

CITY OF ST. AUGUSTINE
BEACH, FLORIDA

AUDIT REPORT

SEPTEMBER 30, 2011

**City of St. Augustine Beach
Audit Report
September 30, 2011**

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT.....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities.....	8
Governmental Fund Financial Statements:	
Balance Sheet	9
Reconciliation of the Balance Sheet to the Statement of Net Assets.....	10
Statement of Revenues, Expenditures and Changes in Fund Balances	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	12
Notes to Financial Statements	13
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	25
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Road and Bridge Fund	26
Other Postemployment Benefits Plan:	
Schedule of Funding Progress.....	27
Schedule of Employer Contributions	27
SUPPLEMENTAL INFORMATION:	
Schedule of Expenditures of Federal Awards.....	28
ADDITIONAL ELEMENTS REQUIRED BY THE RULES OF THE AUDITOR GENERAL:	
Management Letter	29
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters/Communication with Those Charged with Governance	31
Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Federal Program and on Internal Control Over Compliance.....	35
Schedule of Findings and Questioned Costs.....	37
Corrective Action Plan.....	--

Independent Auditors' Report

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

We have audited the accompanying 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, 2011, 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 opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2011, 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 May 1, 2012 on our consideration of the City's internal control over financial reporting and 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 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.

The Honorable Mayor,
Members of the City Commission and City Manager
City of St. Augustine Beach, Florida
Page 2

Management's Discussion and Analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Car, Riggs & Ingram LLC

May 1, 2012
St. Augustine, Florida

**City of St. Augustine Beach
Management's Discussion and Analysis
September 30, 2011**

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, 2011.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$19,202,652 (net assets).
- The governments' total net assets increased by \$1,937,796, which is an increase of 11.2 percent.
- The City's total long-term obligations decreased during the current year by \$3,375,208 which is a decrease of 29.9 percent.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of St. Augustine Beach's basic financial statements. The City of St. Augustine Beach'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 of St. Augustine Beach maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road and Bridge Fund, Debt Service Fund, and the Capital Projects Fund, all of which are considered to be major funds.

The City of St. Augustine Beach 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.

**City of St. Augustine Beach
Management's Discussion and Analysis
September 30, 2011**

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
Net Assets**

	2011	2010
Current and Other Assets	\$ 7,546,152	\$ 12,329,412
Capital Assets	20,370,529	17,566,393
Total Assets	<u>27,916,681</u>	<u>29,895,805</u>
Long-term Liabilities Outstanding	7,311,600	10,979,671
Other Liabilities	1,402,429	1,651,278
Total Liabilities	<u>8,714,029</u>	<u>12,630,949</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	13,971,057	7,572,251
Restricted	1,245,847	1,492,727
Unrestricted	3,985,748	8,199,878
Total Net Assets	<u>\$19,202,652</u>	<u>\$ 17,264,856</u>

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

	2011	2010
Revenues:		
Program Revenues:		
Charges for Services	\$ 258,531	\$ 229,950
Operating Grants and Contributions	131,124	192,582
Capital Grants and Contributions	1,513,367	7,614,384
General Revenues:		
Property Taxes	2,265,800	2,773,981
Other Taxes	2,104,779	2,109,493
Other	84,622	89,675
Total Revenues	<u>6,358,223</u>	<u>13,010,065</u>
Expenses:		
General Government	1,219,915	1,030,595
Public Safety	1,668,459	1,843,528
Physical Environment	48,825	741,607
Transportation	883,491	675,547
Economic Environment	200	200
Human Services	55	56
Culture and Recreation	263,376	240,312
Interest on Long-Term Debt	336,106	501,453
Total Expenses	<u>4,420,427</u>	<u>5,033,298</u>
Change in Net Assets	1,937,796	7,976,767
Net Assets – October 1, 2010	17,264,856	9,288,089
Net Assets - September 30, 2011	<u>\$19,202,652</u>	<u>\$ 17,264,856</u>

**City of St. Augustine Beach
Management's Discussion and Analysis
September 30, 2011**

Overall Financial Position and Results of Operations

The governmental activities generated \$1,903,022 in program revenues and \$4,455,201 in general revenues, and incurred \$4,420,427 of program expenses. This resulted in a \$1,937,796 increase in net assets.

The City's Individual Funds

The General Fund's fund balance decreased by \$4,264,573 from \$9,618,693 to \$5,354,120. Revenues were lower than budgeted amounts and expenditures were less than budgeted amounts.

The Road & Bridge fund balance decreased by \$119,610 from \$1,132,824 to \$1,013,214. Revenues were lower than budgeted amounts and expenditures were less than budgeted amounts.

The Debt Service fund balance increased by \$121,395 from \$56,258 to \$177,653. Revenues were lower than budgeted amounts and expenditures were lower than budgeted amounts.

The Capital Projects fund balance increased by \$107 from \$103,241 to \$103,348. 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 monitored 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 that revenues would continue to decline, non-critical capital purchases were not appropriated this fiscal year. The only capital purchases that were made were because either grant funds were received or another funding source was utilized.

The City received less than the overall budgeted amount for revenues, and spent less than the budgeted amounts for expenditures. The General Fund did see a large decrease this fiscal year; this is primarily due to budgeted transfers to other funds.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets as of September 30, 2011 amounts to \$20,370,529 (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 16.0 percent. The increase is attributed to the sewer project. This project, funded through the Clean Water State Revolving Fund Construction Loan Program received its funding through the American Reinvestment and Recovery Act.

Debt Administration

The City decreased its long-term debt during the current fiscal year by \$3,619,618 which is a decrease of 33.5 percent. See Note 4 for details.

**City of St. Augustine Beach
Management's Discussion and Analysis
September 30, 2011**

Economic Factors

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

Request for Information

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

Statement of Net Assets
September 30, 2011
City of St. Augustine Beach, Florida

ASSETS

Current Assets:

Cash and Equivalents	\$ 2,159,771
Investments	4,294,118
Accounts Receivable	337,731
Due From Other Governments	602,098
Inventory	4,204
Prepaid Expenses	44,469

Total Current Assets	<u>7,442,391</u>
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Noncurrent Assets:

Debt Issuance Costs	103,761
Capital Assets:	
Non-depreciable	7,273,180
Depreciable, Net	<u>13,097,349</u>

Total Noncurrent Assets	<u>20,474,290</u>
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TOTAL ASSETS	<u>27,916,681</u>
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities	593,849
Unearned Revenue	200,207
Current Portion of Long Term Obligations	<u>608,373</u>

Total Current Liabilities	1,402,429
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Noncurrent Liabilities	<u>7,311,600</u>
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TOTAL LIABILITIES	<u>8,714,029</u>
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	13,971,057
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Restricted:

Debt Service	177,653
Capital Projects	103,348
Impact Fees - General	177,446
Impact Fees - Transportation	624,039
Police Department Communications	76,871
Law Enforcement - Forfeiture & Seizure	39,761
Building Department Training	30,644
Law Enforcement - Education	16,085
Unrestricted	<u>3,985,748</u>

TOTAL NET ASSETS	<u>\$ 19,202,652</u>
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The accompanying "Notes to Financial Statements"
form an integral part of this statement.

Statement of Activities
For the Year Ended September 30, 2011
City of St. Augustine Beach, Florida

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
GOVERNMENTAL ACTIVITIES					
General Government	\$ 1,219,915	\$ 26,591	\$ -	\$ -	\$ (1,193,324)
Public Safety	1,668,459	152,568	27,930	-	(1,487,961)
Physical Environment	48,825	21,622	-	1,513,017	1,485,814
Transportation	883,491	53,866	20,000	-	(809,625)
Economic Environment	200	-	-	-	(200)
Human Services	55	574	-	-	519
Culture and Recreation	263,376	3,310	83,194	350	(176,522)
Interest on Long-Term Debt	336,106	-	-	-	(336,106)
TOTAL GOVERNMENTAL ACTIVITIES					
	<u>\$ 4,420,427</u>	<u>\$ 258,531</u>	<u>\$ 131,124</u>	<u>\$ 1,513,367</u>	<u>(2,517,405)</u>
GENERAL REVENUES					
Property Taxes					2,265,800
Sales Tax and Other Shared Revenues					864,872
Franchise Fees					413,917
Utility Taxes					522,880
Communications Service Tax					303,110
Investment Earnings					20,601
Miscellaneous					64,021
TOTAL GENERAL REVENUES					
					<u>4,455,201</u>
CHANGE IN NET ASSETS					
					1,937,796
NET ASSETS, October 1, 2010					
					<u>17,264,856</u>
NET ASSETS, September 30, 2011					
					<u>\$ 19,202,652</u>

The accompanying "Notes to Financial Statements"
form an integral part of this statement.

Balance Sheet
Governmental Funds
September 30, 2011
City of St. Augustine Beach, Florida

	GENERAL	ROAD AND BRIDGE	DEBT SERVICE FUND	CAPITAL PROJECTS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash and Equivalents	\$ 1,843,649	\$ 138,329	\$ 177,793	\$ -	\$ -	\$ 2,159,771
Investments	3,221,869	922,251	-	149,998	-	4,294,118
Accounts Receivable	337,596	135	-	-	-	337,731
Due From Other Governments	99,065	502,990	43	-	-	602,098
Due From Other Funds	116,697	-	-	-	-	116,697
Inventory	2,881	1,323	-	-	-	4,204
Prepaid Items	44,469	-	-	-	-	44,469
TOTAL ASSETS	\$ 5,666,226	\$ 1,565,028	\$ 177,836	\$ 149,998	\$ -	\$ 7,559,088
LIABILITIES						
Accounts Payable and Accrued Liabilities	\$ 111,899	\$ 481,950	\$ -	\$ -	\$ -	\$ 593,849
Due to Other Funds	-	69,864	183	46,650	-	116,697
Deferred Revenue	200,207	-	-	-	-	200,207
TOTAL LIABILITIES	312,106	551,814	183	46,650	-	910,753
FUND BALANCES						
Nonspendable:						
Inventory	2,881	1,323	-	-	-	4,204
Prepaid Items	44,469	-	-	-	-	44,469
Restricted:						
Debt Service	-	-	177,653	-	-	177,653
Capital Projects	-	-	-	103,348	-	103,348
Impact Fees	177,446	624,039	-	-	-	801,485
Police Department Communications	76,871	-	-	-	-	76,871
Law Enforcement - Forfeiture & Seizure	39,761	-	-	-	-	39,761
Building Department Training	30,644	-	-	-	-	30,644
Law Enforcement Education	16,085	-	-	-	-	16,085
Assigned:						
Parks and Recreation	825,344	-	-	-	-	825,344
Capital Projects	600,000	-	-	-	-	600,000
Land Acquisition	248,714	-	-	-	-	248,714
Compensated Absences	201,280	35,520	-	-	-	236,800
Emergencies and Contingencies	50,000	25,000	-	-	-	75,000
Transportation	-	327,332	-	-	-	327,332
Unassigned	3,040,625	-	-	-	-	3,040,625
TOTAL FUND BALANCES	5,354,120	1,013,214	177,653	103,348	-	6,648,335
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,666,226	\$ 1,565,028	\$ 177,836	\$ 149,998	\$ -	\$ 7,559,088

The accompanying "Notes to Financial Statements"
form an integral part of this statement.

Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
September 30, 2011
City of St. Augustine Beach, Florida

FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$ 6,648,335
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Amounts reported for governmental activities 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	20,370,529
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Long-term liabilities are not reported in the governmental funds.

Bonds and Loans Payable	(7,198,654)
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Compensated Absences	(236,800)
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Net OPEB Obligation	(484,519)
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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	<u>103,761</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 19,202,652</u></u>
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The accompanying "Notes to Financial Statements"
form an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2011
City of St. Augustine Beach, Florida

	GENERAL	ROAD AND BRIDGE	DEBT SERVICE FUND	CAPITAL PROJECTS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES						
Taxes	\$ 2,647,193	\$ 267,011	\$ 476,582	\$ -	\$ -	\$ 3,390,786
Licenses and Permits	497,320	25,072	-	-	-	522,392
Intergovernmental	592,052	1,573,576	-	-	-	2,165,628
Charges for Services	78,935	54,265	-	-	-	133,200
Fines and Forfeitures	41,644	-	-	-	-	41,644
Interest	16,447	2,671	1,376	107	-	20,601
Miscellaneous	83,973	-	-	-	-	83,973
TOTAL REVENUES	3,957,564	1,922,595	477,958	107	-	6,358,224
EXPENDITURES						
Current:						
General Government	1,034,084	-	-	-	-	1,034,084
Public Safety	1,474,920	-	-	-	-	1,474,920
Physical Environment	628,174	2,419,894	-	-	-	3,048,068
Transportation	-	839,059	-	-	-	839,059
Economic Environment	200	-	-	-	-	200
Human Services	55	-	-	-	-	55
Culture and Recreation	126,148	-	-	-	121,514	247,662
Debt Service:						
Principal	-	-	6,361,494	-	-	6,361,494
Interest	12,397	6,973	337,869	-	-	357,239
TOTAL EXPENDITURES	3,275,978	3,265,926	6,699,363	-	121,514	13,362,781
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	681,586	(1,343,331)	(6,221,405)	107	(121,514)	(7,004,557)
OTHER FINANCING SOURCES (USES)						
Transfers In	-	316,845	4,507,800	-	121,514	4,946,159
Transfers Out	(4,946,159)	-	-	-	-	(4,946,159)
Refunding Bonds Issued	-	-	1,835,000	-	-	1,835,000
Debt Issuance	-	906,876	-	-	-	906,876
TOTAL OTHER FINANCING SOURCES (USES)	(4,946,159)	1,223,721	6,342,800	-	121,514	2,741,876
NET CHANGE IN FUND BALANCES	(4,264,573)	(119,610)	121,395	107	-	(4,262,681)
FUND BALANCES, October 1, 2010	9,618,693	1,132,824	56,258	103,241	-	10,911,016
FUND BALANCES, September 30, 2011	\$ 5,354,120	\$ 1,013,214	\$ 177,653	\$ 103,348	\$ -	\$ 6,648,335

The accompanying "Notes to Financial Statements"
form an integral part of this statement.

**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, 2011
City of St. Augustine Beach, Florida**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (4,262,681)

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 those assets is depreciated over their estimated useful lives.

Acquisitions of Capital Assets	3,340,504
Current Year Depreciation Expense	(509,827)

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

Loss on Disposal of Capital Assets	(26,541)
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The issuance of long-term debt provides current financial resources for governmental funds, but does not effect net assets of governmental activities.

(2,741,876)

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

Principal Payments	6,361,494
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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	(4,811)
Current Year Issuance Costs	25,944

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.

Compensated Absences	(5,900)
Increase in Net OPEB Obligation	<u>(238,510)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 1,937,796

The accompanying "Notes to Financial Statements"
form an integral part of this statement.

Notes to Financial Statements
September 30, 2011
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 2010-11 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*.

Notes to Financial Statements
September 30, 2011
City of St. Augustine Beach, Florida

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 revenue 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, and expenditures for compensated absences 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.

Notes to Financial Statements
September 30, 2011
City of St. Augustine Beach, Florida

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 deposits and savings accounts in state-certified qualified public depositories and direct obligations of the U.S. Treasury.

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 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:

	<u>Years</u>
Infrastructure	40
Buildings and Improvements	10 – 40
Machinery and Equipment	3 – 20

Compensated Absences

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

Property Taxes

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

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

Notes to Financial Statements
September 30, 2011
City of St. Augustine Beach, Florida

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 \$801,485 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 (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.

Notes to Financial Statements
September 30, 2011
City of St. Augustine Beach, Florida

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 cost	\$ 4,023,251
Fund B, at fair value	96,942
Money market, at fair value	149,998
Certificates of deposit in qualified public depository, at cost	23,927
Total	<u>\$ 4,294,118</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 sub-prime 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.

Notes to Financial Statements
September 30, 2011
City of St. Augustine Beach, Florida

NOTE 2 – DEPOSITS AND INVESTMENTS

Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations.

- The Florida PRIME is rated by Standard and Poor's and has a rating at September 30, 2011 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.

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, 2011, is 38 days.
- The weighted average life (WAL) of Fund B at September 30, 2011 was 4.82 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 assets activity for the year ended September 30, 2011 follows:

	Balance October 1, 2010	Increases	Decreases	Balance September 30, 2011
Capital Assets Not Being Depreciated:				
Land	\$ 7,273,180	\$ -	\$ -	\$ 7,273,180
Construction in Progress	4,611,352	-	4,611,352	-
Total Capital Assets Not Being Depreciated	<u>11,884,532</u>	<u>-</u>	<u>4,611,352</u>	<u>7,273,180</u>
Capital Assets Being Depreciated:				
Machinery and Equipment	2,110,339	13,630	98,731	2,025,238
Buildings and Improvements	4,098,162	8,494	-	4,106,656
Infrastructure	1,926,951	7,929,732	-	9,856,683
Total Capital Assets Being Depreciated	<u>8,135,452</u>	<u>7,951,856</u>	<u>98,731</u>	<u>15,988,577</u>
Less Accumulated Depreciation:				
Machinery and Equipment	1,295,076	187,805	72,190	1,410,691
Buildings and Improvements	1,084,929	118,085	-	1,203,014
Infrastructure	73,586	203,937	-	277,523
Total Accumulated Depreciation	<u>2,453,591</u>	<u>509,827</u>	<u>72,190</u>	<u>2,891,228</u>
Total Capital Assets Being Depreciated, Net	<u>5,681,861</u>	<u>7,442,029</u>	<u>26,541</u>	<u>13,097,349</u>
Net Capital Assets	<u>\$ 17,566,393</u>	<u>\$ 7,442,029</u>	<u>\$ 4,637,893</u>	<u>\$ 20,370,529</u>

Notes to Financial Statements
September 30, 2011
City of St. Augustine Beach, Florida

NOTE 3 – CAPITAL ASSETS

Depreciation expense was charged to functions as follows:

General Government	\$ 120,904
Public Safety	93,188
Physical Environment	272,453
Transportation	7,568
Culture and Recreation	15,714
Total Depreciation Expense	<u>\$ 509,827</u>

NOTE 4 – LONG-TERM OBLIGATIONS

A summary of changes in long-term obligations follows:

	Balance October 1, 2010	Additions	Deductions	Balance September 30, 2011	Due Within One Year
Bonds Payable	\$ 9,204,825	\$1,835,000	\$6,361,494	\$ 4,678,331	\$ 518,909
Loans Payable	1,613,447	906,876	-	2,520,323	46,864
Compensated Absences	230,900	143,900	138,000	236,800	42,600
Net OPEB Obligation	246,009	238,510	-	484,519	-
Total	<u>\$ 11,295,181</u>	<u>\$3,124,286</u>	<u>\$6,499,494</u>	<u>\$ 7,919,973</u>	<u>\$ 608,373</u>

Bonds Payable

\$2,500,000 serial bond used for the purchase of land and capital improvements, issued through the Florida League of Cities at interest rates between 3% and 5.13%. Interest payments are payable semi-annually 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, 2011 was \$2,175,000. 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 \$3,722,362. During 2011 \$303,110 of discretionary communications service tax revenue was recognized and \$158,869 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, 2011 was \$748,331. Interest payments are payable semi-annually 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 \$792,899. During 2011, \$2,265,800 in ad-valorem revenues were recognized and \$4,555,015 was paid for debt service. The City used \$4,500,000 of Florida Communities Trust grant funding for the early retirement of a significant portion of this bond during fiscal year 2011.

Notes to Financial Statements
September 30, 2011
City of St. Augustine Beach, Florida

NOTE 4 – LONG-TERM OBLIGATIONS

\$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 transaction resulted in an economic gain of approximately \$58,000 and a reduction in future debt service of approximately \$118,000. The principal balance at September 30, 2011 was \$1,755,000. Interest payments are payable semi-annually 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 and secured by non-ad-valorem revenues. The approximate amount of the pledge is equal to the remaining principal and interest of \$2,545,443. During 2011, \$101,931 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, 2011 was \$2,520,323. Principal and interest payments of \$83,683 are payable semi-annually on January 15 and July 15, with the first payment due July 15, 2012. The loan is secured by revenue received from St. Johns County equal to the semiannual debt service payment to the City as each payment comes due. See Note 9 for further discussion of this activity.

Aggregate maturities of the bonds and loans are as follows:

YEAR ENDING SEPTEMBER 30,	PRINCIPAL	INTEREST	TOTAL
2012	\$ 565,773	\$ 251,733	\$ 817,506
2013	570,213	259,524	829,737
2014	233,609	240,238	473,847
2015	236,509	231,668	468,177
2016	249,495	222,937	472,432
2017-2021	1,390,424	965,933	2,356,357
2022-2026	1,684,398	673,262	2,357,660
2027-2031	1,747,249	315,503	2,062,752
2032-2036	520,984	47,073	568,057
Totals	<u>\$ 7,198,654</u>	<u>\$3,207,871</u>	<u>\$ 10,406,525</u>

Notes to Financial Statements
September 30, 2011
City of St. Augustine Beach, Florida

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.

The interfund transfers were generally made in the normal course of operations and are consistent with the activities of the fund making the transfer. The General Fund transferred \$4,507,800 to the Debt Service Fund to assist with the early retirement of serial bonds issued to purchase the Maratea property in fiscal year 2009.

NOTE 6 – DEFINED BENEFIT PENSION PLAN

Plan Description. The City contributes to the Florida Retirement System ("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.

Funding Policy. The System was employee noncontributory through June 30, 2011. For the period July 1, 2011 through September 30, 2011 the employee contribution rate was 3.00%. The City is required to contribute at an actuarially determined rate. The rates at September 30, 2011 were as follows: Regular Employees 4.91%; Special Risk Employees 14.10%; Senior Management 6.27%; Elected Officials 11.14%. 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, 2011, 2010 and 2009 were \$265,000, \$289,000 and \$306,000, 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.

Notes to Financial Statements
September 30, 2011
City of St. Augustine Beach, Florida

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 Florida Retirement System subsidy. In future years, contributions are assumed to increase at the same rate as premiums.

As of August 20, 2010, the date of the latest actuarial valuation, plan participation consisted of 45 active employees. There are no retirees that are currently receiving benefits.

A separate standalone financial statement is not prepared for the OPEB plan.

Funding Policy. The contribution requirements of the 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 Obligation. 2010 was a transition year and the City elected to implement GASB Statement No. 45 prospectively. The net OPEB obligation was set to zero at transition. The annual cost (expense) of the City's OPEB Plan is calculated based on the Annual Required Contribution ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. 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.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLAN

Annual required contribution	\$ 253,310
Interest on net OPEB obligation	2,460
Adjustments to ARC	<u>(13,498)</u>
Annual OPEB cost (expense)	242,272
Contributions made	<u>(3,762)</u>
Increase in net OPEB obligation	238,510
Net OPEB obligation - beginning of year	<u>246,009</u>
Net OPEB obligation - end of year	<u><u>\$ 484,519</u></u>

Notes to Financial Statements
September 30, 2011
City of St. Augustine Beach, Florida

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLAN

Trend Information

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
9/30/2010	\$ 246,009	\$ -	0%	\$ 246,009
9/30/2011	\$ 242,272	\$ 3,762	1.38%	\$ 484,519

Information required by GASB 45 for the second-preceding year is not available. The required three-year trend information will be presented next year.

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.

The actuarial methods are:

Actuarial cost method	Entry Age Normal Cost
Amortization method	Level Dollar Amount/ Closed Basis
Amortization period	20 years
Asset valuation method	N/A

The actuarial assumptions are:

Investment rate of return	1.0%
Projected annual salaries increase	4.0%
Inflation rate	0.0%
Mortality	US Life 2004 Health Mortality Table
Healthcare cost trend rate	5.5%, trending to 5.6% in 2018

Notes to Financial Statements
September 30, 2011
City of St. Augustine Beach, Florida

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLAN

Funded Status and Funding Progress. As of the actuarial valuation report dated August 20, 2010, the actuarial value of assets was \$0, the actuarial accrued liability for benefits was \$1,155,794, the unfunded actuarial accrued liability (UAAL) was also \$1,155,794, the funded ratio was 0%, the covered payroll was \$1,929,414, and the UAAL as a percentage of covered payroll was 60%.

The required schedule of funding progress immediately 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 to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

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 the County.

The 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.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – General Fund
For the Year Ended September 30, 2011
City of St. Augustine Beach, Florida

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET
REVENUES				
Taxes	\$ 2,797,159	\$ 2,681,011	\$ 2,647,193	\$ (33,818)
Licenses and Permits	390,000	390,000	497,320	107,320
Intergovernmental	846,947	849,317	592,052	(257,265)
Charges for Services	95,450	95,450	78,935	(16,515)
Fines and Forfeitures	29,000	34,000	41,644	7,644
Interest	19,000	19,000	16,447	(2,553)
Miscellaneous	22,500	73,500	83,973	10,473
TOTAL REVENUES	4,200,056	4,142,278	3,957,564	(184,714)
EXPENDITURES				
Current:				
General Government	1,295,458	1,324,759	1,034,084	290,675
Public Safety	1,641,044	1,647,326	1,474,920	172,406
Physical Environment	691,523	707,523	628,174	79,349
Economic Environment	200	200	200	-
Human Services	60	60	55	5
Culture and Recreation	284,333	234,333	126,148	108,185
Reserve For Contingencies	77,891	73,655	-	73,655
Debt Service:				
Principal	36,840	-	-	-
Interest	55,061	12,577	12,397	180
TOTAL EXPENDITURES	4,082,410	4,000,433	3,275,978	724,455
EXCESS OF REVENUES OVER EXPENDITURES	117,646	141,845	681,586	539,741
OTHER FINANCING USES				
Transfers In	371,515	296,515	-	(296,515)
Transfers Out	(489,161)	(4,946,160)	(4,946,159)	1
TOTAL OTHER FINANCING SOURCES (USES)	(117,646)	(4,649,645)	(4,946,159)	(296,514)
NET CHANGE IN FUND BALANCES	-	(4,507,800)	(4,264,573)	243,227
FUND BALANCES, October 1, 2010	-	4,507,800	9,618,693	5,110,893
FUND BALANCES, September 30, 2011	\$ -	\$ -	\$ 5,354,120	\$ 5,354,120

Note to Budgetary Comparison Schedules:

An annual budget is adopted on the modified accrual basis of accounting, consistent with generally accepted accounting principles, for the General and Road and Bridge funds. The preparation, adoption, and amendments of the budget are governed by Chapter 166, Florida Statutes. The fund is the legal level of control. Appropriations lapse at year-end.

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – Road and Bridge Fund
For the Year Ended September 30, 2011
City of St. Augustine Beach, Florida

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL
				BUDGET
<u>REVENUES</u>				
Taxes	\$ 270,427	\$ 270,427	\$ 267,011	\$ (3,416)
Licenses and Permits	20,000	20,000	25,072	5,072
Intergovernmental	69,820	1,616,914	1,573,576	(43,338)
Charges for Services	51,772	51,772	54,265	2,493
Interest	3,500	3,500	2,671	(829)
TOTAL REVENUES	415,519	1,962,613	1,922,595	(40,018)
<u>EXPENDITURES</u>				
Current:				
Physical Environment	3,255,520	2,380,144	2,419,894	(39,750)
Transportation	1,351,490	1,432,790	839,059	593,731
Reserve For Contingencies	25,000	18,700	-	18,700
Debt Service:				
Principal	23,160	-	-	-
Interest	34,615	6,974	6,973	1
TOTAL EXPENDITURES	4,689,785	3,838,608	3,265,926	572,682
EXCESS OF REVENUES OVER (UNDER)				
EXPENDITURES	(4,274,266)	(1,875,995)	(1,343,331)	532,664
<u>OTHER FINANCING SOURCES</u>				
Transfers In	1,018,746	1,042,945	316,845	(726,100)
Debt Issuance	3,255,520	833,050	906,876	73,826
TOTAL OTHER FINANCING SOURCES	4,274,266	1,875,995	1,223,721	(652,274)
NET CHANGE IN FUND BALANCES	-	-	(119,610)	(119,610)
FUND BALANCES, October 1, 2010	-	-	1,132,824	1,132,824
FUND BALANCES, September 30, 2011	\$ -	\$ -	\$ 1,013,214	\$ 1,013,214

**City of St. Augustine Beach, Florida
Other Postemployment Benefits Plan
For the Year Ended September 30, 2011**

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as % of Covered Payroll (B-A)/C
8/20/2010	\$ -	\$ 1,155,794	\$ 1,155,794	0.0%	\$ 1,929,414	60.0%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Fiscal Year Ending</u>	<u>Amount Contributed</u>	<u>Percentage of Annual OPEB Cost Contributed</u>
9/30/2010	\$ -	0%
9/30/2011	\$ 3,762	1.38%

Notes:

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

SUPPLEMENTARY INFORMATION

City of St. Augustine Beach, Florida
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2011

	FEDERAL CFDA NUMBER	CONTRACT NUMBER	EXPENDITURES	PROGRAM TOTALS
<u>Federal Awards</u>				
<u>Department of Agriculture</u>				
Passed Through Florida Department of Agriculture: Cooperative Forestry Assistance	10.664	16115	\$ 4,000	\$ 4,000
<u>Department of Justice</u>				
Passed Through Florida Department of Law Enforcement: Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-JAGD-STJO-1-B3-024	2,312	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-JAGC-STJO-1-B2-180	24,721	27,033
<u>Environmental Protection Agency</u>				
Passed Through Florida Department of Environmental Protection: ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	WW550300	2,327,720	2,327,720
<u>Department of Energy</u>				
Passed Through Florida Department of Agriculture: ARRA -Energy Efficiency and Conservation Block Grant Program	81.128	17634	14,735	14,735
<u>Executive Office of the President</u>				
Office of National Drug Control & Policy Passed through St. Johns County, Florida: High Intensity Drug Trafficking	95.001	G10NF0001A G11NF0001A	5,561	5,561
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,379,049	\$ 2,379,049

Note 1- Basis of Presentation

The schedule is presented in accordance with generally accepted accounting principles as applicable to a governmental entity, using the modified accrual basis of accounting.

Note 2- Subrecipients

The City did not provide awards to subrecipients.

**ADDITIONAL ELEMENTS REQUIRED BY THE
RULES OF THE AUDITOR GENERAL**

Management Letter

The Honorable Mayor,
Members of the City Commission and City Manager
City of 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, 2011, and have issued our report thereon dated May 1, 2012. That report should be considered in conjunction with this management letter.

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. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

Prior Audit Findings

The 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. These requirements of the Rules of the Auditor General are addressed in the accompanying Schedule of Findings and Questioned Costs.

Financial Condition

As required by the Rules of the Auditor General, the scope of our audit included a review of the provisions of Section 218.503, Florida Statutes, "Determination of Financial Emergency". In connection with our audit, we determined that the City has not met one or more of the conditions described in Section 218.503(1), Florida Statutes, that are indicative of a financial emergency.

Also, as required by the Rules of the Auditor General, we applied financial condition assessment procedures, as of the end of the fiscal year, pursuant to Rule 10.556(7). It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management. The application of such procedures did not reveal evidence of "deteriorating financial condition" as that term is defined in Rule 10.554.

The Honorable Mayor,
Members of the City Commission and City Manager
City of St. Augustine Beach, Florida
Page 2

Annual Financial Report

As required by the Rules of the Auditor General, we determined that the annual financial report for the fiscal year ended September 30, 2011, filed with the Department of Financial Services pursuant to Section 218.32, Florida Statutes, is in substantial agreement with the audit report for the fiscal year ended September 30, 2011.

Investment of Public Funds

As required by the Rules of the Auditor General, the scope of our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. Our audit did not reveal any noncompliance with the provisions of Section 218.415, Florida Statutes.

Other Matters

Our audit did not reveal any other matters that we are required to include in this management letter.

This management letter is intended solely for the information and use of the City and the State of Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

We wish to take this opportunity to thank you and your staff for the cooperation and courtesies extended to us during the course of the audit. Please let us know if you have any questions or comments concerning this letter, our accompanying reports, or other matters.

Carr, Riggs & Ingram LLC

May 1, 2012
St Augustine, Florida

The 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, 2011, and have issued our report thereon dated May 1, 2012. 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.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

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 in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 11-1 to be a material weakness.

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*.

Communication with Those Charged with Governance

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used are described in Note 1 to the financial statements. The City adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* during the year. The application of existing policies was not changed during the year. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are sometimes particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no particularly sensitive estimates significantly affecting the financial statements.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are sometimes particularly sensitive because of their significance to financial statement users. A disclosure which is particularly sensitive to the financial statements is Note 8, which describes the City's Other Postemployment Benefits liability and related expense.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Certain material, corrected misstatements were detected as a result of our audit procedures. These misstatements related to fund balance, interfund balances, and debt issuance.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

The Honorable Mayor,
Members of the City Commission and City Manager
City of St. Augustine Beach, Florida
Page 4

This report is intended solely for the information and use of the City Council, management, and oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram LLC

May 1, 2012
St. Augustine, Florida

**Report on Compliance With Requirements That Could Have a
Direct and Material Effect on Each Major Federal Program and
on Internal Control Over Compliance**

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

Compliance

We have audited the compliance of the City of St. Augustine Beach, Florida (the "City"), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended September 30, 2011. The City's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2011.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on the major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the City's 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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City Council, management, and oversight agencies and is not intended to be and should not be used by anyone other than those specified parties.

Carr, Riggs & Ingram LLC

May 1, 2012
St. Augustine, Florida

**City of St. Augustine Beach, Florida
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2011**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

- (i) The independent auditors' report on the financial statements expressed an unqualified opinion.
- (ii) The audit disclosed a significant deficiency in internal control over financial reporting. The significant deficiency was considered to be a material weakness.
- (iii) The audit did not disclose noncompliance considered material to the financial statements.
- (iv) The audit did not report any significant deficiencies in internal control over compliance applicable to the major federal program.
- (v) The auditors' report on compliance for the major federal program expressed an unqualified opinion.
- (vi) The audit disclosed no findings relative to the major federal program that are required to be reported.
- (vii) The program tested as major is as follows:

Federal Program

CFDA/ CSFA Number

ARRA - Capitalization Grants for Clean
Water State Revolving Funds

66.458

- (viii) A threshold of \$300,000 was used to distinguish between Type A and Type B programs for federal programs.
- (ix) The City did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

City of St. Augustine Beach, Florida
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2011

SECTION II - FINANCIAL STATEMENT FINDINGS

- 11-1 *Condition* – Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, requires auditors to prepare a written communication if they identified misstatements during the audit process or it if was necessary to assist with the preparation of the financial statements. As part of the audit process, we proposed material adjustments to the City's financial statements. Our proposed adjustments were accepted by management, enabling the financial statements to be fairly presented in conformity with generally accepted accounting principles. A similar finding was reported in the previous audit report as item 10-1. No findings were noted in the second preceding audit.

Recommendation – We recommend that you consider and evaluate the cost and benefits of improving internal controls relative to the financial reporting process.

SECTION III - FINDINGS AND QUESTIONED COSTS – FEDERAL PROGRAMS

No matters are reportable.



City of St. Augustine Beach

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April 26, 2012

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, 2011.

Financial Statement Finding Response:

- 11-1 The adjustments in question pertained to activity not previously encounter by the City. The City has taken the steps necessary to improve its review of unusual activity in future periods.

Sincerely,

Max Royle
City Manager