

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS**

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

SEPTEMBER 30, 2012

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS**

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

SEPTEMBER 30, 2012

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining funds of the City of St. Augustine Beach, Florida, (the City), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund, and the aggregate remaining fund information of the City as of September 30, 2012, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 29, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Certified Public Accountants

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

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

INDEPENDENT AUDITORS' REPORT
(Concluded)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-6 and 25-26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the basic financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied curtailed limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for the consistency with management's responses to our inquires, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Purvis, Gray and Company, LLP

April 29, 2013
Gainesville, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CITY OF ST. AUGUSTINE BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012**

As management of the City of St. Augustine Beach (the City), we offer readers of the City of St. Augustine Beach's financial statements this narrative overview and analysis of the finance activities of the City of St. Augustine Beach for the fiscal year ended September 30, 2012.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$19,683,557 (net assets).
- The governments' total net assets increased slightly by \$167,946.
- The City's total long-term obligations decreased during the current year by \$61,174.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

The City adopts an annual appropriated budget for its general fund and road and bridge fund. A budgetary comparison statement has been provided for both funds to demonstrate compliance with their budgets.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Condensed Financial Information

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

**CITY OF ST. AUGUSTINE BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012
(Continued)**

**City of St. Augustine Beach
Net Assets**

	<u>2012</u>	<u>2011</u>
Current and Other Assets	\$ 6,847,240	\$ 7,442,391
Capital Assets	20,811,261	20,474,290
Total Assets	<u>27,658,501</u>	<u>27,916,681</u>
Long-term Liabilities Outstanding	7,258,942	7,311,600
Other Liabilities	716,002	1,402,429
Total Liabilities	<u>7,974,944</u>	<u>8,714,029</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	13,805,166	13,971,057
Restricted	1,235,147	1,245,847
Unrestricted	4,643,244	3,985,748
Total Net Assets	<u>\$ 19,683,557</u>	<u>\$ 19,202,652</u>

**City of St. Augustine Beach
Changes in Net Assets**

	<u>2012</u>	<u>2011</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 547,698	\$ 258,531
Operating Grants and Contributions	149,524	131,124
Capital Grants and Contributions	283,541	1,513,367
General Revenues:		
Property Taxes	2,031,163	2,265,800
Other Taxes	1,970,319	2,104,779
Other	266,238	84,622
Total Revenues	<u>5,248,483</u>	<u>6,358,223</u>
Expenses:		
General Government	1,118,642	1,219,915
Public Safety	1,737,726	1,668,459
Physical Environment	947,191	48,825
Transportation	713,864	883,491
Economic Environment	200	200
Human Services	59	55
Culture and Recreation	216,615	263,376
Interest on Long-Term Debt	346,240	336,106
Total Expenses	<u>5,080,537</u>	<u>4,420,427</u>
Change in Net Assets	167,946	1,937,796
Net Assets - October 1, 2011	19,202,652	17,264,856
Adjustment to Net Assets	312,959	
Net Assets - September 30, 2012	<u>\$ 19,683,557</u>	<u>\$ 19,202,652</u>

**CITY OF ST. AUGUSTINE BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012
(Continued)**

Overall Financial Position and Results of Operations

The governmental activities generated \$980,763 in program revenues and \$4,267,720 in general revenues, and incurred \$5,080,537 of program expenses. This resulted in a \$167,946 increase in net assets.

The City's Individual Funds

The General Fund's fund balance increased by \$7,806 from \$5,354,120 to \$5,361,926. Revenues were lower than budgeted amounts and expenditures were less than budgeted amounts.

The Road and Bridge fund balance decreased by \$38,540, from \$1,013,214 to \$974,674. Revenues were lower than budgeted amounts and expenditures were less than budgeted amounts.

The Capital Projects fund balance decreased by \$120,196, from \$103,348 to \$(16,848). Revenues for this fund were generated by bond proceeds which the City issued in 2004 and unspent proceeds are carried over from year-to-year.

General Fund Budgetary Highlights

The City continues monitoring the status of intergovernmental revenues during the first quarter of the fiscal year. As is typical, the budget is reevaluated at the six-month mark and adjusted where necessary. Additionally, due to the uncertainty of the economy and the likelihood revenues would continue to decline, non-critical capital purchases were not appropriated this fiscal year. The only capital purchases that were made was because either grant funds were received or another funding source was utilized.

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

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets as of September 30, 2012, amounts to \$20,712,308 (net of accumulated depreciation). See Note 3 for details. Capital assets include land, buildings and improvements, machinery and equipment, and infrastructure. The total increase in the City's investment in capital assets for the current fiscal year was 15.9 percent. The increase can be attributed to the purchase of equipment to replace non-operational or soon to be non-operational equipment such as the City complex generator; and an increase in infrastructure improvements primarily to the drainage system.

Debt Administration

The City decreased its debt during the current fiscal year by \$61,174 which is a decrease of 0.8 percent. See Note 4 for details.

Economic Factors

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

**CITY OF ST. AUGUSTINE BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012
*(Concluded)***

Request for Information

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

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012
CITY OF ST. AUGUSTINE BEACH, FLORIDA

Assets

Current Assets

Cash and Equivalents	\$	2,241,979
Investments		4,308,443
Accounts Receivable		120,901
Due from Other Governments		116,818
Inventory		4,204
Prepaid Expenses		54,895
Total Current Assets		6,847,240

Noncurrent Assets

Debt Issuance Costs		98,953
Capital Assets:		
Nondepreciable		7,572,942
Depreciable, Net		13,139,366
Total Noncurrent Assets		20,811,261

Total Assets		27,658,501
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Liabilities

Current Liabilities

Accounts Payable and Accrued Liabilities		181,444
Deposits		1,150
Due to Other Governments		5,170
Unearned Revenue		155,909
Accrued Interest		85,431
Current Portion of Long-term Obligations		286,898
Total Current Liabilities		716,002

Noncurrent Liabilities		7,258,942
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Total Liabilities		7,974,944
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Net Assets

Invested in Capital Assets, Net of Related Debt		13,805,166
Restricted for:		
Debt Service		210,656
Impact Fees - General Fund		186,058
Impact Fees - Transportation		664,527
Police Department Communications		51,471
Law Enforcement - Forfeiture and Seizure		74,972
Building Department Training		30,644
Law Enforcement - Education		16,819
Unrestricted		4,643,244
Total Net Assets	\$	19,683,557

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

STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2012
CITY OF ST. AUGUSTINE BEACH, FLORIDA

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental Activities					
General Government	\$ 1,118,642	\$ 37,078	\$ 0	\$ 0	\$ (1,081,564)
Public Safety	1,737,726	199,429	26,632	0	(1,511,665)
Physical Environment	947,191	254,783	0	283,291	(409,117)
Transportation	713,864	49,308	20,000	0	(644,556)
Economic Environment	200	0	0	0	(200)
Human Services	59	370	0	0	311
Culture and Recreation	216,615	6,730	102,892	250	(106,743)
Interest on Long-term Debt	346,240	0	0	0	(346,240)
Total Governmental Activities	\$ 5,080,537	\$ 547,698	\$ 149,524	\$ 283,541	(4,099,774)
 General Revenues					
Property Taxes					2,031,163
Sales Tax and Other State-shared Revenues					842,122
Franchise Fees					378,857
Utility Taxes					517,839
Communications Service Tax					231,501
County-shared Utility Revenue					112,630
Interest Earnings					20,701
Miscellaneous					131,490
Gain on Sale of Fixed Assets					1,417
Total General Revenues					4,267,720
Change in Net Assets					167,946
Net Assets, Beginning of Year (Restated)					19,515,611
Net Assets, End of Year					\$ 19,683,557

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

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012
CITY OF ST. AUGUSTINE BEACH, FLORIDA**

	General Fund	Road and Bridge	Debt Service Fund	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and Equivalents	\$ 1,979,954	\$ 85,134	\$ 176,891	\$ 0	\$ 0	\$ 2,241,979
Investments	3,229,178	929,139	0	150,126	0	4,308,443
Accounts Receivable	120,766	135	0	0	0	120,901
Due from Other						
Governments	84,480	32,336	2	0	0	116,818
Due from Other Funds	217,574	6,040	6,922	0	0	230,536
Inventory	2,881	1,323	0	0	0	4,204
Prepaid Items	54,895	0	0	0	0	54,895
Total Assets	5,689,728	1,054,107	183,815	150,126	0	7,077,776
Liabilities						
Accounts Payable and						
Accrued Liabilities	158,651	22,793	0	0	0	181,444
Due to Other Funds	6,922	56,640	0	166,974	0	230,536
Due to Other						
Governments	5,170	0	0	0	0	5,170
Deferred Revenue	155,909	0	0	0	0	155,909
Deposits	1,150	0	0	0	0	1,150
Total Liabilities	327,802	79,433	0	166,974	0	574,209
Fund Balance						
Nonspendable:						
Inventory	2,881	1,323	0	0	0	4,204
Prepaid Items	54,895	0	0	0	0	54,895
SBA Fund B	84,095	15,938	0	0	0	100,033
Restricted:						
Debt Service	0	26,841	183,815	0	0	210,656
Capital Projects	0	0	0	0	0	0
Impact Fees	186,058	664,527	0	0	0	850,585
Police Department:						
Communications	51,471	0	0	0	0	51,471
Law Enforcement:						
Forfeiture and Seizure	74,972	0	0	0	0	74,972
Building Department:						
Training	30,644	0	0	0	0	30,644
Law Enforcement:						
Education	16,819	0	0	0	0	16,819
Assigned:						
Parks and Recreation	749,613	0	0	0	0	749,613
Capital Projects	600,000	0	0	0	0	600,000
Land Acquisition	134,446	0	0	0	0	134,446
Beach Blast Off	39,249	0	0	0	0	39,249
Emergencies and						
Contingencies	0	25,000	0	0	0	25,000
Transportation	0	241,045	0	0	0	241,045
Unassigned	3,336,783	0	0	(16,848)	0	3,319,935
Total Fund Balances	5,361,926	974,674	183,815	(16,848)	0	6,503,567
Total Liabilities and Fund Balances	\$ 5,689,728	\$ 1,054,107	\$ 183,815	\$ 150,126	\$ 0	\$ 7,077,776

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

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2012
CITY OF ST. AUGUSTINE BEACH, FLORIDA**

Total Fund Balance of Governmental Funds	\$	6,503,567
 Amounts Reported in the Statement of Net Assets are Different Because:		
 Capital assets used in governmental activities are not reported in the governmental funds:		
Capital Assets, Net		20,712,308
 Long-term liabilities are not reported in the governmental funds:		
Bonds and Loans Payable		(7,006,095)
Compensated Absences		(286,314)
Net OPEB Obligation		(253,431)
 Governmental funds report bond issuance costs as expenditures. However, on the statement of net assets those costs are amortized over the term of the bonds:		
Debt Issuance Costs, Net		98,953
Accrued Interest Payable		(85,431)
		(85,431)
 Total Net Assets, Statement of Net Assets	 \$	 <u><u>19,683,557</u></u>

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012
CITY OF ST. AUGUSTINE BEACH, FLORIDA

	General Fund	Road and Bridge	Debt Service Fund	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 2,434,212	\$ 246,713	\$ 369,315	\$ 0	\$ 0	\$ 3,050,240
Licenses and Permits	504,389	40,488	0	0	0	544,877
Intergovernmental	886,360	207,140	0	0	0	1,093,500
Charges for Services	322,652	50,579	0	0	0	373,231
Fines and Forfeitures	50,542	0	0	0	0	50,542
Interest	17,109	2,792	672	128	0	20,701
Miscellaneous	117,480	0	0	0	0	117,480
Total Revenues	4,332,744	547,712	369,987	128	0	5,250,571
Expenditures						
Current:						
General Government	938,157	0	0	0	0	938,157
Public Safety	1,617,984	0	0	0	0	1,617,984
Physical Environment	613,949	0	0	0	0	613,949
Transportation	0	618,160	0	0	0	618,160
Economic Environment	200	0	0	0	0	200
Human Services	59	0	0	0	0	59
Culture and Recreation	60,079	0	0	0	117,518	177,597
Capital Outlay	457,922	402,427	0	120,324	0	980,673
Debit Services:						
Principal	0	46,864	145,695	0	0	192,559
Interest	0	37,871	218,130	0	0	256,001
(Total Expenditures)	(3,688,350)	(1,105,322)	(363,825)	(120,324)	(117,518)	(5,395,339)
Excess (Deficiency) of Revenues Over (Under) Expenditures						
	644,394	(557,610)	6,162	(120,196)	(117,518)	(144,768)
Other Financing Sources (Uses)						
Transfers in	0	519,070	0	0	117,518	636,588
Transfers (out)	(636,588)	0	0	0	0	(636,588)
Total Other Financing Sources (Uses)	(636,588)	519,070	0	0	117,518	0
Net Change in Fund Balances	7,806	(38,540)	6,162	(120,196)	0	(144,768)
Fund Balances, Beginning of Year	5,354,120	1,013,214	177,653	103,348	0	6,648,335
Fund Balances, End of Year	\$ 5,361,926	\$ 974,674	\$ 183,815	\$ (16,848)	\$ 0	\$ 6,503,567

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

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012
CITY OF ST. AUGUSTINE BEACH, FLORIDA**

**Net Change in Fund Balances - Statement of Revenues, Expenditures,
and Changes in Fund Balance** \$ (144,768)

Amounts Reported in the Statement of Activities are Different Because:

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

Acquisitions of Capital Assets	883,517
Current Year Depreciation Expense	(539,650)

In the statement of activities, the gain or loss on the disposal of capital assets is reported:

Proceeds from Sale of Capital Assets	(3,505)
Gain on Disposal of Capital Assets	1,417
	(2,088)

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

Principal Payments	192,559
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Governmental funds report costs of issuing long-term debt as expenditures. However, in the statement of activities those costs are amortized over the term of the debt:

Current Year Amortization Expense	(4,808)
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Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds:

Accrued Interest Payable	(85,431)
Compensated Absences	(49,514)
Increase in Net OPEB Obligation	(81,871)
	(216,816)

Change in Net Assets of Governmental Activities \$ 167,946

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

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

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

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

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

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

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

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all nonfiduciary activities. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees charged to external parties. The City has no business-type activities.

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

Fund Financial Statements

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

The City reports the following major governmental funds:

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Financial Statements (Concluded)

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

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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

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

Accounts Receivable

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

Investments

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Inventory and Prepaids

Inventory is valued at cost under the first-in, first-out method and is accounted for using the consumption method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. An offsetting “nonspendable” fund balance is reported in the fund financial statements to indicate that inventories and prepaids do not represent available spendable resources.

Capital Assets

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

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

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

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

Deferred/Unearned Revenue

Deferred revenues reported in the government-wide financial statements are unearned revenues. The deferred revenues will be recognized as revenue in the fiscal year that they are earned, in accordance with the accrual basis of accounting. Unearned revenues reported in the governmental fund financial statements represent unearned revenues or revenues that are measurable but not available.

Compensated Absences

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

Property Taxes

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

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

Restricted Net Assets

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

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

Note 1 - Summary of Significant Accounting Policies (Concluded)

Restricted Net Assets (Concluded)

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

The City has \$850,585 of net assets restricted by enabling legislation.

Fund Balance

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

Fund balance classifications are described below:

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

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

Use of Estimates

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

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

Note 2 - Deposits and Investments

Deposits

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

Investments

The City's investments are summarized below:

Florida PRIME, at Amortized Costs	\$	4,058,283
Fund B, at Fair Value		100,034
Money Market, at Fair Value		<u>150,126</u>
Total	\$	<u>4,308,443</u>

The City invests temporarily idle resources in the Local Government Investment Pool (State Pool). The State Pool is administered by the Florida State Board of Administration (SBA), who provides regulatory oversight. Previously, the SBA reported that the State Pool was exposed to potential risks due to indirect exposure in the subprime mortgage financial market. Consequently, the SBA placed some restrictions on how participants could access portions of their surplus funds and ultimately restructured the State Pool into two separate pools (Florida PRIME and Fund B).

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

The Fund B is reported at fair value, determined by the fair value per share of the pool's underlying portfolio.

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

- **Credit Risk**—the risk that an issuer or other counterparty to an investment will not fulfill its obligations.
 - The Florida PRIME is rated by Standards & Poor's and has a rating at September 30, 2012, of AAAM.
 - The Fund B is not rated by a nationally recognized rating agency.
 - The money market is not rated by a nationally recognized rating agency.

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

Note 2 - Deposits and Investments (Concluded)

Investments (Concluded)

■ **Interest Rate Risk**—the risk that changes in interest rates will adversely affect the fair value of an investment.

- The dollar weighted-average days to maturity (WAM) of the Florida PRIME at September 30, 2012, is 39 days.
- The weighted-average life (WAL) of Fund B at September 30, 2012, was 4.08 years. A portfolio's WAL is the dollar weighted-average length of time until securities held reach maturity. Since Fund B consists of restructured or defaulted securities, there is considerable uncertainty regarding the WAL.

Note 3 - Capital Assets

Capital asset activity for the fiscal year ended September 30, 2012, is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 7,273,180	\$ 0	\$ 0	\$ 7,273,180
Construction in Progress	<u>0</u>	<u>299,762</u>	<u>0</u>	<u>299,762</u>
Total Capital Assets Not Being Depreciated	<u>7,273,180</u>	<u>299,762</u>	<u>0</u>	<u>7,572,942</u>
Capital Assets Being Depreciated:				
Machinery and Equipment	2,025,238	79,145	(111,976)	1,992,407
Buildings and Improvements	4,106,656	96,893	0	4,203,549
Infrastructure	<u>9,856,683</u>	<u>407,717</u>	<u>0</u>	<u>10,264,400</u>
Total Capital Assets Being Depreciated	<u>15,988,577</u>	<u>583,755</u>	<u>(111,976)</u>	<u>16,460,356</u>
Less Accumulated Depreciation for:				
Machinery and Equipment	(1,410,691)	(146,644)	109,888	(1,447,447)
Buildings and Improvements	(1,203,014)	(122,777)	0	(1,325,791)
Infrastructure	<u>(277,523)</u>	<u>(270,229)</u>	<u>0</u>	<u>(547,752)</u>
Total Accumulated Depreciation	<u>(2,891,228)</u>	<u>(539,650)</u>	<u>109,888</u>	<u>(3,320,990)</u>
Total Capital Assets Being Depreciated, Net	<u>13,097,349</u>	<u>44,105</u>	<u>(2,088)</u>	<u>13,139,366</u>
Net Capital Assets	<u>\$ 20,370,529</u>	<u>\$ 343,867</u>	<u>\$ (2,088)</u>	<u>\$ 20,712,308</u>

Depreciation expense was charged to functions/programs as follows:

General Governmental	\$ 121,320
Public Safety	72,887
Physical Environment	319,426
Transportation	7,513
Culture and Recreation	<u>18,504</u>
Total Depreciation Expense	<u>\$ 539,650</u>

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

Note 4 - Long-term Obligations

A summary of changes in long-term obligations follows:

	Balance			Balance		Due
	October 1,			September 30,		
	2011	Additions	Reductions	2012	Within	
					One Year	
Bonds Payable	\$ 4,678,331	\$ 0	\$ (145,695)	\$ 4,532,636	\$ 152,075	
Loans Payable	2,520,323	0	(46,864)	2,473,459	95,791	
Compensated Absences	236,800	49,514	0	286,314	39,032	
Net OPEB Obligation	171,560	81,871	0	253,431	0	
Total	\$ 7,607,014	\$ 131,385	\$ (192,559)	\$ 7,545,840	\$ 286,898	

Bonds Payable

- \$2,500,000 serial bond used for the purchase of land and capital improvements, issued through the Florida League of Cities, at interest rates between 3% and 5.13%. Interest payments are payable semiannually on January 1 and July 1. Principal payments are due annually on July 1, maturing on July 1, 2034. The principal balance at September 30, 2012, was \$2,120,000. The bond issue is secured by and is payable from the discretionary communications service tax revenue. The approximate amount of the pledge is equal to the remaining principal and interest of \$3,560,575. During 2012, \$231,501 of discretionary communications service tax revenue was recognized and \$165,035 was paid for debt service.
- \$5,350,000 serial bond used for the purchase of land issued through the Florida Municipal Loan Council at a fixed rate of interest of 5.37%. The principal balance at September 30, 2012, was \$722,636. Interest payments are payable semiannually on January 1 and July 1. Principal payments are due annually on July 1, maturing on July 1, 2029. The bond issue is payable from and secured by certain ad valorem revenues. The approximate amount of the pledge is equal to the remaining principal and interest of \$1,119,970. During 2012, \$64,407 in ad valorem revenues was recognized and \$65,881 was paid for debt service.
- \$1,835,000 serial bond issued for a current refunding of \$1,785,000 Florida Municipal Loan Council Bond, Series 1999, at a fixed rate of interest of 4.26%. The principal balance at September 30, 2012, was \$1,690,000. Interest payments are payable semiannually on April 1 and October 1. Principal payments are due annually on April 1, maturing on April 1, 2029. The bond issue is payable from the secured by non-ad valorem revenues. The approximate amount of the pledge is equal to the remaining principal and interest of \$2,405,680. During 2012, \$139,256 was paid for debt service.

Loans Payable

\$2,520,323 loan payable used to connect approximately 620 residential units to the St. Johns County Utility System, issued through the Department of Environmental Protection's Clean Water State Revolving Loan Fund at an interest rate of 2.92%. The principal outstanding at September 30, 2012, was \$2,473,459. Principal and interest payments of \$83,683 are payable semiannually on January 15 and July 15. The loan is secured by revenue received from St. Johns County equal to the semiannual debt service payment to the City as each payment comes due. See Note 9 for further discussion of this activity.

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

Note 4 - Long-term Obligations (Concluded)

Aggregate maturities of the bonds and loans are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 247,866	\$ 287,043	\$ 534,909
2014	262,138	277,589	539,727
2015	266,570	267,487	534,057
2016	281,170	257,142	538,312
2017	290,945	246,116	537,061
2018-2022	1,637,973	1,046,113	2,684,086
2023-2027	2,003,083	681,543	2,684,626
2028-2032	1,716,350	255,914	1,972,264
2033-2034	300,000	23,319	323,319
Total	<u>\$ 7,006,095</u>	<u>\$ 3,342,266</u>	<u>\$ 10,348,361</u>

Note 5 - Interfund Balances and Transfers

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

Interfund balances at September 30, 2012, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Total</u>
General Fund	Road and Bridge	\$ 56,640
	Debt Service	160,934
Road and Bridge	Debt Service	6,040
Debt Service	General Fund	6,922
Total		<u>\$ 230,536</u>

Interfund transfers at September 30, 2012, consisted of the following:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Total</u>
General Fund	Road and Bridge	\$ 519,070
	Other Governmental Funds	117,518
Total		<u>\$ 636,588</u>

Note 6 - Defined Benefit Pension Plan

Plan Description

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

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

Note 6 - Defined Benefit Pension Plan (Concluded)

Funding Policy

The System was employee noncontributory through June 30, 2011. For the period July 1, 2011 through September 30, 2012, the employee contribution rate was 3%. The City is required to contribute at an actuarially determined rate. The rates at September 30, 2012, were as follows: Regular Employees 5.18%; Special Risk Employees 14.90%; Senior Management 6.30%; and Elected Officials 10.23%. The contribution requirements of plan members and the City are established and may be amended by the Florida Legislature. The City's contributions to the System for the years ended September 30, 2012, 2011, and 2010 were \$160,610, \$264,864, and \$289,000, respectively, equal to the required contributions for each year.

Note 7 - Risk Management

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

Note 8 - Other Postemployment Benefit Plan

Plan Description

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

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

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligations

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

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

Note 8 - Other Postemployment Benefit Plan (Continued)

Annual OPEB Cost and Net OPEB Obligations (Concluded)

Annual Required Contribution	\$ 98,008
Interest on Net OPEB Obligation	5,147
Adjustments to ARC	(6,564)
Annual OPEB Cost	96,591
(Contributions Made)	(14,720)
Increase in Net OPEB Obligation	81,871
Net OPEB Obligation, Beginning of Year	171,560
Net OPEB Obligation, End of Year	\$ 253,431

Trend Information

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Net Percentage Contributed</u>	<u>OPEB Obligation</u>
9/30/10	\$ 92,769	\$ 5,032	5.42%	\$ 87,737
9/30/11	94,627	10,804	11.42%	171,560
9/30/12	96,591	14,720	15.24%	253,431

Actuarial Methods and Assumptions

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

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

Funded Status and Funding Progress

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

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

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

Note 8 - Other Postemployment Benefit Plan (Concluded)

Methods and Assumptions

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

A discount rate of 3.00% was used. A general price inflation of 1.8% was assumed. In addition, the Entry Age Normal Cost actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at September 30, 2012, was 27 years. As authorized by GASB Statement No. 45, the Alternative Measurement Method with its simplifications of certain assumptions was employed in measuring actuarial accrued liabilities and the ARC.

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

Retirement age for active employees was calculated based on the earlier of age 65 years of age or 30 years of service for general employees. The earlier of age 60 or 25 years of service was used for Public Safety employees.

The assumption of marital status for active employees has been incorporated in the acceptance probability for spousal coverage. Using this approach, the percentage of future retired plan members taking spousal coverage was assumed at 15%. For active employees, spouses' genders were assumed to be opposite to the members' genders and females were assumed 3 years younger than their spouses. Covered spouse data were collected for current retired plan members of the valuation date, and were assumed to remain unchanged until the assumed death of the spouses.

Life expectancies were based on the 2004 United States male and female life tables.

Nongroup specific age based turnover data provided in GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

The health care trend rate selected for the fiscal year ending September 30, 2013, was the actual increase in health care costs for the year. The trend rate assumed for the fiscal year ending September 30, 2014, was 9.0% trending down to 5.0% over the next 7 years.

Health insurance premiums for retirees in effect on the fiscal year ending date were used as the basis for calculating the present value of total benefits to be paid.

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

Note 9 - Interlocal Agreement

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

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

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

Note 10 - Commitments and Contingencies

The City had one significant outstanding project as of September 30, 2012. This project is evidenced by contractual commitments with contractors as follows:

<u>Project</u>	<u>Fund</u>	<u>Contract Amount</u>	<u>Expended as of 9/30/12</u>
Mizell Road	Road and Bridge Fund	\$ 173,495	\$ 119,229

On July 1, 2005, the City entered into an agreement with St. John's County, Florida, to acquire land and build a park. The City has agreed to reimburse the County for 50% of the costs to be paid over a period of 12 years. For the year ended September 30, 2012, the City reimbursed the County \$117,518, with a remaining obligation of \$477,849.

Note 11 - Other Disclosures

Restatement

For the fiscal year ended September 30, 2012, the City made changes to the assumptions used when calculating the annual OPEB Cost and Net OPEB Obligation. The assumptions used for fiscal year ended September 30, 2011, were 5% of covered retirees taking spousal coverage, 0% of retirees lapsing at age 65, a discount rate of 1.0%, 0% general price inflation rate, 0% payroll growth, and a 20-year amortization period. The assumptions used as of September 30, 2012, were 15% of retirees taking spousal coverage, 85% of retirees lapsing at age 65, a discount rate of 3%, a general inflation rate of 1.8%, 2% payroll growth and an amortization period of 30 years. These changes in assumptions materially reduce the Net OPEB Obligation as of September 30, 2011, from \$484,519 to \$171,560. Beginning net assets in the statement of activities was increased by \$312,959 to properly reflect the effects of the change in assumptions and reduction of the Net OPEB Obligation.

Deficits in Fund Balance

The Capital Projects Fund had a deficit fund balance of \$(16,848) as of September 30, 2012.

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012
CITY OF ST. AUGUSTINE BEACH, FLORIDA**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues				
Taxes	\$ 2,425,751	\$ 2,440,751	\$ 2,434,212	\$ (6,539)
Licenses and Permits	404,000	424,120	504,389	80,269
Intergovernmental Revenues	1,001,624	1,039,367	886,360	(153,007)
Charges for Services	304,730	300,030	322,652	22,622
Fines and Forfeitures	30,600	40,100	50,542	10,442
Interest	17,000	17,000	17,109	109
Miscellaneous	63,875	113,725	117,480	3,755
Total Revenues	<u>4,247,580</u>	<u>4,375,093</u>	<u>4,332,744</u>	<u>(42,349)</u>
Expenditures				
Current:				
General Government	1,019,850	1,029,308	938,157	91,151
Public Safety	1,674,243	1,752,297	1,617,984	134,313
Physical Environment	736,124	728,481	613,949	114,532
Economic Environment	200	200	200	0
Human Services	60	60	59	1
Culture and Recreation	120,468	122,968	60,079	62,889
Capital Outlay	674,000	724,769	457,922	266,847
Reserve for Contingencies	46,963	61,940	0	61,940
(Total Expenditures)	<u>(4,271,908)</u>	<u>(4,420,023)</u>	<u>(3,688,350)</u>	<u>731,673</u>
(Excess) of Revenues (Over)				
Expenditures	<u>(24,328)</u>	<u>(44,930)</u>	<u>644,394</u>	<u>689,324</u>
Other Financing Sources (Uses)				
Transfers (out)	(637,937)	(637,335)	(636,588)	747
Total Other Financing Sources (Uses)	<u>(637,937)</u>	<u>(637,335)</u>	<u>(636,588)</u>	<u>747</u>
Net Change in Fund Balance	(662,265)	(682,265)	7,806	690,071
Fund Balance, Beginning of Year	<u>662,265</u>	<u>682,265</u>	<u>5,354,120</u>	<u>4,671,855</u>
Fund Balance, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,361,926</u>	<u>\$ 5,361,926</u>

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012
CITY OF ST. AUGUSTINE BEACH, FLORIDA**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues				
Taxes	\$ 279,338	\$ 269,338	\$ 246,713	\$ (22,625)
Licenses and Permits	20,000	0	40,488	40,488
Intergovernmental Revenues	62,394	289,799	207,140	(82,659)
Charges for Services	246,589	72,475	50,579	(21,896)
Interest	2,500	2,500	2,792	292
Total Revenues	<u>610,821</u>	<u>634,112</u>	<u>547,712</u>	<u>(86,400)</u>
Expenditures				
Current:				
Transportation	670,879	662,277	618,160	44,117
Capital Outlay	565,500	615,791	402,427	213,364
Reserve for Contingencies	0	4,000	0	4,000
Debt Service:				
Principal	23,302	46,902	46,864	38
Interest	170,812	143,212	37,871	105,341
(Total Expenditures)	<u>(1,430,493)</u>	<u>(1,472,182)</u>	<u>(1,105,322)</u>	<u>366,860</u>
(Deficiency) of Revenues (Under)				
Expenditures	<u>(819,672)</u>	<u>(838,070)</u>	<u>(557,610)</u>	<u>280,460</u>
Other Financing Sources (Uses)				
Transfers in	519,672	519,070	519,070	0
Total Other Financing Sources (Uses)	<u>519,672</u>	<u>519,070</u>	<u>519,070</u>	<u>0</u>
Net Change in Fund Balance	(300,000)	(319,000)	(38,540)	280,460
Fund Balance, Beginning of Year	<u>300,000</u>	<u>319,000</u>	<u>1,013,214</u>	<u>694,214</u>
Fund Balance, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 974,674</u>	<u>\$ 974,674</u>

**OTHER POSTEMPLOYMENT BENEFITS PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2012
CITY OF ST. AUGUSTINE BEACH, FLORIDA**

SCHEDULE OF FUNDING PROGRESS

<u>Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as Percentage of Covered Payroll</u>
9/30/10	0	\$ 523,820	\$ 523,820	0.00%	\$ 1,643,984	31.9%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

Notes:

- (1) 2010 was the transition year and the City has elected to implement GASB Statement No. 45 prospectively. The information will be built prospectively as subsequent actuarial valuations are obtained.
- (2) See Notes 8 and 11 to the financial statements for detailed information on the City's OPEB Plan.

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

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of St. Augustine Beach, Florida, (the City), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 29, 2013. 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.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Certified Public Accountants

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

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

**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
(Continued)**

Internal Control Over Financial Reporting (Concluded)

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. We consider the deficiencies noted below to be significant deficiencies:

■ **12-1 Journal Entries**

Condition—It was noted during the audit, that there were a number of journal entries that did not have proper supporting documentation, as well as no documentation of a secondary review and approval of journal entries.

Effect—Failure to provide adequate support and require a secondary review of journal entries, increases the risk that errors or irregularities may go undetected.

Recommendation—We recommend that supporting documentation be attached to all journal entries as well as a secondary review of all entries with sufficient support and documentation of the review process.

■ **12-2 Reconciliation of Fixed Assets**

Condition—It was noted during the audit, that there was no reconciliation of capital outlay expense to the Fixed Asset Reporting System.

Effect—Failure to prepare reconciliations on a timely basis increase the risk that errors or irregularities may go undetected. As a result, we noted approximately \$400,000 of capital outlay expense that was not properly capitalized in the Fixed Asset Reporting System.

Recommendation—We recommend that reconciliations be prepared on a timely basis and should be reviewed by management.

Compliance and Other Matters

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

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
(Concluded)**

Compliance and Other Matters (Concluded)

We noted certain other matters that we reported to management of the City in a separate letter dated April 29, 2013.

The City's response to the findings identified in our audit is included following this letter. We did not audit the City's response, and accordingly, we express no opinion on it.

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

Purvis, Gray and Company, LLP

April 29, 2013
Gainesville, Florida

MANAGEMENT LETTER

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

We have audited the financial statements of the City of St. Augustine Beach, Florida, (the City), as of and for the year ended September 30, 2012, and have issued our report thereon dated April 29, 2013.

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. We have issued our 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*. Disclosures in that report, which is dated April 29, 2013, should be considered in conjunction with this management letter.

This letter includes the following information, which is not included in the aforementioned reports:

- Section 10.554(1)(i)1., *Rules of the Auditor General*, require that we comment as to whether or not corrective actions have been taken to address findings and recommendations made in the preceding audit. If the audit findings in the preceding audit report are uncorrected, we are required to identify those findings that were also included in the second preceding audit report. Corrective action has been taken to address findings and recommendations made in the preceding annual financial audit report.
- Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that our audit include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we had no such findings.
- Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that we address violations of provisions of contracts or grant agreements, fraud, illegal acts, 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 more than inconsequential. In connection with our audit, we did not have any such findings.

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

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

MANAGEMENT LETTER
(Concluded)

- Section 10.554(1)(i)5., *Rules of the Auditor General*, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)6., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is included in Note 1 to the financial statements.
- Section 10.554(1)(i)7.a., *Rules of the Auditor General*, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)7.b., *Rules of the Auditor General*, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2012, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2012. In connection with our audit, we determined that these two reports were in agreement.
- Section 10.554(1)(i)7.c., *Rules of the Auditor General*, require that we apply financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by the same.

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

Purvis, Gray and Company, LLP

April 29, 2013
Gainesville, Florida



City of St. Augustine Beach

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April 29, 2013

David W. Martin, CPA
Auditor General's Office
PO Box 1735
Tallahassee, FL 32032

Dear Mr. Martin:

This letter is in response to the Auditor's Financial Statement Findings for the City of St. Augustine Beach's audit for the fiscal year ending September 30, 2012.

Financial Statement Findings Responses:

- 12-1 Supporting documentation will be attached to each journal entry. Additionally, a monthly report on the journal entries made will be provided to management for their review.
- 12-2 A reconciliation will be prepared for fixed assets each time fixed assets are added or deleted from the Fixed Asset Reporting System, a copy will be placed in the corresponding year's fixed asset file.

Sincerely,

Max Royle
City Manager