,644	11,413,638
Expenses:						
General government	2,731,591	2,731,320	-	-	2,731,591	2,731,320
Public safety	2,882,840	2,768,311	-	-	2,882,840	2,768,311
Roads and streets	399,410	317,773	-	-	399,410	317,773
Physical environment	75,617	59,760	-	-	75,617	59,760
Culture/recreation	492,248	583,931	-	-	492,248	583,931
Interest on long-term debt	19,628	23,796	-	-	19,628	23,796
Water and sewer	-	-	3,168,208	3,116,744	3,168,208	3,116,744
Sanitation	-	-	1,451,762	1,803,953	1,451,762	1,803,953
Stormwater	-	-	254,747	295,025	254,747	295,025
Pier	-	-	514,843	493,163	514,843	493,163
Total expenses	6,601,334	6,484,891	5,389,560	5,708,885	11,990,894	12,193,776
Increase (decrease) in net position before transfers	306,308	(597,170)	2,382,442	(182,968)	2,688,750	(780,138)
Transfers	-	(1,671,067)	-	1,671,067	-	-
Increase (decrease) in net position	306,308	(2,268,237)	2,382,442	1,488,099	2,688,750	(780,138)
Net position-beginning of year, as previously reported	14,735,420	16,978,904	27,354,046	25,833,788	42,089,466	42,812,692
Prior period adjustment	(24,718)	24,753	(16,772)	32,159	(41,490)	56,912
Net position- beginning of year, as restated	14,710,702	17,003,657	27,337,274	25,865,947	42,047,976	42,869,604
Net position - end of year	\$ 15,017,010	\$ 14,735,420	\$ 29,719,716	\$ 27,354,046	\$ 44,736,726	\$ 42,089,466

Revenues by Source - Governmental Activities

■ Property Tax	49.21%	■ Capital Grants	10.47%
■ Utility Service Tax	9.65%	■ Charges for Services & Fees	8.32%
■ Franchise Tax	4.54%	■ Operating Grants	3.72%
■ Community Services Tax	2.71%	■ Miscellaneous	2.67%
■ Infrastructure Surtax	2.54%	■ Local Half Cent Sales Tax	2.48%
■ State Revenue Sharing	1.48%	■ Local Option Gas Tax	1.45%
■ Unrestricted Investment Earnings	0.65%	■ Intergovernmental	0.11%



Business-type activities. Business-type activities increased the City's net position by \$2,382,422. Key elements of this increase are as follows:

- Continued increases to water, sewer and stormwater base fees to build reserves for capital infrastructure improvements
- A gain in capital grants and contributions of \$159,998
- Insurance proceeds of \$648,306 for hurricane damages

The overall revenues in business-type activities increased by \$2,246,085 or 41%. The expenses decreased by \$319,325 or -0.06%.

Financial Analysis of the City's Funds

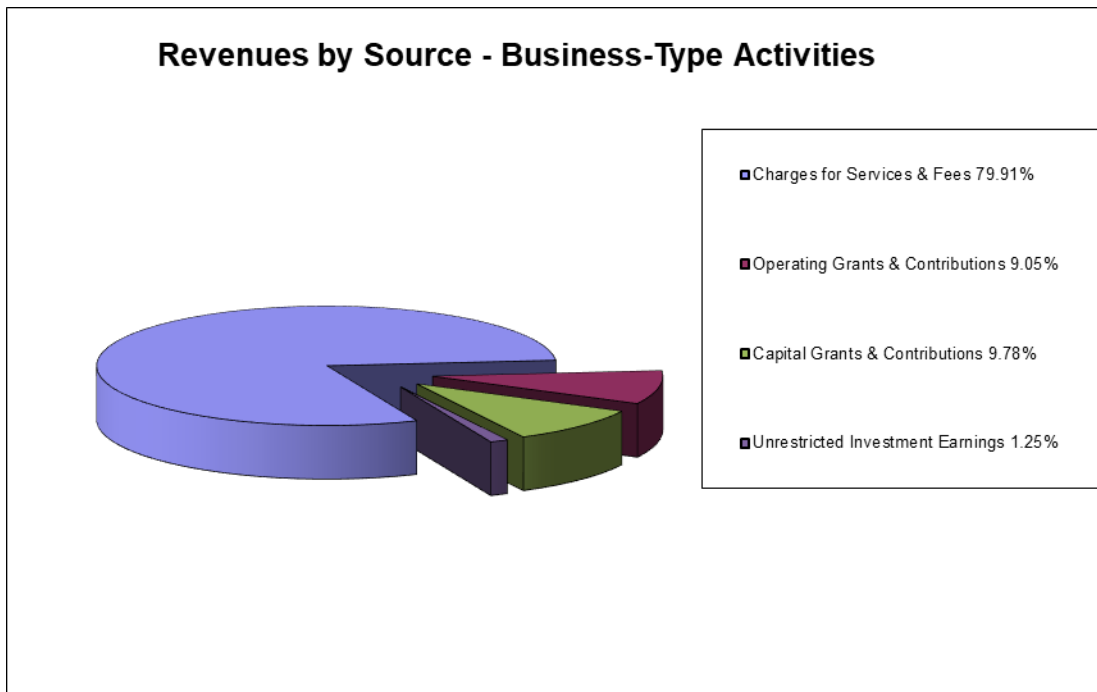
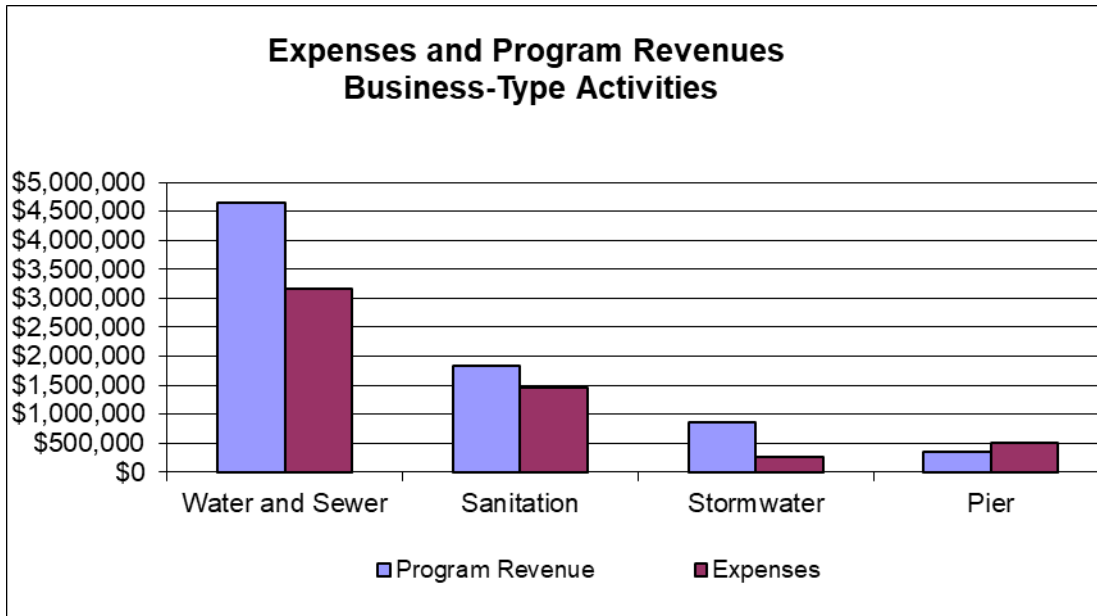
As noted earlier, the City used fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,117,092, an increase of \$67,508 in comparison with prior year. 73% of the total amount, or \$4,459,982 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 \$129,013. 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 2019. The remainder of the fund balances in the governmental funds, consisting of the following, is not available for new spending because it has already been designated *Nonspendable* – Prepaid amounts of \$8,369; *Restricted* items of \$913,956 including Infrastructure and Capital Assets \$843,123 and A1A Land Purchases of \$18,940; *Committed* for Encumbrances \$176,436, including Building Improvements of \$83,801 and Professional Services of \$78,430; *Assigned* for encumbrances of \$428,148 including \$156,759 for the future purchase of a fire truck (slated for 2020-2021) and \$233,334 for the purchase of radios.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$4,459,982 while the total fund balance reached \$5,988,079. 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 67% of the total General Fund expenditures, while total fund balance represents 90% of General Fund expenditures.

Proprietary funds. The City's proprietary funds financial statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the Water and Sewer, Sanitation, Stormwater and Pier Funds at the end of the year amounted to \$2,979,389, \$1,845,082, \$160,487, and \$(66,114), respectively. The total increase (decrease) in unrestricted net position (before the restatement of the prior year net position for the implementation of GASB No. 75) was \$1,557,943, \$385,948, \$598,738, and \$(160,187), respectively. The decrease in the Pier Enterprise Fund is related to repairs from the hurricanes, compounded by unobligated funds from FEMA at year end. In addition, the Pier was closed for the first two and a half months of the fiscal year.

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



General Fund Budgetary Highlights

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

Revenues were \$252,969 less than the final budget. The City had amended the budget to include \$737,405 in FEMA reimbursements. However, as the projects were not obligated by FEMA on September 30, 2018, the City did not recognize the revenue as receivables. The City was able to keep expenditures under budget by \$1,306,617 when compared to the amended budget. The net result was an increase of \$1,053,648 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, 2018, amounts to \$35,948,172. This investment in capital assets includes land and land improvements, buildings, improvements other than buildings, equipment,

construction in progress, and infrastructure. The total increase in the City's investment in capital assets for the current fiscal year was 0.68%.

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

- Wastewater Treatment Plant- Phase II
- Ocean Palm Stormwater Project
- Pier Improvements (Hurricane Irma)
- Library Roof
- Upgraded City-Wide Phone System

City of Flagler Beach's Capital Assets

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Land and land improvements	\$ 2,167,123	\$ 2,152,123	\$ 1,648,235	\$ 1,648,235	\$ 3,815,358	\$ 3,800,358
Buildings	2,980,691	3,627,631	11,641,724	11,631,203	14,622,415	15,258,834
Improvements other than buildings	2,345,932	3,774,165	20,220,048	18,403,368	22,565,980	22,177,533
Equipment	3,238,485	3,035,067	3,085,361	2,902,904	6,323,846	5,937,971
Construction in progress	45,760	2,797	748,324	1,069,488	794,084	1,072,285
Infrastructure	5,880,325	5,860,655	4,648,698	3,534,728	10,529,023	9,395,383
Less accumulated depreciation	(7,101,117)	(7,380,704)	(15,601,417)	(14,558,031)	(22,702,534)	(21,938,735)
Total	\$ 9,557,199	\$11,071,734	\$ 26,390,973	\$24,631,895	\$ 35,948,172	\$35,703,629

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

Long-term liabilities. At the end of the fiscal year, the City had total long-term liabilities in the amount of \$6,740,088, of which \$605,725 is due within one year.

The governmental activities' long-term liabilities amount to \$1,250,006 and consist of the Community Redevelopment 2015 Refunding Revenue Note, compensated absences, portion of the BackHoe Loader capital lease; OPEB and net pension liability of the Municipal Police Officers' Pension Trust Fund.

The business-type activities' long-term liabilities amount to \$5,490,082, which includes the State Revolving Fund Loan for the water treatment plant, Stormwater 2015 Refunding Revenue Note, compensated absences, utility and stormwater's portion of the BackHoe Loader capital lease, the capital lease for the sanitation trucks and OPEB.

Economic Factors and Next Year's Budgets and Rates

- Property values improved for budget year 2018-19.
- Development has begun on John Anderson Corridor, which is located in Unincorporated Flagler County; the City provides water and sewer to this area per an Interlocal Agreement with the County. Early estimates of development indicate that several thousand living units will be built over the coming years. Our Waste Water Treatment Plant will need to be expanded in order to provide service for this future impact.
- Water and Sewer Base Fee increases will still be needed to support City's aging infrastructure.
- Sanitation Fees will be reviewed to insure rates are adequate with increased use of our area restaurants, beaches and vacation rental units.
- Stormwater Fees will be increased to continue improvements and maintain current infrastructure.

All of these factors were considered when the City prepared the budget for fiscal year 2018-19:

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

considered uninhabitable on January 1, 2018. Even with this decrease to the tax roll, the overall value of property increased by 6.36%

The use of current revenues and available reserved fund balance for ongoing projects allowed the City to adjust the millage rate to 5.3900 for the 2018-19 fiscal year budget. This was an increase of .03 mills or 3 cents per \$1,000 of taxable value.

At the end of 2017-18 fiscal year, the fund balance in the General Fund increased to \$5,988,079. All appropriations lapsed at year end. The City of Flagler Beach encumbered \$154,701 from the 2017-18 General Fund budget into the 2018-19 budget to continue projects that were underway in this audited period.

The City of Flagler Beach encumbered \$1,491,875 from the 2017-18 Enterprise Funds into the 2018-19 Budget; net position for the Enterprise Funds increased by \$2,365,670 for the fiscal year ended September 30, 2018.

The state of our local economy and the condition of unrestricted reserves in the Utility and Stormwater Funds were considered in preparing the City's budget for fiscal year 2018-19.

The City of Flagler Beach entered an interlocal agreement with Flagler County in 2006, which determined the area that the City would be responsible for providing water and sewer service to outside of the City Limits of Flagler Beach. The area is located on the west side of the Intracoastal Waterway and south of State Road 100 officially known as the John Anderson Service Area. The City can collect the same water and utility fees it charges to the residents of Flagler Beach. Currently, one development with approximately 100 residences is underway. A second development with a 20-year growth plan is anticipated to begin in 2020. This development would contain 541 single family residential units, 3,425 multi-family units and 510,000 square feet of commercial and office space. In anticipation of the impact on our Wastewater Treatment Plant, built in 1975, a Wastewater Facility Plan was adopted in 2018-19 to access the needs of the plant based on the impact of the projected growth. Capital Financing for the improvements will be needed; the City is currently applying for an SRF Loan and searching for other outside funding sources, such as St. Johns River Water Management District.

The City increased Water and Sewer Base fees in the Utility Fund by 25%; the Stormwater fee was increased by 14.64% per ERU for the 2018-19 Enterprise Fund Budget. Increases for Base Fees will continue into the future to support the needed repairs and replacement of aging infrastructure and increase Utility and Stormwater Reserves.

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, 2018

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 2,905,866	\$ 2,043,114	\$ 4,948,980
Investments	2,811,670	2,738,302	5,549,972
Accounts receivable, net of allowance	163,445	832,288	995,733
Due from other governments	556,376	-	556,376
Internal balances	163,940	(163,940)	-
Prepays and other assets	8,369	114,259	122,628
Restricted cash and cash equivalents	-	153,952	153,952
Restricted investments	-	3,693,485	3,693,485
Net pension asset	417,294	-	417,294
Capital assets:			
Land and land improvements	2,167,123	1,648,235	3,815,358
Construction in progress	45,760	748,324	794,084
Buildings	2,980,691	11,641,724	14,622,415
Improvements other than buildings	2,345,932	20,220,048	22,565,980
Equipment	3,238,485	3,085,361	6,323,846
Infrastructure	5,880,325	4,648,698	10,529,023
Accumulated depreciation	(7,101,117)	(15,601,417)	(22,702,534)
Total assets	<u>16,584,159</u>	<u>35,802,433</u>	<u>52,386,592</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Contributions	493,733	-	493,733
LIABILITIES			
Accounts payable and accrued liabilities	440,431	342,499	782,930
Unearned revenues	52,987	17,818	70,805
Due to other governments	-	-	-
Customer deposits	-	212,568	212,568
Accrued interest payable	8,981	19,750	28,731
Non-current liabilities:			
Due within one year	91,145	514,571	605,716
Due in more than one year	1,158,861	4,975,511	6,134,372
Total liabilities	<u>1,752,405</u>	<u>6,082,717</u>	<u>7,835,122</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Contributions	308,477	-	308,477
NET POSITION			
Net investment in capital assets	8,827,536	21,107,387	29,934,923
Restricted for:			
Infrastructure and capital assets	861,613	3,693,485	4,555,098
Law enforcement	10,595	-	10,595
Building code administration and education	41,748	-	41,748
Community redevelopment	129,013	-	129,013
Unrestricted	5,146,505	4,918,844	10,065,349
Total net position	<u>\$ 15,017,010</u>	<u>\$ 29,719,716</u>	<u>\$ 44,736,726</u>

See accompanying notes.

City of Flagler Beach, Florida
Statement of Activities
For the Year Ended September 30, 2018

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs							
Primary Government:							
Governmental activities:							
General government	\$ 2,731,591	\$ 445,991	\$ -	\$ 703,447	\$ (1,582,153)	\$ -	\$ (1,582,153)
Public safety	2,882,840	80,572	174,074	-	(2,628,194)	-	(2,628,194)
Roads and streets	399,410	-	81,505	-	(317,905)	-	(317,905)
Physical environment	75,617	-	-	-	(75,617)	-	(75,617)
Culture/recreation	492,248	48,033	1,620	20,000	(422,595)	-	(422,595)
Interest	19,628	-	-	-	(19,628)	-	(19,628)
Total governmental activities	<u>6,601,334</u>	<u>574,596</u>	<u>257,199</u>	<u>723,447</u>	<u>(5,046,092)</u>	<u>-</u>	<u>(5,046,092)</u>
Business-type activities:							
Water and sewer	3,168,208	3,789,075	648,306	215,977	-	1,485,150	1,485,150
Sanitation	1,451,762	1,211,366	611,854	-	-	371,458	371,458
Stormwater	254,747	366,623	-	484,619	-	596,495	596,495
Pier	514,843	354,662	-	-	-	(160,181)	(160,181)
Total business-type activities	<u>5,389,560</u>	<u>5,721,726</u>	<u>1,260,160</u>	<u>700,596</u>	<u>-</u>	<u>2,292,922</u>	<u>2,292,922</u>
Total primary government	<u>\$ 11,990,894</u>	<u>\$ 6,296,322</u>	<u>\$ 1,517,359</u>	<u>\$ 1,424,043</u>	<u>(5,046,092)</u>	<u>2,292,922</u>	<u>(2,753,170)</u>
General Revenues:							
Property taxes					3,399,077	-	3,399,077
Franchise fees					313,665	-	313,665
Utility service taxes					666,867	-	666,867
Communication services tax					186,984	-	186,984
Infrastructure surtax					175,300	-	175,300
Local half-cent sales tax					171,116	-	171,116
Local option gas tax					100,310	-	100,310
State revenue sharing proceeds					102,155	-	102,155
Intergovernmental					7,648	-	7,648
Unrestricted investment earnings					44,678	89,520	134,198
Miscellaneous					184,600	-	184,600
Total general revenues and transfers					<u>5,352,400</u>	<u>89,520</u>	<u>5,441,920</u>
Changes in net position					<u>306,308</u>	<u>2,382,442</u>	<u>2,688,750</u>
Net position - beginning of year, as previously reported					14,735,420	27,354,046	42,089,466
Restatement for implementation of GASB Statement No. 75					(24,718)	(16,772)	(41,490)
Net position - beginning of year, as restated					<u>14,710,702</u>	<u>27,337,274</u>	<u>42,047,976</u>
Net position - end of year					<u>\$ 15,017,010</u>	<u>\$ 29,719,716</u>	<u>\$ 44,736,726</u>

See accompanying notes.

City of Flagler Beach, Florida
Balance Sheet
Governmental Funds
September 30, 2018

	<u>General</u>	<u>Community Redevelopment</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 2,692,521	\$ 213,345	\$ 2,905,866
Investments	2,811,670	-	2,811,670
Accounts receivable, net of allowance	163,445	-	163,445
Due from other funds	241,953	-	241,953
Due from other governments	556,376	-	556,376
Prepays	8,369	-	8,369
Total assets	<u>\$ 6,474,334</u>	<u>\$ 213,345</u>	<u>\$ 6,687,679</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 302,528	\$ 6,319	\$ 308,847
Accrued personal services	130,740	-	130,740
Deferred revenue	52,987	-	52,987
Due to other funds	-	78,013	78,013
Total liabilities	<u>486,255</u>	<u>84,332</u>	<u>570,587</u>
Fund balances:			
Nonspendable:			
Prepays	8,369	-	8,369
Restricted:			
Police training	6,370	-	6,370
Special law enforcement	71	-	71
Law enforcement automation	4,154	-	4,154
A1A land purchases	18,490	-	18,490
Infrastructure and capital assets	843,123	-	843,123
Building inspector education	35,355	-	35,355
Building Code Administration Fund	6,393	-	6,393
Committed:			
Repairs and maintenance	13,921	-	13,921
Promotional activities	284	-	284
Building improvements	83,801	-	83,801
Professional services	78,430	-	78,430
Assigned:			
Fire truck	156,759	-	156,759
Beach related purchases	38,055	-	38,055
Radios	233,334	-	233,334
Unassigned	<u>4,459,982</u>	<u>129,013</u>	<u>4,588,995</u>
Total fund balances	<u>5,988,079</u>	<u>129,013</u>	<u>6,117,092</u>
Total liabilities and fund balances	<u>\$ 6,474,334</u>	<u>\$ 213,345</u>	<u>\$ 6,687,679</u>

See accompanying notes.

City of Flagler Beach, Florida
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
September 30, 2018

Fund balances - governmental funds \$ 6,117,092

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	16,658,316	
Accumulated depreciation	<u>(7,101,117)</u>	
		9,557,199

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.

(8,981)

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	417,294	
Net pension liability	(174,670)	
Deferred outflows - Contributions	493,733	
Deferred inflows - Contributions	(309,321)	
Other postemployment benefits liability	<u>(214,187)</u>	
		212,849

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

Notes payable	(710,000)	
Capital leases payable	(19,663)	
Compensated absences	<u>(131,486)</u>	
		<u>(861,149)</u>

Net position of governmental activities \$ 15,017,010

See accompanying notes.

City of Flagler Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2018

	<u>General</u>	<u>Community Redevelopment</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 4,201,531	\$ 226,699	\$ 4,428,230
Franchise fees	313,665	-	313,665
Licenses and permits	428,172	-	428,172
Intergovernmental	538,598	-	538,598
Charges for services	62,852	-	62,852
Fines and forfeitures	83,572	-	83,572
Grants and donations	825,021	-	825,021
Investment earnings	42,934	-	42,934
Miscellaneous	184,600	-	184,600
Total revenues	<u>6,680,945</u>	<u>226,699</u>	<u>6,907,644</u>
EXPENDITURES			
Current:			
General government	2,279,959	-	2,279,959
Public safety	2,731,957	-	2,731,957
Roads and streets	384,506	-	384,506
Physical environment	-	75,617	75,617
Culture/recreation	409,743	-	409,743
Debt service:			
Principal	3,627	56,000	59,627
Interest	579	21,124	21,703
Capital outlay	<u>875,241</u>	<u>25,073</u>	<u>900,314</u>
Total expenditures	<u>6,685,612</u>	<u>177,814</u>	<u>6,863,426</u>
Surplus (Deficiency) of revenues under expenditures	<u>(4,667)</u>	<u>48,885</u>	<u>44,218</u>
OTHER FINANCING SOURCES AND USES			
Capital lease	<u>23,290</u>	<u>-</u>	<u>23,290</u>
Total other financing sources and uses	<u>23,290</u>	<u>-</u>	<u>23,290</u>
Net changes in fund balances	18,623	48,885	67,508
Beginning fund balances - beginning of year	<u>5,969,456</u>	<u>80,128</u>	<u>6,049,584</u>
Fund balances - end of year	<u>\$ 5,988,079</u>	<u>\$ 129,013</u>	<u>\$ 6,117,092</u>

See accompanying notes.

City of Flagler Beach, Florida
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2018

Net changes in fund balances - total governmental funds \$ 67,508

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

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

Capital outlays recorded as expenditures in governmental funds	774,692	
Current year depreciation not reported in governmental funds	<u>(637,612)</u>	137,080

Some revenues and expenses reported in the Statement of Activities did not require the use of or provide current financial resources and therefore are not reported in the governmental funds.

Change in:

Compensated absences payable	354	
Interest payable	2,075	
Deferred outflows - Contributions	(236,105)	
Deferred inflows - Contributions	(141,215)	
Net pension asset	207,843	
Net pension liability	244,846	
Other postemployment benefits liability	<u>(12,415)</u>	65,383

The issuance of long-term debt (e.g. notes and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. In the current year, these amounts consist of:

Issuance of capital lease	(23,290)	
Principal payments on notes payable and capital lease	<u>59,627</u>	<u>36,337</u>

Changes in net position of governmental activities \$ 306,308

See accompanying notes.

City of Flagler Beach, Florida
Statement of Net Position
Enterprise Funds
September 30, 2018

	Water and Sewer	Sanitation	Stormwater	Pier	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 548,156	\$ 1,292,039	\$ 202,919	\$ -	\$ 2,043,114
Restricted cash and cash equivalents:					
Customer deposits	153,952	-	-	-	153,952
Investments	2,227,089	511,213	-	-	2,738,302
Receivables (net of allowance for uncollectible accounts):					
Accounts receivable	486,275	113,683	37,614	75	637,647
Unbilled accounts	194,641	-	-	-	194,641
Due from other governments	-	-	-	-	-
Due from other funds	-	58,305	13,687	-	71,992
Prepays and other assets	-	-	-	114,259	114,259
Total current assets	<u>3,610,113</u>	<u>1,975,240</u>	<u>254,220</u>	<u>114,334</u>	<u>5,953,907</u>
Non-current assets:					
Restricted investments:					
Water impact fees	1,788,297	-	-	-	1,788,297
Sewer impact fees	1,905,188	-	-	-	1,905,188
Total restricted investments	<u>3,693,485</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,693,485</u>
Unrestricted:					
Land	75,562	-	1,572,673	-	1,648,235
Construction in progress	735,147	-	13,177	-	748,324
Buildings	11,241,817	70,021	3,507	326,379	11,641,724
Improvements other than buildings	18,232,994	-	-	1,987,054	20,220,048
Equipment	1,610,800	1,381,182	93,379	-	3,085,361
Infrastructure	-	-	4,648,698	-	4,648,698
Less accumulated depreciation	(12,671,444)	(1,221,457)	(638,960)	(1,069,556)	(15,601,417)
Total non-current unrestricted assets	<u>19,224,876</u>	<u>229,746</u>	<u>5,692,474</u>	<u>1,243,877</u>	<u>26,390,973</u>
Total non-current assets	<u>22,918,361</u>	<u>229,746</u>	<u>5,692,474</u>	<u>1,243,877</u>	<u>30,084,458</u>
Total assets	<u>26,528,474</u>	<u>2,204,986</u>	<u>5,946,694</u>	<u>1,358,211</u>	<u>36,038,365</u>
LIABILITIES					
Current liabilities:					
Accounts payable	140,057	76,323	50,134	8,351	274,865
Accrued personal services liabilities	23,393	7,074	2,355	2,260	35,082
Retainage payable	-	-	32,433	-	32,433
Accrued interest payable	19,750	-	-	-	19,750
Unearned revenues	17,818	-	-	-	17,818
Current portion of long-term debt	382,801	91,366	4,104	-	478,271
Compensated absences payable	26,850	6,659	988	1,803	36,300
Customer deposits payable	203,568	-	-	9,000	212,568
Due to other funds	84,377	-	-	151,555	235,932
Due to other governments	-	-	-	119	119
Total current liabilities	<u>898,614</u>	<u>181,422</u>	<u>90,014</u>	<u>173,088</u>	<u>1,343,138</u>
Non-current liabilities					
Loans payable	3,179,282	488,474	1,137,559	-	4,805,315
Compensated absences payable	22,308	5,053	985	2,832	31,178
Other postemployment benefits	92,603	35,049	6,838	4,528	139,018
Total non-current liabilities	<u>3,294,193</u>	<u>528,576</u>	<u>1,145,382</u>	<u>7,360</u>	<u>4,975,511</u>
Total liabilities	<u>4,192,807</u>	<u>709,998</u>	<u>1,235,396</u>	<u>180,448</u>	<u>6,318,649</u>
NET POSITION					
Net investment in capital assets	15,662,793	(350,094)	4,550,811	1,243,877	21,107,387
Restricted for:					
Water construction	1,788,297	-	-	-	1,788,297
Sewer construction	1,905,188	-	-	-	1,905,188
Unrestricted	2,979,389	1,845,082	160,487	(66,114)	4,918,844
Total net position	<u>\$ 22,335,667</u>	<u>\$ 1,494,988</u>	<u>\$ 4,711,298</u>	<u>\$ 1,177,763</u>	<u>\$ 29,719,716</u>

See accompanying notes.

City of Flagler Beach, Florida
Statement of Revenues, Expenses, and Changes in Net Position
Enterprise Funds
For the Year Ended September 30, 2018

	<u>Water and Sewer</u>	<u>Sanitation</u>	<u>Stormwater</u>	<u>Pier</u>	<u>Total</u>
Operating revenues:					
Charges for services					
Water	\$ 2,094,446	\$ -	\$ -	\$ -	\$ 2,094,446
Sewer	1,654,138	-	-	-	1,654,138
Sanitation	-	1,196,312	-	-	1,196,312
Stormwater	-	-	363,223	-	363,223
Rent, admissions, and other fees	-	-	-	354,656	354,656
Other operating revenues	40,495	15,053	3,400	-	58,948
Total operating revenues	<u>3,789,079</u>	<u>1,211,365</u>	<u>366,623</u>	<u>354,656</u>	<u>5,721,723</u>
Operating expenses:					
Personal services	1,246,170	406,344	84,295	128,780	1,865,589
Materials, supplies, services and other operating expenses	996,607	959,319	32,696	280,989	2,269,611
Depreciation	825,405	86,099	106,564	105,074	1,123,142
Total operating expenses	<u>3,068,182</u>	<u>1,451,762</u>	<u>223,555</u>	<u>514,843</u>	<u>5,258,342</u>
Operating income (loss)	<u>720,897</u>	<u>(240,397)</u>	<u>143,068</u>	<u>(160,187)</u>	<u>463,381</u>
Nonoperating revenues (expenses):					
Impact fees	215,977	-	-	-	215,977
Investment earnings	72,786	14,491	2,243	-	89,520
Interest expense	(100,023)	-	(31,192)	-	(131,215)
Insurance recoveries	648,306	-	-	-	648,306
Noncapital grants and contributions	-	611,854	-	-	611,854
Total nonoperating revenues (expenses)	<u>837,046</u>	<u>626,345</u>	<u>(28,949)</u>	<u>-</u>	<u>1,434,442</u>
Income (loss) before capital grants and contributions	1,557,943	385,948	114,119	(160,187)	1,897,823
Capital grants and contributions	-	-	484,619	-	484,619
Changes in net position	1,557,943	385,948	598,738	(160,187)	2,382,442
Total net position - beginning	<u>20,788,896</u>	<u>1,113,269</u>	<u>4,113,385</u>	<u>1,338,496</u>	<u>27,354,046</u>
Restatement for implementation of GASB Statement No. 75	(11,172)	(4,229)	(825)	(546)	(16,226)
Total net position - beginning, as restated	<u>20,777,724</u>	<u>1,109,040</u>	<u>4,112,560</u>	<u>1,337,950</u>	<u>27,337,820</u>
Total net position - ending	<u>\$ 22,335,667</u>	<u>\$ 1,494,988</u>	<u>\$ 4,711,298</u>	<u>\$ 1,177,763</u>	<u>\$ 29,719,716</u>

See accompanying notes.

City of Flagler Beach, Florida
Statement of Cash Flows
Enterprise Funds
For the Year Ended September 30, 2018

	Business-type Activities - Enterprise Funds				
	Water and Sewer	Sanitation	Storm Water	Pier	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 3,612,105	\$ 1,201,324	\$ 357,505	\$ 354,662	\$ 5,525,596
Payments to suppliers	(1,046,221)	(1,138,934)	(176,261)	(371,487)	(2,732,903)
Payments to employees	(1,238,997)	(402,834)	(82,911)	(122,226)	(1,846,968)
Other operating cash transfers	34,110	(22,026)	(5,874)	151,213	157,423
Net cash provided by (used in) operating activities	<u>1,360,997</u>	<u>(362,470)</u>	<u>92,459</u>	<u>12,162</u>	<u>1,103,148</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Impact fees	215,977	-	-	-	215,977
Noncapital grants and contributions	-	611,854	-	-	611,854
Net cash provided by noncapital financing activities	<u>215,977</u>	<u>611,854</u>	<u>-</u>	<u>-</u>	<u>827,831</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital grants and contributions	46,581	644,379	794,537	-	1,485,497
Acquisition and construction of capital assets	(1,839,778)	(4,533)	(734,026)	(315,055)	(2,893,392)
Principal paid on capital debt	(372,094)	(64,539)	(91,627)	-	(528,260)
Interest paid on capital debt	(102,069)	-	(31,192)	-	(133,261)
Net cash provided by (used in) capital and related financing activities	<u>(2,267,360)</u>	<u>575,307</u>	<u>(62,308)</u>	<u>(315,055)</u>	<u>(2,069,416)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	(3,147)	-	-	(3,147)
Proceeds from sales and maturities of investments	(224,990)	-	-	-	(224,990)
Interest and other income	72,786	14,491	2,243	-	89,520
Insurance recoveries	648,306	-	-	-	648,306
Net cash provided by investing activities	<u>496,102</u>	<u>11,344</u>	<u>2,243</u>	<u>-</u>	<u>509,689</u>
Net increase (decrease) in cash and cash equivalents	<u>(194,284)</u>	<u>836,035</u>	<u>32,394</u>	<u>(302,893)</u>	<u>371,252</u>
Cash and cash equivalents, beginning of the year	896,392	456,004	170,525	302,893	1,825,814
Cash and cash equivalents, end of the year	<u>\$ 702,108</u>	<u>\$ 1,292,039</u>	<u>\$ 202,919</u>	<u>\$ -</u>	<u>\$ 2,197,066</u>
Reconciliation of cash and cash equivalents to the statement of net assets					
Cash and cash equivalents	\$ 548,156	\$ 1,292,039	\$ 202,919	\$ -	\$ 2,043,114
Restricted cash and cash equivalents	153,952	-	-	-	153,952
	<u>\$ 702,108</u>	<u>\$ 1,292,039</u>	<u>\$ 202,919</u>	<u>\$ -</u>	<u>\$ 2,197,066</u>
Reconciliation of operating income to net cash provided by operating activities					
Operating income	\$ 720,897	\$ (240,397)	\$ 143,068	\$ (160,187)	\$ 463,381
Adjustments to reconcile to operating income to net cash provided by operating activities:					
Depreciation	825,405	86,099	106,564	105,074	1,123,142
(Increase) decrease in certain assets:					
Prepays	(183,421)	-	95,904	(10,402)	(97,919)
Accounts receivable	9,000	(10,041)	(9,118)	-	(10,159)
Increase (decrease) in certain liabilities:					
Accounts payable	(58,614)	(183,844)	(239,469)	(80,090)	(562,017)
Accrued personal service liabilities	7,173	7,739	1,384	6,554	22,850
Customer deposits	3,047	-	-	-	3,047
Due to other governments	-	-	-	35	35
Unearned revenues	3,400	-	-	-	3,400
Due to other funds	34,110	(22,026)	(5,874)	151,178	157,388
Total adjustments	<u>640,100</u>	<u>(122,073)</u>	<u>(50,609)</u>	<u>172,349</u>	<u>639,767</u>
Net cash provided by (used in) operating activities	<u>\$ 1,360,997</u>	<u>\$ (362,470)</u>	<u>\$ 92,459</u>	<u>\$ 12,162</u>	<u>\$ 1,103,148</u>

See accompanying notes.

City of Flagler Beach, Florida
Statement of Fiduciary Net Position
Pension Trust Funds
September 30, 2018

	Municipal Police Officers' Pension Trust Fund	Municipal Firefighters' Pension Trust Fund	Total
ASSETS			
Cash equivalents	\$ 34,441	\$ 80,576	\$ 115,017
Receivables:			
State contributions	53,640	781	54,421
Accrued income	2,265	1,138	3,403
Investments:			
Fixed income mutual funds	946,953	440,631	1,387,584
Equity mutual funds	2,870,571	1,260,809	4,131,380
Total assets	<u>3,907,870</u>	<u>1,783,935</u>	<u>5,691,805</u>
LIABILITIES			
Accounts payable	750	1,550	2,300
Prepaid city contribution	12,650	10,005	22,655
Total liabilities	<u>13,400</u>	<u>11,555</u>	<u>24,955</u>
NET POSITION			
Restricted for pension benefits	<u>\$ 3,894,470</u>	<u>\$ 1,772,380</u>	<u>\$ 5,666,850</u>

See accompanying notes.

City of Flagler Beach, Florida
Statement of Changes in Fiduciary Net Position
Pension Trust Funds
For the Year Ended September 30, 2018

	Municipal Police Officers' Pension Trust Fund	Municipal Firefighters' Pension Trust Fund	Total
ADDITIONS			
Contributions:			
Employees	\$ 83,550	\$ 24,886	\$ 108,436
Employer	123,817	76,623	200,440
State insurance	53,640	43,677	97,317
Total contributions	<u>261,007</u>	<u>145,186</u>	<u>406,193</u>
Investment earnings:			
Net increase in fair value of investments	272,861	117,865	390,726
Interest and dividends	79,657	35,689	115,346
Less: investment expense	<u>(14,375)</u>	<u>(9,875)</u>	<u>(24,250)</u>
Net investment earnings	<u>338,143</u>	<u>143,679</u>	<u>481,822</u>
Total additions	<u>599,150</u>	<u>288,865</u>	<u>888,015</u>
DEDUCTIONS			
Professional services	35,836	36,561	72,397
Employee withdrawals	<u>157,515</u>	<u>58,679</u>	<u>216,194</u>
Total deductions	<u>193,351</u>	<u>95,240</u>	<u>288,591</u>
Change in net position	<u>405,799</u>	<u>193,625</u>	<u>599,424</u>
Net position - beginning	<u>3,488,671</u>	<u>1,578,755</u>	<u>5,067,426</u>
Net position - ending	<u>\$ 3,894,470</u>	<u>\$ 1,772,380</u>	<u>\$ 5,666,850</u>

See accompanying notes.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2018

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.

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

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2018

recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The City reports the following major governmental funds:

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

The City reports the following major enterprise funds:

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

The City reports the following non-major enterprise fund:

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

Additionally, the City reports the following fiduciary funds:

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

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

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2018

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

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

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

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

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

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

1. Cash and cash equivalents

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

Cash and cash equivalents presented on the Statement of Cash Flows - Enterprise Funds are composed of restricted and unrestricted cash.

2. Receivables and payables

All outstanding balances between funds are reported on the fund financial statements as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

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

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2018

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, 2017												
Property Appraiser prepares the assessment roll with values as of January 1, 2017, submits this preliminary roll for approval by the State and notifies each taxing authority of their respective valuations.	July 1, 2017												
City Commission holds two required public hearings and adopts a budget and ad valorem tax millage rate for the coming fiscal year.	September 06, 2017 and September 20, 2017												
Property Appraiser certifies the assessment roll and all real and tangible personal property taxes are due and payable (Levy Date).	November 1, 2017												
A Notice of Taxes is mailed to each property owner on the assessment roll. Taxes are paid November 2017 through March 2018, with the following applicable discounts:													
<table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>Month Paid</u></th> <th style="text-align: left;"><u>Discount (%)</u></th> </tr> </thead> <tbody> <tr> <td>November</td> <td style="text-align: right;">4</td> </tr> <tr> <td>December</td> <td style="text-align: right;">3</td> </tr> <tr> <td>January</td> <td style="text-align: right;">2</td> </tr> <tr> <td>February</td> <td style="text-align: right;">1</td> </tr> <tr> <td>March</td> <td style="text-align: right;">0</td> </tr> </tbody> </table>	<u>Month Paid</u>	<u>Discount (%)</u>	November	4	December	3	January	2	February	1	March	0	November 1, 2017 through March 31, 2018
<u>Month Paid</u>	<u>Discount (%)</u>												
November	4												
December	3												
January	2												
February	1												
March	0												
All unpaid taxes on real and tangible personal property become delinquent.	April 1, 2018												
A list of unpaid tangible personal property taxes and a list of unpaid real property taxes are advertised.	April and May 2018												
Tax certificates are sold on all real estate parcels with unpaid real property taxes (Lien Date).	June 1, 2018												
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, 2018												

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2018

3. Inventories and prepaid items

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

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

4. Restricted assets

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

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

5. Capital assets

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

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

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

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

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

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2018

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.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2018

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

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

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

The City does not have an established policy regarding its use of unrestricted fund balance amounts but chooses to follow GASB Statement No. 54, paragraph 18 and considers that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

E. Recently issued accounting standards

GASB Statement No. 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 requirements of this Statement have been implemented for the year ended September 30, 2018.

GASB Statement No. 83, Certain Asset Retirement Obligations – this Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally forceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement will be effective for the year ended September 30, 2019. The effect this standard may have on future financial statements is not determinable at this time.

GASB Statement No. 84, Fiduciary Activities – the objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will be effective for the year ended September 30, 2020.

GASB Statement No. 87, Leases – this Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement will be effective for the year ended September 30, 2021.

GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements – the primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement will be effective for the year ended September 30, 2019.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2018

GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period – the objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement will be effective for the year ended September 30, 2021.

II. Reconciliation of government-wide and fund financial statements

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

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

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

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

III. Stewardship, compliance, and accountability

Budgetary information

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

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

As of September 30, 2018, 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, 2018 is \$604,584. Of this amount, \$176,436 is reported as committed and \$428,148 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.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2018

- The City Commission must approve any budget revisions that change the total expenditures of any department. The City Manager is authorized to approve budget transfers within each department as he deems necessary as long as each department is not over expended. However, any proposed transfer between departments must first be approved by the City Commission. 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, 2018, the carrying amount of the City's deposits was \$3,822,098 and the bank balances were \$3,439,414. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each bank. Any balance in excess of FDIC insurance is covered by collateral held by the City's custodial banks, which is pledged to a state trust fund that provides security in accordance with Florida Security for Public Deposits Act, Chapter 280, *Florida Statutes*.

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

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

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

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

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Corporation and ranked in the top fifty (50) United States Banks in terms of total assets by The American Banker's yearly report.

- x. The Florida Municipal Investment Trust.

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

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

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

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

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

As of September 30, 2018, 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.

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.

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The FMIT has adopted GASB Statement No. 31 and the fair value of the City's position in the FMIT is the same as the fair value of the FMIT shares. The investment in the pool is not evidenced by securities that exist in physical or book entry form.

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

At September 30, 2018, the cash deposits and investments controlled by the City included the following:

Investments:	
Florida PRIME	\$ 3,095,342
FMIT	<u>7,428,949</u>
Total investments	<u>10,524,291</u>
Cash:	
Cash deposits	<u>3,822,098</u>
Total cash and investments	<u>\$ 14,346,389</u>

Risk

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

Interest rate risk

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

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

	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>	
		<u>Less Than 1</u>	<u>1 - 5</u>
Investments controlled by the City:			
Florida PRIME	\$ 3,095,342	\$ 3,095,342	\$ -
FMIT:			
0-2 Year High Quality Bond Fund	2,457,628	2,457,628	-
1-3 Year High Quality Bond Fund	3,455,099	-	3,455,099
Intermediate High Quality Bond Fund	1,516,222	-	1,516,222
Total investments controlled by the City	<u>10,524,291</u>	<u>5,552,970</u>	<u>4,971,321</u>
Pension Trust Funds investments:			
Vanguard Total Bond Market Index Fund	1,387,584	1,387,584	-
Vanguard Total International Stock Market Index Fund	679,159	679,159	-
Vanguard Total Stock market Index Fund	3,452,221	3,452,221	-
Total Pension Trust Funds investments	<u>5,518,964</u>	<u>5,518,964</u>	<u>-</u>
Total investments	<u>\$ 16,043,255</u>	<u>\$ 11,071,934</u>	<u>\$ 4,971,321</u>

City of Flagler Beach, Florida
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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, 2018, were rated by Standard & Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below.

	Fair Value	Quality Ratings				
		AAAm (S&P)	AAAf/S1 (Fitch)	AAAf/S2 (Fitch)	AAAf/S3 (Fitch)	Unrated
Investments controlled by the City:						
Florida PRIME	\$ 3,095,342	\$ 3,095,342	\$ -	\$ -	\$ -	\$ -
FMIT:						
0-2 Year High Quality Bond Fund	2,457,628	-	2,457,628	-	-	-
1-3 Year High Quality Bond Fund	3,455,099	-	-	3,455,099	-	-
Intermediate High Quality Bond Fund	1,516,222	-	-	-	1,516,222	-
Total investments controlled by the City	<u>10,524,291</u>	<u>3,095,342</u>	<u>2,457,628</u>	<u>3,455,099</u>	<u>1,516,222</u>	<u>-</u>
Pension Trust Funds investments:						
Vanguard Total Bond Market Index Fund	1,387,584	-	-	-	-	1,387,584
Vanguard Total International Stock Market Index Fund	679,159	-	-	-	-	679,159
Vanguard Total Stock market Index Fund	3,452,221	-	-	-	-	3,452,221
Total Pension Trust Funds investments	<u>5,518,964</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,518,964</u>
Total investments	<u>\$ 16,043,255</u>	<u>\$ 3,095,342</u>	<u>\$ 2,457,628</u>	<u>\$ 3,455,099</u>	<u>\$ 1,516,222</u>	<u>\$ 5,518,964</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, 2018, 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, 2018, 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.

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

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

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

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

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

The City’s investments fair value classifications are presented below.

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments controlled by the City:				
FMIT:				
0-2 Year High Quality Bond Fund	2,457,628	-	2,457,628	-
1-3 Year High Quality Bond Fund	3,455,099	-	3,455,099	-
Intermediate High Quality Bond Fund	<u>1,516,222</u>	-	<u>1,516,222</u>	-
Total investments controlled by the City	<u>7,428,949</u>	-	<u>7,428,949</u>	-
Pension Trust Funds investments:				
Vanguard Total Bond Market Index Fund	1,387,584	1,387,584	-	-
Vanguard Total International Stock Market Index Fund	679,159	679,159	-	-
Vanguard Total Stock market Index Fund	<u>3,452,221</u>	<u>3,452,221</u>	-	-
Total Pension Trust Funds investments	<u>5,518,964</u>	<u>5,518,964</u>	-	-
Total investments	<u>\$ 12,947,913</u>	<u>\$ 5,518,964</u>	<u>\$ 7,428,949</u>	<u>\$ -</u>

City of Flagler Beach, Florida
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B. Receivables

Receivables consisted of the following at September 30, 2018:

	General	Water and Sewer	Sanitation	Stormwater	Pier	Total
Receivables:						
Taxes, franchise fees	\$ 101,228	\$ -	\$ -	\$ -	\$ -	\$ 101,228
Accounts	-	42,229	-	-	-	42,229
Unbilled accounts	-	372,075	113,683	37,614	-	523,372
Utility payment plans receivable	-	194,641	-	-	-	194,641
Intergovernmental	556,376	-	-	-	-	556,376
Other	62,217	111,971	-	-	75	174,263
Gross receivables	719,821	720,916	113,683	37,614	75	1,592,109
Less: Allowance for uncollectible accounts	-	(40,000)	-	-	-	(40,000)
Receivables, net	<u>\$ 719,821</u>	<u>\$ 680,916</u>	<u>\$ 113,683</u>	<u>\$ 37,614</u>	<u>\$ 75</u>	<u>\$ 1,552,109</u>

C. Interfund accounts

Interfund receivables and payables at September 30, 2018, are as follows:

	Due To Other Funds	Due From Other Funds
Governmental funds:		
General Fund	\$ -	\$ 241,953
Community Redevelopment Fund	(78,013)	-
Total governmental funds	<u>(78,013)</u>	<u>241,953</u>
Enterprise funds:		
Water and Sewer Fund	(84,377)	-
Sanitation Fund	-	58,305
Stormwater Fund	-	13,687
Pier Fund	(151,555)	-
Total enterprise funds	<u>(235,932)</u>	<u>71,992</u>
Total Due To/Due From	<u>\$ (313,945)</u>	<u>\$ 313,945</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and, (3) an interfund loan balance from the General Fund to the CRA in the amount of \$87,188 for the City portion of the 2013 Phase II C Project. The loan accrues 2% interest annually. The loan repayment paid back from the General Fund to the CRA was \$28,489 principal and \$1,744 interest for the year ended September 30, 2018.

City of Flagler Beach, Florida
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D. Capital assets

A summary of changes in the City's capital assets for the year ended September 30, 2018, is as follows:

	<u>Balance 10-1-2017</u>	<u>Additions and Transfers</u>	<u>Disposals and Transfers</u>	<u>Balance 9-30-18</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 2,152,123	\$ 15,000	\$ -	\$ 2,167,123
Construction in progress	67,853	48,682	(70,775)	45,760
Total capital assets, not being depreciated	<u>2,219,976</u>	<u>63,682</u>	<u>(70,775)</u>	<u>2,212,883</u>
Capital assets, being depreciated:				
Buildings	2,799,016	181,675	-	2,980,691
Improvements other than buildings	2,084,329	261,603	-	2,345,932
Equipment	2,905,639	452,962	(120,116)	3,238,485
Infrastructure	5,874,664	5,661	-	5,880,325
Total capital assets, being depreciated	<u>13,663,648</u>	<u>901,901</u>	<u>(120,116)</u>	<u>14,445,433</u>
Accumulated depreciation for:				
Buildings	(1,314,196)	(98,193)	-	(1,412,389)
Improvements other than buildings	(1,269,595)	(109,436)	-	(1,379,031)
Equipment	(1,812,842)	(234,390)	120,116	(1,927,116)
Infrastructure	(2,066,872)	(315,709)	-	(2,382,581)
Total accumulated depreciation	<u>(6,463,505)</u>	<u>(757,728)</u>	<u>120,116</u>	<u>(7,101,117)</u>
Total capital assets, being depreciated, net	<u>7,200,143</u>	<u>144,173</u>	<u>-</u>	<u>7,344,316</u>
Governmental activities capital assets, net	<u>\$ 9,420,119</u>	<u>\$ 207,855</u>	<u>\$ (70,775)</u>	<u>\$ 9,557,199</u>
	<u>10/1/2017</u>	<u>Additions and Transfers</u>	<u>Disposals and Transfers</u>	<u>9/30/2018</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 1,648,235	\$ -	\$ -	\$ 1,648,235
Construction in progress	1,069,488	261,495	(582,659)	748,324
Total capital assets, not being depreciated	<u>2,717,723</u>	<u>261,495</u>	<u>(582,659)</u>	<u>2,396,559</u>
Capital assets, being depreciated:				
Buildings	11,631,203	10,521	-	11,641,724
Improvements other than buildings	18,403,368	1,816,680	-	20,220,048
Equipment	2,902,904	257,680	(75,223)	3,085,361
Infrastructure	3,534,728	1,113,970	-	4,648,698
Total capital assets, being depreciated	<u>36,472,203</u>	<u>3,198,851</u>	<u>(75,223)</u>	<u>39,595,831</u>
Accumulated depreciation for:				
Buildings	(3,092,796)	(328,814)	-	(3,421,610)
Improvements other than buildings	(8,778,607)	(441,091)	-	(9,219,698)
Equipment	(2,186,805)	(253,594)	75,223	(2,365,176)
Infrastructure	(499,823)	(95,110)	-	(594,933)
Total accumulated depreciation	<u>(14,558,031)</u>	<u>(1,118,609)</u>	<u>75,223</u>	<u>(15,601,417)</u>
Total capital assets, being depreciated, net	<u>21,914,172</u>	<u>2,080,242</u>	<u>-</u>	<u>23,994,414</u>
Business-type activities capital assets, net	<u>\$ 24,631,895</u>	<u>\$ 2,341,737</u>	<u>\$ (582,659)</u>	<u>\$ 26,390,973</u>

City of Flagler Beach, Florida
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Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 443,306
Public safety	223,300
Roads and streets	13,728
Culture/recreation	<u>77,394</u>
Total depreciation expense - governmental activities	<u>\$ 757,728</u>
Business-type activities:	
Water and sewer	\$ 825,406
Sanitation	81,566
Stormwater	106,564
Pier	<u>105,073</u>
Total depreciation expense - business-type activities	<u>\$ 1,118,609</u>

E. 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 was renewed on October 30, 2017 through October 30, 2022. The annual lease payment is based on the amount of revenue generated by the Pier for fishing and walking. The lease payment paid was \$4,381 for the year ended September 30, 2018, based on revenues of \$138,608.

During the year ended September 30, 2018, the City entered into two lease agreements for financing the acquisition of a backhoe loader for Public Works and for the purchase of three sanitation trucks. The assets acquired through these capital leases during the year ended September 30, 2018 are as follows:

Backhoe loader	\$ 93,161
Less: accumulated depreciation	<u>(13,974)</u>
Total book value	<u>\$ 79,187</u>

The lease agreement for the three sanitation trucks was dated August 3, 2018. At September 30, 2018, the proceeds of the lease to be used for the purchase of the sanitation trucks were in an escrow account established pursuant to an Escrow Agreement between the Suntrust Equipment Finance & Leasing Corp. and the City. The City took possession of the trucks in December, 2018.

The minimum lease obligations and net present value of these minimum lease payments as of September 30, 2018, are as follows:

Year Ending September 30,	Backhoe Loader	Sanitation Trucks	Total
2019	\$ 18,470	\$ 103,607	\$ 122,077
2020	20,187	138,143	158,330
2021	20,187	138,142	158,329
2022	20,187	138,143	158,330
2023	<u>5,047</u>	<u>103,611</u>	<u>108,658</u>
Total lease payments	<u>84,078</u>	<u>621,646</u>	<u>705,724</u>
Less amount representing interest	<u>(5,428)</u>	<u>(41,806)</u>	<u>(47,234)</u>
Present value of minimum lease payments	<u>\$ 78,650</u>	<u>\$ 579,840</u>	<u>\$ 658,490</u>

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The City leases office equipment under noncancelable operating leases. The total costs of such leases were \$9,948 for the year ended September 30, 2018. The minimum lease payments for these leases are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Amount</u>
2019	\$ 9,948
2020	5,763
2021	4,344
2022	<u>2,140</u>
Total	<u>\$ 22,195</u>

F. Long-term liabilities

The following is a summary of long-term liability activity for the year ended September 30, 2018:

	<u>Balance</u> <u>10/1/2017</u>	<u>GASB 75</u> <u>PPA</u>	<u>Restated</u> <u>Balance</u> <u>10/1/2017</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance</u> <u>9/30/2018</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:							
Notes payable	\$ 766,000	\$ -	\$ 766,000	\$ -	\$ (56,000)	\$ 710,000	\$ -
Capital leases	-	-	-	23,290	(3,627)	19,663	4,104
Compensated absences payable	131,840	-	131,840	257,148	(257,502)	131,486	87,041
Net pension liability	419,516	-	419,516	205,236	(450,082)	174,670	-
Other postemployment benefits	177,054	24,718	201,772	12,415	-	214,187	-
Governmental activities long-term liabilities	<u>\$ 1,494,410</u>	<u>\$ 24,718</u>	<u>\$ 1,519,128</u>	<u>\$ 498,089</u>	<u>\$ (767,211)</u>	<u>\$ 1,250,006</u>	<u>\$ 91,145</u>
Business-type activities:							
Revolving loan payable	\$ 3,887,596	\$ -	\$ 3,887,596	\$ -	\$ (364,840)	\$ 3,522,756	\$ 374,600
Notes payable	1,210,000	-	1,210,000	-	(88,000)	1,122,000	-
Capital leases	-	-	-	714,250	(75,423)	638,827	103,678
Compensated absences payable	64,332	-	64,332	81,714	(78,565)	67,481	36,302
Other postemployment benefits	120,138	16,772	136,910	2,108	-	139,018	-
Business-type activities long-term liabilities	<u>\$ 5,282,066</u>	<u>\$ 16,772</u>	<u>\$ 5,298,838</u>	<u>\$ 798,072</u>	<u>\$ (606,828)</u>	<u>\$ 5,490,082</u>	<u>\$ 514,580</u>

Governmental Activities

Refunding Revenue Note

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

Principal and interest of \$56,000 and \$19,380, 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, 2018, the total amount of principal and accrued interest outstanding for the CRA's portion of the Series 2015 Note was \$822,232.

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The following is a schedule of the future payments on the CRA's portion of the outstanding Series 2015 Note as of September 30, 2018:

Fiscal Year Ending September 30,	Note Payable		
	Principal	Interest	Total
2019*	\$ -	\$ 8,982	\$ 8,982
2020	57,000	17,242	74,242
2021	58,000	15,787	73,787
2022	60,000	14,295	74,295
2023	61,000	12,764	73,764
2024 - 2028	330,000	39,493	369,493
2029 - 2030	144,000	3,669	147,669
	<u>\$ 710,000</u>	<u>\$ 112,232</u>	<u>\$ 822,232</u>

*Principal payment of \$56,000 due October 1, 2018 was paid on September 30, 2018.

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, 2018, \$7,705,748 had been drawn by the City on the Loan and \$3,988,826 has been repaid. Revenues of the water and sewer systems will repay this obligation.

The City has pledged the future net revenues (generally, customer revenues) of the water and sewer utility fund to repay the outstanding Loan issued in 2005 to finance the Water Treatment Plan Expansion Project. The Loan is payable solely from the utility net revenues and is payable through 2027. In 2018, annual principal and interest payments on the Loan were 31% of pledged revenues. As of September 30, 2018, the amount of total principal and accrued interest outstanding was \$3,958,874. Principal and interest paid for the current year were \$364,840 and \$100,910, respectively. Pledged revenues were \$1,505,803.

The following is a schedule of the future payments on the outstanding Loan as of September 30, 2018:

Fiscal Year Ending September 30,	Note Payable		
	Principal	Interest	Total
2019	\$ 374,600	\$ 91,149	\$ 465,749
2020	384,622	81,128	465,750
2021	394,910	70,838	465,748
2022	405,477	60,273	465,750
2023	416,326	49,426	465,752
2024 - 2027	1,546,822	83,303	1,630,125
	<u>\$ 3,522,757</u>	<u>\$ 436,117</u>	<u>\$ 3,958,874</u>

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2018

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 \$88,000 and \$30,613, respectively for the current year was paid for the debt service of the Stormwater portion of the Series 2015 Note. As of September 30, 2018, the total amount of principal and accrued interest outstanding for the Stormwater portion of the Series 2015 Note was \$1,299,353.

The following is a schedule of the future payments on the outstanding Stormwater portion of the Series 2015 Note as of September 30, 2018:

Fiscal Year Ending September 30,	Note Payable		
	Principal	Interest	Total
2019*	\$ -	\$ 14,193	\$ 14,193
2020	90,000	27,248	117,248
2021	92,000	24,946	116,946
2022	94,000	22,593	116,593
2023	97,000	20,177	117,177
2024 - 2028	522,000	62,415	584,415
2029 - 2030	227,000	5,781	232,781
	<u>\$1,122,000</u>	<u>\$ 177,353</u>	<u>\$ 1,299,353</u>

*Principal payment of \$88,000 due October 1, 2018 was paid on September 30, 2018.

V. Other information

A. Risk management

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

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

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

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2018

B. Commitments, contingencies, and litigation

1. Construction commitments

The City has the following active significant construction projects as of September 30, 2018. At year end these commitments were \$1,348,893 as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Spent - to - Date</u>	<u>Remaining Commitment</u>
General Fund:			
Engineering and Permitting - Pal Parker Park			
Mott MacDonald Consultants, Inc.	\$ 100,000	\$ 44,570	\$ 55,430
Wickline Building Improvements	65,213	7,500	57,713
Building Fund:			
Office Furniture			
Pride Enterprises, Inc.	18,614	-	18,614
Water & Sewer Fund:			
WTP Clearwell Cover and Electrical Building			
Mead & Hunt, Inc.	75,300	29,307	45,993
Generator, Contract FSA17-VEH15.0, SPEC 71			
Tradewinds Power Corp.	99,461	-	99,461
WWTP Office Building			
Paul Culver	109,707	82,722	26,985
Facility Plan, Loan Preparation, WWTP Phase III			
TAW Power Systems, Inc.	337,623	-	337,623
Utility City Wide Mapping			
Quentin L. Hampton Associates, Inc.	48,250	40,923	7,327
Sanitation Fund:			
WWTP Office Building			
Paul Culver	109,707	82,722	26,985
3 Sanitation Mack Trucks, FL Sheriff's State Bid Contract			
Nextran Corporation	653,014	-	653,014
Stormwater Fund:			
Design & Bid Preparation - Lambert Stormwater Project			
Zahn Engineering, Inc.	20,000	10,252	9,748
Pier Enterprise Fund:			
FEMA Application for Pier Replacement			
Mott MacDonald Consultants, Inc.	10,000	-	10,000
Total:	<u>\$ 1,646,889</u>	<u>\$ 297,996</u>	<u>\$ 1,348,893</u>

2. Grant programs

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2018

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. For the fiscal year ending September 30, 2018, there were a total of 50 employees participating in the plan with a covered payroll of \$2,312,416. Contributions were approximately \$150,309 for the year ended September 30, 2018

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.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2018

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

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

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

Measurement date

As permitted by GASB Statement No. 68, Accounting and Financial Reporting for Pensions, the City elected to use a measurement date to value the net pension liability and related deferred inflows and outflows as of September 30, 2017, one year prior to the reporting date. Because the City's Pension Trust Fund Plans do not issue separate financial statements, the disclosures required by GASB 67 as of September 30, 2018 are also included below.

Plan Membership

Plan membership in the City's Pension Trust Fund Plans as of October 1, 2018 is as follows:

	Municipal Police Officers' Pension Trust Fund Plan	Municipal Firefighters' Pension Trust Fund Plan
Retirees and beneficiaries		
Inactive Plan members or beneficiaries currently receiving benefits	5	4
Inactive Plan members entitled to but not yet receiving benefits	10	3
Active Plan members	15	19
Total retirees and beneficiaries	30	26

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2018

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, 2016	\$ 3,458,104	\$ 3,038,588	\$ 419,516
Changes for the Year:			
Service cost	163,804	-	163,804
Interest	270,030	-	270,030
Share plan allocation	764	-	764
Differences between expected and actual experience	(91,598)	-	(91,598)
Changes of assumptions	-	-	-
Contributions - employer	-	130,382	(130,382)
Contributions - State	-	44,481	(44,481)
Contributions - employee	-	81,895	(81,895)
Net investment income	-	373,236	(373,236)
Benefit payments, including refunds of employee contributions	(137,764)	(137,764)	-
Administrative expense	-	(42,148)	42,148
Net changes	<u>205,236</u>	<u>450,082</u>	<u>(244,846)</u>
Balances at September 30, 2017	<u>\$ 3,663,340</u>	<u>\$ 3,488,670</u>	<u>\$ 174,670</u>

The components of the net pension liability of the sponsor of the Police Plan on September 30, 2018 were as follows:

September 30, 2018	
Total pension liability	\$ 4,183,805
Plan net position	<u>(3,907,119)</u>
Net Pension Liability	<u>\$ 276,686</u>
Plan net position as a percentage of total pension liability	93.39%

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2018

Municipal Firefighters' Pension Trust Fund Plan

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Pension	Net Pension Liability
	(a)	(b)	(a)-(b)
Balances at September 30, 2016	\$ 1,145,154	\$ 1,354,605	\$ (209,451)
Changes for the Year:			
Service cost	82,884	-	82,884
Interest	90,640	-	90,640
and actual experience	(118,194)	-	(118,194)
Changes of assumptions	-		-
Contributions - employer	-	83,554	(83,554)
Contributions - State	-	31,857	(31,857)
Contributions - employee	-	25,221	(25,221)
Net investment income	-	158,378	(158,378)
Benefit payments, including refunds of employee contributions	(39,022)	(39,022)	-
Administrative expense	-	(35,837)	35,837
Net changes	<u>16,308</u>	<u>224,151</u>	<u>(207,843)</u>
Balances at September 30, 2017	<u>\$ 1,161,462</u>	<u>\$ 1,578,756</u>	<u>\$ (417,294)</u>

The components of the net pension liability of the sponsor of the Fire Plan on September 30, 2018 were as follows

September 30, 2018	
Total pension liability	\$ 1,473,377
Plan net position	<u>(1,782,384)</u>
Net Pension Liability (Asset)	<u>\$ (309,007)</u>
Plan net position as a percentage of total pension liability	120.97%

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2018

Actuarial assumptions and other inputs – The total pension liability in the actuarial valuation as of October 1, 2017 updated to September 30, 2018 using the following actuarial assumptions, applied to all measurement periods:

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

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

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%
	100%	

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, 2018

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

As of September 30, 2018

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
Net Pension Liability	\$ 824,578	\$ 276,686	\$ (175,549)

As of September 30, 2017

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
Net Pension Liability	\$ 653,553	\$ 174,670	\$ (220,545)

Municipal Firefighters’ Pension Trust Fund Plan

As of September 30, 2018

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability (Asset)	\$ (60,090)	\$ (309,007)	\$ (511,137)

As of September 30, 2017

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability (Asset)	\$ (235,050)	\$ (417,294)	\$ (565,573)

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

For the year ended September 30, 2018, the City recognized pension expense of \$169,219 and \$75,822, respectively for Police Plan and Fire Plan.

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2018

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2018, 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	\$ 68,784	\$ 105,769
Change of assumptions	52,296	-
Net difference between projected and actual earnings on pension plan investments	-	73,560
Employer and State contributions subsequent to the measurement date	190,105	-
Total	\$ 311,185	\$ 179,329

Municipal Firefighters' Pension Trust Fund Plan

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 12,803	\$ 107,685
Change of assumptions	39,440	-
Net difference between projected and actual earnings on pension plan investments	-	21,463
Employer and State contributions subsequent to the measurement date	130,305	-
Total	\$ 182,548	\$ 129,148

\$190,105 and \$130,305, respectively, were reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date for Police Plan and Fire Plan and are recognized as a reduction of net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pension Trust Fund Plans will be recognized in Pension Expense as follows:

Fiscal Year Ending September 30:	Police Plan	Fire Plan
2019	\$ 8,223	\$ (4,251)
2020	20,820	1,564
2021	(28,883)	(21,541)
2022	(43,143)	(15,407)
2023	(15,266)	(4,544)
Thereafter	-	(32,726)
Total	\$ (58,249)	\$ (76,905)

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2018

Payable to the Pension Plan – On September 30, 2018, the City had no payables for outstanding amounts of contributions of the Police Plan and Fire Plan.

Other Postemployment Benefits (OPEB)

OPEB Plan Description and Benefits Provided

Plan description -- The City of Flagler Beach’s Retiree Health Care Plan (Plan) is a single-employer defined benefit post-employment health care plan that covers eligible retired employees of the City. The Plan, which is administered by the City, allows employees who retire and meet retirement eligibility requirements under an applicable retirement plan to continue medical insurance coverage as a participant in the City’s plan. For purposes of applying Paragraph 4 under GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the Plan does not meet the requirements for an OPEB plan administered through a trust.

The following table provides a summary of the number of participants in the plan as of September 30, 2017 (the latest valuation date).

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	0
Inactive Plan Members Entitled to But Not Yet Receiving Benefits	0
Active Plan Members	<u>72</u>
Total	<u><u>72</u></u>

Benefits provided – A retired employee and his or her spouse and eligible dependents are eligible to continue health insurance identical to active employees if they meet the eligibility for retirement under the applicable retirement plan. The retiree is responsible for paying the entire monthly premium for health coverage and that of any covered spouse or eligible dependents.

Total OPEB Liability

The total OPEB liability was actuarially determined based on several actuarial assumptions. September 30, 2017 was the measurement date. This valuation was performed utilizing the Alternative Measurement Method for small plans as permitted under GASB Statement No. 75. The measurement period for the OPEB expense was October 1, 2016 to September 30, 2017. The reporting period is October 1, 2017 through September 30, 2018.

The City’s total OPEB liability was measured as of September 30, 2017. (The City’s total OPEB liability for the City’s ledger adjustment was measured as of September 30, 2017 using a discount rate of 3.06%).

Actuarial assumptions – The total OPEB liability was determined by an actuarial valuation as of September 30, 2017 using the following actuarial assumptions –

Inflation	2.50%
Salary Increases	2.50%
Discount Rate	3.64%
Initial Trend Rate	8.50%
Ultimate Trend Rate	4.00%
Years to Ultimate	55

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2018

For all lives, mortality rates were RP-2000 Combined Healthy Mortality Tables projected to the valuation date using Projection Scale AA.

Discount rate – Given the City’s decision not to fund the program, all future benefit payments were discounted using a high-quality municipal bond rate of 3.64%. The high-quality municipal bond rate was based on the week closest but not later than the measurement date of the Bond Buyer 20-Bond Index as published by the Federal Reserve. The 20-Bond Index consists of 20 general obligation bonds that mature in 20 years. The average rating of the 20 bonds is roughly equivalent to Moody’s Investors Service’s Aa2 rating and Standard & Poor’s Corp.’s AA.

OPEB expense -- Under GASB Statement No. 75, as it applies to plans that qualify for the Alternative Measurement Method, changes in the total OPEB liability are not permitted to be included in deferred outflows of resources or deferred inflows of resources related to OPEB. These changes are immediately recognized through OPEB expense. For the year ended September 30, 2018, the City recognized OPEB expense of \$28,140

Changes in Total OPEB Liability

	Increase (Decrease) Total OPEB Liability
Reporting period ending September 30, 2017	\$ 338,682
Changes for the Year:	
Service cost	40,191
Interest	11,433
Changes of assumptions	(26,484)
Benefit payments	(10,617)
Net changes	14,523
Balances at September 30, 2018	\$ 353,205

Changes in assumptions reflect a change in the discount rate from 3.06% for the fiscal year ending September 30, 2017 to 3.64% for the fiscal year ending September 30, 2018.

Sensitivity of the total OPEB liability to changes in the discount rate – The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate-

	1% Decrease 2.64%	Current Discount Rate 3.64%	1% Increase 4.64%
Total OPEB Liability (Asset)	\$ 400,736	\$ 353,205	\$ 313,570

Sensitivity of the total OPEB liability to changes in the Healthcare Cost Trend Rates:

The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates-

	1% Decrease 3.00%-7.50%	Healthcare Cost Trend Rates 4.00%-8.50%	1% Increase 5.00%-9.50%
Total OPEB Liability (Asset)	\$ 311,120	\$ 353,205	\$ 403,674

City of Flagler Beach, Florida
Notes to the Financial Statements
September 30, 2018

VI. Restatement of Net Position

Per paragraph 244 of GASB 75, the difference between the net OPEB liability/(asset) as of September 30, 2017 and the GASB 75 unfunded actuarial accrued liability as of the reporting period ending September 30, 2017 (based on a measurement date of September 30, 2016), should be reported as a restatement of the beginning net position as follows:

	Governmental Activities	Business-type Activities	Total
Total OPEB liability, beginning of year, as previously reported	\$ 177,054	\$ 120,138	\$ 297,192
Restatement for implementation of GASB Statement No. 75	24,718	16,772	41,490
Total OPEB liability, beginning of year, as restated	201,772	136,910	338,682
Net position, beginning of year, as previously reported	14,735,420	27,354,046	42,089,466
Restatement for implementation of GASB Statement No. 75	(24,718)	(16,772)	(41,490)
Net position, beginning of year, as restated	<u>\$ 14,710,702</u>	<u>\$ 27,337,274</u>	<u>\$ 42,047,976</u>

VII. Evaluation of subsequent events

After October 1, 2018, the City received Federal and State Obligations totaling \$972,495 from its Hurricane Irma Disaster Declaration. The City has received \$85,168 from these obligations.

On October 8, 2018, the City entered an agreement with the Florida Inland Navigation District, which will provide 50% of the funding for the "Pal Parker Park and Kayak Launch Phase I". Total cost estimated at \$393,325; City match is \$196,663.

The City received the delivery of the three sanitation trucks purchased with the escrowed proceeds of the lease agreement dated August 3, 2018. Each truck was built individually and all three were received between December 2018 and February 2019. Total cost was \$660,401.

On May 15, 2019, the City of Flagler Beach was notified that the FEMA project from Hurricane Matthew for total replacement of the pier had been obligated in the amount of \$9,092,450. The Federal obligation is \$6,819,378 and the state obligation is \$1,136,556. The local (City) obligation will also be \$1,136,556.

City management has evaluated subsequent events through June 27, 2019, 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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 4,064,517	\$ 4,064,517	\$ 4,201,531	\$ 137,014
Franchise fees	305,000	305,000	313,665	8,665
Licenses and permits	372,250	372,250	428,172	55,922
Intergovernmental	456,643	461,937	538,598	76,661
Charges for services	33,501	33,501	62,852	29,351
Fines and forfeitures	49,000	49,000	83,572	34,572
Grants and donations	205,026	1,411,343	825,021	(586,322)
Investment earnings	28,000	28,000	42,934	14,934
Miscellaneous	16,000	208,366	184,600	(23,766)
Total revenues	<u>5,529,937</u>	<u>6,933,914</u>	<u>6,680,945</u>	<u>(252,969)</u>
EXPENDITURES				
Current:				
Commission	82,052	84,227	70,550	13,677
Executive	155,635	157,203	152,283	4,920
City clerk	215,053	215,053	202,452	12,601
Human Resources	92,376	92,376	80,843	11,533
Finance	179,351	179,374	178,262	1,112
Legal counsel	127,400	127,400	120,854	6,546
Building maintenance	320,695	417,914	361,884	56,030
General government	642,144	1,069,221	903,183	166,038
Police	1,416,565	1,616,276	1,552,770	63,506
VOCA	117,258	117,258	107,312	9,946
Fire	886,788	1,017,828	916,371	101,457
Building and zoning	161,973	166,070	155,513	10,557
Roads and streets	350,135	411,666	388,712	22,954
Library	99,133	104,831	84,544	20,287
Museum	7,080	7,080	5,088	1,992
Beach	201,980	232,180	201,133	31,047
Recreation	95,217	229,472	118,978	110,494
Building code inspections	247,530	255,661	209,639	46,022
Capital projects	814,155	1,491,139	875,241	615,898
Total expenditures	<u>6,212,520</u>	<u>7,992,229</u>	<u>6,685,612</u>	<u>1,306,617</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(682,583)</u>	<u>(1,058,315)</u>	<u>(4,667)</u>	<u>1,053,648</u>
OTHER FINANCING SOURCES				
Capital lease	-	-	23,290	23,290
Total other financing sources	<u>-</u>	<u>-</u>	<u>23,290</u>	<u>23,290</u>
Net change in fund balances	<u>\$ (682,583)</u>	<u>\$ (1,058,315)</u>	<u>\$ 18,623</u>	<u>\$ 1,076,938</u>
Fund balances - beginning of year	<u>4,417,333</u>	<u>4,793,065</u>	<u>5,969,456</u>	<u>1,176,391</u>
Fund balances - end of year	<u>\$ 3,734,750</u>	<u>\$ 3,734,750</u>	<u>\$ 5,988,079</u>	<u>\$ 2,253,329</u>

See accompanying notes.

**City of Flagler Beach, Florida
Budgetary Comparison Schedule
Community Redevelopment Fund
September 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 227,053	\$ 227,053	\$ 226,699	\$ (354)
Grants	-	5,039	-	(5,039)
Total revenues	<u>227,053</u>	<u>232,092</u>	<u>226,699</u>	<u>(5,393)</u>
EXPENDITURES				
Current:				
Personnel costs				-
Professional services	5,000	5,000	-	5,000
Audit	5,000	5,000	4,530	470
Contractual services	42,000	67,230	66,223	1,007
Utilities	7,000	7,000	3,794	3,206
Repairs & maintenance	10,000	26,105	-	26,105
Legal and personal notices	1,000	1,000	-	1,000
Operating supplies	7,000	7,000	895	6,105
Memberships and subscriptions	200	200	175	25
Capital projects	15,500	19,029	25,073	(6,044)
Debt service:				
Principal	84,489	84,489	56,000	28,489
Interest	21,124	21,124	21,124	-
Total expenditures	<u>198,313</u>	<u>243,177</u>	<u>177,814</u>	<u>65,363</u>
Excess (deficiency) of revenues over (under) expenditures	<u>28,740</u>	<u>(11,085)</u>	<u>48,885</u>	<u>59,970</u>
Net change in fund balances	<u>\$ 28,740</u>	<u>\$ (11,085)</u>	<u>\$ 48,885</u>	<u>\$ 59,970</u>
Fund balances - beginning of year	80,128	119,953	80,128	(39,825)
Fund balances - end of year	<u>\$ 108,868</u>	<u>\$ 108,868</u>	<u>\$ 129,013</u>	<u>\$ 20,145</u>

See accompanying notes.

City of Flagler Beach, Florida
Note to the Budgetary Comparison Schedules
For the Year Ended September 30, 2018

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 Changes in Net Pension Liability and Related Ratios
Municipal Police Officers' Pension Trust Fund Plan
(Last 10 Fiscal Years)
September 30, 2018

Reporting period ending Measurement date	9/30/2019 9/30/2018	9/30/2018 9/30/2017	9/30/2017 9/30/2016	9/30/2016 9/30/2015	9/30/2015 9/30/2014	
TOTAL PENSION LIABILITY						
Service cost	\$ 181,472	\$ 163,804	\$ 140,418	\$ 152,425	\$ 148,987	PRIOR INFORMATION NOT AVAILABLE
Interest	286,220	270,030	233,628	218,206	197,282	
Share plan allocation	5,344	764	-	-	-	
Differences between expected and actual experience	204,944	(91,598)	114,638	(58,880)	-	
Changes of assumptions	-	-	87,160	-	-	
Benefit payments, including refunds of employee contributions	(157,515)	(137,764)	(102,745)	(90,905)	(57,881)	
Net change in total pension liability	520,465	205,236	473,099	220,846	288,388	
Total pension liability - beginning	3,663,340	3,458,104	2,985,005	2,764,159	2,475,771	
Total pension liability - ending (a)	<u>\$ 4,183,805</u>	<u>\$ 3,663,340</u>	<u>\$ 3,458,104</u>	<u>\$ 2,985,005</u>	<u>\$ 2,764,159</u>	
PLAN FIDUCIARY NET POSITION						
Contributions - employer	\$ 136,466	\$ 130,382	\$ 62,751	\$ 60,659	\$ 87,454	
Contributions - state	53,639	44,481	42,952	38,667	38,340	
Contributions - employee	83,550	81,895	72,128	71,655	71,530	
Net investment income	338,143	373,236	289,042	(40,277)	246,855	
Benefit payments, including refunds of employee contributions	(157,515)	(137,764)	(102,745)	(90,905)	(57,881)	
Administrative expense	(35,834)	(42,148)	(39,294)	(51,933)	(19,992)	
Net change in plan fiduciary net position	418,449	450,082	324,834	(12,134)	366,306	
Plan fiduciary net position - beginning	3,488,670	3,038,588	2,713,754	2,725,888	2,359,582	
Plan fiduciary net position - ending (b)	<u>\$ 3,907,119</u>	<u>\$ 3,488,670</u>	<u>\$ 3,038,588</u>	<u>\$ 2,713,754</u>	<u>\$ 2,725,888</u>	
Net pension liability - ending (a) - (b)	<u>\$ 276,686</u>	<u>\$ 174,670</u>	<u>\$ 419,516</u>	<u>\$ 271,251</u>	<u>\$ 38,271</u>	
Plan fiduciary net position as a percentage of the total pension liability	93.39%	95.23%	87.87%	90.91%	98.62%	
Covered employee payroll*	\$ 835,497	\$ 818,946	\$ 721,277	\$ 716,550	\$ 715,298	
Net pension liability as a percentage of covered employee payroll	33.12%	21.33%	58.16%	37.86%	5.35%	

Notes to Schedule:

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

Changes of assumptions:

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

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

City of Flagler Beach, Florida
Schedule of Changes in Net Pension Liability and Related Ratios
Municipal Firefighters' Pension Trust Fund Plan
(Last 10 Fiscal Years)
September 30, 2018

Reporting period ending Measurement date	9/30/2019 9/30/2018	9/30/2018 9/30/2017	9/30/2017 9/30/2016	9/30/2016 9/30/2015	9/30/2015 9/30/2014	
TOTAL PENSION LIABILITY						
Service cost	\$ 129,752	\$ 82,884	\$ 81,822	\$ 74,954	\$ 63,454	PRIOR INFORMATION NOT AVAILABLE
Interest	94,641	90,640	77,035	69,702	63,195	
Differences between expected and actual experience	146,201	(118,194)	16,460	(1,875)	-	
Changes of assumptions	-	-	50,710	-	-	
Benefit payments, including refunds of employee contributions	(58,679)	(39,022)	(52,357)	(51,394)	(51,394)	
Net change in total pension liability	311,915	16,308	173,670	91,387	75,255	
Total pension liability - beginning	1,161,462	1,145,154	971,484	880,097	804,842	
Total pension liability - ending (a)	<u>\$ 1,473,377</u>	<u>\$ 1,161,462</u>	<u>\$ 1,145,154</u>	<u>\$ 971,484</u>	<u>\$ 880,097</u>	
PLAN FIDUCIARY NET POSITION						
Contributions - employer	\$ 86,628	\$ 83,554	\$ 2,978	\$ 12,764	\$ 24,723	
Contributions - state	43,677	31,857	35,714	62,074	50,517	
Contributions - employee	24,886	25,221	15,917	14,900	13,776	
Net investment income	143,679	158,378	124,245	(19,545)	115,088	
Benefit payments, including refunds of employee contributions	(58,679)	(39,022)	(52,357)	(51,394)	(51,394)	
Administrative expense	(36,563)	(35,837)	(36,875)	(28,497)	(12,148)	
Net change in plan fiduciary net position	203,628	224,151	89,622	(9,698)	140,562	
Plan fiduciary net position - beginning	1,578,756	1,354,605	1,264,983	1,274,681	1,134,119	
Plan fiduciary net position - ending (b)	<u>\$ 1,782,384</u>	<u>\$ 1,578,756</u>	<u>\$ 1,354,605</u>	<u>\$ 1,264,983</u>	<u>\$ 1,274,681</u>	
Net pension liability - ending (a) - (b)	<u>\$ (309,007)</u>	<u>\$ (417,294)</u>	<u>\$ (209,451)</u>	<u>\$ (293,499)</u>	<u>\$ (394,584)</u>	
Plan fiduciary net position as a percentage of the total pension liability	120.97%	135.93%	118.29%	130.21%	144.83%	
Covered employee payroll*	\$ 497,723	\$ 504,418	\$ 318,345	\$ 297,990	\$ 275,505	
Net pension liability as a percentage of covered employee payroll	-62.08%	-82.73%	-65.79%	-98.49%	-143.22%	

Notes to Schedule:

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

Changes of assumptions:

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

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

City of Flagler Beach, Florida
Schedule of Contributions
Municipal Police Officers' Pension Trust Fund Plan
(Last 10 Fiscal Years)
September 30, 2018

	9/30/2018	9/30/2017	9/30/2016	9/30/2015	9/30/2014	
Actuarially determined contribution	\$ 172,112	\$ 180,987	\$ 98,815	\$ 98,884	\$ 125,177	PRIOR INFORMATION NOT AVAILABLE
Contributions in relation to the actuarially determined contributions	184,762	174,099	105,703	99,326	125,794	
Contribution deficiency (excess)	\$ (12,650)	\$ 6,888	\$ (6,888)	\$ (442)	\$ (617)	
Covered employee payroll*	\$ 835,497	\$ 818,946	\$ 721,277	\$ 716,550	\$ 715,298	
Contributions as a percentage of covered employee payroll	22.11%	21.26%	14.65%	13.86%	17.59%	

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

Notes to Schedule

Valuation date: October 1, 2016

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:

Mortality Rates: *Healthy Lives:*
Female: RP2000 Generational, 100% Annuitant White Collar, Scale BB
Male: RP2000 Generational, 10% Annuitant White Collar / 90% Annuitant Blue Collar, Scale BB.
Disabled Lives:
Female: 60% RP2000 Disabled Female set forward two years / 40% Annuitant White Collar with no setback, no projection scale.
Male: 60% RP2000 Disabled Male setback four years / 40% Annuitant White Collar with no set back, no projection scale.
The assumed rates of mortality were mandated by Chapter 2015-157, Laws of Florida. This law mandates the use of the assumptions used in either of the two most recent valuations of the Florida Retirement System (FRS). The above rates are those outlined in the July 1, 2015 FRS actuarial valuation report for special risk employees.

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

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

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

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.

Interest Rate: 7.6% per year, compounded annually, net of investment related expenses. This is supported by the target asset class allocation of the trust and the expected long-term return by asset class.

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 nonregular payments for those hired prior to 10/1/2010.

Cost-of-Living Adjustment: None

Funding Method: Entry Age Normal Actuarial Cost Method, with level dollar amortization of the Unfunded Actuarial Accrued Liability. The amortization period for the October 1, 2015 Method Change Base is 20 years. The following load is utilized for determination of the Plan's contribution requirements:
• Interest – A half-year, based on the current 7.6% assumption.

Asset Methodology: In conjunction with this valuation of the plan, the Actuarial Value of Assets is based on a four-year smoothing methodology. The annual difference between expected and actual investment earnings (Market Value, net of investment-related expenses), is phased in over a four-year period.

City of Flagler Beach, Florida
Schedule of Contributions
Municipal Firefighters' Pension Trust Fund Plan
(Last 10 Fiscal Years)
September 30, 2018

	9/30/2018	9/30/2017	9/30/2016	9/30/2015	9/30/2014	
Actuarially determined contribution	\$ 120,300	\$ 115,411	\$ 45,588	\$ 67,942	\$ 75,240	PRIOR INFORMATION NOT AVAILABLE
Contributions in relation to the actuarially determined contributions	130,305	115,411	38,692	74,838	75,240	
Contribution deficiency (excess)	<u>\$ (10,005)</u>	<u>\$ -</u>	<u>\$ 6,896</u>	<u>\$ (6,896)</u>	<u>\$ -</u>	
Covered employee payroll*	\$ 497,723	\$ 504,418	\$ 318,345	\$ 297,990	\$ 275,505	
Contributions as a percentage of covered employee payroll	26.18%	22.88%	12.15%	25.11%	27.31%	

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

Notes to Schedule

Valuation date: October 1, 2016

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:

Mortality Rates:

Healthy Lives:

Female: RP2000 Generational, 100% Annuitant White Collar, Scale BB
Male: RP2000 Generational, 10% Annuitant White Collar / 90% Annuitant Blue Collar, Scale BB.

Disabled Lives:

Female: 60% RP2000 Disabled Female set forward two years / 40% Annuitant White Collar with no setback, no projection scale.
Male: 60% RP2000 Disabled Male setback four years / 40% Annuitant White Collar with no set back, no projection scale.

The assumed rates of mortality were mandated by Chapter 2015-157, Laws of Florida. This law mandates the use of the assumptions used in either of the two most recent valuations of the Florida Retirement System (FRS). The above rates are those outlined in the July 1, 2015 FRS actuarial valuation report for special risk employees.

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

Disability Rates:

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

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

Retirement Age:

Number of Years after First
Eligibility for Normal Retirement

0
1-4
5 or more

Early Retirement:

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

Interest Rate:

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

Salary Increases:

assumption is based on the results of an experience study issued April 22, 2013.

Payroll Growth:

N/A.

Funding Method:

Aggregate Actuarial Cost method.

Asset Methodology:

Fair Market Value, net of investment-related expenses.

**City of Flagler Beach, Florida
Schedule of Investment Returns
Pension Trust Fund Plans
(Last 10 Fiscal Years)
September 30, 2018**

	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>	<u>9/30/2014</u>	
Police Officers' Pension Trust Fund Plan						PRIOR
Annual Money-Weighted Rate of Return						INFORMATION NOT
Net of Investment Expense	9.76%	12.32%	10.62%	-1.48%	10.40%	AVAILABLE
Firefighters' Pension Trust Fund Plan						PRIOR
Annual Money-Weighted Rate of Return						INFORMATION NOT
Net of Investment Expense	9.27%	11.83%	10.10%	-1.52%	9.98%	AVAILABLE

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

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

City of Flagler Beach, Florida
Schedule of Changes in Total OPEB Liability and Related Ratios
(Last 10 Fiscal Years)
September 30, 2018

Reporting period ending Measurement date	9/30/2018 9/30/2017	_____
TOTAL OPEB LIABILITY		
Service cost	\$ 40,191	PRIOR INFORMATION NOT AVAILABLE**
Interest	11,433	
Changes of assumptions	(26,484)	
Benefit payments	<u>(10,617)</u>	
Net change in total OPEB liability	14,523	
Total OPEB liability - beginning	<u>338,682</u>	
Total OPEB liability - ending (a)	<u>\$ 353,205</u>	
Covered employee payroll*	\$ 3,456,332	
Net OPEB liability as a percentage of covered employee payroll	10.22%	

Notes to Schedule:

*FY 2018 Covered Payroll, projected based on actual FY 2017 Covered Payroll

Changes of assumptions:

Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

Fiscal Year Ending September 30, 2018:	3.64%
Fiscal Year Ending September 30, 2017:	3.06%

**This table will be built out to include a ten-year history.

OTHER REPORTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the City of Flagler Beach, Florida (City), as of and for the year ended September 30, 2018, 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 27, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

The Nichols Group

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

June 27, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of Flagler Beach, Florida's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2018. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

Report on Internal Control over Compliance

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

Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

The Nichols Group

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

June 27, 2019

City of Flagler Beach, Florida
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Federal Award Amount	Federal Expenditures
Federal Awards				
U.S. Department of Justice				
Passed Through Florida Department of Legal Affairs - Office of the Attorney Division				
Crime Victim Assistance	16.575	00262	111,541	101,574
U.S. Department of Homeland Security				
Passed Through Florida Division of Emergency Management (FEMA)				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	N/A	1,095,594	1,095,594 <1>
Total Federal Awards			<u>\$1,207,135</u>	<u>\$ 1,197,168</u>

<1> The Office of Management and Budget (OMB) requires that only expenditures that were approved by FEMA during the fiscal year be reported on the Schedule of Federal Awards (SEFA). The remaining expenditures will be reported on the SEFA in future years, when approved by FEMA.

The current Schedule is reporting approved expenditures that occurred during the following years:

16/17 Hurricane Matthew	\$	49,621
17/18 Hurricane Matthew		1,045,973
	\$	<u>1,095,594</u>

City of Flagler Beach, Florida
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issues on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:
 Material weaknesses(es) identified? No
 Significant deficiency(ies) identified? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major Federal Programs:
 Material weaknesses(es) identified? No
 Significant deficiency(ies) identified? None Reported

Type of auditors' report issued on compliance for major Federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major Federal programs:

	CFDA Number
Disaster Grants - Public Assistance	97.036

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditor qualified as low risk auditee? No

Section II- Financial Statement Findings

No matters are reported.

Section III- Federal Awards Findings and Questioned Costs

No matters are reported.

**City of Flagler Beach, Florida
Summary Schedule of Prior Year Findings
For the Year Ended September 30, 2018**

There were no prior year findings.



**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, 2018, and have issued our report thereon dated June 27, 2019.

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; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and Chapter 10.550, Rules of the Auditor General.

Other Reporting Requirements

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 the Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance; Schedule of Findings and Questioned Costs; and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated June 27, 2019, 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 financial audit report. There were no recommendations made in the preceding 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 disclosed in Note 1-A in the Financial Statements.

Financial Condition and Management

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

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

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

Additional Matters

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

Purpose of this Letter

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



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

June 27, 2019



1635 Eagle Harbor Parkway, Suite 4
Fleming Island, FL 32003
t: 904-264-1665
f: 904-269-9683
www.tng.cc

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

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

Report on Compliance

We have examined the City of Flagler Beach, Florida's (City) compliance with the requirements of Section 218.415, Florida Statutes, as and for the year ended September 30, 2018, as required by Section 10.556(10)(a), Rules of the Auditor General. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Scope

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

Opinion

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2018

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

The Nichols Group

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

June 27, 2019