

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS**

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

SEPTEMBER 30, 2015

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS**

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

SEPTEMBER 30, 2015

TABLE OF CONTENTS

| | |
|--|-------|
| Independent Auditors' Report | 1-2 |
| Management's Discussion and Analysis | 3-5 |
| Basic Financial Statements | |
| Statement of Net Position | 6 |
| Statement of Activities..... | 7 |
| Balance Sheet - Governmental Funds | 8 |
| Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position | 9 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds | 10 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities - Governmental Funds..... | 11 |
| Notes to Financial Statements | 12-31 |
| Required Supplementary Information | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund..... | 32 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Road and Bridge Fund..... | 33 |
| Schedule of the City's Proportionate Share of the Net Pension Liability FRS and HIS Pension Plans | 34 |
| Schedule of the City Contributions FRS and HIS Pension Plans | 35 |
| Other Postemployment Benefits Plan: Schedule of Funding Progress | 36 |
| Schedule of Employer Contributions | 36 |
| Notes to Required Supplementary Information | 37 |
| Additional Elements of Report Prepared in Accordance with Government Auditing Standards, Issued by the Comptroller General of the United States and the Rules of the Auditor General | |
| Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 38-39 |
| Management Letter..... | 40-41 |
| Independent Accountants' Report on Compliance with Section 218.415, Florida Statutes..... | 42 |



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, 2015, and the related notes, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

Certified Public Accountants

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

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

INDEPENDENT AUDITORS' REPORT
(Concluded)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund, and the aggregate remaining fund information of the City as of September 30, 2015, 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.

Emphasis of Matter - GASB 68

As discussed in Note 1 to the financial statements, in 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No.71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension schedules of proportionate share of the net pension liability and schedule of contributions, and other postemployment benefits schedule of funding progress and schedule of employer contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the basic financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for the consistency with management's responses to our inquires, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report, dated May 20, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Curvis, Gray and Company, LLP

May 20, 2016
Gainesville, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CITY OF ST. AUGUSTINE BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015**

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, 2015.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$17,832,113 (net position).
- The governments' total net position decreased by \$23,960.
- The City's total long-term obligations decreased during the current year by \$292,998.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

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

Notes to the Financial Statements

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

Condensed Financial Information

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

**CITY OF ST. AUGUSTINE BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015
(Continued)**

Net Position

| | <u>2015</u> | <u>2014</u> |
|-----------------------------------|----------------------|----------------------|
| Current and Other Assets | \$ 5,679,326 | \$ 6,195,138 |
| Capital Assets | 21,299,365 | 21,158,895 |
| Total Assets | <u>26,978,691</u> | <u>27,354,033</u> |
| Deferred Outflows of Resources | <u>616,408</u> | <u>0</u> |
| Long-term Liabilities Outstanding | 8,758,918 | 6,821,547 |
| Other Liabilities | <u>617,465</u> | <u>577,464</u> |
| Total Liabilities | <u>9,376,383</u> | <u>7,399,011</u> |
| Deferred Inflows of Resources | <u>386,603</u> | <u>0</u> |
| Net Position: | | |
| Net Investment in Capital Assets | 15,068,349 | 14,661,309 |
| Restricted | 495,870 | 457,383 |
| Unrestricted | <u>2,267,894</u> | <u>4,836,330</u> |
| Total Net Position | <u>\$ 17,832,113</u> | <u>\$ 19,955,022</u> |

Changes in Net Position

| | <u>2015</u> | <u>2014</u> |
|------------------------------------|----------------------|----------------------|
| Revenues: | | |
| Program Revenues: | | |
| Charges for Services | \$ 650,279 | \$ 656,205 |
| Operating Grants and Contributions | 288,385 | 294,453 |
| Capital Grants and Contributions | 8,177 | 16,700 |
| General Revenues: | | |
| Property Taxes | 2,191,351 | 2,069,441 |
| Other Taxes | 2,177,238 | 2,132,099 |
| Other | <u>172,886</u> | <u>740,859</u> |
| Total Revenues | <u>5,488,316</u> | <u>5,909,757</u> |
| Expenses: | | |
| General Government | 1,397,124 | 1,291,421 |
| Public Safety | 1,870,640 | 1,939,549 |
| Physical Environment | 1,035,444 | 977,584 |
| Transportation | 689,768 | 731,991 |
| Economic Environment | 5,250 | 5,250 |
| Human Services | 51 | 46 |
| Culture and Recreation | 243,675 | 293,539 |
| Interest on Long-term Debt | <u>270,324</u> | <u>280,493</u> |
| Total Expenses | <u>5,512,276</u> | <u>5,519,873</u> |
| Change in Net Position | (23,960) | 389,884 |
| Net Position - October 1* | <u>17,856,073</u> | <u>19,565,138</u> |
| Net Position - September 30 | <u>\$ 17,832,113</u> | <u>\$ 19,955,022</u> |

* Net Position as of October 1, 2014, has been reduced by \$2,098,949 to reflect a prior period adjustment related to the implementation of GASB Statement No. 68, which reflects the proportionate share of the net pension liability of the Florida Retirement System.

**CITY OF ST. AUGUSTINE BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015
(Concluded)**

Overall Financial Position and Results of Operations

The governmental activities generated \$946,841 in program revenues and \$4,541,475 in general revenues, and incurred \$5,512,276 of program expenses. This resulted in a \$23,960 decrease in net position.

The City's Individual Funds

The General Fund's fund balance decreased by \$798,450, from \$5,411,763 to \$4,613,313. Revenues were lower than budgeted amounts and expenditures were less than budgeted amounts, however transfers needed to other funds, resulted in a decrease in the excess of revenues over expenditures.

The Road and Bridge fund balance increased by \$228,201, from \$445,770 to \$673,971. Revenues were more than budgeted amounts and expenditures were less than budgeted amounts, and were subsidized by the General Fund.

General Fund Budgetary Highlights

The City continues monitoring the status of intergovernmental revenues during the first quarter of the fiscal year. As is typical, the budget is reevaluated at the six-month mark and adjusted where necessary. The City utilized some of the \$560,000 from a hotel developer to vacate a right-of-way which translates to perpetual access to the right-of-way to fund some much needed infrastructure improvements.

The City received less 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, 2015, amounts to \$21,299,365 (net of accumulated depreciation). See Note 3 for details. Capital assets include land, buildings and improvements, machinery and equipment, and infrastructure. The total increase in the City's investment in capital assets net of depreciation for the current fiscal year was less than one percent. Though capital purchases were made, obsolete or non-functional equipment and vehicles were disposed of.

Debt Administration

The City decreased its bond and loan payables during the current fiscal year by \$315,403, which is a decrease of 4.69 percent. See Note 4 for details.

Economic Factors

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

Request for Information

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

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION
SEPTEMBER 30, 2015
CITY OF ST. AUGUSTINE BEACH, FLORIDA

Assets

Current Assets

| | |
|-----------------------------|------------------|
| Cash and Equivalents | \$ 1,631,328 |
| Investments | 3,592,755 |
| Accounts Receivable | 146,367 |
| Due from Other Governments | 167,061 |
| Inventory | 3,850 |
| Prepaid Expenses | 137,965 |
| Total Current Assets | 5,679,326 |

Noncurrent Assets

| | |
|--------------------------------|-------------------|
| Capital Assets: | |
| Nondepreciable | 7,290,200 |
| Depreciable, Net | 14,009,165 |
| Total Noncurrent Assets | 21,299,365 |

Total Assets

26,978,691

Deferred Outflows of Resources

| | |
|---|----------------|
| Pension Related | 616,408 |
| Total Deferred Outflows of Resources | 616,408 |

Liabilities

Current Liabilities

| | |
|--|----------------|
| Accounts Payable and Accrued Liabilities | 223,839 |
| Deposits | 900 |
| Due to Other Governments | 2,214 |
| Accrued Interest | 77,279 |
| Current Portion of Long-term Obligations | 313,233 |
| Total Current Liabilities | 617,465 |

| | |
|-------------------------------------|------------------|
| Net Pension Liability | 2,223,430 |
| Noncurrent Liabilities | 6,535,488 |
| Total Noncurrent Liabilities | 8,758,918 |

Total Liabilities

9,376,383

Deferred Inflows of Resources

| | |
|--|----------------|
| Pension Related | 386,603 |
| Total Deferred Inflows of Resources | 386,603 |

Net Position

| | |
|--|----------------------|
| Net Investment in Capital Assets | 15,068,349 |
| Restricted for: | |
| Impact Fees - General Fund | 230,648 |
| Police Department Communications | 32,699 |
| Law Enforcement - Forfeiture and Seizure | 31,505 |
| Building Department | 195,997 |
| Law Enforcement - Education | 5,021 |
| Unrestricted | 2,267,894 |
| Total Net Position | \$ 17,832,113 |

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

STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2015
CITY OF ST. AUGUSTINE BEACH, FLORIDA

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position |
|---|------------------|----------------------------|--|--|--|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental Activities | | | | | |
| General Government | \$ 1,397,124 | \$ 40,238 | \$ 0 | \$ 0 | \$ (1,356,886) |
| Public Safety | 1,870,640 | 264,381 | 14,664 | 1,000 | (1,590,595) |
| Physical Environment | 1,035,444 | 280,297 | 167,366 | 6,927 | (580,854) |
| Transportation | 689,768 | 53,870 | 20,000 | 0 | (615,898) |
| Economic Environment | 5,250 | 0 | 0 | 0 | (5,250) |
| Human Services | 51 | 283 | 0 | 0 | 232 |
| Culture and Recreation | 243,675 | 11,210 | 86,355 | 250 | (145,860) |
| Interest on Long-term Debt | 270,324 | 0 | 0 | 0 | (270,324) |
| Total Governmental Activities | 5,512,276 | 650,279 | 288,385 | 8,177 | (4,565,435) |
| General Revenues | | | | | |
| Property Taxes | | | | | 2,191,351 |
| Sales Tax and Other State-shared Revenues | | | | | 968,171 |
| Franchise Fees | | | | | 416,421 |
| Utility Taxes | | | | | 595,814 |
| Communications Service Tax | | | | | 196,832 |
| Interest Earnings | | | | | 20,137 |
| Miscellaneous | | | | | 135,771 |
| Gain on Sale of Fixed Assets | | | | | 16,978 |
| Total General Revenues | | | | | 4,541,475 |
| Change in Net Position | | | | | (23,960) |
| Net Position, Beginning of Year | | | | | 19,955,022 |
| Adjustment to Beginning Net Position | | | | | (2,098,949) |
| Net Position, Beginning of Year, As Restated | | | | | 17,856,073 |
| Net Position, End of Year | | | | | \$ 17,832,113 |

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

BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015
CITY OF ST. AUGUSTINE BEACH, FLORIDA

| | General Fund | Road and Bridge | Debt Service Fund | Other Governmental Funds | Total Governmental Funds |
|--|-------------------------|--------------------------------|----------------------------------|---|---|
| Assets | | | | | |
| Cash and Equivalents | \$ 1,042,043 | \$ 435,875 | \$ 153,410 | \$ 0 | \$ 1,631,328 |
| Investments | 3,443,245 | 149,510 | 0 | 0 | 3,592,755 |
| Accounts Receivable | 146,367 | 0 | 0 | 0 | 146,367 |
| Due from Other | | | | | |
| Governments | 127,447 | 39,610 | 4 | 0 | 167,061 |
| Due from Other Funds | 10,706 | 66,830 | 28,955 | 0 | 106,491 |
| Inventory | 1,797 | 2,053 | 0 | 0 | 3,850 |
| Prepaid Items | 137,965 | 0 | 0 | 0 | 137,965 |
| Total Assets | 4,909,570 | 693,878 | 182,369 | 0 | 5,785,817 |
| Liabilities | | | | | |
| Accounts Payable and | | | | | |
| Accrued Liabilities | 203,398 | 19,907 | 534 | 0 | 223,839 |
| Due to Other Funds | 89,745 | 0 | 0 | 16,746 | 106,491 |
| Due to Other | | | | | |
| Governments | 2,214 | 0 | 0 | 0 | 2,214 |
| Deposits | 900 | 0 | 0 | 0 | 900 |
| Total Liabilities | 296,257 | 19,907 | 534 | 16,746 | 333,444 |
| Fund Balance | | | | | |
| Nonspendable: | | | | | |
| Inventory | 1,797 | 2,053 | 0 | 0 | 3,850 |
| Prepaid Items | 137,965 | 0 | 0 | 0 | 137,965 |
| Restricted: | | | | | |
| Impact Fees | 230,648 | 0 | 0 | 0 | 230,648 |
| Police Department: | | | | | |
| Communications | 32,699 | 0 | 0 | 0 | 32,699 |
| Law Enforcement: | | | | | |
| Forfeiture and Seizure | 31,505 | 0 | 0 | 0 | 31,505 |
| Education | 5,021 | 0 | 0 | 0 | 5,021 |
| Building Department | 195,997 | 0 | 0 | 0 | 195,997 |
| Committed: | | | | | |
| Debt Service | 0 | 0 | 181,835 | 0 | 181,835 |
| Assigned: | | | | | |
| Parks and Recreation | 749,613 | 0 | 0 | 0 | 749,613 |
| Capital Projects | 600,000 | 0 | 0 | 0 | 600,000 |
| Land Acquisition | 131,196 | 0 | 0 | 0 | 131,196 |
| Beach Blast Off | 23,054 | 0 | 0 | 0 | 23,054 |
| Emergencies and | | | | | |
| Contingencies | 50,000 | 25,000 | 0 | 0 | 75,000 |
| Transportation | 0 | 646,918 | 0 | 0 | 646,918 |
| Unassigned | 2,423,818 | 0 | 0 | (16,746) | 2,407,072 |
| Total Fund Balances | 4,613,313 | 673,971 | 181,835 | (16,746) | 5,452,373 |
| Total Liabilities and Fund Balances | \$ 4,909,570 | \$ 693,878 | \$ 182,369 | \$ 0 | \$ 5,785,817 |

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

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2015
CITY OF ST. AUGUSTINE BEACH, FLORIDA**

Total Fund Balance of Governmental Funds \$ 5,452,373

Amounts Reported in the Statement of Net Position are Different Because:

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

Capital Assets, Net 21,299,365

Deferred outflows and inflows of resources are not available in the current period and, therefore, are not reported in the governmental funds. Deferred outflows and inflows of resources at year-end consist of:

Deferred Outflows Related to Pensions 616,408
Deferred Inflows Related to Pensions (386,603)

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

Net Pension Liability (2,223,430)
Bonds and Loans Payable (6,231,016)
Compensated Absences (178,125)
Net OPEB Obligation (439,580)
Accrued Interest Payable (77,279)

Total Net Position, Statement of Net Position \$ 17,832,113

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015
CITY OF ST. AUGUSTINE BEACH, FLORIDA

| | <u>General Fund</u> | <u>Road and Bridge</u> | <u>Debt Service Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|--------------------------------|----------------------------------|---|---|
| Revenues | | | | | |
| Taxes | \$ 2,638,755 | \$ 241,056 | \$ 373,216 | \$ 0 | \$ 3,253,027 |
| Licenses and Permits | 632,713 | 83,953 | 0 | 0 | 716,666 |
| Intergovernmental | 709,382 | 244,028 | 0 | 0 | 953,410 |
| Charges for Services | 363,191 | 54,153 | 0 | 0 | 417,344 |
| Fines and Forfeitures | 26,258 | 0 | 0 | 0 | 26,258 |
| Investment Income | 17,598 | 2,186 | 337 | 16 | 20,137 |
| Miscellaneous | 133,745 | 194 | 0 | 0 | 133,939 |
| Total Revenues | <u>4,521,642</u> | <u>625,570</u> | <u>373,553</u> | <u>16</u> | <u>5,520,781</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| General Government | 1,281,426 | 0 | 0 | 0 | 1,281,426 |
| Public Safety | 1,825,178 | 0 | 0 | 0 | 1,825,178 |
| Physical Environment | 669,633 | 0 | 0 | 0 | 669,633 |
| Transportation | 0 | 671,289 | 0 | 0 | 671,289 |
| Economic Environment | 5,250 | 0 | 0 | 0 | 5,250 |
| Human Services | 51 | 0 | 0 | 0 | 51 |
| Culture and Recreation | 104,201 | 0 | 0 | 107,768 | 211,969 |
| Capital Outlay | 401,613 | 483,686 | 0 | 0 | 885,299 |
| Debit Services: | | | | | |
| Principal | 0 | 101,509 | 165,061 | 0 | 266,570 |
| Interest | 0 | 65,857 | 204,467 | 0 | 270,324 |
| (Total Expenditures) | <u>(4,287,352)</u> | <u>(1,322,341)</u> | <u>(369,528)</u> | <u>(107,768)</u> | <u>(6,086,989)</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>234,290</u> | <u>(696,771)</u> | <u>4,025</u> | <u>(107,752)</u> | <u>(566,208)</u> |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | 0 | 924,972 | 0 | 107,768 | 1,032,740 |
| Transfers (out) | (1,032,740) | 0 | 0 | 0 | (1,032,740) |
| Total Other Financing Sources (Uses) | <u>(1,032,740)</u> | <u>924,972</u> | <u>0</u> | <u>107,768</u> | <u>0</u> |
| Net Change in Fund Balances | (798,450) | 228,201 | 4,025 | 16 | (566,208) |
| Fund Balances, Beginning of Year | <u>5,411,763</u> | <u>445,770</u> | <u>177,810</u> | <u>(16,762)</u> | <u>6,018,581</u> |
| Fund Balances, End of Year | <u>\$ 4,613,313</u> | <u>\$ 673,971</u> | <u>\$ 181,835</u> | <u>\$ (16,746)</u> | <u>\$ 5,452,373</u> |

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

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015
CITY OF ST. AUGUSTINE BEACH, FLORIDA**

**Net Change in Fund Balances - Statement of Revenues, Expenditures,
and Changes in Fund Balance** \$ (566,208)

Amounts Reported in the Statement of Activities are Different Because:

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

| | |
|------------------------------------|-----------|
| Expenses for Capital Assets | 828,733 |
| Contributions of Capital Assets | 1,000 |
| Current Year Depreciation Expense | (655,800) |
| Loss on Disposal of Capital Assets | (33,464) |

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

| | |
|--------------------|---------|
| Principal Payments | 266,570 |
|--------------------|---------|

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

| | |
|---------------------------------|----------|
| Accrued Interest Payable | 3,456 |
| Compensated Absences | 48,834 |
| Increase in Net OPEB Obligation | (22,405) |

The net change in the net pension liability and deferred inflows and outflows related to
pensions is reported in the statement of activities, but not in the fund statements.

| |
|---------|
| 105,324 |
|---------|

| | |
|--|--------------------|
| Change in Net Position of Governmental Activities | \$ (23,960) |
|--|--------------------|

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

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

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

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

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

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

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

The City reports the following major governmental funds:

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Financial Statements (Concluded)

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

Measurement Focus and Basis of Accounting

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

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

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

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

Accounts Receivable

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

Investments

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

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.

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets

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

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

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

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

Compensated Absences

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

Deferred Outflows and Deferred Inflows

Deferred outflows of resources represent the consumption of net position that is applicable to a future reporting period and will not be recognized as an outflow of resources (expense) until that future time. Deferred inflows of resources represent the acquisition of net position that is applicable to a future reporting period and, therefore, will not be recognized as an inflow of resources (revenue) until that future time. Deferred outflows have a positive effect on net position, similar to assets, while deferred inflows have a negative effect on net position, similar to liabilities. The City reports pension related deferred inflows and outflows of resources.

Pension Related—differences between expected and actual earnings on plan investments and expected and actual experience with regard to economic or demographic factors in the measurement of total pension liability are reported as deferred inflows or outflows of resources, to be recognized in expense as disclosed in Note 6. Employer contributions to the pension trust made between the net pension liability measurement date and the employer's fiscal year-end are recognized as deferred outflows of resources, to be included in pension expense in the subsequent fiscal year.

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
CITY OF ST. AUGUSTINE BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Net Position

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

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 \$230,648 of net position restricted by enabling legislation.

Fund Balance

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

Fund balance classifications are described below:

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

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

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

Note 1 - Summary of Significant Accounting Policies (Concluded)

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.

Implementation of Governmental Accounting Standards Statements

The City participates in the Florida Retirement System (FRS) defined benefit pension plan and the Health Insurance Subsidy (HIS) defined benefit plan administered by Florida Division of Retirement. As a participating employer, the City implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), as required in 2015. GASB 68 requires employers participating in cost-sharing, multiple-employer defined benefit pension plans to report the employers' proportionate share of the net pension liabilities and related pension amounts of the defined benefit pension plans. The beginning net position of the City was decreased by \$2,098,949 due to the adoption of this statement. The City's proportionate share of the net pension liabilities at September 30, 2015, was \$2,223,430.

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 | \$ <u>3,592,755</u> |
| Total | \$ <u><u>3,592,755</u></u> |

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

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

- **Credit Risk**—the risk that an issuer or other counterparty to an investment will not fulfill its obligations.
 - The Florida PRIME is rated by Standards & Poor's and has a rating at September 30, 2015, of AAAM.

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, 2015, is 29 days.

Note 3 - Capital Assets

Capital asset activity for the fiscal year ended September 30, 2015, 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>3,630</u> | <u>14,620</u> | <u>(1,230)</u> | <u>17,020</u> |
| Total Capital Assets Not Being Depreciated | <u>7,276,810</u> | <u>14,620</u> | <u>(1,230)</u> | <u>7,290,200</u> |
| Capital Assets Being Depreciated: | | | | |
| Machinery and Equipment | 2,518,643 | 440,906 | (116,547) | 2,843,002 |
| Buildings and Improvements | 4,329,317 | 130,800 | (33,526) | 4,426,591 |
| Infrastructure | <u>11,325,155</u> | <u>244,639</u> | <u>0</u> | <u>11,569,794</u> |
| Total Capital Assets Being Depreciated | <u>18,173,115</u> | <u>816,345</u> | <u>(150,073)</u> | <u>18,839,387</u> |
| Less Accumulated Depreciation for: | | | | |
| Machinery and Equipment | (1,601,684) | (216,226) | 83,083 | (1,734,827) |
| Buildings and Improvements | (1,587,885) | (140,871) | 33,525 | (1,695,231) |
| Infrastructure | <u>(1,101,461)</u> | <u>(298,703)</u> | <u>0</u> | <u>(1,400,164)</u> |
| Total Accumulated Depreciation | <u>(4,291,030)</u> | <u>(655,800)</u> | <u>116,608</u> | <u>(4,830,222)</u> |
| Total Capital Assets Being Depreciated, Net | <u>13,882,085</u> | <u>160,545</u> | <u>(33,465)</u> | <u>14,009,165</u> |
| Net Capital Assets | <u>\$ 21,158,895</u> | <u>\$ 175,165</u> | <u>\$ (34,695)</u> | <u>\$ 21,299,365</u> |

Depreciation expense was charged to functions/programs as follows:

| | |
|-----------------------------------|-------------------|
| General Governmental | \$ 135,165 |
| Public Safety | 106,884 |
| Physical Environment | 374,215 |
| Transportation | 7,830 |
| Culture and Recreation | <u>31,706</u> |
| Total Depreciation Expense | <u>\$ 655,800</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 October 1, 2014 | Additions | Reductions | Balance September 30, 2015 | Due Within One Year |
|-----------------------|--|-------------------|---------------------|---|--|
| Bonds Payable | \$ 4,217,032 | \$ 0 | \$ (165,061) | \$ 4,051,971 | \$ 176,675 |
| Loans Payable | 2,280,554 | 0 | (101,509) | 2,179,045 | 104,495 |
| Compensated Absences | 226,958 | 0 | (48,833) | 178,125 | 32,063 |
| Net Pension Liability | 1,336,853 | 886,577 | 0 | 2,223,430 | 0 |
| Net OPEB Obligation | 417,175 | 22,405 | 0 | 439,580 | 0 |
| Total | \$ 8,478,572 | \$ 908,982 | \$ (315,403) | \$ 9,072,151 | \$ 313,233 |

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, 2015, was \$1,945,000. 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 \$3,078,444. During 2015, \$196,832 of discretionary communications service tax revenue was recognized and \$162,879 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, 2015, was \$636,971. 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 \$922,328. During 2015, \$70,670 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, 2015, was \$1,470,000. 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 \$1,978,857. During 2015, \$140,307 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, 2015, was \$2,179,045. 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)

Loans Payable (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> |
|-------------------------------------|---------------------|---------------------|---------------------|
| 2016 | \$ 281,170 | \$ 257,142 | \$ 538,312 |
| 2017 | 290,945 | 246,116 | 537,061 |
| 2018 | 305,901 | 234,613 | 540,514 |
| 2019 | 316,046 | 222,484 | 538,530 |
| 2020 | 326,389 | 209,838 | 536,227 |
| 2021-2025 | 1,844,589 | 837,464 | 2,682,053 |
| 2026-2030 | 2,052,084 | 420,252 | 2,472,336 |
| 2031-2034 | 813,892 | 82,237 | 896,129 |
| Total | <u>\$ 6,231,016</u> | <u>\$ 2,510,146</u> | <u>\$ 8,741,162</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, 2015, consisted of the following:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Total</u> |
|------------------------|----------------------|-------------------|
| General Fund | Other Nonmajor Funds | \$ 10,706 |
| Road and Bridge | General Fund | 60,790 |
| | Other Nonmajor Funds | 6,040 |
| Debt Service | General Fund | 28,955 |
| Total | | <u>\$ 106,491</u> |

Interfund transfers at September 30, 2015, consisted of the following:

| <u>Transfer Out</u> | <u>Transfer In</u> | <u>Total</u> |
|---------------------|--------------------------|---------------------|
| General Fund | Road and Bridge | \$ 924,972 |
| | Other Governmental Funds | 107,768 |
| Total | | <u>\$ 1,032,740</u> |

Note 6 - Defined Benefit Pension Plan

General Information about the Florida Retirement System (FRS)

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan, to assist retired members of any state-administered retirement system in paying the costs of health insurance.

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

Note 6 - Defined Benefit Pension Plan *(Continued)*

General Information about the Florida Retirement System (FRS) *(Concluded)*

Essentially all regular employees of the City are eligible to enroll as members of the State-administered FRS. Provisions relating to FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112 Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer defined-benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services' web site (www.dms.myflorida.com).

The City's pension expense totaled \$217,295 for the fiscal year ended September 30, 2015, (all plans).

FRS Pension Plan

Plan Description. The FRS Pension Plan (the Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a DROP for eligible employees. The general classes of membership applicable to the City are as follows:

- *Regular Class*—Members of the FRS who do not qualify for membership in the other classes.
- *Elected Officer Class*—Members who hold specified elective offices in local government.
- *Senior Management Service Class (SMSC)*—Members in senior management level positions.
- *Special Risk Class*—Members who are employed in special risk careers, such as law enforcement or fire rescue, and meet the criteria to qualify for this class.

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Members of the Plan may include up to four years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

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

Note 6 - Defined Benefit Pension Plan (Continued)

FRS Pension Plan (Continued)

Plan Description. (Concluded)

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

Benefits Provided. Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the five highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the eight highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following chart shows the percentage value for each year of service credit earned:

| Class, Initial Enrollment, and Retirement Age/Years of Service | Percent Value |
|--|--------------------------|
| <i>Regular Class Members Initially Enrolled Before July 1, 2011:</i> | |
| Retirement up to age 62 or up to 30 years of service | 1.60 |
| Retirement at age 63 or with 31 years of service | 1.63 |
| Retirement at age 64 or with 32 years of service | 1.65 |
| Retirement at age 65 or with 33 or more years of service | 1.68 |
| <i>Regular Class Members Initially Enrolled on or After July 1, 2011:</i> | |
| Retirement up to age 65 or up to 33 years of service | 1.60 |
| Retirement at age 66 or with 34 years of service | 1.63 |
| Retirement at age 67 or with 35 years of service | 1.65 |
| Retirement at age 68 or with 36 or more years of service | 1.68 |
| <i>Elected Officers</i> | 3.00 |
| <i>Senior Management Service Class</i> | 2.00 |
| <i>Special Risk Regular</i> | |
| Service from December 1, 1970 through September 30, 1974 | 2.00 |
| Service on and after October 1, 1974 | 3.00 |

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

Note 6 - Defined Benefit Pension Plan (Continued)

FRS Pension Plan (Continued)

Benefits Provided. (Concluded)

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3% per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3% determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3%. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates for FRS during the City's 2014-15 fiscal year were as follows:

| Class | Year Ended June 30, 2014 | | Year Ended June 30, 2015 | |
|-------------------------------------|--------------------------|----------|--------------------------|----------|
| | Percent of Gross Salary | | Percent of Gross Salary | |
| | Employee | Employer | Employee | Employer |
| Regular | 3.00 | 6.07 | 3.00 | 5.56 |
| Elected Officers | 3.00 | 41.94 | 3.00 | 40.57 |
| Senior Management Service | 3.00 | 19.84 | 3.00 | 19.73 |
| Special Risk Regular | 3.00 | 18.52 | 3.00 | 20.34 |
| DROP | 0.00 | 11.02 | 0.00 | 11.22 |
| Reemployment Retiree ⁽¹⁾ | -- | -- | -- | -- |

⁽¹⁾ Contribution rates are dependent upon retirement class in which reemployed.

The City's contributions, including employee contributions, to the Plan totaled \$278,000 for the fiscal year ended September 30, 2015. This excludes the HIS defined benefit pension plan contributions.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At September 30, 2015, the City reported a liability of \$1,472,770 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The City's proportionate share of the net pension liability was based on the City's contributions during the Plan's fiscal year relative to the contributions of all participating members in the same fiscal year. At June 30, 2015, the City's proportionate share increased .0450650% from its proportion measured as of June 30, 2014.

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

Note 6 - Defined Benefit Pension Plan (Continued)

FRS Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. (Concluded)

| <u>Description</u> | <u>Deferred Outflows of Resources</u> | <u>(Deferred Inflows of Resources)</u> |
|--|---|--|
| Employer Contributions after Measurement Date | \$ 67,791 | \$ 0 |
| Difference Between Expected and Actual | | |
| Experience | 155,481 | (34,930) |
| Changes of Assumptions | 97,753 | 0 |
| Changes in Proportion and Difference Between City's Contributions and Proportionate Share of Contributions | 192,256 | 0 |
| Net Difference Between Projected and Actual | | |
| Earnings on Pension Plan Investments | 0 | (351,673) |
| Total | <u>\$ 513,281</u> | <u>\$ (386,603)</u> |

The deferred outflows of resources related to pensions, totaling \$67,791, resulting from the City's contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Fiscal Year Ending</u> | <u>Amount</u> |
|-------------------------------|------------------|
| 2016 | \$ (74,392) |
| 2017 | (74,392) |
| 2018 | (74,392) |
| 2019 | 215,749 |
| 2020 | 54,165 |
| 2021 | 12,149 |
| Total | <u>\$ 58,887</u> |

Actuarial Assumptions. The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 2.60% |
| Salary Increases | 3.25% Average, Including Inflation |
| Investment Rate of Return | 7.65% Net of Pension Plan Investment Expense, Including Inflation |

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

Note 6 - Defined Benefit Pension Plan (Continued)

FRS Pension Plan (Continued)

Actuarial Assumptions. (Concluded)

Mortality rates were based on the Generational RP-2000 with Projection Scale BB, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Annual Target Allocation ⁽¹⁾</u> | <u>Annual Arithmetic Return</u> | <u>Geometric Return</u> | <u>Standard Deviation</u> |
|-----------------------------|--|---------------------------------|-------------------------|---------------------------|
| Cash | 1.00% | 3.11% | 3.10% | 1.65% |
| Intermediate-term Bonds | 18.00% | 4.18% | 4.05% | 5.15% |
| High Yield Bonds | 3.00% | 6.79% | 6.25% | 10.95% |
| Broad US Equities | 26.50% | 8.51% | 6.95% | 18.90% |
| Developed Foreign Equities | 21.20% | 8.66% | 6.85% | 20.40% |
| Emerging Market Equities | 5.30% | 11.58% | 7.60% | 31.15% |
| Private Equity | 6.00% | 11.80% | 8.11% | 30.00% |
| Hedge Funds/Absolute Return | 7.00% | 5.81% | 5.35% | 10.00% |
| Real Estate (Property) | 12.00% | 7.11% | 6.35% | 13.00% |
| Total | <u>100.00%</u> | | | |
| Assumed Inflation – Mean | | 2.60% | | 2.00% |

⁽¹⁾ As Outlined in the Plan's Investment Policy.

Discount Rate. The discount rate used to measure the total pension liability was 7.65%. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. The discount rate was 7.65% in the July 1, 2014 valuation.

Sensitivity of the City's Proportionate Share of the Net Position Liability to Changes in the Discount Rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.65%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65%) or 1-percentage-point higher (8.65%) than the current rate:

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

Note 6 - Defined Benefit Pension Plan (Continued)

FRS Pension Plan (Concluded)

Sensitivity of the City's Proportionate Share of the Net Position Liability to Changes in the Discount Rate. (Concluded)

| | 1% Decrease (6.65%) | Current Discount Rate (7.65%) | 1% Increase (8.65%) |
|--|---------------------------|--|---------------------------|
| City's Proportionate Share of the Net Pension Liability | \$ 3,816,279 | \$ 1,472,770 | \$ (477,415) |

Pension Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

HIS Pension Plan

Plan Description. The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Division of Retirement within the Florida Department of Management Services.

Benefits Provided. For the fiscal year ended September 30, 2015, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS-participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the Plan fiscal years ending June 30, 2016 and 2015, the contribution rates were 1.26% and 1.66% of payroll respectively, pursuant to Section 112.363, Florida Statutes. The City contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The City's contributions to the HIS Plan totaled \$28,137 for the fiscal year ended September 30, 2015.

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

Note 6 - Defined Benefit Pension Plan (Continued)

HIS Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At September 30, 2015, the City reported a net pension liability of \$750,660 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The City's proportionate share of the net pension liability was based on the City's contributions during the Plan's fiscal year relative to the contributions of all participating members in the same fiscal year. At June 30, 2015, the City's proportionate share was increased .020954% from its proportionate share measured as of June 30, 2014.

The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| <u>Description</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Employer Contributions after Measurement Date | \$ 8,843 | \$ 0 |
| Difference Between Expected and Actual | | |
| Experience | 0 | 0 |
| Changes of Assumptions | 59,057 | 0 |
| Changes in Proportion and Difference between | | |
| City Contributions and Proportionate Share of | | |
| Contributions | 34,821 | 0 |
| Net Difference between Projected and Actual Earnings | | |
| on Pension Plan Investments | 406 | 0 |
| Total | <u>\$ 103,127</u> | <u>\$ 0</u> |

The deferred outflows of resources related to pensions, totaling \$8,843, resulting from City contributions to the HIS Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Fiscal Year Ending</u> | <u>Amount</u> |
|-------------------------------|------------------|
| 2016 | \$ 16,477 |
| 2017 | 16,477 |
| 2018 | 16,477 |
| 2019 | 16,394 |
| 2020 | 16,354 |
| 2021-2022 | 12,105 |
| Total | <u>\$ 94,284</u> |

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

Note 6 - Defined Benefit Pension Plan (Continued)

HIS Pension Plan (Concluded)

Actuarial Assumptions. The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 2.60% |
| Salary Increases | 3.25% Average, Including Inflation |
| Investment Rate of Return | 4.29% Net of Pension Plan Investment Expense, Including Inflation |

Mortality rates were based on the Generational RP-2000 with Projected Scale BB.

The actuarial assumptions used in the July 1, 2015 valuation, were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

Discount Rate. The discount rate used to measure the total pension liability was 4.29%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 4.29%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.29%) or 1-percentage-point higher (5.29%) than the current rate:

| | 1% Decrease (3.29%) | Current Discount Rate (4.29%) | 1% Increase (5.29%) |
|--|------------------------------------|--|------------------------------------|
| City's Proportionate Share of the Net Pension Liability | \$ 855,342 | \$ 750,660 | \$ 663,371 |

Pension Plan Fiduciary Net Position. Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

FRS – Defined Contribution Pension Plan

The City contributes to the FRS Investment Plan (Investment Plan), a defined contribution pension plan, for its eligible employees electing to participate in the Investment Plan. The Investment Plan is administered by the SBA, and is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report. Service retirement benefits are based upon the value of the member's account upon retirement.

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

Note 6 - Defined Benefit Pension Plan (Concluded)

FRS – Defined Contribution Pension Plan (Concluded)

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. City employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member’s accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected County Officers, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Allocations to the investment member’s accounts during the 2014-15 fiscal year were as follows:

| <u>Class</u> | <u>Percent of Gross Compensation</u> |
|--------------------------------|--|
| FRS, Regular | 6.30 |
| FRS, Elected County Officers | 11.34 |
| FRS, Senior Management Service | 7.67 |
| FRS, Special Risk Regular | 14.00 |

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to five years. If the employee returns to FRS-covered employment within the five-year period, the employee will regain control over their account. If the employee does not return within the five-year period, the employee will forfeit the accumulated account balance. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04% of payroll and by forfeited benefits of Investment Plan members. For the fiscal year ended September 30, 2015, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the City.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided; the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The City’s Investment Plan pension expense totaled \$16,482 for the fiscal year ended September 30, 2015.

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

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.

| | | |
|---|-----------|-----------------------|
| Annual Required Contribution (ARC) | \$ | 25,690 |
| Interest on Net OPEB Obligation | | 12,515 |
| Adjustments to ARC | | <u>(15,451)</u> |
| Annual OPEB Cost | | 22,754 |
| (Contributions Made) | | <u>(349)</u> |
| Increase in Net OPEB Obligation | | 22,405 |
| Net OPEB Obligation, Beginning of Year | | <u>417,175</u> |
| Net OPEB Obligation, End of Year | \$ | <u>439,580</u> |

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

Note 8 - Other Postemployment Benefit Plan (Continued)

Trend Information

| <u>Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Employer Contribution</u> | <u>Net Percentage Contributed</u> | <u>OPEB Obligation</u> |
|-------------------|-------------------------|------------------------------|-----------------------------------|------------------------|
| 9/30/13 | \$ 96,591 | \$ 14,720 | 15.24% | \$ 335,303 |
| 9/30/14 | 96,591 | 14,720 | 15.24% | 417,175 |
| 9/30/15 | 22,754 | 349 | 1.53% | 439,580 |

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 October 1, 2014, the date of the most recent valuation, the actuarial value of assets was \$0, the actuarial accrued liability for benefits was \$144,862, the unfunded actuarial accrued liability (UAAL) was also \$144,862, the funded ratio was 0%, the covered payroll was \$2,173,946, and the UAAL as a percentage of covered payroll was 6.66%.

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

Methods and Assumptions

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

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

Note 8 - Other Postemployment Benefit Plan (Concluded)

Methods and Assumptions (Concluded)

A discount rate of 3.00% was used. A general price inflation of 2.25% 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, 2015, was 26 years.

Note 9 - Interlocal Agreement

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

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

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

Note 10 - Commitments and Contingencies

On July 1, 2005, the City entered into an agreement with St. Johns County, Florida, to acquire land and build a park. The City has agreed to reimburse the County for 50% of the costs to be paid over a period of 12 years. For the year ended September 30, 2015, the City reimbursed the County \$107,768, with a remaining obligation of \$139,010.

Note 11 - Other Disclosures

Deficits in Fund Balance

The Capital Projects Fund had a deficit fund balance of \$16,746 as of September 30, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015
CITY OF ST. AUGUSTINE BEACH, FLORIDA**

| | Budgeted Amounts | | Actual | Variance |
|---|--------------------|--------------------|---------------------|----------------------------|
| | Original | Final | | Favorable (Unfavorable) |
| Revenues | | | | |
| Taxes | \$ 2,651,458 | \$ 2,658,408 | \$ 2,638,755 | \$ (19,653) |
| Licenses and Permits | 544,150 | 629,150 | 632,713 | 3,563 |
| Intergovernmental Revenues | 802,521 | 803,669 | 709,382 | (94,287) |
| Charges for Services | 331,425 | 341,425 | 363,191 | 21,766 |
| Fines and Forfeitures | 39,500 | 39,500 | 26,258 | (13,242) |
| Interest | 9,000 | 9,000 | 17,598 | 8,598 |
| Miscellaneous | 66,100 | 107,610 | 133,745 | 26,135 |
| Total Revenues | <u>4,444,154</u> | <u>4,588,762</u> | <u>4,521,642</u> | <u>(67,120)</u> |
| Expenditures | | | | |
| Current: | | | | |
| General Government | 1,312,948 | 1,337,982 | 1,281,426 | 56,556 |
| Public Safety | 1,853,687 | 1,895,265 | 1,825,178 | 70,087 |
| Physical Environment | 705,807 | 710,351 | 669,633 | 40,718 |
| Economic Environment | 300 | 5,300 | 5,250 | 50 |
| Human Services | 65 | 65 | 51 | 14 |
| Culture and Recreation | 97,000 | 108,850 | 104,201 | 4,649 |
| Capital Outlay | 653,211 | 752,725 | 401,613 | 351,112 |
| Reserve for Contingencies | 67,631 | 13,889 | 0 | 13,889 |
| (Total Expenditures) | <u>(4,690,649)</u> | <u>(4,824,427)</u> | <u>(4,287,352)</u> | <u>537,075</u> |
| Excess of Revenues Over Expenditures | <u>(246,495)</u> | <u>(235,665)</u> | <u>234,290</u> | <u>469,955</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers (out) | (742,340) | (1,032,740) | (1,032,740) | 0 |
| Total Other Financing Sources (Uses) | <u>(742,340)</u> | <u>(1,032,740)</u> | <u>(1,032,740)</u> | <u>0</u> |
| Net Change in Fund Balance | (988,835) | (1,268,405) | (798,450) | 469,955 |
| Fund Balance, Beginning of Year | <u>988,835</u> | <u>1,268,405</u> | <u>5,411,763</u> | <u>4,143,358</u> |
| Fund Balance, End of Year | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 4,613,313</u> | <u>\$ 4,613,313</u> |

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015
CITY OF ST. AUGUSTINE BEACH, FLORIDA**

| | Budgeted Amounts | | Actual | Variance |
|---|--------------------|--------------------|--------------------|----------------------------|
| | Original | Final | | Favorable (Unfavorable) |
| Revenues | | | | |
| Taxes | \$ 235,981 | \$ 235,981 | \$ 241,056 | \$ 5,075 |
| Licenses and Permits | 70,000 | 70,000 | 83,953 | 13,953 |
| Intergovernmental Revenues | 242,415 | 242,415 | 244,028 | 1,613 |
| Charges for Services | 51,217 | 51,217 | 54,153 | 2,936 |
| Interest | 2,515 | 2,515 | 2,186 | (329) |
| Miscellaneous Revenue | 1,000 | 1,000 | 194 | (806) |
| Total Revenues | <u>603,128</u> | <u>603,128</u> | <u>625,570</u> | <u>22,442</u> |
| Expenditures | | | | |
| Current: | | | | |
| Transportation | 715,333 | 748,609 | 671,289 | 77,320 |
| Capital Outlay | 405,000 | 694,074 | 483,686 | 210,388 |
| Debt Service: | | | | |
| Principal | 101,509 | 101,509 | 101,509 | 0 |
| Interest | 65,857 | 65,857 | 65,857 | 0 |
| (Total Expenditures) | <u>(1,287,699)</u> | <u>(1,610,049)</u> | <u>(1,322,341)</u> | <u>287,708</u> |
| (Deficiency) of Revenues (Under) | | | | |
| Expenditures | <u>(684,571)</u> | <u>(1,006,921)</u> | <u>(696,771)</u> | <u>310,150</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 684,571 | 1,006,921 | 924,972 | (81,949) |
| Total Other Financing Sources (Uses) | <u>684,571</u> | <u>1,006,921</u> | <u>924,972</u> | <u>(81,949)</u> |
| Net Change in Fund Balance | 0 | 0 | 228,201 | 228,201 |
| Fund Balance, Beginning of Year | <u>0</u> | <u>0</u> | <u>445,770</u> | <u>445,770</u> |
| Fund Balance, End of Year | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 673,971</u> | <u>\$ 673,971</u> |

**REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
FLORIDA RETIREMENT SYSTEM AND HEALTH INSURANCE SUBSIDY PENSION PLANS
CITY OF ST. AUGUSTINE BEACH, FLORIDA**

FLORIDA RETIREMENT SYSTEM PENSION PLAN

| | September 30, 2015** |
|--|---------------------------------|
| Proportion of the FRS Net Pension Plan | 0.011402375% |
| Proportion Share of the FRS Net Pension Plan | \$ 1,472,770 |
| Covered-Employee Payroll* | \$ 2,271,362 |
| Proportionate Share of the FRS Net Pension Liability as a Percentage of its Covered-Employee Payroll | 64.84% |
| FRS Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 92.00% |

*The amounts shown above as reported on the date indicated, have a measurement date three months prior. Covered-employee payroll is for the year shown.

** GASB No. 68 was adopted for the 2015 Fiscal Year and 10-year trend information will be developed from 2015 forward.

HEALTH INSURANCE SUBSIDY PENSION PLAN

| | September 30, 2015** |
|--|---------------------------------|
| Proportion of the HIS Net Pension Plan | 0.007360546% |
| Proportion Share of the HIS Net Pension Plan | \$ 750,660 |
| Covered-Employee Payroll* | \$ 2,271,362 |
| Proportionate Share of the HIS Net Pension Liability as a Percentage of its Covered-Employee Payroll | 33.05% |
| HIS Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 0.50% |

*The amounts shown above as reported on the date indicated, have a measurement date three months prior. Covered-employee payroll is for the year shown.

** GASB No. 68 was adopted for the 2015 fiscal year and 10-year trend information will be developed from 2015 forward.

**REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULE OF THE CITY CONTRIBUTIONS
FLORIDA RETIREMENT SYSTEM AND HEALTH INSURANCE SUBSIDY PENSION PLANS
CITY OF ST. AUGUSTINE BEACH, FLORIDA**

FLORIDA RETIREMENT SYSTEM PENSION PLAN

| | 2015* |
|--|--------------|
| Contractually Required Contribution | \$ 278,000 |
| FRS Contribution in Relation to the Contractually Required Contribution | (289,120) |
| FRS Contribution Deficiency (Excess) | \$ (11,120) |
| Covered-Employee Payroll (FYE 9/30) | \$ 2,271,362 |
| FRS Contributions as a Percentage of Covered-Employee Payroll | 12% |

* GASB No. 68 was adopted for the 2015 fiscal year and 10-year trend information will be developed from 2015 forward.

HEALTH INSURANCE SUBSIDY PENSION PLAN

| | 2015* |
|--|--------------|
| Contractually Required Contribution | \$ 28,137 |
| HIS Contribution in Relation to the Contractually Required Contribution | (30,750) |
| HIS Contribution Deficiency (Excess) | \$ (2,613) |
| Covered-Employee Payroll (FYE 9/30) | \$ 2,271,362 |
| HIS Contributions as a Percentage of Covered-Employee Payroll | 1.24% |

* GASB No. 68 was adopted for the 2015 fiscal year and 10-year trend information will be developed from 2015 forward.

**OTHER POSTEMPLOYMENT BENEFITS PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2015
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> |
|---------------------------|----------------------------|--|-------------------------|-------------------------|---------------------------------------|--|
| 9/30/2012 | \$ 0 | \$ 523,820 | \$ 523,820 | 0.00% | \$ 1,643,984 | 31.9% |
| 10/1/2014 | 0 | 144,862 | 144,862 | 0.00% | 2,173,946 | 6.66% |

SCHEDULE OF EMPLOYER CONTRIBUTIONS

| <u>Year Ended September 30</u> | <u>Amount Contributed</u> | <u>Percentage of Annual OPEB Cost Contributed</u> |
|------------------------------------|-------------------------------|---|
| 2013 | \$ 14,720 | 15.24% |
| 2014 | 14,720 | 15.24% |
| 2015 | 349 | 1.53% |

Notes:

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2015
CITY OF ST. AUGUSTINE BEACH, FLORIDA

Note 1 - CHANGES IN BENEFIT TERMS AND ASSUMPTIONS

Changes in Benefit Terms:

No significant changes.

Changes in Assumptions:

- **FRS**—In the July 1, 2014 actuarial valuation, the inflation rate assumption was decreased from 3.00% to 2.60%, the real payroll growth assumption was decreased from 1.00% to 0.65%, and the overall payroll growth rate assumption was decreased from 4.00% to 3.25%. The long-term expected rate of return decreased from 7.75% to 7.65%.
- **HIS**—In the July 1, 2014 actuarial valuation, the municipal rate used to determine total pension liability decreased from 4.63% to 4.29%.

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of St. Augustine Beach, Florida (the City), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 20, 2016.

Internal Control Over Financial Reporting

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

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

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

Certified Public Accountants

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

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

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

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the City in a separate letter dated May 20, 2016.

Purpose of this Report

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

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

Curvis, Gray and Company, LLP

May 20, 2016
Gainesville, Florida

MANAGEMENT LETTER

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

Report on the Financial Statements

We have audited the financial statements of the City of St. Augustine Beach, Florida (the City), as of and for the year ended September 30, 2015, and have issued our report thereon dated May 20, 2016.

Auditors' Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Other Reports and Schedule

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements performed in accordance with *Government Auditing Standards*; and Independent Accountants' Report on an examination conducted in accordance with *the American Institute of Certified Public Accountants Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports, which are dated May 20, 2016, should be considered in conjunction with this management letter.

Prior Audit Findings

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

Official Title and Legal Authority

- Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is included in Note 1 to the financial statements.

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

MANAGEMENT LETTER
(Concluded)

Financial Condition

- Sections 10.554(1)(i)5.a. and 10.556(7), *Rules of the Auditor General*, require a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Sections 10.554(1)(i)5.c. and 10.556(8), *Rules of the Auditor General*, require 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.

Annual Financial Report

- Section 10.554(1)(i)5.b., *Rules of the Auditor General*, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2015, 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, 2015. In connection with our audit, we determined that these two reports were in agreement.

Special District Component Units

- Sections 10.554(1)(i)5.b and 10.556(7), *Rules of the Auditor General*, require that we determine whether or not a special district that is a component unit of a county, municipality, or special district, provided the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.32(1)(a), Florida Statutes. In connection with our audit, we determined that there were no special district components that were required to be reported in accordance with Section 218.32(1)(a), Florida Statutes.

Other Matters

- Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we had no such findings.
- Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

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

Durvis, Gray and Company, LLP

May 20, 2016
Gainesville, Florida

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

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

We have examined the City of St. Augustine Beach, Florida (the City), compliance with Section 218.415, Florida Statutes, as of and for the year ended September 30, 2015, as required by Section 10.556(10)(a), *Rules of the Auditor General*. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

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

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2015.

This report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, federal and other granting agencies and pass-through entities, the Mayor, and City Council members, and applicable management, and is not intended and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

May 20, 2016
Gainesville, Florida

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