

Comprehensive Annual Financial Report



City of Fort Walton Beach, Florida With Compliance Matters and Responses Fiscal Year Ended September 30, 2013



City of Fort Walton Beach, Florida

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**for the
Fiscal Year Ended
September 30, 2013**

**Prepared by
The Finance Department
City of Fort Walton Beach
107 Miracle Strip Parkway
Fort Walton Beach, Florida 32548
WWW.FWB.ORG**

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CITY OF FORT WALTON BEACH, FL

City Council



Left to right (standing):

Bobby Griggs (Seat 1), joyce gossom (Seat 2), Amy Jamieson (Seat 5), Bull Rigdon (Seat 6), and Dick Rynearson (Seat 7).

Left to right (seated):

John Mead (Seat 3), Mayor Mike Anderson, and Trey Goodwin (Seat 4).

City Manager – Michael Beedie

City Clerk – Helen Spencer

City Attorney – Hayward Dykes, Jr.

Finance Director – Brandy Ferris

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City of Fort Walton Beach, Florida
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Year Ended September 30, 2013

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City of Fort Walton Beach

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March 3, 2014

Honorable Mayor, City Council Members,
and Citizens of the City of Fort Walton Beach
City of Fort Walton Beach
107 Miracle Strip Parkway SW
Fort Walton Beach, FL 32548

Ladies and Gentlemen:

The Comprehensive Annual Financial Report of the City of Fort Walton Beach, Florida for the fiscal year ended September 30, 2013, is hereby submitted herewith pursuant to Florida Statutes Chapter 218.39(1)(d) requiring each local government entity to complete an audit report within nine months after the end of the fiscal year.

This report consists of management's representations concerning the finances of the City of Fort Walton Beach, Florida. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Fort Walton Beach has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformance with GAAP (Generally Accepted Accounting Principles). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The financial statements of the City of Fort Walton Beach have been audited by Warren Averett LLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ending September 30, 2013, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City of Fort Walton Beach's financial statements for the fiscal year ending September 30, 2013, are fairly presented in conformity with GAAP. The independent auditor's report is presented in Section II - Financial Section as the first component of this section of the report.

The independent audit of the financial statements of the City of Fort Walton Beach was part of a broader, state mandated "Single Audit" designed to meet the special needs of state grantor agencies. The standards governing Single Audit engagements require the independent auditor to

report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and compliance with legal requirements involving the administration of state awards. These reports are available in the Compliance section of this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Fort Walton Beach's MD&A can be found immediately following the report of the independent auditor.

GOVERNMENT PROFILE

DATE OF INCORPORATION: June 16, 1941	
FORM OF GOVERNMENT: Council & Manager	PAVED STREETS: 93.06 miles
GEOGRAPHIC AREA: 7.41 square miles	SIDEWALKS: 63.93 miles
TAXABLE ASSESSED VALUE: \$1,128,838,962	WATER & SEWER LINES: 237.39 miles
CITY MILLAGE RATE: 5.7697	STORM DRAIN: 41.64 miles
POPULATION: 20,194	POLICE STATIONS: 1 FIRE STATIONS: 2
EMPLOYEES: 344 positions, 291.02 FTE's	LIBRARIES: 1 MUSEUMS: 4
SWORN POLICE OFFICERS: 43	18-HOLE GOLF COURSES: 2
FIREFIGHTING PERSONNEL: 36	ACRES OF PARKS: 182.70

The City of Fort Walton Beach, Florida prides itself on being a small, family-oriented seaside community boasting a downtown area that was home to a significant prehistoric Native American community on the Gulf Coast of Northwest Florida. Situated at the junction of two major highways - US 98 (Miracle Strip Parkway) and SR 85 (Eglin Parkway) - Fort Walton Beach enjoys the benefits of its crossroads location along the coastal portion of the Northwest Florida regional transportation network. The City offers a full-service government providing police and fire protection; cultural and recreational activities including parks, a library, a museum, and two championship golf courses; planning and zoning; public works such as street, sidewalk, right-of-way, and cemetery maintenance; utilities service including water, sewer, and storm water; and garbage and recycling collection.

The City has an exciting and romantic history. As early as 600 B.C., Indian tribes were attracted to Fort Walton Beach from the Mississippi and Tennessee River Valleys and the Southeast Georgia coast. The beginning for the City occurred following the War Between the States when Alabama war veteran John Brooks selected a site of 111 acres where he built a three-room cabin in 1867. Other settlers soon followed. By 1884, the population of the area required establishment of a small schoolhouse. In 1902, the first hotel, Brooks House, was built along Santa Rosa Sound and shortly thereafter the first post office was built in 1906. The Montgomery, Alabama, Maxwell Field military base developed an airfield in Fort Walton in 1933 on 137 acres of land and used it as a bombing and gunnery range. The most significant factor in the City's growth was the creation and later expansion, of that airfield, which is now Eglin Air Force Base (the largest military installation in the world).



First Schoolhouse

The presence of the military base provided the key economic stimulus for the City's early growth, supplemented by the attractiveness of the location. The military base became less important to the City's economy than the growing tourism industry. In the late 1960's and early 1970's Fort Walton Beach began to experience a decline in economic prosperity, some of which can be attributed to the utility and transportation infrastructure getting older and commercial and residential structures becoming deteriorated. New development began to take place in the surrounding communities. The City, having nearly run out of developable land, started to focus attention on finding ways to induce private enterprise investment in the City thus capturing a greater share of the local and regional market.

With the purchase of the Fort Walton Landing Park in 1986, which has become the City's premier gathering place along Santa Rosa Sound, and building upon that with the complete reconstruction of Brooks Street, including the Brooks Bridge Park in 2013, the City's downtown waterfront was opened up to an extent never before realized and spurred economic growth downtown. Outside of downtown, the City began construction of a new recreational complex, which promises to add to the attraction of the City.



The financial reporting entity (the government) includes all the funds and account groups of the City of Fort Walton Beach, Florida, as well as component units. Component units are legally separate entities for which the primary government is financially accountable. Accordingly, the Fort Walton Beach Community Redevelopment Agency is reported as a blended component unit of the City of Fort Walton Beach.

The annual budget serves as a foundation for the City of Fort Walton Beach's financial planning and control. The City of Fort Walton Beach prepares a budget designed to meet the highest standards of performance in municipal budgeting.

A Budget Policy Workshop is held with City Council in May to determine City Council's priorities and position on issues critical to development of the operational and capital budgets. City Council's decisions on the issues presented provide the framework under which the upcoming year's budget is prepared to meet City Council's programmatic objectives within available fiscal resources. Department Directors, with the assistance of their division managers, are responsible for identifying their staffing needs and operational funding needs within budget development parameters. In addition, they must conduct a comprehensive review of departmental objectives, accomplishments, and performance measures. A Budget Committee is formed comprised of the City Manager, Finance Director, and Financial Analyst. The Committee conducts comprehensive meetings with Department Directors and Division Managers to review their budget requests and a collaborative effort is undertaken to achieve City Council and department goals.

The City Council is required by Florida State Statute and City Charter to hold public hearings on the proposed budget and adopt a final budget no later than September 30, the close of the City's fiscal year. The appropriated budget is prepared by fund, department (e.g. financial services), and division (e.g. purchasing). Department Directors may request transfers of appropriations within a department and between divisions to transfer appropriations between line items, not to increase the total budget or to transfer resources between funds. Transfers of appropriations between funds require the approval of the City Council. The budget may be amended at any time by Resolution

of City Council. Budget-to-actual comparisons are provided in the report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund and the Community Development Agency Fund, this comparison is presented on page 20 & 21 as part of the basic financial statements for the governmental funds. For governmental funds with appropriated annual budgets, other than those previously mentioned, this comparison is presented in the combining and individual fund statements and schedules, Section D of this report, which starts on page 79.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is best understood when it is considered from the broader perspective of the specific environment within which the City of Fort Walton Beach operates.

Local Economy

The City of Fort Walton Beach currently faces many of the same economic challenges that are affecting the global economy, however economic stabilization is evident. For fiscal year 2013-14, the State of Florida projects an increase for each of the City's revenue sharing funds, which suggests an uptick in discretionary spending. After five years of declining values, the Okaloosa County Property Appraiser anticipates a 0.8% increase in taxable assessed value for the City. It appears the downward spiral in the real estate market has ended. However, civilian furloughs at Eglin AFB and Hurlburt Field, two of the area's largest employers, could adversely affect the local economy in the short-term.

Eglin Air Force Base is the world's largest Department of Defense installation, spanning 724 square miles. Defense contractor companies are established throughout the Northwest Florida region. It is estimated that local military bases currently represent a \$6.0 billion annual economic impact on the area, with approximately 73% of the local economy supported by the military.

Being located on the Gulf of Mexico in Northwest Florida, tourism is a large part of the regional economy. Regional accolades continue to enhance the area's image, promote visibility, and generate additional tourism and sales tax dollars. Local tourism has benefited from the national shift to vacation sites accessible by driving instead of flying. The Fort Walton Beach-Destin area is a popular drive destination in Florida, according to a survey of auto visitors by Visit Florida.

Long-Term Financial Planning

The City undertakes several processes to assist in future planning, such as:

- A 5-year CIP (Capital Improvement Program) Plan is developed and approved by City Council each year during the annual budget process.
- 5-year replacement plans for capital equipment, including vehicles, machinery, and computer hardware and software, are also developed and approved by Management each year during the annual budget process

Relevant Financial Policies

The City has several financial policies that are utilized during daily operations, as well as during the budget and financial planning processes. The City utilizes fund balance reserves only for one-time non-recurring expenditures. In addition, the City maintains its fund balance level in the General Fund at 30% of fund expenditures – this policy helps to ensure that the City has sufficient funding in place for emergency and disaster relief.

Major Initiatives

These indicators, as well as others, were taken into account when adopting the City's budget for fiscal year 2014. The City's total budget for fiscal year 2014 totals \$34.7 million, which is \$2.7 million higher than the fiscal year 2013 approved budget, due to efforts to return the City to financial stability and programmatic sustainability. The 2014 budget allocates \$18.3 million, a 19.3% increase as compared to the fiscal year 2013 budget, to the General fund, \$13.2 million to the Enterprise funds, and \$3.2 million to other funds.

For the fiscal year 2014 budget, the ad valorem rate increased to 5.7697 mills. A 3% increase in water and sewer rates is included in the budget; no other significant changes to the City's various rate and fees are included in the fiscal year 2014 budget.

AWARDS AND ACKNOWLEDGEMENTS

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Fort Walton Beach for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2012. This was the twenty-seventh consecutive year that the City received this prestigious award. In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, satisfying both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget dated October 1, 2013. This was the eighteenth consecutive year that the City received this prestigious award. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

Acknowledgments

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department. We would like to express our appreciation to all members of the Department who assisted and contributed to the preparation of this report.

We would also like to thank the Mayor and City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Fort Walton Beach's finances and for their attention in conducting the financial operations of the City in a responsible and progressive manner.

Appreciation is also expressed to the accounting firm of Warren Averett, LLC for their continued assistance and professionalism.

Respectfully submitted,



Michael D. Beedie, PE
City Manager



Brandy L. Ferris, CPA
Finance Director

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Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Fort Walton Beach
Florida**

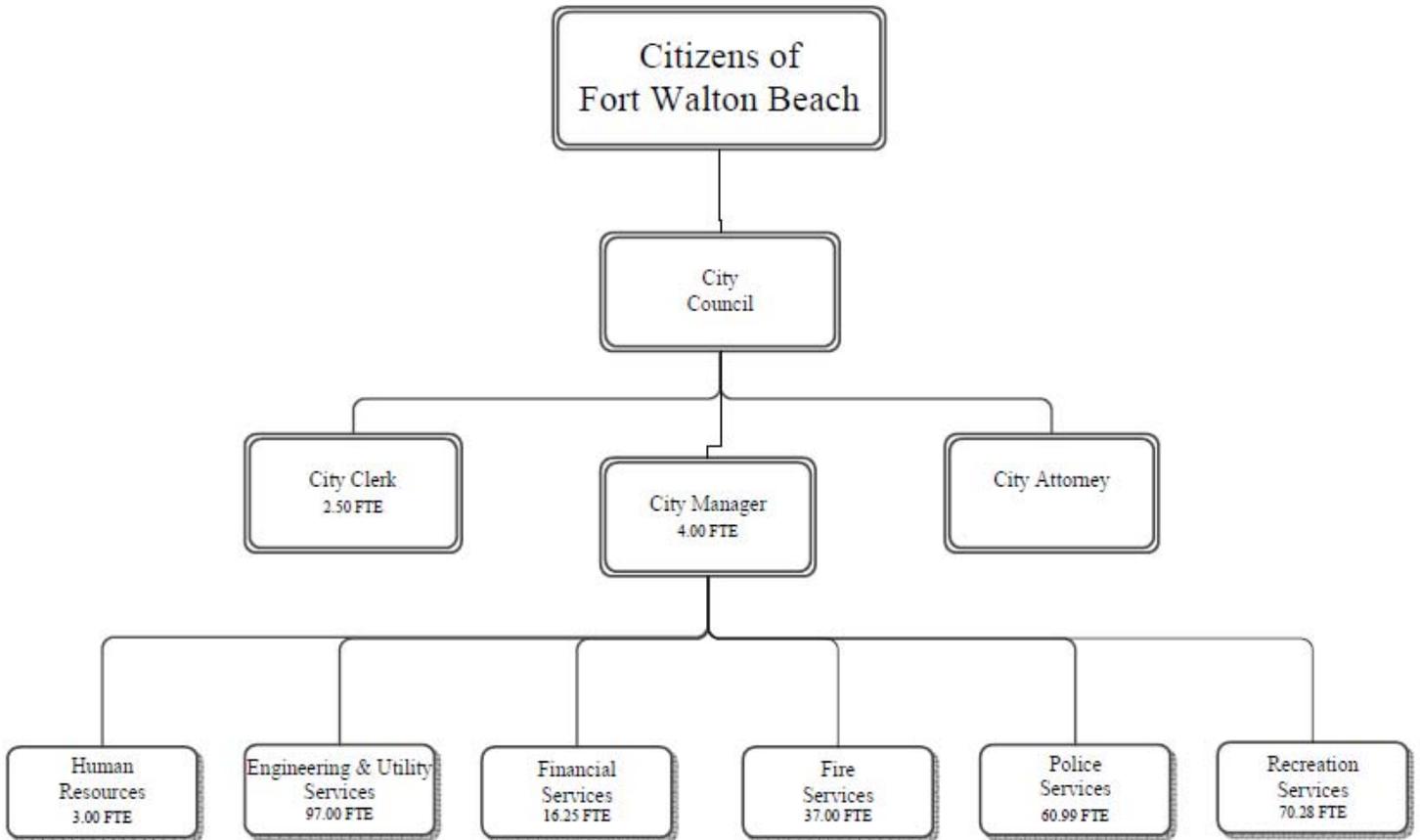
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2012

Executive Director/CEO

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City of Fort Walton Beach Organizational Chart



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II. FINANCIAL SECTION

- **INDEPENDENT AUDITOR'S REPORT**
- **MANAGEMENT'S DISCUSSION AND ANALYSIS**
- **BASIC FINANCIAL STATEMENTS**
 - GOVERNMENT-WIDE FINANCIAL STATEMENTS**
 - FUND FINANCIAL STATEMENTS**
 - NOTES TO FINANCIAL STATEMENTS**
- **REQUIRED SUPPLEMENTARY INFORMATION**
- **COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES**

Honorable Mayor and City Council Members
City of Fort Walton Beach, Florida

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fort Walton Beach, Florida, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fort Walton Beach, Florida, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and Community Redevelopment Agency (special revenue fund) for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3-13, the Schedule of Funding Progress on page 76, the Schedule of Contributions from the Employer and Other Contributing Entities on page 77, and the Schedule of Other Post-Employment Obligations on page 78 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fort Walton Beach, Florida's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of State Financial Assistance is presented for purposes of additional analysis as required by Chapter 10.550, *Rules of the Auditor General*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the Schedule of Expenditures of State Financial Assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the Schedule of Expenditures of State Financial Assistance are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2014, on our consideration of the City of Fort Walton Beach, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Fort Walton Beach, Florida's internal control over financial reporting and compliance.

Warren Averett, LLC

Fort Walton Beach, Florida
March 3, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Fort Walton Beach, Florida, we offer readers of the City of Fort Walton Beach's financial statements this narrative overview and analysis of the financial activities of the City of Fort Walton Beach for the fiscal year ended September 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages iv-viii of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City of Fort Walton Beach exceeded its liabilities by \$65.4 million (net position). Of this amount, \$15.2 million represents unrestricted assets that are available to meet the City's ongoing obligations to citizens and creditors.
- The government's net position increased by \$480,684, primarily attributable to an increase in capital contributions from a joint project with Okaloosa County which, accompanied by a decrease in general government expenses necessitated by declining revenues, was offset by an impairment loss in both the general fund and the utilities fund. In the General Fund, the demolition of an outdated recreation complex resulted in an impairment loss of \$271,287. The impairment loss of \$786,713 in the Utilities Fund was the result of the disposition of a re-use water filtration system that was no longer viable.
- As of the close of the fiscal year, the City of Fort Walton Beach's governmental funds reported combined ending fund balances of \$22.1 million, an increase of \$5.9 million in comparison with the prior year. Approximately 43.6% of this amount, or \$9.6 million, is available for spending at the discretion of City Council.
- At the end of the fiscal year, unrestricted fund balance for the General Fund was \$7.6 million, or 38.0% of total General Fund expenditures.
- The City of Fort Walton Beach's total debt increased by \$15.4 million, or 99.8%, during the fiscal year. The City issued an \$8.5 million Capital Improvement Revenue Note to finance the construction of a new recreation complex and purchase golf equipment and a lift truck. In addition, the City's Water Utility Fund began construction of a new pump station and force main project, which is being financed via a State Revolving Fund loan.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis intends to serve as an introduction to the City of Fort Walton Beach's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The focus of financial statements prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement 34 is on both the City as a whole (government-wide) and on major individual funds. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison (year-to-year or government-to-government), and enhance the City's accountability.

Government-Wide Financial Statements

Designed to be corporate-like, the government-wide financial statements consolidate governmental and business-type activities into two columns, which sum to a total for Primary Government. This provides readers with a broad overview of the City of Fort Walton Beach's finances in a manner similar to a private-sector business. Two statements, the statement of net position and the statement of activities, are utilized to provide information on a government-wide basis.

The statement of net position presents information on all of the City of Fort Walton Beach's assets and liabilities, with the difference between the two reported as net position. This statement combines and consolidates the governmental funds' current financial resources (short-term available resources) with capital assets and long-term obligations. Over time, increases or decreases in net position may serve as a useful indicator of the financial position of the City of Fort Walton Beach.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City of Fort Walton Beach that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Fort Walton Beach include general government (city clerk, city council, city manager, human resources, finance, purchasing, fleet maintenance, service maintenance, and non-departmental expenses), public safety (police, fire, building, and code enforcement services), physical environment (cemetery), transportation (engineering, streets, public works, and right-of-way), economic development (Community Development Block Grant Program, and community redevelopment agency), culture and recreation (parks, library, and museum), and debt service interest. The business-type activities of the City of Fort Walton Beach include utilities (water, sewer, and storm water), sanitation, and golf.

The government-wide financial statements include not only the City of Fort Walton Beach itself (known as the primary government), but a component unit, the Community Redevelopment Agency (CRA), which is a legally separate entity for which the City of Fort Walton Beach is financially accountable. The CRA is considered a blended component unit of the City of Fort Walton Beach, Florida and is presented as a special revenue fund as part of the primary government. The government-wide financial statements are found on pages 14-15 of this report.

Fund Financial Statements

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

FUNDS

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements are reported using an accounting method called modified accrual accounting, the focus of which is on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements. The basic governmental fund financial statements are on pages 16-21 of this report.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing

decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Fort Walton Beach maintains eight individual governmental funds (General Fund, Community Redevelopment Agency Fund, Florida Building Code Fund, Law Enforcement Trust Fund, Law Enforcement Training Fund, Debt Service Fund, Community Development Block Grant Fund, and Beal Memorial Cemetery Perpetual Care Fund). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund and the Community Redevelopment Agency Fund. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Fort Walton Beach adopts an annual appropriated budget for its General Fund, as well as each of the other governmental funds. A budgetary comparison statement is provided for the General Fund on page 20 and the Community Redevelopment Agency Fund on page 21 of this report.

Proprietary Funds

All proprietary funds of the City of Fort Walton Beach are maintained as enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the statement of net position and the statement of activities. The City of Fort Walton Beach uses enterprise funds to account for its utilities operations (water operations and distribution, sewer collections and treatment, and stormwater management), sanitation operations (garbage), and golf club operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information on utilities operations, sanitation operations, stormwater operations, and golf club operations, all of which are considered major funds of the City of Fort Walton Beach except for stormwater, which is considered non-major. The basic proprietary fund financial statements are found on pages 22-26 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City's fiduciary funds include the Pension Trust Funds (general employees, police officers, and firefighters). Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Fort Walton Beach's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements are found on pages 27-28 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 29 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Fort Walton Beach's progress in funding its obligation to provide pension benefits to its employees. The required supplementary information is found on pages 76-78 of this report.

The combining statements referred to earlier in connection with non-major governmental funds immediately follow the required supplementary information on Pension funds and can be found beginning on page 79 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Fort Walton Beach, assets exceeded liabilities by \$65.4 million (net position), as reported in Table 1. The government's net position increased by \$480,684 for the fiscal year ended September 30, 2013.

By far, the largest portion of the City's assets, \$44.3 million or 67.7%, reflects its investment in capital assets (e.g. land, infrastructure, buildings, machinery, and equipment) less any related debt still outstanding that was used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Fort Walton Beach reports investment in its capital assets net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's assets, 9.0%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$15.2 million is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

Table 1

Statement of Net Position						
As of September 30						
(In Thousands of Dollars)						
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and Other	\$23,855	\$18,004	\$10,916	\$ 11,127	\$34,771	\$ 29,131
Capital Assets	29,478	30,469	37,834	24,900	67,312	55,369
Total Assets	53,333	48,473	48,750	36,027	102,083	84,500
Long-Term Liabilities						
Outstanding	14,159	5,900	17,193	10,292	31,352	16,192
Other Liabilities	1,819	1,400	3,478	1,955	5,297	3,355
Total Liabilities	15,978	7,300	20,671	12,247	36,649	19,547
Net position						
Invested in Capital						
Net of Related Debt	23,532	25,379	20,767	14,930	44,299	40,309
Restricted	4,494	4,306	1,393	298	5,887	4,604
Unrestricted	9,329	11,488	5,919	8,552	15,248	20,040
Total Net Position	\$37,355	\$41,173	\$28,079	\$23,780	\$65,434	\$ 64,953

The overall increase in the City's net position was \$480,684 during the fiscal year. The governmental activities experienced a decrease, primarily related to the forgiveness of an advance made to the golf fund, an increase in the other post-employment benefits (OPEB) liability, and an impairment loss on the disposal of a recreation center due to the construction of a new, consolidated complex.

The business activities experienced an increase primarily related to the forgiveness of an advance made to the golf fund by the general fund, coupled with an increase in capital contributions and grants due to a joint project with Okaloosa County and reduction in expenses due to budgetary constraints. This increase was partially offset by an impairment loss of \$786,713, due to the disposition of a re-use water filtration

system that was no longer viable. The details related to this increase are analyzed further in the Financial Impacts section of this discussion.

Reported in Table 2 are the key elements of the increase in net position for the current year.

Table 2

	Governmental Activities		Business-Type Activities		Total Activities	
	2013	2012	2013	2012	2013	2012
Revenues						
Program Revenue:						
Charges for Services	\$ 1,985,972	\$ 1,820,410	\$ 14,472,546	\$ 13,642,515	\$ 16,458,518	\$ 15,462,925
Operating Grants & Contributions	786,652	589,253	1,071	-	787,723	589,253
Capital Grants & Contributions	80,936	156,794	1,871,295	331,609	1,952,231	488,403
General Revenue:						
Property Taxes	4,175,136	4,295,068	-	-	4,175,136	4,295,068
Other Taxes	6,002,679	5,937,581	-	-	6,002,679	5,937,581
Tax Increments for Redevelopment	1,311,101	1,386,521	-	-	1,311,101	1,386,521
Other Revenue	2,789,436	3,071,232	38,273	153,283	2,827,709	3,170,515
Total Revenues	17,131,912	17,202,859	16,383,185	14,127,407	33,515,097	31,330,266
Expenses						
Primary Government						
General Government	2,262,406	4,314,050	-	-	2,262,406	4,314,050
Public Safety	9,729,228	9,805,368	-	-	9,729,228	9,805,368
Physical Environment	379,681	383,970	-	-	379,681	383,970
Transportation	1,631,665	1,592,150	-	-	1,631,665	1,592,150
Economic Development	1,090,025	707,603	-	-	1,090,025	707,603
Culture & Recreation	2,715,977	2,880,815	-	-	2,715,977	2,880,815
Debt Service Interest	324,405	254,516	-	-	324,405	254,516
Business-Type Activities						
Utilities	-	-	7,644,240	7,017,160	7,644,240	7,017,160
Sanitation	-	-	3,163,638	2,741,266	3,163,638	2,741,266
Golf	-	-	2,023,186	2,012,165	2,023,186	2,012,165
Other	-	-	611,962	497,211	611,962	497,211
Total Expenses	18,533,387	19,938,472	13,443,026	12,267,802	31,976,413	32,206,274
Increase/(Decrease) in Net Position before Transfers	(1,401,475)	(2,735,613)	2,940,159	1,859,605	1,538,684	(876,008)
Transfers	(2,145,441)	1,656,032	2,145,441	(1,656,032)	-	-
Special Item – Impairment Loss	(271,287)	-	(786,713)	(588,652)	(1,058,000)	(588,652)
Increase/(Decrease) in Net Position	(3,818,203)	(1,079,581)	4,298,887	(385,079)	480,684	(1,464,660)
Nets Position – 10/1/2012	41,173,477	42,253,058	23,779,613	24,164,692	64,953,090	66,417,750
Net Position – 9/30/2013	\$ 37,355,274	\$ 41,173,477	\$ 28,078,500	\$ 23,779,613	\$ 65,433,774	\$ 64,953,090

Current Year Impacts – Governmental Activities

Governmental activities decreased the City’s net position by \$3.8 million for the fiscal year ended September 30, 2013. Key elements of this change are as follows:

- Operating grants increased \$197,399, or 33.5% due to an additional funding received through the Assistance to Firefighters and the Local Agency Program grants.
- Capital grants for governmental activities decreased \$75,858, or 37.5% as a result of the prior year’s receipt of an infrastructure grant, the loss of which was offset by an increase in the Florida Department of Transportation local agency grant.
- Other revenue decreased \$281,763, or 9.2%, attributable primarily to lower investment earnings and decreased franchise fees due to the final piece of the correction in the method of allocation by one of the primary revenue sources.

- Other post-employment benefits (OPEB) liability and an impairment loss related to the demolition of an outdated recreation complex resulted in a decrease in net position of \$371,683.
- Overall, expenses for governmental activities decreased from prior year by \$1.4 million, or 7.0%. This decrease was offset by a related revenue decrease due to the reclassification of the expense reimbursements related to the cost allocation plan from transfers to expense reductions.
- Expenses for economic development increased by \$382,422, or 54.0%, attributable to economic incentive grants provided through the Community Redevelopment Agency.
- The general fund forgave an advance made to the golf fund, which resulted in a decrease of \$2.6 million.

Chart 1

Expense and Program Revenue – Governmental Activities

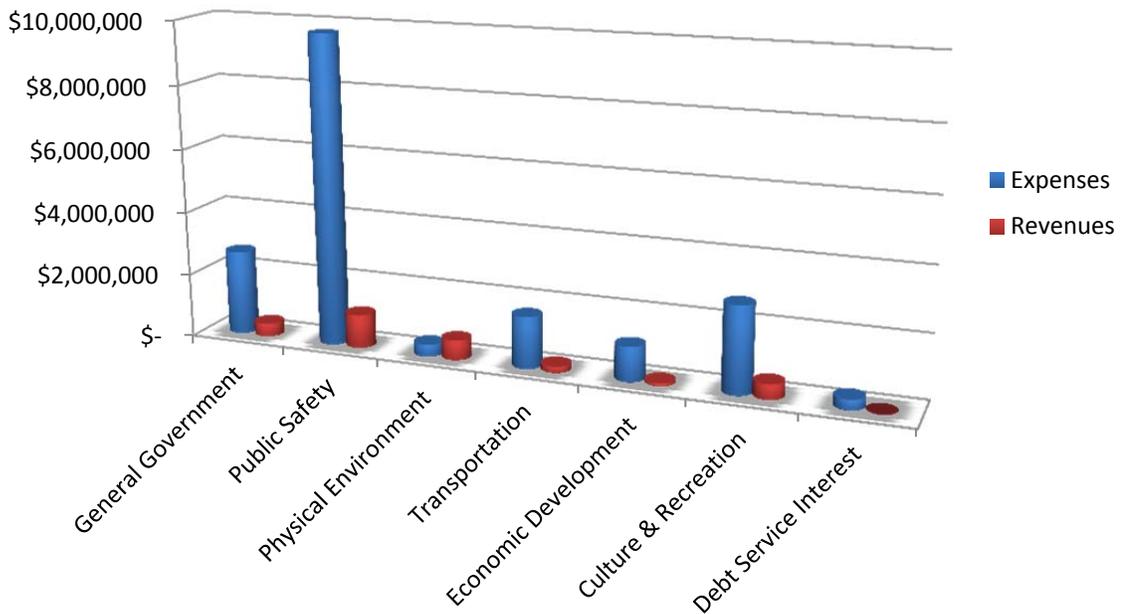
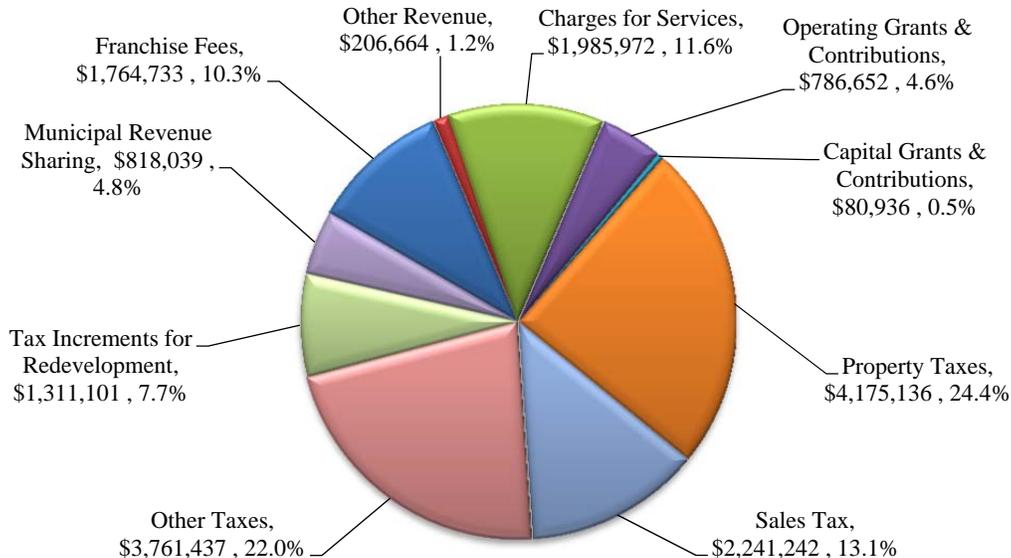


Chart 2

Revenues by Source – Governmental Activities



Current Year Impacts – Business-Type Activities

Business-type activities increased the City’s net position by \$4.3 million for the fiscal year ended September 30, 2013. Key elements of this change are as follows:

- Capital Grants and Contributions increased \$1.5 million, or 464.3% due to funding received for a joint project with Okaloosa County.
- Other Revenue decreased by \$115,010, or 75.0%, the majority of which is related to a decline in investment earnings.
- Expenses throughout the enterprise funds increased by \$1.2 million, or 9.6%. This increase was primarily due to the reclassification of the expense reimbursements related to the cost allocation plan from transfers out to expenses; transfers saw a related increase, a portion of which is attributable to the forgiveness of an advance made to the Golf Fund.
- The Utilities Fund recognized an impairment loss of \$786,713, due to the disposition of a re-use water filtration system that was no longer viable.

Chart 3
Expenses and Program Revenue – Business-Type Activities

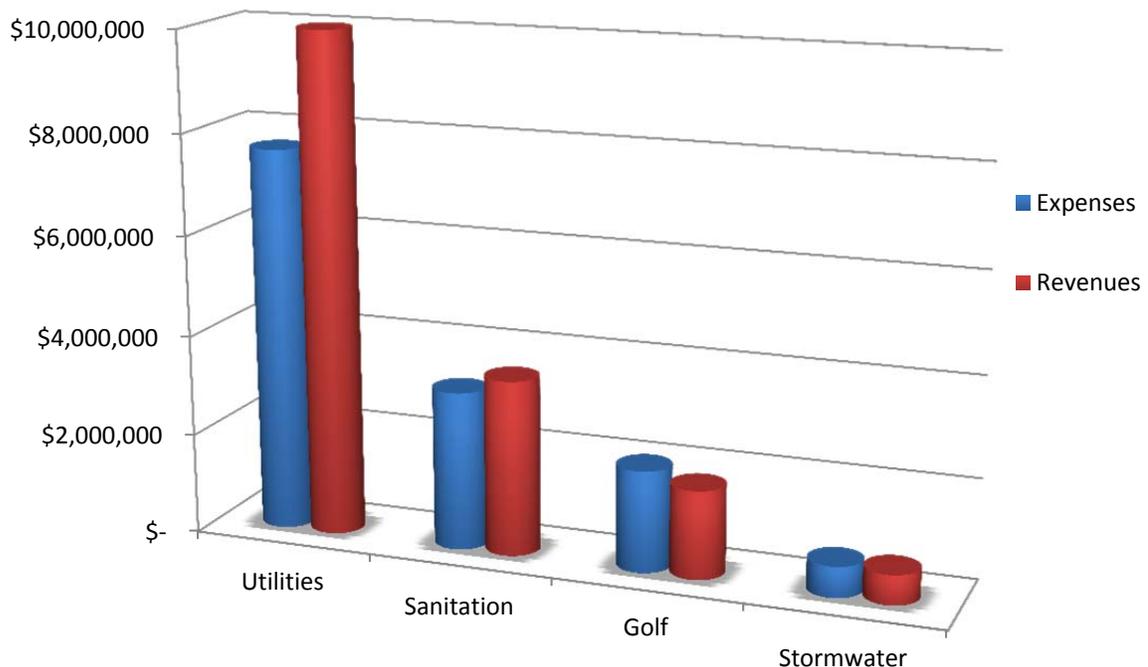
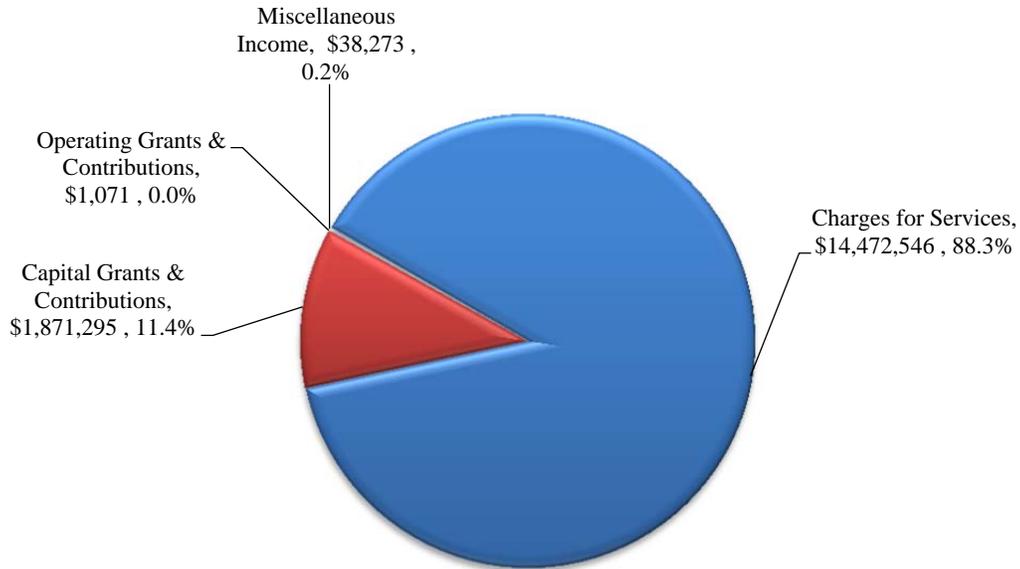


Chart 4

Revenues by Source – Business-Type Activities



FINANCIAL ANALYSIS OF THE CITY’S FUNDS

As noted earlier, the City of Fort Walton Beach uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City’s governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City’s financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of September 30, 2013, the City of Fort Walton Beach’s governmental funds have combined ending fund balances of \$22.1 million, an increase of \$5.9 million in comparison with the prior year. Approximately 43.6% of this amount, or \$9.6 million, is available for spending at the discretion of City Council. The remainder of fund balance is non-spendable or restricted. Details of the fund balance classifications can be found on page 16 of this report, as well as in Note 18.

The General Fund is the chief operating fund of the City. At the end of this fiscal year, unrestricted fund balance of the General Fund was \$7.6 million, while total fund balance reached \$15.7 million. As a measure of the General Fund’s liquidity, it may be useful to compare both unrestricted fund balance and total fund balance to total expenditures. Unrestricted fund balance represents 38.0% of the total General Fund expenditures, while total fund balance represents 78.6% of that same amount.

During the 2013 fiscal year, the fund balance of the City’s General Fund increased by \$5.7 million. This increase was primarily related to the issuance of an \$8.5 million Capital Improvement Revenue Note to

finance the construction of a new recreation complex and purchase golf equipment and a lift truck. This increase was offset by the forgiveness of an advance to the City's golf fund.

The Community Redevelopment Agency Fund increased by \$97,330. This increase is due to lower than anticipated spending levels.

Proprietary Funds

The City of Fort Walton Beach's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the proprietary funds totaled \$5.9 million at September 30, 2013, of which the Utilities Fund amounted to \$3.6 million, the Sanitation Fund totaled \$2.1 million, and the Stormwater Utility Fund was \$511,359. The Golf Fund had negative unrestricted net position of \$316,714 as a result of an improper chemical application that substantially impacted course play. In total, net position of the proprietary funds increased \$4.3 million. The factors concerning the finances of these four funds have already been addressed in the discussion of the City of Fort Walton Beach's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

A schedule comparing the original to the final budget and the variance from the final budget to the actual results is included on page 20 of the financial statements.

Differences between the original budget and the final amended budget were \$12.7 million. Significant information related to this difference is summarized as follows:

- The City issued the 2013A Capital Improvement Revenue Note to finance the construction of a new recreation complex in an amount of \$8.5 million.
- The City refunded its 2001 Capital Improvement Revenue Bond with the \$4.4 million proceeds from the issuance of the 2013 Capital Improvement Revenue Note.

Actual results, when compared to the final budget, show a variance of \$9.0 million for expenditures. This variance is primarily due to amending the budget for grant revenue received and capital debt issued, but not yet expended.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities, as of September 30, 2013, was \$44.3 million (net of accumulated depreciation and related debt). This represents a net increase of \$4.0 million, or 9.9%. Highlights are summarized as follows:

- Fewer assets were purchased that were over the GASB 34 threshold.
- Capital assets outdated, unserviceable, and no longer used are systematically disposed of on an annual basis.
- An impairment loss of \$271,287 and \$786,713, due to the demolition of an outdated recreation complex and the disposition of a re-use water filtration system that was no longer viable were recorded.
- The City began construction of a new force main and pump station. Of the \$16.0 million project, \$14.2 million was expended during the fiscal year and added to Construction in Progress, a portion of which was financed through existing reserves and a contribution from Okaloosa County.

Table 3

	Total Capital Assets					
	Net of Accumulated Depreciation					
	Governmental Activities		Business-Type Activities		Total Activities	
	FY 2013	FY 2012	FY 2013	FY 2012	FY 2013	FY 2012
Land	\$ 9,961,261	\$ 9,961,261	\$ 765,078	\$ 765,078	\$ 10,726,339	\$ 10,726,339
Buildings	6,434,774	7,057,626	1,926,888	2,052,313	8,361,662	9,109,939
Improvements Other Than Buildings	5,926,341	6,110,056	17,212,291	16,783,482	23,138,632	22,893,538
Infrastructure	4,121,764	4,431,266	-	-	4,121,764	4,431,266
Intangible Assets	281,928	393,935	18,277	23,253	300,205	417,188
Machinery & Equipment	1,713,565	2,026,331	2,455,379	2,618,635	4,161,944	4,644,966
Equipment under Capital Lease	58,565	397	-	12,429	58,565	12,826
Easements	-	-	34,642	28,532	34,642	28,532
Construction in Progress	979,617	488,118	15,421,355	2,616,944	16,400,972	3,105,062
	<u>\$ 29,477,815</u>	<u>\$ 30,468,990</u>	<u>\$ 37,833,910</u>	<u>\$ 24,900,666</u>	<u>\$ 67,311,725</u>	<u>\$ 55,369,656</u>

Additional information on the capital assets of the City of Fort Walton Beach can be found in Note 5 of this report on page 48.

Long-Term Debt

As shown in the following table, as of September 30, 2013, the City had total bonded debt, revenue notes, and capital leases outstanding of \$30.7 million. All of the City’s debt represents bonds and notes secured solely by specified revenue sources (i.e. revenue bonds/notes) and capital leases. The City has no general obligation or special assessment debt. The State of Florida does not place a legal limit of debt on municipalities. For general obligation debts greater than one year, the City is required to conduct a voter referendum.

Table 4

	Outstanding Debt					
	Governmental Activities		Business-Type Activities		Total Activities	
	FY 2013	FY 2012	FY 2013	FY 2012	FY 2013	FY 2012
Revenue Bonds	\$ -	\$ 4,428,144	\$ 9,925,055	\$ 10,199,963	\$ 9,925,055	\$ 14,628,107
Revenue Notes	13,535,936	661,796	73,533	61,221	13,609,469	723,017
State Revolving Fund	-	-	7,068,522	-	7,068,522	-
Capital Leases	101,696	-	-	13,458	101,696	13,458
	<u>\$ 13,637,632</u>	<u>\$ 5,089,940</u>	<u>\$ 17,067,110</u>	<u>\$ 10,274,642</u>	<u>\$ 30,704,742</u>	<u>\$ 15,364,582</u>

Additional information on the City of Fort Walton Beach’s long-term debt can be found in Note 13 and 14 of this report on pages 63-68.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

Economic indicators and factors that are useful for evaluating the framework within which the City operates are discussed below.

- The Consumer Price Index (CPI) is 1.3% higher than a year ago. This indicator translates into a higher cost of providing services to residents.
- The Municipal Cost Index is 1.9% higher than a year ago. This index is prepared to show the effects of inflation on the cost of providing municipal services.
- The Consumer Confidence Index is at its highest level since 2008. This indicator measures economic conditions by gauging the future spending of consumers.

- The Leading Economic Index has grown steadily over the last year and is designed to signal turning point patterns in economic data.
- The military has a significant presence in our community. These installations are essential to the continued long-term economic vitality of this area. Combined, the military and defense-related industries have a \$6.0 billion annual impact on Okaloosa County's economy, with approximately 73% of our local economy supported by the military.

These indicators, as well as others, were taken into account when adopting the City's budget for fiscal year 2014. The City's budget for fiscal year 2014 totals \$34.7 million, which is \$2.7 million higher than the fiscal year 2013 approved budget, due to efforts to return the City to financial stability and programmatic sustainability. The 2014 budget allocates \$18.3 million, a 19.3% increase as compared to the fiscal year 2013 budget, to the General fund, \$13.2 million to the Enterprise funds, and \$3.2 million to other funds.

For the fiscal year 2014 budget, the ad valorem rate increased to 5.7697 mills. A 3% increase in water and sewer rates is included in the budget; no other significant changes to the City's various rate and fees are included in the fiscal year 2014 budget.

Personnel expenses account for approximately 50.0% of the City's budget. The City's fiscal year 2014 budget remains relatively stable in this category, at 291.02 full time equivalent positions.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the City of Fort Walton Beach's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to the Finance Director, 107 Miracle Strip Parkway S.W., City of Fort Walton Beach, Florida, 32548. This document and other financial information are available on the City's website at www.fwb.org. Inquiries may also be sent via email to the Finance Department at finance@fwb.org.

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City of Fort Walton Beach, Florida
STATEMENT OF NET POSITION
September 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 12,769,564	\$ 8,468,736	\$ 21,238,300
Investments	2,005,963	-	2,005,963
Receivables, net	225,017	795,954	1,020,971
Internal balances	157,846	(157,846)	-
Due from other governments	97,007	-	97,007
Inventory, at cost	254,229	58,157	312,386
Restricted assets			
Cash and cash equivalents	7,712,549	1,552,512	9,265,061
Capital assets			
Non-depreciable/amortizable	10,940,878	16,221,075	27,161,953
Depreciable/amortizable, net	18,536,937	21,612,835	40,149,772
Other assets			
Bond issue costs, net	26,879	182,649	209,528
Net pension asset	606,629	-	606,629
Other receivables, net	-	15,917	15,917
TOTAL ASSETS	<u>53,333,498</u>	<u>48,749,989</u>	<u>102,083,487</u>
LIABILITIES			
Accounts payable	463,363	2,262,918	2,726,281
Accrued liabilities	585,242	184,071	769,313
Due to other governments	-	338,525	338,525
Unearned revenue	-	55,708	55,708
Payable from restricted assets			
Accrued interest	3,783	108,672	112,455
Customer deposits	-	164,599	164,599
Non-current liabilities			
Due within one year			
Compensated absences	172,537	55,236	227,773
Leases payable	12,042	-	12,042
Notes payable	582,311	18,643	600,954
Revenues bonds payable	-	290,000	290,000
Due in more than one year			
Compensated absences	517,612	165,701	683,313
Leases payable	89,654	-	89,654
Notes payable	12,953,625	54,890	13,008,515
Revenue bonds payable	-	9,635,055	9,635,055
State revolving loan payable	-	7,068,522	7,068,522
Other post-employment benefits	598,055	268,949	867,004
TOTAL LIABILITIES	<u>15,978,224</u>	<u>20,671,489</u>	<u>36,649,713</u>
NET POSITION			
Invested in capital assets, net of related debt	23,531,576	20,766,800	44,298,376
Restricted			
Debt service	21,156	1,087,405	1,108,561
System improvements	-	305,508	305,508
Improvement districts	3,833,430	-	3,833,430
Public safety	462,375	-	462,375
Other purposes	177,129	-	177,129
Unrestricted	<u>9,329,608</u>	<u>5,918,787</u>	<u>15,248,395</u>
TOTAL NET POSITION	<u>\$ 37,355,274</u>	<u>\$ 28,078,500</u>	<u>\$ 65,433,774</u>

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

City of Fort Walton Beach, Florida
STATEMENT OF ACTIVITIES
Year Ended September 30, 2013

Function/Program Activities	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Government activities							
General government	\$ 2,662,406	\$ 409,983	\$ 1,500	\$ -	\$ (2,250,923)	\$ -	\$ (2,250,923)
Public safety	9,729,228	640,271	410,609	8,427	(8,669,921)	-	(8,669,921)
Physical environment	379,681	404,429	216,930	-	241,678	-	241,678
Transportation	1,631,665	122,275	-	72,509	(1,436,881)	-	(1,436,881)
Economic environment	1,090,025	34,652	55,411	-	(999,962)	-	(999,962)
Culture and recreation	2,715,977	374,362	102,202	-	(2,239,413)	-	(2,239,413)
Debt service interest	324,405	-	-	-	(324,405)	-	(324,405)
Total government activities	<u>18,533,387</u>	<u>1,985,972</u>	<u>786,652</u>	<u>80,936</u>	<u>(15,679,827)</u>	<u>-</u>	<u>(15,679,827)</u>
Business-type activities							
Utilities	7,644,240	8,623,082	-	1,871,295	-	2,850,137	2,850,137
Sanitation	3,163,638	3,499,559	1,071	-	-	336,992	336,992
Golf	2,023,186	1,758,709	-	-	-	(264,477)	(264,477)
Stormwater	611,962	591,196	-	-	-	(20,766)	(20,766)
Total business-type activities	<u>13,443,026</u>	<u>14,472,546</u>	<u>1,071</u>	<u>1,871,295</u>	<u>-</u>	<u>2,901,886</u>	<u>2,901,886</u>
Total primary government	<u>\$ 31,976,413</u>	<u>\$ 16,458,518</u>	<u>\$ 787,723</u>	<u>\$ 1,952,231</u>	<u>\$ (15,679,827)</u>	<u>\$ 2,901,886</u>	<u>\$ (12,777,941)</u>
General Revenues							
Taxes							
Property taxes					\$ 4,175,136	\$ -	\$ 4,175,136
Sales taxes					2,241,242	-	2,241,242
Utility service taxes					3,761,437	-	3,761,437
Tax increments for redevelopment district					1,311,101	-	1,311,101
Franchise fees					1,764,733	-	1,764,733
Intergovernmental, unrestricted					818,039	-	818,039
Gain on sale of assets					37,833	20,662	58,495
Miscellaneous					106,546	6,504	113,050
Investment earnings					62,285	11,107	73,392
Special item: loss on impairment of capital asset					(271,287)	(786,713)	(1,058,000)
Transfers					(2,145,441)	2,145,441	-
Total general revenues, transfers and special item					<u>11,861,624</u>	<u>1,397,001</u>	<u>13,258,625</u>
Change in net position					(3,818,203)	4,298,887	480,684
Net position - beginning of year					<u>41,173,477</u>	<u>23,779,613</u>	<u>64,953,090</u>
Net position - end of year					<u>\$ 37,355,274</u>	<u>\$ 28,078,500</u>	<u>\$ 65,433,774</u>

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

City of Fort Walton Beach, Florida
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2013

	General Fund	Community Redevelopment Agency	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 8,391,042	\$ 3,871,136	\$ 507,386	\$ 12,769,564
Investments	-	-	2,005,963	2,005,963
Receivables	224,872	36	109	225,017
Due from other funds	165,600	-	-	165,600
Due from other governments	76,336	-	20,671	97,007
Inventory, at cost	254,229	-	-	254,229
Restricted assets				
Cash and cash equivalents	<u>7,691,393</u>	<u>-</u>	<u>21,156</u>	<u>7,712,549</u>
TOTAL ASSETS	<u>\$ 16,803,472</u>	<u>\$ 3,871,172</u>	<u>\$ 2,555,285</u>	<u>\$ 23,229,929</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 426,158	\$ 21,767	\$ 15,438	\$ 463,363
Accrued liabilities	553,185	15,975	16,082	585,242
Due to other funds	-	-	7,754	7,754
Deferred revenue	<u>110,564</u>	<u>-</u>	<u>-</u>	<u>110,564</u>
Total liabilities	<u>1,089,907</u>	<u>37,742</u>	<u>39,274</u>	<u>1,166,923</u>
Fund balance				
Nonspendable	254,229	-	-	254,229
Restricted	7,868,522	3,833,430	483,531	12,185,483
Committed	5,501,353	-	2,035,225	7,536,578
Assigned	1,301,385	-	-	1,301,385
Unassigned	<u>788,076</u>	<u>-</u>	<u>(2,745)</u>	<u>785,331</u>
Total fund balance	<u>15,713,565</u>	<u>3,833,430</u>	<u>2,516,011</u>	<u>22,063,006</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 16,803,472</u>	<u>\$ 3,871,172</u>	<u>\$ 2,555,285</u>	<u>\$ 23,229,929</u>

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

City of Fort Walton Beach, Florida
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET TO THE
STATEMENT OF NET POSITION
September 30, 2013

Fund balance - total governmental funds (page 16)	\$ 22,063,006
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Governmental non-depreciable/amortizable assets	10,940,878	
Governmental depreciable/amortizable assets	45,918,558	
Less accumulated depreciation/amortization	<u>(27,381,621)</u>	29,477,815

Other assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.

Net pension asset	606,629	
Bond issuance costs	239,956	
Less related accumulated amortization	<u>(213,077)</u>	633,508

Deferred revenue in governmental funds is susceptible to full accrual on the entity-wide statements.

Special assessment for street resurfacing	110,564
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.

Notes payable	(13,535,936)	
Accrued interest	(3,783)	
Capital leases	(101,696)	
Compensated absences	(690,149)	
Other post-employment benefits	<u>(598,055)</u>	(14,929,619)

Net position of governmental activities (page 14)	<u>\$ 37,355,274</u>
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The accompanying notes are an integral
part of these financial statements.

City of Fort Walton Beach, Florida
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
Year Ended September 30, 2013

	General	Community Redevelopment Agency	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 9,141,063	\$ 760,094	\$ -	\$ 9,901,157
Permits and fees	1,810,136	-	411,270	2,221,406
Intergovernmental	2,563,283	766,007	71,586	3,400,876
Charges for services	882,824	182,492	-	1,065,316
Fines and forfeits	201,691	-	40,232	241,923
Miscellaneous	371,729	9,840	50,056	431,625
TOTAL REVENUES	14,970,726	1,718,433	573,144	17,262,303
EXPENDITURES				
Current				
General governmental services	2,514,734	-	-	2,514,734
Public safety	8,339,581	464,149	262,516	9,066,246
Physical environment	303,042	-	8,642	311,684
Transportation	1,010,687	1,700	-	1,012,387
Economic environment	-	976,508	56,151	1,032,659
Culture and recreation	2,267,141	-	-	2,267,141
Capital outlay	1,094,998	178,746	8,398	1,282,142
Debt service				
Principal	4,470,000	-	70,488	4,540,488
Interest	-	-	202,719	202,719
Other debt service costs	-	-	628	628
TOTAL EXPENDITURES	20,000,183	1,621,103	609,542	22,230,828
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(5,029,457)	97,330	(36,398)	(4,968,525)
OTHER FINANCING SOURCES (USES)				
Issuance of debt	13,046,323	-	-	13,046,323
Transfers in	453,826	-	220,010	673,836
Transfers out	(2,815,987)	-	(3,290)	(2,819,277)
TOTAL OTHER FINANCING SOURCES (USES)	10,684,162	-	216,720	10,900,882
NET CHANGE IN FUND BALANCE	5,654,705	97,330	180,322	5,932,357
FUND BALANCE - BEGINNING OF YEAR	10,058,860	3,736,100	2,335,689	16,130,649
FUND BALANCE - END OF YEAR	\$ 15,713,565	\$ 3,833,430	\$ 2,516,011	\$ 22,063,006

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

City of Fort Walton Beach, Florida
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2013

Net change in fund balances - total governmental funds (page 18) \$ 5,932,357

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

Governmental funds do not report capital assets on the balance sheet; however, they are reported in the government-wide financial statements. Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is depreciated over the estimated useful lives of the assets.

Expenditures for capital assets	1,222,017	
Less current year depreciation/amortization	<u>(1,962,126)</u>	(740,109)

Governmental funds do not report capital assets on the balance sheet; however, they are reported in the government-wide financial statements. Accordingly, proceeds received for disposals of capital assets are shown as income in the governmental financial statements and a gain or loss is reported in the statement of activities.

Disposals of capital assets and adjustments	(1,219,967)	
Accumulated depreciation associated with disposals and adjustments	<u>968,900</u>	(251,067)

Transfer of capital assets to stormwater fund
Accumulated depreciation associated with transfers

	(13,975)	
	<u>13,975</u>	-

Special assessment revenue in the governmental funds is recognized when due; however, the revenue was recognized in the Statement of Activities when it was earned (when levied).

Special assessment for street resurfacing	(4,715)	
Special assessment for affordable housing	(147,840)	
Special assessment interest and penalties	<u>1,942</u>	(150,613)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Note proceeds	(13,046,323)	
Debt principal payments	4,540,488	
Amortization of current year bond discount	(41,857)	
Amortization of bond and note issue costs	(134,488)	
Change in accrued interest on long-term debt	<u>55,287</u>	(8,626,893)

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.

Net pension asset	101,226	
Change in long-term compensated absences	17,292	
Change in other post-employment benefits	<u>(100,396)</u>	<u>18,122</u>

Change in net position of governmental activities (page 15) \$ (3,818,203)

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

City of Fort Walton Beach, Florida
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
Year Ended September 30, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 8,906,921	\$ 8,906,921	\$ 9,141,063	\$ 234,142
Permits and fees	2,077,249	2,077,249	1,810,136	(267,113)
Intergovernmental	2,471,016	3,203,908	2,563,283	(640,625)
Charges for services	915,081	919,185	882,824	(36,361)
Fines and forfeits	103,700	103,700	201,691	97,991
Miscellaneous	<u>376,472</u>	<u>425,117</u>	<u>371,729</u>	<u>(53,388)</u>
TOTAL REVENUES	<u>14,850,439</u>	<u>15,636,080</u>	<u>14,970,726</u>	<u>(665,354)</u>
EXPENDITURES				
Current				
General government services	4,103,468	2,997,149	2,514,734	482,415
Public safety	8,079,102	8,228,146	8,339,581	(111,435)
Physical environment	287,085	304,641	303,042	1,599
Transportation	1,139,634	1,141,107	1,010,687	130,420
Culture and recreation	2,388,130	2,432,494	2,267,141	165,353
Capital outlay	294,302	9,408,563	1,094,998	8,313,565
Debt service	<u>-</u>	<u>4,470,000</u>	<u>4,470,000</u>	<u>-</u>
TOTAL EXPENDITURES	<u>16,291,721</u>	<u>28,982,100</u>	<u>20,000,183</u>	<u>8,981,917</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,441,282)</u>	<u>(13,346,020)</u>	<u>(5,029,457)</u>	<u>8,316,563</u>
OTHER FINANCING SOURCES (USES)				
Debt proceeds	-	13,045,712	13,046,323	611
Transfers in	1,886,863	454,871	453,826	(1,045)
Transfers out	<u>(510,229)</u>	<u>(426,158)</u>	<u>(2,815,987)</u>	<u>(2,389,829)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,376,634</u>	<u>13,074,425</u>	<u>10,684,162</u>	<u>(2,390,263)</u>
NET CHANGE IN FUND BALANCE	(64,648)	(271,595)	5,654,705	5,926,300
FUND BALANCE - BEGINNING OF YEAR	<u>64,648</u>	<u>271,595</u>	<u>10,058,860</u>	<u>9,787,265</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,713,565</u>	<u>\$ 15,713,565</u>

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

City of Fort Walton Beach, Florida
COMMUNITY REDEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
Year Ended September 30, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 760,094	\$ 760,094	\$ 760,094	\$ -
Intergovernmental	551,007	602,252	766,007	163,755
Charges for services	-	-	182,492	182,492
Miscellaneous	<u>15,000</u>	<u>15,000</u>	<u>9,840</u>	<u>(5,160)</u>
TOTAL REVENUES	<u>1,326,101</u>	<u>1,377,346</u>	<u>1,718,433</u>	<u>341,087</u>
EXPENDITURES				
Current				
Public safety	414,838	470,507	464,149	6,358
Transportation	-	1,700	1,700	-
Economic environment	694,420	1,733,675	976,508	757,167
Capital outlay	<u>85,000</u>	<u>354,162</u>	<u>178,746</u>	<u>175,416</u>
TOTAL EXPENDITURES	<u>1,194,258</u>	<u>2,560,044</u>	<u>1,621,103</u>	<u>938,941</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>131,843</u>	<u>(1,182,698)</u>	<u>97,330</u>	<u>1,280,028</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(131,843)</u>	<u>(43)</u>	<u>-</u>	<u>43</u>
NET CHANGE IN FUND BALANCE	-	(1,182,741)	97,330	1,280,071
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>	<u>1,182,741</u>	<u>3,736,100</u>	<u>2,553,359</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,833,430</u>	<u>\$ 3,833,430</u>

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

City of Fort Walton Beach, Florida
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
September 30, 2013

	Utilities Fund	Sanitation Fund	Golf Fund	Other Enterprise Funds	Total
ASSETS					
Current assets					
Cash and cash equivalents	\$ 5,757,274	\$ 2,175,998	\$ -	\$ 535,464	\$ 8,468,736
Restricted assets - cash and cash equivalents	1,547,479	740	4,293	-	1,552,512
Receivables, net	546,997	213,068	182	35,707	795,954
Inventory - at cost	26,497	-	31,660	-	58,157
Total current assets	<u>7,878,247</u>	<u>2,389,806</u>	<u>36,135</u>	<u>571,171</u>	<u>10,875,359</u>
Capital assets, net					
Non-depreciable/amortizable	16,137,143	-	55,400	28,532	16,221,075
Depreciable/amortizable, net	16,781,547	1,396,235	2,563,974	871,079	21,612,835
Total capital assets	<u>32,918,690</u>	<u>1,396,235</u>	<u>2,619,374</u>	<u>899,611</u>	<u>37,833,910</u>
Other assets					
Bond issue costs, net	180,434	-	2,215	-	182,649
Other receivables, net	15,917	-	-	-	15,917
Total other assets	<u>196,351</u>	<u>-</u>	<u>2,215</u>	<u>-</u>	<u>198,566</u>
Total non-current assets	<u>33,115,041</u>	<u>1,396,235</u>	<u>2,621,589</u>	<u>899,611</u>	<u>38,032,476</u>
TOTAL ASSETS	<u>\$ 40,993,288</u>	<u>\$ 3,786,041</u>	<u>\$ 2,657,724</u>	<u>\$ 1,470,782</u>	<u>\$ 48,907,835</u>

Continued...

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

City of Fort Walton Beach, Florida
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
September 30, 2013

	<u>Utilities Fund</u>	<u>Sanitation Fund</u>	<u>Golf Fund</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
LIABILITIES					
Current liabilities					
Accounts payable	\$ 2,114,152	\$ 109,198	\$ 33,184	\$ 6,384	\$ 2,262,918
Accrued liabilities					
Compensated absences	29,884	13,702	8,838	2,812	55,236
Wages	81,157	39,713	39,225	18,172	178,267
Other	1,539	1,102	386	2,777	5,804
Due to other governments	323,582	7,806	7,137	-	338,525
Due to other funds	-	-	157,846	-	157,846
Revenue bonds payable	290,000	-	-	-	290,000
Revenue note payable	-	-	18,643	-	18,643
Payable from restricted assets					
Accrued interest	108,190	-	482	-	108,672
Customer deposits	163,859	740	-	-	164,599
Unearned revenue	<u>31,630</u>	<u>-</u>	<u>24,078</u>	<u>-</u>	<u>55,708</u>
Total current liabilities	<u>3,143,993</u>	<u>172,261</u>	<u>289,819</u>	<u>30,145</u>	<u>3,636,218</u>
Non-current liabilities					
Accrued liabilities					
Compensated absences	89,650	41,104	26,513	8,434	165,701
Revenue bonds payable	9,635,055	-	-	-	9,635,055
Revenue note payable	-	-	54,890	-	54,890
State revolving loan payable	7,068,522	-	-	-	7,068,522
Other post-employment benefits	<u>127,397</u>	<u>67,237</u>	<u>53,082</u>	<u>21,233</u>	<u>268,949</u>
Total non-current liabilities	<u>16,920,624</u>	<u>108,341</u>	<u>134,485</u>	<u>29,667</u>	<u>17,193,117</u>
TOTAL LIABILITIES	<u>20,064,617</u>	<u>280,602</u>	<u>424,304</u>	<u>59,812</u>	<u>20,829,335</u>
NET POSITION					
Invested in capital assets, net of related debt					
Restricted	15,925,113	1,396,235	2,545,841	899,611	20,766,800
Debt service	1,083,112	-	4,293	-	1,087,405
System improvements	305,508	-	-	-	305,508
Unrestricted	<u>3,614,938</u>	<u>2,109,204</u>	<u>(316,714)</u>	<u>511,359</u>	<u>5,918,787</u>
TOTAL NET POSITION	<u>\$ 20,928,671</u>	<u>\$ 3,505,439</u>	<u>\$ 2,233,420</u>	<u>\$ 1,410,970</u>	<u>\$ 28,078,500</u>

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

City of Fort Walton Beach, Florida
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended September 30, 2013

	Utilities Fund	Sanitation Fund	Golf Fund	Other Enterprise Funds	Total
OPERATING REVENUES					
Charges for services	\$ 8,606,702	\$ 3,499,559	\$ 1,661,260	\$ 591,196	\$ 14,358,717
OPERATING EXPENSES					
Personal services	1,792,104	970,497	997,780	286,977	4,047,358
Operating	4,374,686	1,948,071	763,272	258,553	7,344,582
Depreciation/amortization expense	1,293,383	245,070	239,887	66,432	1,844,772
TOTAL OPERATING EXPENSES	7,460,173	3,163,638	2,000,939	611,962	13,236,712
OPERATING INCOME (LOSS)	1,146,529	335,921	(339,679)	(20,766)	1,122,005
NON-OPERATING REVENUES (EXPENSES)					
Rental income	16,380	-	97,449	-	113,829
Interest expense	(170,222)	-	(21,482)	-	(191,704)
Amortization	(13,447)	-	(765)	-	(14,212)
Gain (loss) on disposal of capital assets	(7,243)	26,729	-	1,176	20,662
Unrealized gain (loss) on investment	(11,948)	(4,343)	-	(1,022)	(17,313)
Realized gain (loss) on investment	(18,159)	(6,601)	-	(1,553)	(26,313)
Interest	37,762	13,877	-	3,094	54,733
Grants in aid	(398)	-	-	-	(398)
Miscellaneous	1,228	4,106	1,265	976	7,575
TOTAL NON-OPERATING REVENUES (EXPENSES)	(166,047)	33,768	76,467	2,671	(53,141)
INCOME (LOSS) BEFORE CONTRIBUTIONS, SPECIAL ITEM AND OPERATING TRANSFERS	980,482	369,689	(263,212)	(18,095)	1,068,864
CONTRIBUTIONS, SPECIAL ITEM AND TRANSFERS					
Capital grants and contributions	1,871,295	-	-	-	1,871,295
Special item: impairment loss on capital asset	(786,713)	-	-	-	(786,713)
Transfers in	-	-	2,595,977	-	2,595,977
Transfers out	(320,536)	(130,000)	-	-	(450,536)
TOTAL CONTRIBUTIONS, SPECIAL ITEM AND TRANSFERS	764,046	(130,000)	2,595,977	-	3,230,023
CHANGE IN NET POSITION	1,744,528	239,689	2,332,765	(18,095)	4,298,887
NET POSITION - BEGINNING OF YEAR	19,184,143	3,265,750	(99,345)	1,429,065	23,779,613
NET POSITION - END OF YEAR	\$ 20,928,671	\$ 3,505,439	\$ 2,233,420	\$ 1,410,970	\$ 28,078,500

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

City of Fort Walton Beach, Florida
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended September 30, 2013

	Utilities Fund	Sanitation Fund	Golf Fund	Other Enterprise Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 8,639,973	\$ 3,481,869	\$ 1,665,710	\$ 619,417	\$ 14,406,969
Payments to suppliers	(3,233,670)	(1,948,961)	(747,233)	(281,268)	(6,211,132)
Payments to employees	(1,758,836)	(943,292)	(953,625)	(263,404)	(3,919,157)
Miscellaneous income	17,608	4,106	98,714	976	121,404
Net cash provided by operating activities	<u>3,665,075</u>	<u>593,722</u>	<u>63,566</u>	<u>75,721</u>	<u>4,398,084</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Borrowings (repayments)					
Change in intergovernmental balances	628,706	105	595	-	629,406
Due to other funds	-	-	127,785	-	127,785
Grants and aids	(398)	-	-	-	(398)
Transfers out	(320,536)	(130,000)	-	-	(450,536)
Net cash used by non-capital financing activities	<u>307,772</u>	<u>(129,895)</u>	<u>128,380</u>	<u>-</u>	<u>306,257</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisitions of capital assets	(15,196,541)	(284,308)	(104,441)	(21,500)	(15,606,790)
Proceeds from disposal of capital assets	29,068	33,216	-	439	62,723
Capital grants and contributions	1,871,295	-	-	-	1,871,295
Principal paid on advance from other fund	-	-	(64,708)	-	(64,708)
Principal paid on leases payable	-	-	(13,458)	-	(13,458)
Proceeds from note payable	-	-	28,071	-	28,071
Proceeds from state revolving loan	7,068,523	-	-	-	7,068,523
Principal paid on bonds and notes payable	(280,000)	-	(15,759)	-	(295,759)
Interest paid on bond, loan, lease and advance payables	(172,672)	-	(21,651)	-	(194,323)
Net cash used by capital and related financing activities	<u>(6,680,327)</u>	<u>(251,092)</u>	<u>(191,946)</u>	<u>(21,061)</u>	<u>(7,144,426)</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income	7,655	2,933	-	519	11,107
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
	(2,699,825)	215,668	-	55,179	(2,428,978)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR					
	<u>10,004,578</u>	<u>1,961,070</u>	<u>4,293</u>	<u>480,285</u>	<u>12,450,226</u>
CASH AND CASH EQUIVALENTS - END OF YEAR					
	<u>\$ 7,304,753</u>	<u>\$ 2,176,738</u>	<u>\$ 4,293</u>	<u>\$ 535,464</u>	<u>\$ 10,021,248</u>

Continued...

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

City of Fort Walton Beach, Florida
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended September 30, 2013

	<u>Utilities Fund</u>	<u>Sanitation Fund</u>	<u>Golf Fund</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR					
CONSIST OF					
Current assets	\$ 5,757,274	\$ 2,175,998	\$ -	\$ 535,464	\$ 8,468,736
Restricted assets, current	<u>1,547,479</u>	<u>740</u>	<u>4,293</u>	<u>-</u>	<u>1,552,512</u>
Total cash and cash equivalents	<u>\$ 7,304,753</u>	<u>\$ 2,176,738</u>	<u>\$ 4,293</u>	<u>\$ 535,464</u>	<u>\$ 10,021,248</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 1,146,529	\$ 335,921	\$ (339,679)	\$ (20,766)	\$ 1,122,005
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation	1,293,383	245,070	239,887	66,432	1,844,772
Miscellaneous revenue	17,608	4,106	98,714	976	121,404
Decrease (increase) in assets					
Accounts receivable	3,004	(17,175)	722	28,221	14,772
Inventory	(13,290)	-	(976)	-	(14,266)
Increase (decrease) in liabilities					
Accounts payable	1,155,626	(608)	17,205	(22,449)	1,149,774
Compensated absences payable	268	4,597	(4,045)	(1,005)	(185)
Wages	11,313	2,882	601	5,805	20,601
Other liabilities	(1,320)	(282)	(190)	(266)	(2,058)
Customer deposits	16,490	(515)	-	-	15,975
Other post-employment benefits	21,687	19,726	47,599	18,773	107,785
Deferred revenue	<u>13,777</u>	<u>-</u>	<u>3,728</u>	<u>-</u>	<u>17,505</u>
Net cash provided by operating activities	<u>\$ 3,665,075</u>	<u>\$ 593,722</u>	<u>\$ 63,566</u>	<u>\$ 75,721</u>	<u>\$ 4,398,084</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS					
Amortization of bond and note issue costs	<u>\$ 8,356</u>	<u>\$ -</u>	<u>\$ 765</u>	<u>\$ -</u>	<u>\$ -</u>
Amortization of discounts and deferred loss on refunding	<u>\$ 5,091</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Forgiveness of advance from other fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,595,977</u>	<u>\$ -</u>	<u>\$ -</u>

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

City of Fort Walton Beach, Florida
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
September 30, 2013

	<u>Employee Retirement Funds</u>
ASSETS	
Cash and cash equivalents	\$ 2,992,932
Investments, at market	
U.S. Government and Agency obligations	9,635,255
Corporate obligations	8,515,594
Corporate equity	33,592,964
Mutual funds	<u>14,025,140</u>
Total investments	<u>65,768,953</u>
Due from State of Florida	<u>18,571</u>
TOTAL ASSETS	<u>\$ 68,780,456</u>
NET POSITION	
Held in trust for pension and employee retirement benefits	<u>\$ 68,780,456</u>

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

City of Fort Walton Beach, Florida
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended September 30, 2013

	<u>Employee Retirement Funds</u>
ADDITIONS	
Contributions	
Employer	\$ 2,777,112
Plan members	456,677
State of Florida	<u>375,111</u>
Total contributions	<u>3,608,900</u>
Investment income (loss)	7,729,489
Less investment expense	<u>(269,105)</u>
Net investment income (loss)	<u>7,460,384</u>
Miscellaneous revenue	<u>109,598</u>
TOTAL ADDITIONS	<u>11,178,882</u>
DEDUCTIONS	
Benefits and refunds paid	
Retirement payments	4,881,143
Disability payments	156,257
Refunds	<u>80,170</u>
Total benefits and refunds paid	<u>5,117,570</u>
Administrative expenses	
Legal	11,360
Contractual services	115,844
Other	<u>26,105</u>
Total administrative expenses	<u>153,309</u>
TOTAL DEDUCTIONS	<u>5,270,879</u>
NET INCREASE (DECREASE)	5,908,003
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	
BEGINNING OF YEAR	<u>62,872,453</u>
END OF YEAR	<u>\$ 68,780,456</u>

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

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City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fort Walton Beach, Florida, (the City) was originally chartered as a municipality under laws of the State of Florida Special Act of the Florida Legislature in 1937. The City Manager-Council form of government was established in 1953. As authorized by its charter, the City provides the following services: public safety (police, fire, and inspection), highways and streets, water and sewer, sanitation, stormwater, culture and recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America applicable to governmental units and the Uniform Accounting System mandated by Chapter 218.33, Florida Statutes. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

The following is a summary of the more significant accounting policies of the City:

A. The Reporting Entity

A seven member City Council and a Mayor govern the City, each elected at-large for four-year terms. The Council has no powers other than those expressly vested in it by State Statute and the City Charter, and their governmental powers cannot be delegated.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Fort Walton Beach (the primary government) and its component unit. In evaluating the City as a reporting entity, management has considered all potential component units for which the City may or may not be financially accountable and, as such, be included within the City's financial statements. Management utilized criteria set forth in GASB No. 61 for determining financial accountability of potential component units in evaluating all potential component units. In accordance with GASB No. 61, the City (primary government) is financially accountable if it appoints a voting majority of the potential component unit's governing board and 1) it is able to impose its will on the organization or 2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. In addition, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. The Reporting Entity (Continued)

As of September 30, 2013, the City of Fort Walton Beach had one component unit, as defined by GASB 61, which has been presented in the financial statements of the primary government using the blended presentation method, and is presented as a governmental fund type with a fiscal year end of September 30. The Fort Walton Beach Community Redevelopment Agency (the Agency) was formed to prepare a community redevelopment plan for a designated geographic area within the City of Fort Walton Beach, Florida. All of the City's council members serve as board members of the Agency. The Agency's governing body is the same as the governing body of the City and the Agency provides services specifically to the Community Redevelopment Area of the City. Due to the nature and significance of the Agency's relationship with the City, exclusion of the Agency's financial operations would render the City's financial statements incomplete or misleading.

The Fort Walton Beach Housing Authority (the Authority) is considered a related organization to the City rather than a component unit. The City Council of Fort Walton Beach, Florida appoints the board members of the Authority. However, the Authority's board operates independently of the City Council and does not create a financial burden or benefit to the City.

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

C. 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*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Pension plans recognize revenue when contributions are due as there is a statutory requirement to make the contribution. Property taxes are recorded as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 6 months of the end of the current fiscal period, except for property taxes, for which the period is 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Sales taxes, gasoline taxes, and other intergovernmental revenues collected and held by the state at year-end on behalf of the City, are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

The Okaloosa County Tax Collector bills and collects property taxes for the City in accordance with the laws of the State of Florida. Property taxes attach as an enforceable lien on property as of the date of assessment and remain in effect until discharge by payment. Taxes are payable when levied (on November 1, or as soon thereafter as the assessment roll becomes available to the Tax Collector).

The following is the current property tax calendar:

Lien Date	January 1, 2013
Levy Date	November 1, 2013
Due Date	November 1, 2013
Delinquent Date	April 1, 2014

Discounts of 1% for each month taxes are paid prior to March 2014 are granted.

Revenue recognition criteria for property taxes under the GASB requires that property taxes expected to be collected within 60 days of the current period be accrued. No accrual has been made for 2013 ad valorem taxes because property taxes are not legally due until subsequent to the end of the fiscal year. Current year taxes, which are uncollected as of the end of the fiscal year, are generally immaterial in amount and highly susceptible to uncollectibility and, therefore, are not recorded as a receivable on the balance sheet date.

D. Basis of Presentation

The financial transactions of the City are recorded in individual funds. Each fund is a separate accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's utility function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City considers all impact fee revenue as capital contributions for the water and sewer system; therefore, no amount from the impact fee is included in operating revenue. Operating expenses for enterprise funds include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The following three broad classifications are used to categorize the fund types used by the City:

Governmental

Governmental funds focus on the determination of financial position and changes in financial position (sources, uses, and balances of financial resources) and not net income. The City has the following major governmental funds:

General Fund - This is the City's primary operating fund and is used to account for all financial resources except those required to be accounted for in another fund.

Community Redevelopment Fund - The community redevelopment fund is the operating fund of the Fort Walton Beach Community Redevelopment Agency (the "Agency"). It is used to account for the activities of the Agency.

Proprietary

Proprietary funds focus on the determination of net income, changes in net position, financial position, and cash flows. All of the City's proprietary funds are enterprise funds, as fees are charged to external users for services. The following is a description of the major proprietary funds of the City:

Utilities Fund - Used to account for the operations of the City, which provides distribution of potable water, sales and service and sanitary wastewater collection, treatment and disposal.

Sanitation Fund - Accounts for the operation of the City that provides for solid waste collection and disposal.

Golf Fund - Accounts for the operations and maintenance of the City-owned golf courses.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

Fiduciary

Fiduciary funds are used to account for the assets held on behalf of outside parties, including other governments, or on behalf of other funds within the City. The City has the following type of Fiduciary funds:

Pension Trust Funds - Used to report the resources that are required to be held in trust for the members and beneficiaries of the three defined benefit pension plans administered by the City: General Employees' Retirement Fund, Police Officers' Retirement Fund, and Firefighters' Retirement Fund.

E. Assets, Liabilities, and Net Position or Equity

Cash and Cash Equivalents

The City considers all highly liquid investments (including restricted assets) with a maturity of 90 days or less when purchased, and investments with the State Board of Administration (SBA), to be cash equivalents. Additionally, each fund's equity in the City's investment pool (see Note 3) is considered to be cash equivalent since the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

Deposits and Investments

Section 218.415, Florida Statutes, requires the investment of surplus public funds and prescribes the instruments in which those investments are authorized, specifically the State of Florida Local Government Surplus Funds Trust Fund, direct obligations of the United States Government or other obligations unconditionally guaranteed by the United States Government, collateralized interest-bearing time deposits or savings accounts in state or federal banks or savings and loan associations, debt securities of the Federal Farm Credit Banks, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank, the Government National Mortgage Association, the Federal National Mortgage Association, and securities of or other interest in certain investment companies or investment trusts, the portfolio of which is limited to United States Government obligations or repurchase agreements fully collateralized by such obligations. The City adheres strictly to the provisions of those cited Statutes, as well as with Chapter 280, Florida Statutes, which requires the City to maintain deposits only with "Qualified Public Depositories." The City maintains a cash and investment pool available for use by all funds. Earnings from such investments are allocated to the respective funds based on applicable cash participation by each fund.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Position or Equity (Continued)

Deposits and Investments (Continued)

In addition, restricted cash accounts, certificates of deposit, and other investments are separately maintained by a few City funds in accordance with bond ordinances, retirement fund plan documents and other contractual agreements. The Beal Memorial Cemetery Perpetual Care Special Revenue Fund also invests excess cash in allowable debt and equity investments to maximize return on investment. Investments are stated at fair value, based on quoted market prices.

The City's cash and investment pool and certain individual funds participate in the Local Government Surplus Trust Fund - Florida PRIME and Fund B, operated by Florida's State Board of Administration (SBA). The SBA is governed by Chapter 19-1 of the Florida Administrative Code (FAC). The FAC provides guidance and establishes the general operating procedures for the administration of the Local Government Surplus Trust Funds. Additionally, the Florida Auditor General performs an operational audit of activities and investments of the SBA. GASB Statement No. 31, titled *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, applies to the Florida PRIME and Fund B. GASB 31 outlines the two options for accounting and reporting for money market investment pools as either "2a-7 like" or fluctuating net asset value (NAV). GASB 31 describes a "2a-7 like" pool as an external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with Rule 2a-7 under the Investment Company Act of 1940 (the 1940 Act). Rule 2a-7 is the rule that permits money market funds to use amortized cost to maintain a constant NAV of \$1.00 per share, provided that such funds meet certain conditions. City investments with the SBA may be made or liquidated by wire on a same day basis, subject to limitations described in Note 3.

The Florida PRIME is considered a SEC "2a-7 like" fund, thus the account balance is also considered the fair value of the City's investment.

The Fund B is accounted for as a fluctuating NAV pool. The Fair Value factor for September 30, 2013, was 1.13262284 percent. The account balance was multiplied by the factor in order to report the fair value of the City's investment in Fund B.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Position or Equity (Continued)

Deposits and Investments (Continued)

Pension Trust Funds may invest in direct obligations of the United States Government or other obligations unconditionally guaranteed by the United States Government, collateralized interest-bearing time deposits or savings accounts in state or federal banks or savings and loan associations, bonds or indebtedness of United States corporations rated BAA or better, stocks of U.S. corporations which are listed on the national stock exchanges (limited to 50% of the assets of the fund) and investment accounts maintained by major national banks and insurance companies given the top rating by Best. In addition to the above investment options, the Firefighters' Retirement Pension Trust Fund may invest up to 20% of its assets at cost in real estate.

The Beal Memorial Cemetery Special Revenue Fund may invest in domestic equities, international equities, real estate investment trusts, Treasury Inflation Protected Securities ("TIPS"), fixed income investments and Rule 2(a)-7 like cash equivalents.

Bond Sinking Fund Investments are limited by bond ordinances to investments in direct obligations of the United States government or other marketable securities eligible as security of trust funds under regulations of the Board of Governors of the Federal Reserve System. The maturity date on Sinking Fund Investments is limited by the individual bond ordinances to correspond to the related debt service payments.

Receivables and Payables

Interfund transactions are reflected as loans, services provided, reimbursements, or transfers. Loans between funds outstanding at the end of the fiscal year are referred to as either "due to other funds" or "due from other funds" (i.e., the current portion of interfund loans) or "advances" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance nonspendable account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Position or Equity (Continued)

Receivables and Payables (Continued)

Services provided, deemed to be at market, or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

All proprietary fund receivables are shown net of an allowance for uncollectibles. The allowance is computed by considering 100% of receivables in excess of 90 days, past trends on collections of accounts, and current year account write-offs.

Inventory

Inventory is valued at cost (first-in, first-out). The consumption method is used to account for inventory. Under the consumption method, inventory items are recorded as expenditures during the period inventory is used. The General Fund inventory balance is considered nonspendable in the fund financial statements to indicate that it is not available for appropriation.

Restricted Assets

Certain resources in the following funds are restricted for specific purposes: in the Debt Service Fund, for the repayment Capital Improvement Note, Series 2011; in the Utility Fund, for the repayment of the Utility System Revenue Bonds, Series 2005; in the Golf Fund, for the repayment of the Capital Improvement Note, Series 2011; and, customer utility deposits and impact fees received are restricted in the Utilities Fund and Sanitation Fund.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, curbs and sidewalks, drainage systems, lighting systems and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial cost more than the following:

Land		All
Buildings and improvements	\$	10,000
Infrastructure	\$	10,000
Improvements - other	\$	10,000
Equipment, vehicles, computers	\$	1,000
Library books		All

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Position or Equity (Continued)

Capital Assets (Continued)

In the case of the initial capitalization of general infrastructure assets (i.e. those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through various allowable estimating techniques. As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until the completion of the project with interest earned on the invested proceeds over the same period.

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

<u>Assets</u>	<u>Years</u>
Buildings	20-50 Years
Improvements other than buildings	7-40 Years
System infrastructure	20-40 Years
Machinery and equipment	3-10 Years

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave based on the length of service to the City.

All vacation leave is accrued when incurred in the government-wide and proprietary fund financial statements. Sick leave is accrued in the government-wide and proprietary fund financial statements based on a ratio of the sum of sick leave paid over the last several years to the total balance of sick leave at the end of each fiscal year. A liability for the amounts of vacation and sick leave is reported in the governmental fund financial statements only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences of the governmental activities are primarily paid from the General Fund.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Position or Equity (Continued)

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective and straight-line interest methods. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Classification of Fund Balance

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, under GASB 54, are comprised of the following:

- **Nonspendable** – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, deposits, prepaid items, and advances to other funds.
- **Restricted** – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Position or Equity (Continued)

Classification of Fund Balance (Continued)

- Committed – includes fund balance amounts that can be used only for the specific purposes that are internally imposed by a formal action (a Resolution) of the government’s highest level of decision making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action (a Resolution) that imposed the constraint initially. Contractual obligations are included to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual obligations.
- Assigned – includes spendable fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Intent is expressed by (a) the City Council or (b) a body (for example: a budget or finance committee) or official to which the City Council has delegated the authority to assign amounts to be used for specific purposes. This indicates that resources in these funds are, at a minimum, intended to be used for the purposes of that fund. The City Council has delegated authority to the City Manager and Finance Director in accordance with the City's fund balance policy.
- Unassigned – includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of restraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification with the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance. The City's General Fund formal fund balance policy establishes a targeted minimum reserve balance in its Committed Fund Balance equal to 30% of annual budgeted expenditures.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Position or Equity (Continued)

Net Positions

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

F. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted by resolution for all governmental and proprietary funds. However, budgets for proprietary funds are not legally required to be reported on and are not included in these financial statements. All appropriations lapse at fiscal year-end except for appropriations related to multi-year capital projects.

Budgetary data reflected in the financial statements are established by the following procedures:

Prior to September 1 of each year, proposed budgets are received by the City Council from the City Manager. These proposed expenditures, along with all estimated receipts, taxes to be levied, and balances expected to be brought forward are considered by the City Council. The City Council requires such changes as deemed necessary, sets proposed millages, and establishes dates for tentative and final public budget hearings as prescribed by Florida Statutes.

Proposed budgets are advertised in a newspaper of general circulation in the City. Public hearings are conducted for the purposes of receiving input, responding to complaints, and providing reasons and explanations for intended actions to all citizens participating.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

A. Budgets (Continued)

Prior to October 1, the budget for all governmental and proprietary funds of the City is legally enacted through passage of a resolution. Budget amendments are periodically passed via resolutions during the fiscal year. Appropriations lapse at year-end except for appropriations related to multi-year capital projects. Budgeted beginning fund balance in the accompanying financial statements reflects planned utilization of prior years' unreserved/undesignated fund balance to the level required to accomplish current year objectives.

The level of budgetary control (that is the level at which expenditures cannot legally exceed appropriations) has been established at the fund level. The City Manager and Finance Director are authorized to transfer budgeted amounts within departments of a fund and between departments of a fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

Budget amounts reflected in the financial statements are originally adopted amounts as amended by action of the City Council by revision of fund totals. All amendments to originally adopted amounts were made in a legally permissible manner.

B. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 3 - DEPOSITS AND INVESTMENTS

The City maintains a cash and investment management pool in which each fund (except Pension Trust Funds) participates on a dollar equivalent and daily transaction basis. The City's cash and investment management pool includes pooled cash maintained in interest-bearing demand deposit accounts, certificates of deposit, and pooled investments of the Local Government Surplus Trust Fund. Interest income (which includes unrealized gains and losses) is distributed monthly based on balance at date of distribution.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

The City's cash and investment management pool is considered to be cash equivalent for reporting purposes because it is an internally managed fund, which allows individual funds to, at any time, deposit additional cash or make withdrawals without prior notice or penalty. The Local Government Surplus Trust Fund - Fund B does not meet the requirements of a SEC 2a7-like fund defined by GASB No. 31 and is considered an investment; however, the City has chosen not to reclass Fund B from cash equivalent to investment for reporting purposes due to its immaterial balance of approximately \$119,000 at September 30, 2013 in comparison to the City's pooled cash of approximately \$31 million. As of September 30, 2013, Fund B recorded an unrealized gain on investment in the amount of \$25,665.

Deposits

Custodial Credit Risk - It is the City's policy to maintain its deposits only with "Qualified Public Depositories" as defined in Chapter 280, Florida Statutes. The provisions of this statute allow "Qualified Public Depositories" to participate in a multiple financial institution collateral pool to ensure the security for public deposits. All qualified public depositories must place with or in the name of the Chief Financial Officer of the State of Florida, collateral in the amount of the average daily balance of public deposits multiplied by the average monthly balance of public deposits or 125 percent of the average daily balance of public deposits greater than capital. In the event of default by a qualified public depository, excess losses over insurance and collateral will be recovered through assessments to all qualified public depositories of the same type as the depository in default. Under this method, all City deposits, including certificates of deposit, are considered fully insured.

At year-end, the value of the City's deposits was \$30,516,802, all of which was held by qualified public depositories or permitted investments under Chapter 280, Florida Statutes.

Investments

As of September 30, 2013, the City's investments consist of those held in the various pension trust funds and the Beal Memorial Cemetery Perpetual Care Special Revenue Fund. The types of investments, which can be made by the City, are restricted by state statutes, retirement fund plan documents, and other contractual agreements. A description of the requirements and the types of investments allowed can be found in Note 1-E.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

As of September 30, 2013, the City held the following investments and related maturities:

	Fair Value	INVESTMENT MATURITIES (YEARS)							
		<1	1-5	5-10	10-15	15-20	20-25	25-30	>30
Investments subject to interest rate risk									
Corporate debt	\$ 8,515,594	\$ 323,433	\$ 1,312,290	\$ 6,785,878	\$ -	\$ 50,681	\$ 5,594	\$ 37,718	\$ -
Corporate CMOs	106,753	-	-	-	-	41,381	33,564	-	31,808
U.S. Treasury	5,417,688	505,493	2,641,523	714,138	-	130,259	144,454	1,281,821	-
U.S. Government Agencies	1,437,360	-	1,318,161	119,199	-	-	-	-	-
U.S. Government Agency Pools	3,439,377	-	-	1,603,978	1,648,826	31,890	101,817	52,866	-
	<u>\$ 18,916,772</u>	<u>\$ 828,926</u>	<u>\$ 5,271,974</u>	<u>\$ 9,223,193</u>	<u>\$ 1,648,826</u>	<u>\$ 254,211</u>	<u>\$ 285,429</u>	<u>\$ 1,372,405</u>	<u>\$ 31,808</u>
Investments not subject to interest rate risk									
Money market funds	\$ 171,440								
Corporate equities	34,661,564								
Mutual funds	14,025,140								
	<u>48,858,144</u>								
Total	<u>\$ 67,774,916</u>								

Interest Rate Risk - The City's investment policy does not limit its investment maturities as a means of managing its exposure to fair value losses arising from changes in interest rates. The City's policy encourages shorter-term investments for operating funds in order to meet the anticipated cash flows requirements. The investment policies for the pension plans do not specifically address interest rate risk.

Credit Rate Risk - State law limits investments of surplus public funds to those investments described above. According to the City's General Employees' Pension Plan investment policy, investment in all domestic corporate fixed income securities is limited to those securities rated "A" or higher by Moody, S&P, or Fitch, except that up to 10% of the fixed income securities may have a rating below "A" but not less than "Baa". As of September 30, 2013, the General Employees' Pension Plan held no investments whose rating was below Baa; the Plan's intent, in compliance with Florida Statutes 112.661(5)(b), is to sell any investment, whose rating falls below the policy threshold, as soon as it is economically feasible. Investments in the General Employees' Pension Plan whose rating was less than "A" at September 30, 2013, comprised 9.05% of the total cost of fixed income securities in the Plan. The Police Officers' Pension Fund limits investment in fixed income securities to those rated "Baa/BBB" or higher by a major rating service. The Firefighters' Pension Fund limits investment in fixed income securities to those securities rated "Baa/BBB" or higher by a major rating service. All Pension Plans were in compliance with its respective investment policy regarding credit rate risk as of September 30, 2013.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Credit Rate Risk (Continued)

The Moody's rating ranges of the different investment classes held by each respective plan at September 30, 2013, are as follows:

	General Pension Plan	Police Pension Plan	Fire Pension Plan
Money market funds	Aaa-A	Aaa-A	Aaa-A
Corporate CMOs	Aaa-Aa1	N/A	N/A
Corporate debt	Aaa-Baa3	Aa2-A3	Aa2-Baa2
U.S. Treasury	Aaa	Aaa	Aaa
U.S. government agencies	Aaa-A2	Aaa	Aaa
U.S. government pools	A1	N/A	N/A

The Beal Memorial Cemetery investment policy does not limit investments to those with specific credit ratings for domestic or international equities. The overall rating of fixed income investments shall be at least investment grade based on the rating of two of the three Nationally Recognized Statistical Rating Organizations (NRSRO).

Concentration Credit Risk - The City places no limit on the amount that may be invested in any one issuer, in regards to its general operations investments. The City encourages portfolio diversification to minimize each of the types of risk related to investments.

The General Employees' Pension Fund limits investment of fixed income securities of any single issuer to no more than 5% of the cost of all fixed income securities. Investments in collateralized mortgage obligations are limited to 15% of the market value of the total fixed income portfolio and must be backed by mortgage securities rated "Aaa" by Moody's or "AAA" by Standard & Poor's and Fitch rating services. As of September 30, 2013, the largest investment in a single corporate issuer of debt was below 1% of the cost of all fixed income securities. Total investments in collateralized mortgage obligations (CMOs) were 1.12% of the total market value of the total fixed income portfolio.

No more than 5% of the market value of the total fixed income portfolio in the Police Officers' Pension Fund may be invested in the securities of any single corporate issuer. Investments in collateralized mortgage obligations are not specifically permitted by the policy. As of September 30, 2013, the largest investment in a single corporate issuer of debt was 1.39% of the value of all corporate fixed income securities. The Police Officers' Pension Fund did not hold any investments in collateralized mortgage obligations as of September 30, 2013.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Concentration Credit Risk (Continued)

No more than 5% of the market value of the total fixed income investments may be held in the Firefighters' Pension Fund may be held in any single corporate issuer. Investments in collateralized mortgage obligations are limited to 15% of the market value of the total fixed income portfolio and are restricted to issues backed by securities issued by the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC), or the Federal National Mortgage Association (FNMA), or that are rated "Aaa" by Moody's or "AAA" by Standard & Poor's rating services. As of September 30, 2013, the largest investment in a single corporate issuer of debt was 6.97% of the market value of all fixed income securities; the Plan's intent, in compliance with Florida Statutes 112.661(5)(b), is to sell any investments that exceed the policy threshold when it is economically feasible. Total investments in collateralized mortgage obligations were 7% of the total market value of the total fixed income portfolio.

The Beal Memorial Cemetery investment policy limits investment concentrations as follows:

- Domestic Equities - no more than 5% of the total equity portfolio valued at market may be invested in the equity of any one corporation; ownership of the shares of one company shall not exceed 2% of those outstanding and not more than 25% of equity valued at market may be held in any one sector.
- International Equities - no more than 5% of the total equity portfolio valued at market may be invested in the common equity of any one corporation; ownership of the shares of one company shall not exceed 2% of those outstanding and not more than 25% of equity valued at market may be held in any one sector.
- Fixed Income Investments - securities of any one issuer shall not exceed 5% of a total bond portfolio at time of purchase.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits Held in Florida State Board of Administration's Local Government Investment Pool

In addition to the investments subject to credit risk, listed above, the City maintains investments in the Florida State Board of Administration's (SBA) Local Government Surplus Funds Trust Pools, and these deposits are included in the City's pooled cash accounts. At September 30, 2013, the City maintained \$105,145 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool B (Fund B) with a fair value of \$119,090. Fund B consists of assets that have defaulted on payment, paid more slowly than expected, and/or were assessed as having significant credit and liquidity risk. Fund B has been "frozen" by the SBA since December 2007, but has distributed portions of the pool to participants since that date. Since December 2007, the City has received \$1,652,010 in distributions from Fund B, including \$124,530 received during the year ended September 30, 2013. Fund B will continue to distribute funds to all participants as the assets within the Fund are able to be liquidated. The primary goal of the Fund is to make members "whole" and not realize a loss on the investment. Fund B has not received a credit rating by any of the nationally-recognized rating agencies as of September 30, 2013. The City believes that it will not incur a loss on the realizable value of the remaining investments held in the Fund.

Due to the nature of securities in Fund B, the interest rate risk information required by GASB 40 is not available. However, an estimate of weighted average life (WAL) is available. In the calculation of WAL, the time at which an expected principal amount is to be received (measured in years) is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL (based on expected future cash flows) of Fund B at September 30, 2013, is estimated at 4.04 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the weighted average life.

The City also maintains \$10,417 invested in the SBA's Florida PRIME. The Florida PRIME current credit rating is AAAM by Standard and Poor's. The weighted average to maturity (WAM) of the Florida PRIME at September 30, 2013, is 44 days. Next interest rate reset dates for floating rate securities are used in the calculation of the WAM.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 4 - RECEIVABLES

Receivables at September 30, 2013, were as follows:

	Governmental Activities			
	General	Community Redevelopment Fund	Other Governmental Funds	Total
		\$	\$	
Taxes	\$ 17,322	\$ -	\$ -	\$ 17,322
Accounts	96,986	36	109	97,131
Assessments	110,564	-	-	110,564
Total receivables	<u>\$ 224,872</u>	<u>\$ 36</u>	<u>\$ 109</u>	<u>\$ 225,017</u>

	Business-Type Activities				
	Utilities	Sanitation	Golf	Other Proprietary Funds	Total
				\$	
Accounts	\$ 588,817	\$ 222,476	\$ 182	\$ 38,399	\$ 849,874
Less allowance for doubtful accounts	(44,333)	(9,408)	-	(2,692)	(56,433)
Assessments	18,430	-	-	-	18,430
Total receivables, net	<u>\$ 562,914</u>	<u>\$ 213,068</u>	<u>\$ 182</u>	<u>\$ 35,707</u>	<u>\$ 811,871</u>

Due from Other Governments

The City's receivables from other governments for governmental activities as of September 30, 2013, are \$97,007. Due from other governments consist of \$93,681 due from the federal government. All receivables from the federal government are related to grant revenues, primarily for public safety, transportation, and community development. The remainder of the balance, \$3,326, is receivable from the City's Police Officers' Pension Fund for reimbursement for payment of the Pension Plan's fiduciary insurance premium.

NOTE 5 - CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Governmental Activities				
Capital assets not being depreciated/amortized				
Land	\$ 9,961,261	\$ -	\$ -	\$ 9,961,261
Construction in progress	<u>488,118</u>	<u>811,651</u>	<u>(320,152)</u>	<u>979,617</u>
Total capital assets not being depreciated/amortized	<u>10,449,379</u>	<u>811,651</u>	<u>(320,152)</u>	<u>10,940,878</u>

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 5 - CHANGES IN CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Governmental Activities (Continued)				
Capital assets being depreciated/amortized				
Buildings	14,389,863	3,862	(830,880)	13,562,845
Improvements other than buildings	11,229,824	130,536	98,437	11,458,797
Infrastructure	12,432,298	10,920	-	12,443,218
Software	499,248	-	-	499,248
Machinery and equipment	7,856,469	205,658	(167,067)	7,895,060
Equipment under capital lease	<u>14,280</u>	<u>59,390</u>	<u>(14,280)</u>	<u>59,390</u>
Total capital assets being depreciated/amortized	<u>46,421,982</u>	<u>410,366</u>	<u>(913,790)</u>	<u>45,918,558</u>
Less accumulated depreciation/amortization				
Buildings	(7,332,237)	(355,428)	559,593	(7,128,072)
Improvements other than buildings	(5,119,768)	(631,536)	218,849	(5,532,455)
Infrastructure	(8,001,032)	(320,422)	-	(8,321,454)
Software	(105,313)	(112,007)	-	(217,320)
Machinery and equipment	(5,830,138)	(541,511)	190,154	(6,181,495)
Equipment under capital lease	<u>(13,883)</u>	<u>(1,222)</u>	<u>14,280</u>	<u>(825)</u>
Total accumulated depreciation/amortization	<u>(26,402,371)</u>	<u>(1,962,126)</u>	<u>982,876</u>	<u>(27,381,621)</u>
Total capital assets being depreciated/amortized, net	<u>20,019,611</u>	<u>(1,551,760)</u>	<u>69,086</u>	<u>18,536,937</u>
Governmental Activities, Net	<u>\$ 30,468,990</u>	<u>\$ (740,109)</u>	<u>\$ (251,066)</u>	<u>\$ 29,477,815</u>
Business-Type Activities				
Capital assets not being depreciated/amortized				
Land	\$ 765,078	\$ -	\$ -	\$ 765,078
Construction in progress	2,616,944	14,820,580	(2,016,169)	15,421,355
Easements	<u>28,532</u>	<u>6,110</u>	<u>-</u>	<u>34,642</u>
Total capital assets not being depreciated/amortized	<u>3,410,554</u>	<u>14,826,690</u>	<u>(2,016,169)</u>	<u>16,221,075</u>
Capital assets being depreciated/amortized				
Buildings	3,642,155	-	(16,265)	3,625,890
Improvements other than buildings	37,911,833	240,968	(1,685,094)	36,467,707
Software	32,644	6,686	-	39,330
Machinery and equipment	10,755,653	532,446	(2,660,496)	8,627,603
Equipment under capital lease	<u>248,589</u>	<u>-</u>	<u>(248,589)</u>	<u>-</u>
Total capital assets being depreciated/amortized	<u>52,590,874</u>	<u>780,100</u>	<u>(4,610,444)</u>	<u>48,760,530</u>

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 5 - CHANGES IN CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balance</u>
Business-Type Activities (Continued)				
Less accumulated depreciation/amortization				
Buildings	(1,589,842)	(119,326)	10,166	(1,699,002)
Improvements other than buildings	(21,128,351)	(1,059,132)	2,932,066	(19,255,417)
Software	(9,391)	(11,661)	-	(21,052)
Machinery and equipment	(8,137,018)	(642,224)	2,607,018	(6,172,224)
Equipment under capital lease	<u>(236,160)</u>	<u>(12,429)</u>	<u>248,589</u>	<u>-</u>
Total accumulated depreciation/amortization	<u>(31,100,762)</u>	<u>(1,844,772)</u>	<u>5,797,839</u>	<u>(27,147,695)</u>
Total capital assets being depreciated/amortized, net	<u>21,490,112</u>	<u>(1,064,672)</u>	<u>1,187,395</u>	<u>21,612,835</u>
Business-Type Activities, Net	<u>\$ 24,900,666</u>	<u>\$ 3,762,018</u>	<u>\$ (828,774)</u>	<u>\$ 37,833,910</u>

Amortization of equipment under capital lease is included with depreciation expense in the financial statements. Depreciation and amortization expense was charged to functions/programs of the primary government as follows:

Governmental Activities

General government	\$ 155,958
Public safety	648,365
Physical environment	65,855
Transportation	610,149
Economic environment	54,177
Culture and recreation	<u>427,622</u>

Total depreciation/amortization expense - governmental activities \$ 1,962,126

Business-Type Activities

Utilities Fund	\$ 1,293,383
Sanitation Fund	245,070
Golf Fund	239,887
Other Proprietary Funds	<u>66,432</u>

Total depreciation/amortization expense - business-type activities \$ 1,844,772

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 5 - CHANGES IN CAPITAL ASSETS (CONTINUED)

Construction Commitments

In fiscal year 2013, the City began replacing a thirty inch pre-stressed concrete cylinder pressure (PCCP) force main, construction of a four million gallon wet weather storage tank, and upgrades to Pump Station #1. The City spent \$14,211,922 during the fiscal year, and has expended \$15,178,680 to date on these projects which are expected to be completed in fiscal year 2014. The estimated total cost for these projects is \$16 million and is being funded with a State Revolving Fund (SRF) loan from the Florida Department of Environmental Protection (FDEP), available proceeds from the 2005 Utility Improvement Bond, and cost sharing with Okaloosa County for the common portion of the force main.

In 2011, the City began the next phase of streetscape and pedestrian crosswalk improvements in the downtown area. To date \$18,550 has been spent. These projects are funded by the Community Redevelopment Agency. The Department of Transportation's (DOT) approval of the plans was received in early fiscal year 2014. Construction is projected to begin in 2014, with completion in either late fiscal year 2014 or early 2015.

In fiscal year 2012, the City began a project to consolidate four recreation centers into a new recreation complex. Construction began in late 2013, and \$735,909 was expended in fiscal year 2013. To date \$859,888 has been spent on the complex with an estimated total cost of \$8.1 million dollars. The City is funding the construction with a Capital Improvement Revenue Note and intends to obtain additional funding by applying for grants, obtaining private sponsors, and evaluating current City properties for lease or sale opportunities.

In fiscal year 2010, the City accepted grant funds from the Federal Highway Administration (FHWA) and the Florida Department of Transportation (FDOT) to construct sidewalks on both sides of Wright Parkway between Miracle Strip Parkway and Mary Esther Cutoff. Sidewalk design was completed in fiscal year 2012 and construction began in fiscal year 2013. To date \$88,878 has been spent with an estimated total cost of \$235,366. Construction is projected to be completed in early 2014.

NOTE 6 - SPECIAL ITEMS - LOSS ON IMPAIRMENTS OF CAPITAL ASSETS

In fiscal year 2013, the City began construction of a new recreation complex. The existing recreation complex was demolished to allow construction on the current site. The original recreation complex was placed in service in 1987 with an expected life of thirty years. The demolition of the recreation complex resulted in an impairment loss in the governmental activities of \$271,287 for the year ended September 30, 2013.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

**NOTE 6 - SPECIAL ITEMS - LOSS ON IMPAIRMENTS OF CAPITAL ASSET
(CONTINUED)**

As part of the decommissioning of the Waste Water Treatment Plant (WWTP) in fiscal year 2011, the City determined that the re-use water filtration system located at the WWTP should be maintained in the event re-use water could not be supplied by Okaloosa County. At that time, the City reduced the remaining life of the re-use water filtration system from thirty two years to seventeen years. In fiscal year 2013, it was determined that the re-use water filtration system was no longer viable and it was disposed. The disposal of the re-use water filtration system resulted in an impairment loss in the Utilities Fund of \$786,713 for the year ended September 30, 2013.

NOTE 7 - DEFINED BENEFIT PENSION PLANS

The City of Fort Walton Beach, Florida sponsors three single-employer defined benefit pension plans: the General Employees' Retirement Fund (GERF), Police Officers' Retirement Fund (PORF) and the Firefighters' Retirement Fund (FRF). These plans provide benefits for all qualifying employees of the City. The financial activity of each plan is reported as a Pension Trust Fund in the City of Fort Walton Beach, Florida's internal combined financial statements and can also be found in Section E of this note. There is no separate report available for the individual pension plans.

A. Basis of Accounting and Method Used to Value Investments

Each plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Administrative costs are financed from each respective fund's investment earnings.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 7 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Plan Descriptions

Membership of each plan consisted of the following as of October 1, 2013, the date of the latest actuarial valuation:

	GERF	PORF	FRF
Retirees and beneficiaries receiving benefits	130	39	24
Terminated plan members entitled to but not yet receiving benefits	13	11	1
Disabled participants	4	6	-
Active plan members	121	39	36
Total	268	95	61

General Employees' Retirement Fund (GERF) - Plan Description

Plan Description - The GERF provides retirement, disability, and death benefits to plan members and beneficiaries. Participation in the plan is mandatory for all full-time general municipal employees hired after May 14, 1996 through December 31, 2009. Employees hired after this date are not eligible to participate. Cost-of-living increases of up to 3% are provided to retirees and beneficiaries every year. City ordinance assigns the authority to establish and amend benefit provisions to the City.

Police Officers' Retirement Fund (PORF) - Plan Description

Plan Description - The PORF is administered by the Police Officers' Pension Fund Board of Trustees. The PORF provides retirement, disability, and death benefits to plan members and beneficiaries. Participation in the plan is mandatory for all certified police officers. Cost-of-living increases of up to 3% are provided to retirees and beneficiaries every year. City ordinance assigns the authority to establish and amend benefit provisions to the Board of Trustees, with final approval resting with City Council.

Firefighters' Retirement Fund (FRF) - Plan Description

Plan Description - The FRF is administered by the Firefighters' Pension Fund Board of Trustees. The FRF provides retirement, disability, and death benefits to plan members and beneficiaries. Participation in the plan is mandatory for all firefighters. Cost-of-living increases of up to 3% are provided to retirees and beneficiaries every year. City ordinance assigns the authority to establish and amend benefit provisions to the Board of Trustees, with final approval resting with City Council.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 7 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions, Funding Policy and Annual Pension Cost

The contribution requirements of plan members and the City are established annually and amended by City ordinance. Plan members are required to contribute at a set percentage of their annual covered salaries. The City is required to contribute at an actuarially determined rate. The State of Florida also contributes to the Police Officers' Retirement Fund (PORF) and the Firefighters' Retirement Fund (FRF). Contributions from the State for the PORF of \$170,885 and \$204,226 for the FRF are included in the governmental activities revenue and expenses for the year ending September 30, 2013.

None of the three Plans addresses maximum contribution rates.

The City's annual pension cost as of the most recent actuarial date and related information for each plan is as follows:

	<u>GERF</u>	<u>PORF</u>	<u>FRF</u>
Contribution rates (percentage of covered payroll)			
City and State	27.91 % (1)	44.0 %	40.4 %
Plan members	5.0 %	5.0 % (2)	6.6 %
Annual pension cost	\$ 1,278,925	\$ 880,475 *	\$ 812,997 *
Contributions made			
Employer	\$ 1,318,790	\$ 754,704	\$ 703,618
State of Florida	\$ -	\$ 170,885	\$ 204,226
Net pension obligation (asset)	\$ (152,674)	\$ (174,368)	\$ (279,588)
Actuarial valuation date for disclosure	10/01/2013	10/01/2013	10/01/2013
Actuarial cost method	Individual Entry Age	Entry Age Normal	Entry Age Normal
Amortization method	Normal Cost, closed	Level percentage of pay, closed	Level percentage of pay, closed
Remaining amortization period	15 years	30 years	30 Years
Asset valuation method	5-year smoothed market	4-year smoothed market	4-year smoothed market
Actuarial assumptions			
Invested rate of return	7.9 %	8.0 %	8.0 %
Projected salary increases**	0.0-6.5%	7.5 %	6.5 %
** Includes inflation at	3.0 %	3.0 %	3.0 %
Post retirement COLA	Up to 3%	3.0 %	3.0 % (3)

*Beginning 9/30/2012, this includes both City and State contributions

(1) GERF does not include State

(2) Until 75% maximum accrued is attained, and .5% thereafter

(3) Starting at age 58

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 7 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions, Funding Policy and Annual Pension Cost (Continued)

	Year Ending	GERF	PORF	FRF
		Three-Year Trend Information		
		Actuarially Determined Contribution	Percentage Contribution	Net Pension Obligation (Asset)
GERF	October 1, 2011	\$ 1,091,338	106 %	\$ (70,081)
	October 1, 2012	1,258,659	104 %	(112,809)
	October 1, 2013	1,268,253	104 %	(152,674)
PORF	October 1, 2011	521,425	100 %	(36,146)
	October 1, 2012	875,055 *	111 %	(129,254)
	October 1, 2013	881,697 *	105 %	(174,368)
FRF	October 1, 2011	514,872	100 %	(175,351)
	October 1, 2012	700,045 *	112 %	(263,340)
	October 1, 2013	817,997 *	101 %	(279,588)

*Beginning 9/30/2012, this includes both City and State contributions

The components of net pension cost, the increase in Net Pension Asset, and the Net Pension Asset for the year ended September 30, 2013, most recent actuarial date, for the General Employees', Police Officers' and Firefighters' Retirement Funds are as follows:

	General Employees'	Police Officers'	Firefighters'
Actuarially determined contribution	\$ 1,268,253	\$ 881,697 *	\$ 817,997 *
Interest on net pension asset	(8,912)	(10,340)	(21,067)
Adjustment to actuarially determined annual pension cost	<u>19,584</u>	<u>9,118</u>	<u>16,067</u>
Annual pension cost	1,278,925	880,475	812,997
Contribution made	<u>1,318,790</u>	<u>925,589 *</u>	<u>829,245 *</u>
Change in net pension asset	39,865	45,114	16,248
Net pension asset - beginning of year	<u>112,809</u>	<u>129,254</u>	<u>263,340</u>
Net pension asset - end of year	<u>\$ 152,674</u>	<u>\$ 174,368</u>	<u>\$ 279,588</u>

*Beginning 9/30/2012, this includes both City and State contributions

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 7 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions, Funding Policy and Annual Pension Cost (Continued)

The funded status of each plan as of October 1, 2013, the most recent actuarial valuation date, is as follows:

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as % of Payroll
GERF	\$ 37,122,638	\$ 42,285,695	\$ 5,163,057	87.79 %	\$ 4,259,070	121.22 %
PORF	19,091,795	25,634,521	6,542,726	74.48 %	2,038,886	320.90 %
FRF	11,979,697	18,477,592	6,497,895	64.83 %	2,153,568	301.73 %

D. Required Supplementary Information

The schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits over time. The schedule of employer contributions can also be found in the supplemental information of this comprehensive annual report.

E. Fund Financial Statements

The following are the financial statements for the individual pension trust funds (GERF, PORF and FRF) for the year ended September 30, 2013:

COMBINING STATEMENT OF PLAN NET POSITION

	Employee Retirement Funds			Total Employee Retirement Funds
	General Employees' Retirement	Police Officers' Retirement	Firefighters' Retirement	
ASSETS				
Cash and cash equivalents	\$ 1,641,053	\$ 832,663	\$ 519,216	\$ 2,992,932
Due from State of Florida	-	-	18,571	18,571
Investments, at market				
U.S. Government and Agency obligations	5,420,607	2,889,854	1,324,794	9,635,255
Corporate obligations	4,035,043	2,501,784	1,978,767	8,515,594
Corporate equity	17,692,322	8,972,261	6,928,381	33,592,964
Mutual funds	8,333,613	3,959,594	1,731,933	14,025,140
Total investments, at market	<u>35,481,585</u>	<u>18,323,493</u>	<u>11,963,875</u>	<u>65,768,953</u>
TOTAL ASSETS	<u>\$ 37,122,638</u>	<u>\$ 19,156,156</u>	<u>\$ 12,501,662</u>	<u>\$ 68,780,456</u>
NET POSITION HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES	<u>\$ 37,122,638</u>	<u>\$ 19,156,156</u>	<u>\$ 12,501,662</u>	<u>\$ 68,780,456</u>

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 7 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Fund Financial Statements (Continued)

	Employee Retirement Funds			Total Employee Retirement Funds
	General Employees' Retirement	Police Officers' Retirement	Firefighters' Retirement	
COMBINING STATEMENT OF CHANGES IN PLAN NET POSITION				
ADDITIONS				
Contributions				
Employer	\$ 1,318,790	\$ 754,704	\$ 703,618	\$ 2,777,112
Plan members	227,204	95,840	133,633	456,677
State of Florida	-	170,885	204,226	375,111
Total contributions	<u>1,545,994</u>	<u>1,021,429</u>	<u>1,041,477</u>	<u>3,608,900</u>
Investment income (loss)	4,890,131	1,670,230	1,169,128	7,729,489
Less investment expense	(154,599)	(61,974)	(52,532)	(269,105)
Net investment income (loss)	4,735,532	1,608,256	1,116,596	7,460,384
Miscellaneous revenue	69,579	39,817	202	109,598
TOTAL ADDITIONS	<u>6,351,105</u>	<u>2,669,502</u>	<u>2,158,275</u>	<u>11,178,882</u>
DEDUCTIONS				
Benefits and refunds paid				
Retirement payments	2,364,007	1,487,713	1,029,423	4,881,143
Disability payments	48,340	102,023	5,894	156,257
Other	60,277	12,877	7,016	80,170
Total benefits and refunds paid	<u>2,472,624</u>	<u>1,602,613</u>	<u>1,042,333</u>	<u>5,117,570</u>
Administrative expenses				
Legal	778	5,043	5,539	11,360
Contractual services	43,483	43,345	29,016	115,844
Other	9,678	(225)	16,652	26,105
Total administrative expenses	<u>53,939</u>	<u>48,163</u>	<u>51,207</u>	<u>153,309</u>
TOTAL DEDUCTIONS	<u>2,526,563</u>	<u>1,650,776</u>	<u>1,093,540</u>	<u>5,270,879</u>
NET INCREASE (DECREASE)	3,824,542	1,018,726	1,064,735	5,908,003
BEGINNING OF YEAR	<u>33,298,096</u>	<u>18,137,430</u>	<u>11,436,927</u>	<u>62,872,453</u>
END OF YEAR	<u>\$ 37,122,638</u>	<u>\$ 19,156,156</u>	<u>\$ 12,501,662</u>	<u>\$ 68,780,456</u>

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 8 - DEFINED CONTRIBUTION PENSION PLAN

City of Fort Walton Beach Defined Contribution Plan

In December 2009, City Council closed the General Employees' Defined Benefit Plan. All general, full-time employees hired on or after January 1, 2010, are members of the Defined Contribution Retirement Plan (Plan). The Plan is a money purchase defined contribution retirement plan administered by ICMA Retirement Corporation, with the City serving as trustee. All funds are held in the ICMA Retirement Corporation Governmental Money Purchase Plan & Trust. The City finance director serves as the coordinator for the Plan. The Plan requires a 5% payroll contribution by the employee with a 5% employer (City) match. Employees can increase their contribution; however, only an additional 2½% is eligible for City match. Members of the General Employees' Defined Benefit Pension Plan, who were not fully or partially vested at the time the Plan was opened, were permitted to transfer their contributions to the Plan as a one-time, irrevocable election.

The authority for establishing and amending the Plan's provisions lies with the City Council. The City Council also has the authority for amending contribution requirements. Contributions made to the Plan by the employees and by the City were \$80,841 and \$80,841, respectively, for the year ending September 30, 2013.

NOTE 9 - DEFERRED COMPENSATION PLAN

The City offers employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 (Plan). The Plan is a tax-deferred supplemental retirement program that allows City employees to contribute a portion of their salary, before federal income taxes, to a retirement account. The assets are held in trust for the employees' benefit. The Plan participants individually select and make changes in funding options, which are made available by the independent plan administrator. Since participants select the investment fund or funds in which their deferred compensation accounts are invested, the City has no liability for investment losses. The City's fiduciary responsibility is to administer the Plan properly and to assure the investment alternatives made available are reasonable.

In accordance with GASB Statement No. 32, the assets and liabilities of the Plan are not reflected in the City's financial statements since the City has no fiduciary responsibilities, other than administrative, in connection with the Plan.

Assets of the plan have a fair value of \$2,793,835 at September 30, 2013. Contributions made by plan members during the year ended September 30, 2013, were \$84,245.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

The following disclosures are represented as of September 30, 2013, the date of the latest actuarial valuation (except for the plan funded status, which is represented as of October 1, 2012):

A. Plan Description

Pursuant to Section 112.0801, Florida Statutes, the City is mandated to permit eligible retirees (as defined in the City's pension plans) and their eligible dependents to participate in the health insurance program at a cost to the retiree that is no greater than the cost at which coverage is available for active employees. Retirees pay 100% of the blended (active and retiree combined) equivalent premium rates. The blended rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. The City provides this benefit to its employees through a single-employer defined benefit plan. The plan does not issue a separate report.

B. Funding Policy

The City is financing the post employee benefits on a "pay-as-you-go" basis. For fiscal year 2013, 136 retirees and/or dependents received health care benefits. Annual required contributions were \$483,101 for the current fiscal year, towards which the City made a contribution of \$275,934. Retiree contributions totaled \$325,621 for the fiscal year ended September 30, 2013. At September 30, 2013, the City recorded a net OPEB obligation of \$598,055 for governmental activities and \$268,949 for business-type activities in its government-wide statement of net position. The OPEB obligation is a function of the annual required contribution, interest, adjustments to the annual required contribution, annual pension costs, and actual employers' contributions made to the plan.

C. Membership

At September 30, 2013, membership consisted of:

Retirees and beneficiaries currently receiving benefits	87
Terminated employees entitled to benefits but not receiving them	-
Active employees	<u>224</u>
Total	<u>311</u>
Participating employers	<u>1</u>

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

D. Annual OPEB Cost and Net OPEB Obligation

The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a closed period not to exceed thirty years.

The following table shows the components of the City's annual OPEB cost for the fiscal year ended September 30, 2013, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the retiree health plan:

Annual required contribution	\$ 483,101
Interest on net OPEB obligation	26,353
Adjustment to annual required contribution	<u>(25,339)</u>
Annual OPEB cost (expense) total	484,115
Employer contributions	<u>(275,934)</u>
Increase in net OPEB obligation	208,181
Net OPEB obligation - beginning of year	<u>658,823</u>
Net OPEB obligation - end of year	<u>\$ 867,004</u>

For the governmental activities, the net other postemployment benefit obligation is generally liquidated by the general fund.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three years, were as follows:

Three-Year Trend Information				
	Annual OPEB Cost	City* Contributions	Percentage Contributed	Net OPEB Obligation (Asset)
October 01, 2011	469,170	262,096	55.86 %	446,202
October 01, 2012	490,753	278,132	56.67 %	658,823
October 01, 2013	484,115	275,935	57.00 %	867,004

*Limited to the difference between age-adjusted and composite premiums paid for retirees during the year.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

E. Funded Status and Funding Progress

As of October 1, 2012, the most recent actuarial valuation date, the plan funded status was as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as % of Payroll
\$ -	\$ 5,651,699	\$ 5,651,699	- %	\$ 7,300,258	77.42 %

F. Required Supplementary Information

The schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The schedule of employer contributions can also be found in the supplemental information of this comprehensive annual report.

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 healthcare 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 multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

G. Actuarial Methods and Assumptions

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

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

G. Actuarial Methods and Assumptions (Continued)

In the latest actuarial valuation as of October 1, 2013, the Individual Entry Age Normal Cost Method (with an increasing Normal Cost pattern consistent with the salary increase assumptions) was used. The actuarial assumptions included a 4% investment rate of return and an annual healthcare costs trend rate of 1.3%, which will be increased to an ultimate rate of 5.42% beginning in fiscal year ending September 30, 2032. The investment rate of return included a 3% inflation assumption. The unfunded actuarial accrued liability is being amortized in a closed amortization, calculated as a level percent of payroll over a twenty-six year period.

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee medical benefits and natural disasters. The City purchases insurance through commercial carriers. Insurance coverage for workers' compensation, liability, casualty, inland marine, flood, police accidental death, public officials' bonds, fiduciary and fuel tanks were purchased from several commercial carriers during the year ended September 30, 2013. There has been no significant reduction in insurance coverage from the prior year. Commercial insurance coverage has been sufficient to cover all claims made in the prior three fiscal years.

NOTE 12 - OPERATING LEASES

Lessor

The City receives rental income from leasing various parcels of land under cancelable operating agreements. The lease periods vary from one to forty years. Income for the year ended September 30, 2013, was \$232,280 in the General Fund, \$16,380 in the Utilities Funds and \$24,600 in the Golf Fund.

In addition, the City also leases a portion of its Golf Clubhouse for retail and food service operations. The rent received for this lease for the fiscal year ended September 30, 2013, totaled \$72,849.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 12 - OPERATING LEASES (CONTINUED)

Lessor (Continued)

Future minimum lease payments are as follows:

<u>Year Ending September 30</u>	Governmental	<u>Business-Type Activities</u>	
	Activities	Utilities	Golf
2014	\$ 226,947	\$ 16,871	\$ 97,620
2015	202,999	17,377	97,620
2016	202,404	17,898	97,784
2017	197,533	18,435	101,034
2018	<u>165,226</u>	<u>18,988</u>	<u>105,516</u>
Total minimum lease payments	<u>\$ 995,109</u>	<u>\$ 89,569</u>	<u>\$ 499,574</u>

Lessee

The City leases golf course equipment and golf carts in the Golf Fund through operating leases with two finance companies. The original lease term began July 1, 2009 and terminated January 1, 2013. During 2011, a new operating lease was signed for additional equipment. The new lease term began April 1, 2011 and terminates March 31, 2015. A new lease for golf carts and utility vehicles began January 1, 2013 and terminates June 30, 2016. In fiscal year 2014, Golf operations were moved from the Golf Fund to the General Fund. Monthly lease payments are \$9,128. Lease expense for the fiscal year ending September 30, 2013 was \$111,370.

Future minimum lease payments are as follows:

<u>Year Ending September 30</u>	Business-Type
	Activities
2014	\$ 109,534
2015	108,653
2016	<u>80,829</u>
Total minimum lease payments	<u>\$ 299,016</u>

NOTE 13 - CAPITAL LEASES

The City has entered into a lease agreement as lessee for financing the acquisition of a telephone system. The lease agreement qualifies as a capital lease for accounting purposes as a result of the transfer of title or bargain purchase option and therefore has been recorded at the present value of the future minimum lease payments as of the inception date in the General Fund.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 13 - CAPITAL LEASES (CONTINUED)

The assets acquired through capital leases are as follows:

<u>Assets</u>	<u>Governmental Activities</u>
Telephone system	\$ 103,784
Accumulated depreciation	<u>(825)</u>
Assets acquired by lease, net	<u>\$ 102,959</u>

The future minimum lease obligations and net present value of these minimum lease payments as of September 30, 2013, are as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>
2014	\$ 25,058
2015	25,058
2016	25,058
2017	25,058
2018	25,058
2019	<u>22,970</u>
Total minimum lease payments	148,260
Less amount representing interest	<u>(46,564)</u>
Present value of minimum lease payments	<u>\$ 101,696</u>

NOTE 14 - LONG-TERM DEBT

Changes in Long-Term Debt Liabilities

The following is a summary of changes in long-term debt liabilities of the City for the year ended September 30, 2013:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Revenue bonds payable	\$ 4,470,000	\$ -	\$(4,470,000)	\$ -	\$ -
Less deferred amounts for issuance discount	(41,856)	-	41,856	-	-
Revenue notes payable	661,796	12,942,539	(68,399)	13,535,936	582,311
Capital leases	-	103,784	(2,088)	101,696	12,042
Compensated absences	<u>707,441</u>	<u>500,602</u>	<u>(517,894)</u>	<u>690,149</u>	<u>172,537</u>
Total Governmental Activities	<u>\$ 5,797,381</u>	<u>\$ 13,546,925</u>	<u>\$(5,016,525)</u>	<u>\$ 14,327,781</u>	<u>\$ 766,890</u>

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 14 - LONG-TERM DEBT (CONTINUED)

Changes in Long-Term Debt Liabilities (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-Type Activities					
Revenue bonds payable	\$ 10,315,000	\$ -	\$ (280,000)	\$ 10,035,000	\$ 290,000
Less deferred amounts for issuance discounts	(115,037)	-	5,092	(109,945)	-
Revenue notes payable	61,221	28,071	(15,759)	73,533	18,643
State revolving loans	-	7,068,522	-	7,068,522	-
Compensated absences	221,122	185,408	(185,593)	220,937	55,236
Capital leases	<u>13,458</u>	<u>-</u>	<u>(13,458)</u>	<u>-</u>	<u>-</u>
Total Business-Type Activities	<u>\$ 10,495,764</u>	<u>\$ 7,282,001</u>	<u>\$ (489,718)</u>	<u>\$ 17,288,047</u>	<u>\$ 363,879</u>

Description of Long-Term Debt Outstanding

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
GOVERNMENTAL ACTIVITIES			
<i>Revenue Notes</i>			
\$8,500,000 City of Fort Walton Beach, Florida, Capital Improvement Revenue Note, Series 2013A, \$8,471,929 representing governmental activities portion, 2.69% interest due semi-annually and principal due annually ranging from \$324,491 to \$464,334 through 2027 with a balloon payment of \$3,000,000 due in 2028. Budgeted and appropriated half-cent sales tax is pledged for payment of the bonds. Governmental activities portion of proceeds used to finance the construction of the City's new recreational complex and to purchase a bucket truck.	\$ 324,491	\$ 8,147,438	\$ 8,471,929
\$4,470,610 City of Fort Walton Beach, Florida, Capital Improvement Refunding Revenue Note, Series 2013, 2.30% interest due semi-annually and principal due annually ranging from \$187,659 to \$299,010 through 2031. Available non-ad valorem revenues are pledged for payment of the bonds. Proceeds used for refunding Series 2001 revenue bonds for construction of certain capital improvements.	187,659	4,282,951	4,470,610
\$739,805 City of Fort Walton Beach, Florida, Capital Improvement Revenue Note, Series 2011, due in quarterly installments of \$21,156 through 2021; interest at 2.55%. Available non-ad valorem revenues are pledged for payment of the bonds. Proceeds used for purchase of a fire truck.	<u>70,161</u>	<u>523,236</u>	<u>593,397</u>
Total revenue notes	<u>582,311</u>	<u>12,953,625</u>	<u>13,535,936</u>

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 14 - LONG-TERM DEBT (CONTINUED)

Description of Long-Term Debt Outstanding (Continued)

	Current	Long-Term	Total
GOVERNMENTAL ACTIVITIES (CONTINUED)			
<i>Leases</i>			
\$103,784 capital lease payable, 2013, due in monthly installments of \$2,088 through August 2019, collateralized by a the City's phone system.	12,042	89,654	101,696
<i>Accrued Compensated Absences</i>			
Total long-term portion of accumulated, vested annual and sick leave for governmental fund types.	172,537	517,612	690,149
TOTAL GOVERNMENTAL ACTIVITIES	\$ 766,890	\$ 13,560,891	\$ 14,327,781
 BUSINESS-TYPE ACTIVITIES			
<i>Revenue Bonds</i>			
\$10,910,000 Utility System Revenue Bonds, Series 2005, due in annual installments of \$160,000 to \$690,000 beginning 2010 through 2035, with interest-only payments from 2005 through 2009; interest at 3.1% to 4.6%. Net revenues derived by the City from the utility operations are pledged for the payment of the bonds. Proceeds used for water system and wastewater system improvements.	\$ 290,000	\$ 9,745,000	\$ 10,035,000
Less unamortized bond discount	-	(109,945)	(109,945)
<i>Total revenue bonds</i>	290,000	9,635,055	9,925,055
 <i>Revenue Notes</i>			
\$8,500,000 City of Fort Walton Beach, Florida, Capital Improvement Revenue Note, Series 2013A, \$28,071 representing business-type activities portion, 2.69% interest due semi-annually and principal due annually ranging from \$2,478 to \$3,155 through 2023. Budgeted and appropriated half-cent sales tax is pledged for payment of the bonds. Business-type activities portion of proceeds used to purchase a grounds sweeper for City's municipal golf course.	2,478	25,593	28,071
\$79,195 City of Fort Walton Beach, Florida, Capital Improvement Revenue Note, Series 2011, due in quarterly installments of \$4,293 through 2016; interest at 2.55%. Available non-ad valorem revenues are pledged for payment of the bonds. Proceeds used for purchase of certain equipment for City's municipal golf course.	16,165	29,297	45,462
<i>Total revenue notes</i>	18,643	54,890	73,533

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 14 - LONG-TERM DEBT (CONTINUED)

Description of Long-Term Debt Outstanding (Continued)

	Current	Long-Term	Total
BUSINESS-TYPE ACTIVITIES (CONTINUED)			
<i>State revolving loans</i>			
\$19,504,447 State of Florida Department of Environmental Protection Revolving Loan Fund; semi-annual payments of \$594,037 including interest at 1.90% beginning November 15, 2014, through May 15, 2034 if fully drawn. As of September 30, 2013, \$7,068,522 has been drawn on the loan. Proceeds used for force main replacement, storage tank construction and pump station upgrades as disclosed in Note 5.	-	7,068,522	7,068,522
<i>Accrued Compensated Absences</i>			
Accumulated, vested annual compensation for Enterprise Funds.	55,236	165,701	220,937
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 363,879	\$ 16,924,168	\$ 17,288,047
GRAND TOTAL LONG-TERM DEBT			\$ 31,615,828

For the governmental activities, compensated absences are generally liquidated by the General Fund.

Annual Requirements to Amortize Debt Outstanding

The annual requirements to amortize all debt outstanding except accrued and annual leave and advances from other funds as of September 30, 2013, are as follows:

Governmental Activities

Year Ending September 30	Leases		Revenue Note	
	Principal	Interest	Principal	Interest
2014	\$ 12,042	\$ 13,016	\$ 582,311	\$ 362,792
2015	13,774	11,284	617,795	330,332
2016	15,755	9,303	630,920	314,618
2017	18,021	7,036	648,985	298,562
2018	20,613	4,444	661,948	282,049
2019-2023	21,491	1,477	3,385,263	1,153,318
2024-2028	-	-	6,127,340	720,645
2029-2033	-	-	881,374	40,788
Total	\$ 101,696	\$ 46,560	\$ 13,535,936	\$ 3,503,104

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 14 - LONG-TERM DEBT (CONTINUED)

Annual Requirements to Amortize Debt Outstanding (Continued)

Business-Type Activities

Year Ending September 30	Municipal Loan/Revenue Bonds		Revenue Note		State Revolving Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 290,000	\$ 432,459	\$ 18,643	\$ 2,753	\$ -	\$ -
2015	300,000	422,246	19,132	2,250	972,932	215,142
2016	310,000	410,996	15,336	1,755	1,077,351	110,723
2017	320,000	399,371	2,690	1,522	1,097,918	90,156
2018	335,000	386,571	2,763	1,450	1,118,877	69,197
2019-2023	1,900,000	1,716,748	14,969	6,092	2,801,444	78,649
2024-2028	2,325,000	1,279,188	-	-	-	-
2029-2033	2,905,000	707,950	-	-	-	-
2034-2039	1,350,000	91,800	-	-	-	-
Total	<u>\$ 10,035,000</u>	<u>\$ 5,847,329</u>	<u>\$ 73,533</u>	<u>\$ 15,822</u>	<u>\$7,068,522</u>	<u>\$ 563,867</u>

Refunding

On May 6, 2013, the City issued \$4,470,610 of Capital Improvement Refunding Revenue Notes, Series 2013, with a fixed interest rate of 2.69% for the purpose of current refunding the remaining outstanding principal on its Capital Improvement Bonds, Series 2001, which bore interest ranging from 2.50% to 5.00%. The refunding was undertaken to take advantage of favorable interest rates.

The cash flow requirements of the refunded 2001 bonds, prior to the refunding, was \$6,898,278 from July 1, 2013 to July 1, 2031. The cash flow requirements of the 2013 refunding notes are \$5,529,544. The current refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$1,200,000.

NOTE 15 - COMMENTS REQUIRED BY THE BOND AND NOTE ORDINANCES

Utility System Revenue Bonds, Series 2005

1. The Balance Sheet and Statement of Revenues, Expenses, and Changes in Fund Balance of the Utility Fund are shown in the financial section of the report.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 15 - COMMENTS REQUIRED BY THE BOND AND NOTE ORDINANCES
(CONTINUED)

Utility System Revenue Bonds, Series 2005 (Continued)

2. The City is required to establish Sinking Fund amounts sufficient to pay 1/6 of all interest becoming due on the Bonds on the next semi-annual interest payment date and 1/12 of all principal maturing on the Bonds in the current Bond Year.

	Principal/Interest Payments Due	Sinking Fund Requirement at September 30, 2013
Principal due at July 1, 2014	\$ 290,000	\$ 72,500
Interest due at January 1, 2014	216,379	108,190
Total	\$ 506,379	\$ 180,690 ⁽¹⁾

⁽¹⁾ Amounts are included in restricted cash amounts on the Balance Sheet of the Utility Fund.

3. The City is required to establish a reserve in the amount of the Reserve Requirement established by the ordinance authorizing the issuance of the 2005 Bonds. The Reserve Requirement is the maximum bond service amount in the current or any subsequent year. The City satisfied the Reserve Requirement by establishing a reserve of \$902,422 at September 30, 2013.
4. The City is not aware of any noncompliance with the bond ordinances.

Capital Improvement Revenue Note, Series 2011

1. The Balance Sheet and Statement of Revenues, Expenses, Expenditures, and Changes in Fund Balance of the Debt Service Fund and Golf Fund are shown in the financial section of the report.
2. The City is required to establish Sinking Fund amounts sufficient to pay all principal and interest becoming due on the bonds on the next quarter payment date.

	Governmental Activities		Business-Type Activities	
	Principal/Interest Payments Due	Sinking Fund Requirement at September 30, 2013	Principal/Interest Payments Due	Sinking Fund Requirement at September 30, 2013
Principal due at October 1, 2013	\$ 17,373	\$ 17,373	\$ 4,003	\$ 4,003
Interest due at October 1, 2013	3,783	3,783	290	290
Total	\$ 21,156	\$ 21,156 ⁽¹⁾	\$ 4,293	\$ 4,293 ⁽²⁾

⁽¹⁾ Amounts are included in restricted cash amounts on the Balance Sheet of the Debt Service Fund.

⁽²⁾ Amounts are included in restricted cash amounts on the Balance Sheet of the Golf Fund.

3. The City is not aware of any noncompliance with the bond ordinances.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 15 - COMMENTS REQUIRED BY THE BOND AND NOTE ORDINANCES
(CONTINUED)

Capital Improvement Refunding Revenue Note, Series 2013

1. The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance of the Debt Service Fund are shown in the financial section of the report.
2. The City is required to establish Sinking Fund amounts sufficient to pay all principal and interest becoming due on the notes on the next semi-annual payment date. The sinking fund was not required to be funded at September 30, 2013.
3. The City is not aware of any noncompliance with the note covenants.

Capital Improvement Revenue Note, Series 2013A

1. The Balance Sheet and Statement of Revenues, Expenses, Expenditures, and Changes in Fund Balance of the Debt Service Fund and Golf Fund are shown in the financial section of the report.
2. The City is required to establish Sinking Fund amounts sufficient to pay all principal and interest becoming due on the notes on the next semi-annual payment date. The sinking fund was not required to be funded at September 30, 2013.
3. The City is not aware of any noncompliance with the note covenants.

NOTE 16 - DEFERRED AND UNEARNED REVENUE

Governmental funds report deferred revenue in connection with receivables that are not considered to be available to liquidate liabilities of the current period. Governmental and proprietary funds also defer revenue recognition in connection with resources received, but not yet earned. At September 30, 2013, the various components of deferred and unearned revenue were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
<u>Governmental Funds</u>			
Special assessment for street resurfacing not yet due	\$ 110,564	\$ -	\$ 110,564
<u>Utilities Fund</u>			
Prepaid utility bills	-	31,630	31,630
<u>Golf Fund</u>			
Prepaid lease revenue	-	4,339	4,339
Gift and prepaid cards	-	19,739	19,739
Total Golf Fund	-	24,078	24,078
Total	\$ 110,564	\$ 55,708	\$ 166,272

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 17 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of September 30, 2013, is as follows:

<i>Due to/from Other Funds</i>			
Receivable Fund	Payable Fund	Amount	
General	Golf	\$	157,846
General	Community Development Block Grant		<u>7,754</u>
		<u>\$</u>	<u>165,600</u>

General Fund receivables from the Golf Fund and Community Development Block Grant Fund in the amount of \$165,600 are the result of eliminating temporary deficit cash balances.

Transfers Out	Transfers In			Total
	General Fund	Nonmajor Governmental Fund	Golf Fund	
General	\$ -	\$ 220,010	\$ 2,595,977	\$ 2,815,987
Nonmajor governmental	3,290	-	-	3,290
Utilities	320,536	-	-	320,536
Sanitation	<u>130,000</u>	<u>-</u>	<u>-</u>	<u>130,000</u>
	<u>\$ 453,826</u>	<u>\$ 220,010</u>	<u>\$ 2,595,977</u>	<u>\$ 3,269,813</u>

The transfers out of the General Fund are \$2,815,987. This transfer consist of an \$181,484 transfer to the Debt Service Fund (Nonmajor Governmental Fund) for principal and interest payments on debt, and a \$38,526 transfer to the Cemetery Perpetual Care Fund (Nonmajor Governmental Fund) for maintenance. In addition, City Council voted to terminate the golf enterprise fund and collapse operations into the City’s general fund during the fiscal year 2013-14 budget process. In doing so, City Council forgave a \$2.9 million interfund loan that was originally made from the general fund to the golf enterprise fund in fiscal year 2010 in order to provide for the defeasance of the then outstanding 1999 Capital Improvement Revenue Bonds, Series A and B. The outstanding balance of the loan, \$2,595,977, makes up the remaining balance of the transfers out of the General Fund.

Transfers in to the General Fund of \$453,826 consist of a \$3,290 transfer from the Beal Cemetery Perpetual Care Fund (Nonmajor Governmental Fund) to cover improvements made to the Beal Memorial Cemetery, franchise fees from the Utility Fund of \$320,536 and compensation from the Sanitation fund for additional wear & tear caused by the heavy trucks in the amount of \$130,000.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 18 - GOVERNMENTAL FUND BALANCES

At September 30, 2013, the City's governmental fund balances were classified as follows:

	<u>General Fund</u>	<u>Community Redevelopment Agency</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable				
Inventory	\$ 254,229	\$ -	\$ -	\$ 254,229
Restricted for				
Improvement districts	-	3,833,430	-	3,833,430
Capital projects	7,691,393	-	-	7,691,393
Library	175,765	-	-	175,765
Public safety	-	-	462,375	462,375
Debt service	-	-	21,156	21,156
Other purposes	1,364	-	-	1,364
Total restricted	<u>7,868,522</u>	<u>3,833,430</u>	<u>483,531</u>	<u>12,185,483</u>
Committed				
Cemetery maintenance	-	-	2,035,225	2,035,225
Natural disaster recovery	5,501,353	-	-	5,501,353
Total committed	<u>5,501,353</u>	<u>-</u>	<u>2,035,225</u>	<u>7,536,578</u>
Assigned to				
Capital projects	1,065,883	-	-	1,065,883
Self-insurance dental program refund	52,536	-	-	52,536
Citizen police academy	3,052	-	-	3,052
Main Street	5,504	-	-	5,504
Other	1,328	-	-	1,328
FY 2014 budget appropriation	173,082	-	-	173,082
Assigned	<u>1,301,385</u>	<u>-</u>	<u>-</u>	<u>1,301,385</u>
Unassigned	<u>788,076</u>	<u>-</u>	<u>(2,745)</u>	<u>785,331</u>
TOTAL FUND BALANCE	<u>\$ 15,713,565</u>	<u>\$ 3,833,430</u>	<u>\$ 2,516,011</u>	<u>\$ 22,063,006</u>

NOTE 19 - ENCUMBRANCES

The amount of encumbrances outstanding as of September 30, 2013, is as follows:

Governmental Funds -	
General Fund	\$ 543,248
Community Redevelopment Agency	81,362
Total	<u>\$ 624,610</u>

Encumbrances at year end do not constitute expenditures or liabilities; therefore, they are not reflected in the financial statements.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 20 - COMMITMENTS AND CONTINGENCIES

Grants

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

Soundside Apartments Planned Unit Development

In June 2010, the City entered into a Memorandum of Understanding with the City of Fort Walton Beach Community Redevelopment Agency, the Fort Walton Beach Housing Authority, and Soundside Apartments, LLC for the Soundside Apartments planned unit development (PUD). According to the Memorandum, Germany Terrace, a 50-unit public housing development, will be redeveloped into a 200-unit affordable housing complex. The City also entered into an amended Interlocal Agreement whereby the City approved the use of up to \$700K in Community Redevelopment Agency Special Revenue Trust Fund for site demolition, infrastructure improvements, site restoration and other costs for the project. The total amount will be eventually repaid by the property owner, Soundside LLC, to the City's Community Redevelopment Agency, at no more the \$52,142 per year at 1.5% interest, and shall become payable no sooner than three (3) years after the closing date, payable over a 40-year period. The total amount provided from the Community Redevelopment Agency of the City, which remains unpaid as of September 30, 2013, is \$294,365.

Wastewater Service Interlocal Agreement with Okaloosa County

On August 11, 2009, the City adopted the Wastewater Service Interlocal Agreement with Okaloosa County (Agreement). The Agreement outlines a long-term association with Okaloosa County Water & Sewer for the treatment of the City's influent wastewater flow at a set percentage of the County's base sewer rate plus a locked-in annual rate escalator. The agreement provides other ancillary benefits to the City such as the provision of "no cost" tertiary treated effluent for use as irrigation water at the City's 36-hole municipal Golf Club. The Agreement is effective for 30 years and can be automatically extended for up to two additional terms for a period of ten years for each extension term.

On a monthly basis, the County will bill the City at a rate equal to \$2.46 per each 1,000 gallons of wastewater flow. Additionally, the City will pay to the County the Sewer Readiness to Serve Fee, which is equal to \$4,098 per month. Each year in March, the Readiness to Serve Fee will increase by 3%. The minimum commitment by the City under the Agreement is as follows:

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 20 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Wastewater Service Interlocal Agreement with Okaloosa County (Continued)

<u>Fiscal Year Ending September 30</u>	
2014	50,033
2015	51,534
2016	53,080
2017	54,673
2018	56,313
2019 through 2023	307,942
2024 through 2028	356,989
2029 through 2033	413,848
2034 through 2038	479,764
2039	<u>104,758</u>
Total	<u>\$ 1,928,934</u>

Fees paid for wastewater treatment to Okaloosa County, Florida during the year ended September 30, 2013, were \$2,331,977.

Interlocal Agreement with Okaloosa County on Force Main Project

The City and Okaloosa County entered into an interlocal agreement for the replacement of a thirty inch pre-stressed concrete cylinder pressure force main. According to the agreement, Okaloosa County is to provide funding to the City via a capital contribution for 50% of the common portion of the force main replacement. The asset will be owned and operated by the City's Utility Fund for twenty-years and then possession of the asset will transfer to Okaloosa County. During the year ended September 30, 2013, capital contributions from Okaloosa County to the City related to this project totaled \$1,676,418.

NOTE 21 - GASB PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED

In June 2012, the GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans - an amendment to Statement No. 25*. This Statement enhances the financial reporting by state and local governmental pension plans. This Statement replaces the requirement of *Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and *No. 50, Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This statement enhances note disclosures and required supplemental information (RSI) for both defined benefit and defined contribution pension plans. It also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10 year RSI schedules. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013, which requires the City to implement this statement in FY 2013-2014.

City of Fort Walton Beach, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

**NOTE 21 - GASB PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED
(CONTINUED)**

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment to Statement No. 27*. This Statement enhances the financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. It also enhances accountability and transparency through revised and new note disclosures and required supplementary information. Management believes GASB Statement No. 68 will have a significant impact on the financial position and changes in net position of the City; however, the amounts are not quantifiable as of the date of this report. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014, which requires the City to implement this statement in FY 2014-2015.

NOTE 22 - SUBSEQUENT EVENTS

Landmark Development Agreement

The City approved a development agreement for the Landmark Center. The development calls for a parking garage to support the hotel and shopping complex and the agreement requires the City to transfer ownership of a portion of five (5) parcels of property, with a current book value of \$293,166. The developer is permitted to participate in various economic incentive programs currently active in the Community Redevelopment Agency.

Golf Enterprise Fund Transfer of Operations

During the fiscal year 2013-14 budget development, City Council voted to terminate the golf enterprise fund and collapse operations into the City's general fund. This will take place effective October 1, 2013.

International Association of Firefighters' Union Contract

The City's three-year contract with the International Association of Firefighters' (both for its firefighters' and its battalion chiefs) expired September 30, 2013. A Memorandum of Understanding between the parties extended the contracts until negotiations were completed, which occurred in December 2013. The contract was finalized and accepted by City Council for a three-year term in January 2014. The contract term is retroactive to October 1, 2013 and expires September 30, 2016, although all terms continue so long as active negotiations for the new contract continue.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Fort Walton Beach, Florida
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF FUNDING PROGRESS
Unaudited

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as % of Payroll
<i>General Employees' Retirement Fund</i>						
September 30, 2013	\$37,122,638	\$ 42,285,695	\$ 5,163,057	87.79 %	\$ 4,259,070	121.22 %
September 30, 2012	32,776,563	41,280,063	8,503,500	79.40 %	4,542,537	187.20 %
September 30, 2011	33,678,210	40,196,872	6,518,662	83.78 %	5,004,486	130.26 %
September 30, 2010	34,352,072	40,510,991	6,158,919	84.80 %	5,595,076	110.08 %
September 30, 2009	33,336,278	38,412,778	5,076,500	86.78 %	7,252,396	70.00 %
September 30, 2008	33,388,423	37,349,742	3,961,319	89.39 %	7,521,520	52.67 %
September 30, 2007	32,271,940	34,783,263	2,511,323	92.78 %	8,199,930	30.63 %
September 30, 2006	29,449,082	33,885,353	4,436,271	86.91 %	7,715,643	57.50 %
September 30, 2005	27,938,158	31,397,476	3,459,318	88.98 %	7,190,199	48.11 %
September 30, 2004	27,560,774	27,815,278	254,504	99.09 %	7,064,964	3.60 %
<i>Police Officers' Retirement Fund*</i>						
September 30, 2013	\$19,091,795	\$ 25,634,521	\$ 6,542,726	74.48 %	\$ 2,038,886	320.90 %
September 30, 2012	18,379,668	25,755,221	7,375,553	71.36 %	2,178,847	338.51 %
September 30, 2011	17,912,258	25,394,666	7,482,408	70.54 %	2,239,545	334.10 %
September 30, 2010	18,874,149	24,702,783	5,828,634	76.40 %	2,195,529	265.48 %
September 30, 2009	18,858,173	23,738,682	4,880,509	79.44 %	2,557,811	190.81 %
September 30, 2008	18,832,627	22,743,407	3,910,780	82.80 %	2,530,182	154.57 %
September 30, 2007	18,586,034	21,595,595	3,009,561	86.06 %	2,602,616	115.64 %
September 30, 2006	17,266,489	19,896,104	2,629,615	86.78 %	2,257,286	116.49 %
September 30, 2005	16,143,601	18,672,706	2,529,105	86.46 %	2,426,479	104.23 %
September 30, 2004	15,294,319	16,603,462	1,309,143	92.12 %	2,245,042	58.31 %
<i>Firefighters' Retirement Fund</i>						
September 30, 2013	\$11,979,697	\$ 18,477,592	\$ 6,497,895	64.83 %	\$ 2,153,568	301.73 %
September 30, 2012	10,927,529	18,139,496	7,211,967	60.24 %	1,946,811	370.45 %
September 30, 2011	10,314,290	17,609,820	7,295,530	58.57 %	1,961,080	372.02 %
September 30, 2010	10,591,930	17,167,805	6,575,875	61.70 %	2,116,516	310.69 %
September 30, 2009	10,492,503	15,950,522	5,458,019	65.78 %	1,988,762	274.44 %
September 30, 2008	10,537,442	14,539,341	4,001,899	72.48 %	1,632,275	245.17 %
September 30, 2007	10,264,599	13,579,972	3,315,373	75.59 %	1,409,038	235.29 %
September 30, 2006	9,499,462	11,757,764	2,258,302	80.79 %	1,807,962	124.91 %
September 30, 2005	8,907,687	10,992,666	2,084,979	81.03 %	1,455,105	143.29 %
September 30, 2004	8,602,487	9,919,601	1,317,114	86.72 %	1,293,587	101.82 %

*The aggregate method of valuation used for the Police Officers' Retirement Fund does not identify or separately amortize the unfunded actuarial liabilities.

Note: The information presented in this schedule was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation can be found in Note 7 to the financial statements.

City of Fort Walton Beach, Florida
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF CONTRIBUTIONS FROM THE
EMPLOYER AND OTHER CONTRIBUTING ENTITIES
Unaudited

	Annual Required Contribution	Employer Contribution	Other Entity Contribution	Percentage Contributed
<i>General Employees' Retirement Fund</i>				
September 30, 2013	\$ 1,268,253	\$ 1,318,790	\$ -	103.98 %
September 30, 2012	1,258,659	1,306,268	-	103.78 %
September 30, 2011	1,091,338	1,159,438	-	106.24 %
September 30, 2010	1,477,933	1,477,777	-	100.00 %
September 30, 2009	1,268,428	1,268,260	-	100.00 %
September 30, 2008	1,268,019	1,267,864	-	100.00 %
September 30, 2007	1,231,003	1,231,004	-	100.00 %
September 30, 2006	1,070,599	1,071,742	-	100.11 %
September 30, 2005	678,947	680,552	-	100.24 %
September 30, 2004	491,258	491,258	-	100.00 %
<i>Police Officers' Retirement Fund</i>				
September 30, 2013	\$ 881,697	\$ 754,704	\$ 170,885	104.98 %
September 30, 2012	875,055	799,961	168,042	110.62 %
September 30, 2011	682,860	521,425	161,435	100.00 %
September 30, 2010	665,220	500,007	165,213	100.00 %
September 30, 2009	578,670	407,159	171,511	100.00 %
September 30, 2008	488,381	306,805	181,576 *	100.00 %
September 30, 2007	516,528	334,952	181,576 *	100.00 %
September 30, 2006	433,829	252,252	181,576 *	100.00 %
September 30, 2005	460,501	278,925	181,576 *	100.00 %
September 30, 2004	360,576	179,000	181,576	100.00 %
<i>Firefighters' Retirement Fund</i>				
September 30, 2013	\$ 817,997	\$ 703,618	\$ 125,627 *	101.38 %
September 30, 2012	700,045	669,871	114,834 *	112.09 %
September 30, 2011	675,386	514,872	160,514 *	100.00 %
September 30, 2010	708,063	574,278	133,785 *	100.00 %
September 30, 2009	555,720	421,935	133,785 *	100.00 %
September 30, 2008	326,864	225,055	133,785 *	109.78 %
September 30, 2007	299,027	169,381	129,646 *	100.00 %
September 30, 2006	240,332	110,686	129,646 *	100.00 %
September 30, 2005	200,627	77,963	122,664 *	100.00 %
September 30, 2004	174,346	51,682	122,664	100.00 %

*****Frozen*** at \$181,576 per Chapter 185, as amended, though actual contribution has been higher.

*****Frozen*** per Chapter 175, as amended, though actual contribution has been higher.

Additional information as of the latest actuarial valuation can be found in Note 7 to the financial statements.

City of Fort Walton Beach, Florida
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF OTHER POST-EMPLOYMENT OBLIGATIONS
Unaudited

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded AAL (UAAL)	Percentage Funded	Annual Covered Payroll	UAAL as % of Payroll
October 1, 2012*	\$ 5,651,699	\$ -	\$ 5,651,699	- %	\$ 7,300,258	77.42 %
October 1, 2010*	6,312,795	-	6,312,795	- %	6,578,002	95.97 %
September 30, 2010**	4,768,818	-	4,768,818	- %	8,291,828	57.51 %
September 30, 2009	6,496,763	-	6,496,763	- %	9,000,120	72.19 %

**Determined using the Projected Unit Credit Method.*

***Determined using the Entry Age Normal Method, payroll shown accounts only for employees with medical coverage.*

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**CITY OF
FORT WALTON BEACH, FLORIDA**

**Combining and Individual
Fund Statements and Schedules**

These financial statements provide a more detailed view of the “Basic Financial Statements” presented in the preceding subsection.

Combining statements are presented when there is more than one fund of a given fund type. Individual fund statements are necessary to present budgetary comparisons.

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or for major capital projects) that are legally restricted to expenditure for specified purposes.

Law Enforcement Trust Special Revenue Fund

To account for funds received from the sale of confiscated property to be utilized for drug enforcement.

Law Enforcement Trust Training Special Revenue Fund

To account for funds received from court fines to be used for additional police department training.

Florida Building Code Fund

To account for funds received from building permits and inspections to be utilized for enforcing the Florida Building Code per State Statute.

Community Development Block Grant Special Revenue Fund

To account for funds received under the Community Development Block Grant and expenditures of such funds in accordance with federal guidelines.

Beal Memorial Cemetery Perpetual Care Special Revenue Fund

To accumulate funds to meet the requirements of maintaining the City owned cemetery.

DEBT SERVICE FUND

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest in accordance with bond ordinances.

**City of Fort Walton Beach, Florida
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2013**

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Law Enforcement Trust	Law Enforcement Trust Training	Florida Building Code	Community Development Block Grant	Beal Memorial Cemetery Perpetual Care	Debt Service	
ASSETS							
Cash and cash equivalents	\$ 267,794	\$ 11,188	\$ 195,125	\$ -	\$ 33,279	\$ -	\$ 507,386
Investments	-	-	-	-	2,005,963	-	2,005,963
Accounts receivable	-	-	109	-	-	-	109
Due from other governments	4,627	-	-	16,044	-	-	20,671
Cash and cash equivalents - restricted	-	-	-	-	-	21,156	21,156
TOTAL ASSETS	<u>\$ 272,421</u>	<u>\$ 11,188</u>	<u>\$ 195,234</u>	<u>\$ 16,044</u>	<u>\$ 2,039,242</u>	<u>\$ 21,156</u>	<u>\$ 2,555,285</u>
LIABILITIES AND FUND BALANCE							
Liabilities							
Accounts payable	\$ -	\$ -	\$ 386	\$ 11,035	\$ 4,017	\$ -	\$ 15,438
Accrued liabilities	4,351	-	11,731	-	-	-	16,082
Due to other funds	-	-	-	7,754	-	-	7,754
Total liabilities	<u>4,351</u>	<u>-</u>	<u>12,117</u>	<u>18,789</u>	<u>4,017</u>	<u>-</u>	<u>39,274</u>
Fund balance							
Restricted	268,070	11,188	183,117	-	-	21,156	483,531
Committed	-	-	-	-	2,035,225	-	2,035,225
Unassigned	-	-	-	(2,745)	-	-	(2,745)
Total fund balance	<u>268,070</u>	<u>11,188</u>	<u>183,117</u>	<u>(2,745)</u>	<u>2,035,225</u>	<u>21,156</u>	<u>2,516,011</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 272,421</u>	<u>\$ 11,188</u>	<u>\$ 195,234</u>	<u>\$ 16,044</u>	<u>\$ 2,039,242</u>	<u>\$ 21,156</u>	<u>\$ 2,555,285</u>

City of Fort Walton Beach, Florida
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended September 30, 2013

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Law Enforcement Trust	Law Enforcement Trust Training	Florida Building Code	Community Development Block Grant	Beal Memorial Cemetery Perpetual Care	Debt Service	
REVENUES							
Permits and fees	\$ -	\$ -	\$ 411,270	\$ -	\$ -	\$ -	\$ 411,270
Intergovernmental	16,174	-	-	55,412	-	-	71,586
Fines and forfeits	33,017	7,215	-	-	-	-	40,232
Miscellaneous	<u>1,253</u>	<u>8</u>	<u>-</u>	<u>-</u>	<u>48,795</u>	<u>-</u>	<u>50,056</u>
TOTAL REVENUES	<u>50,444</u>	<u>7,223</u>	<u>411,270</u>	<u>55,412</u>	<u>48,795</u>	<u>-</u>	<u>573,144</u>
EXPENDITURES							
Current							
Public safety	29,721	5,904	226,891	-	-	-	262,516
Physical environment	-	-	-	-	8,642	-	8,642
Economic environment	-	-	-	56,151	-	-	56,151
Capital outlay	5,432	-	1,262	1,704	-	-	8,398
Debt service							
Principal	-	-	-	-	-	70,488	70,488
Interest	-	-	-	-	-	202,719	202,719
Other debt service costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>628</u>	<u>628</u>
TOTAL EXPENDITURES	<u>35,153</u>	<u>5,904</u>	<u>228,153</u>	<u>57,855</u>	<u>8,642</u>	<u>273,835</u>	<u>609,542</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	15,291	1,319	183,117	(2,443)	40,153	(273,835)	(36,398)
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	-	-	38,526	181,484	220,010
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,290)</u>	<u>-</u>	<u>(3,290)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,236</u>	<u>181,484</u>	<u>216,720</u>
NET CHANGE IN FUND BALANCE	15,291	1,319	183,117	(2,443)	75,389	(92,351)	180,322
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	<u>252,779</u>	<u>9,869</u>	<u>-</u>	<u>(302)</u>	<u>1,959,836</u>	<u>113,507</u>	<u>2,335,689</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 268,070</u>	<u>\$ 11,188</u>	<u>\$ 183,117</u>	<u>\$ (2,745)</u>	<u>\$ 2,035,225</u>	<u>\$ 21,156</u>	<u>\$ 2,516,011</u>

City of Fort Walton Beach, Florida
LAW ENFORCEMENT TRUST SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended September 30, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental	\$ -	\$ 16,306	\$ 16,174	\$ (132)
Fines and forfeits	-	-	33,017	33,017
Miscellaneous	<u>1,800</u>	<u>1,800</u>	<u>1,253</u>	<u>(547)</u>
TOTAL REVENUES	<u>1,800</u>	<u>18,106</u>	<u>50,444</u>	<u>32,338</u>
EXPENDITURES				
Current operations				
Public safety	16,500	29,685	29,721	(36)
Capital outlay	<u>-</u>	<u>5,564</u>	<u>5,432</u>	<u>132</u>
TOTAL EXPENDITURES	<u>16,500</u>	<u>35,249</u>	<u>35,153</u>	<u>96</u>
NET CHANGE IN FUND BALANCE	(14,700)	(17,143)	15,291	32,434
FUND BALANCE - BEGINNING OF YEAR	<u>14,700</u>	<u>17,143</u>	<u>252,779</u>	<u>235,636</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 268,070</u>	<u>\$ 268,070</u>

City of Fort Walton Beach, Florida
LAW ENFORCEMENT TRUST TRAINING SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended September 30, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Fines and forfeits	\$ 7,000	\$ 7,000	\$ 7,215	\$ 215
Miscellaneous	<u>-</u>	<u>-</u>	<u>8</u>	<u>8</u>
TOTAL REVENUES	<u>7,000</u>	<u>7,000</u>	<u>7,223</u>	<u>223</u>
EXPENDITURES				
Current operations				
Public safety	<u>7,000</u>	<u>7,000</u>	<u>5,904</u>	<u>1,096</u>
NET CHANGE IN FUND BALANCE	-	-	1,319	1,319
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>9,869</u>	<u>9,869</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,188</u>	<u>\$ 11,188</u>

City of Fort Walton Beach, Florida
FLORIDA BUILDING CODE SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended September 30, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Permits and fees	\$ 254,740	\$ 254,740	\$ 411,270	\$ 156,530
EXPENDITURES				
Current operations				
Public safety	247,916	263,444	226,891	36,553
Capital outlay	-	-	1,262	(1,262)
TOTAL EXPENDITURES	<u>247,916</u>	<u>263,444</u>	<u>228,153</u>	<u>35,291</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	6,824	(8,704)	183,117	191,821
OTHER FINANCING SOURCES (USES)				
Transfers in	8,704	8,704	-	(8,704)
Transfers out	<u>(15,528)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(6,824)</u>	<u>8,704</u>	<u>-</u>	<u>(8,704)</u>
NET CHANGE IN FUND BALANCE	-	-	183,117	183,117
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 183,117</u>	<u>\$ 183,117</u>

City of Fort Walton Beach, Florida
COMMUNITY DEVELOPMENT BLOCK GRANT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended September 30, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental	\$ 124,541	\$ 124,541	\$ 55,412	\$ (69,129)
EXPENDITURES				
Current operations				
Economic environment	101,643	161,771	56,151	105,620
Capital outlay	-	14,493	1,704	12,789
TOTAL EXPENDITURES	<u>101,643</u>	<u>176,264</u>	<u>57,855</u>	<u>118,409</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	22,898	(51,723)	(2,443)	49,280
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(22,898)</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	(51,723)	(2,443)	49,280
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	<u>-</u>	<u>51,723</u>	<u>(302)</u>	<u>(52,025)</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,745)</u>	<u>\$ (2,745)</u>

City of Fort Walton Beach, Florida
BEAL MEMORIAL CEMETERY PERPETUAL CARE SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended September 30, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Miscellaneous	\$ 6,000	\$ 15,000	\$ 48,795	\$ 33,795
EXPENDITURES				
Physical environment	-	9,000	8,642	358
EXCESS OF REVENUES OVER EXPENDITURES	6,000	6,000	40,153	34,153
OTHER FINANCING SOURCES (USES)				
Transfers in	29,600	29,600	38,526	8,926
Transfers out	(1,000)	(4,290)	(3,290)	1,000
TOTAL OTHER FINANCING SOURCES (USES)	28,600	25,310	35,236	9,926
NET CHANGE IN FUND BALANCE	34,600	31,310	75,389	44,079
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	(34,600)	(31,310)	1,959,836	1,991,146
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,035,225</u>	<u>\$ 2,035,225</u>

City of Fort Walton Beach, Florida
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended September 30, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Miscellaneous	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Debt service				
Principal	233,400	233,400	70,488	162,912
Interest	242,500	242,500	202,719	39,781
Other debt service costs	<u>377</u>	<u>377</u>	<u>628</u>	<u>(251)</u>
TOTAL EXPENDITURES	<u>476,277</u>	<u>476,277</u>	<u>273,835</u>	<u>202,442</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(476,277)</u>	<u>(476,277)</u>	<u>(273,835)</u>	<u>202,442</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>476,277</u>	<u>476,277</u>	<u>181,484</u>	<u>(294,793)</u>
NET CHANGE IN FUND BALANCE	-	-	(92,351)	(92,351)
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>113,507</u>	<u>113,507</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,156</u>	<u>\$ 21,156</u>

NON-MAJOR FUND

ENTERPRISE FUND

Stormwater Fund

Accounts for the operations and maintenance of the City's stormwater system.

City of Fort Walton Beach, Florida
NON-MAJOR PROPRIETARY FUNDS
STATEMENT OF NET POSITION
September 30, 2013

	Stormwater Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 535,464
Receivables, net	<u>35,707</u>
Total current assets	<u>571,171</u>
Capital assets, net	
Non-depreciable	28,532
Depreciable, net	<u>871,079</u>
Total capital assets	<u>899,611</u>
TOTAL ASSETS	<u>\$ 1,470,782</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 6,384
Accrued liabilities	
Compensated absences	2,812
Wages	18,172
Other	<u>2,777</u>
Total current liabilities	<u>30,145</u>
Non-current liabilities	
Accrued liabilities	
Compensated absences	8,434
Other post-employment benefits	<u>21,233</u>
Total non-current liabilities	<u>29,667</u>
TOTAL LIABILITIES	<u>59,812</u>
NET POSITION	
Invested in capital assets, net of related debt	899,611
Unrestricted	<u>511,359</u>
TOTAL NET POSITION	<u>\$ 1,410,970</u>

City of Fort Walton Beach, Florida
NON-MAJOR PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended September 30, 2013

	Stormwater Fund
OPERATING REVENUES	
Charges for services	\$ 591,196
OPERATING EXPENSES	
Personal services	286,977
Operating	258,553
Depreciation/amortization expense	66,432
TOTAL OPERATING EXPENSES	611,962
OPERATING INCOME (LOSS)	(20,766)
NON-OPERATING REVENUES (EXPENSES)	
Gain (loss) on disposal of capital assets	1,176
Unrealized gain (loss) on investment	(1,022)
Realized gain (loss) on investment	(1,553)
Interest	3,094
Miscellaneous	976
TOTAL NON-OPERATING REVENUES (EXPENSES)	2,671
INCOME (LOSS) BEFORE CONTRIBUTIONS AND OPERATING TRANSFERS	(18,095)
CONTRIBUTIONS AND TRANSFERS	
Transfer out	-
TOTAL CONTRIBUTIONS AND TRANSFERS	-
CHANGE IN NET POSITION	(18,095)
NET POSITION - BEGINNING OF YEAR	1,429,065
NET POSITION - END OF YEAR	\$ 1,410,970

City of Fort Walton Beach, Florida
NON-MAJOR PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2013

	<u>Stormwater Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 619,417
Payments to suppliers	(281,268)
Payments to employees	(263,404)
Miscellaneous income	<u>976</u>
Net cash provided by operating activities	<u>75,721</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisitions of capital assets	(21,500)
Proceeds from disposal of capital assets	<u>439</u>
Net cash provided (used) by capital and related financing activities	<u>(21,061)</u>
 NET CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>519</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	55,179
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>480,285</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 535,464</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ (20,766)
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	66,432
Miscellaneous revenue	976
Decrease (increase) in assets	
Accounts receivable	28,221
Increase (decrease) in liabilities	
Accounts payable	(22,449)
Compensated absences payable	(1,005)
Wages	5,805
Other liabilities	(266)
Other post-employment benefits	<u>18,773</u>
Net cash provided by operating activities	<u>\$ 75,721</u>

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III. STATISTICAL SECTION

This section contains statistical tables reflecting various supplemental financial data concerning General Government and Proprietary Fund Operations. When applicable, a 10-year history has been depicted to disclose trends in finance-related matters. These tables have been included as a part of this report for information purposes only, and therefore, have not been subjected to audit by the City's independent certified public accountants.

The statistical section of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the City's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

***Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB 34 in 2002; schedules presenting government-wide information include information beginning in that year.*

City of Fort Walton Beach, Florida
SCHEDULE 1
NET POSITION BY COMPONENT
Last Ten Fiscal Years
(full accrual basis of accounting)
(amounts expressed in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental Activities										
Invested in capital assets, net of related debt	\$ 19,401,390	\$ 17,236,582	\$ 21,097,792	\$ 22,013,431	\$ 21,095,355	\$ 20,563,790	\$ 20,605,683	\$ 24,756,705	\$ 25,379,050	\$ 23,531,576
Restricted										
Debt service	92,153	92,544	92,788	92,730	91,713	91,713	92,880	113,816	113,507	21,156
Capital projects	685,174	700,975	241,114	56,550	-	-	-	-	-	-
Improvement districts	-	-	-	-	-	-	-	4,212,984	3,736,100	3,833,430
Public safety	301,230	305,647	266,492	307,983	307,983	254,409	269,600	268,820	262,648	462,375
Perpetual care - expendable	1,488,402	1,556,661	1,663,521	1,787,789	1,877,086	1,869,558	1,898,445	-	-	-
Other purposes	817,932	533,486	474,924	657,116	473,655	463,168	477,194	234,568	194,193	177,129
Unrestricted	10,131,552	13,959,800	11,385,751	8,564,657	9,821,155	9,347,576	8,975,046	12,666,165	11,487,979	9,329,608
Total governmental activities net position	<u>\$ 32,917,833</u>	<u>\$ 34,385,695</u>	<u>\$ 35,222,382</u>	<u>\$ 33,480,256</u>	<u>\$ 33,666,947</u>	<u>\$ 32,590,214</u>	<u>\$ 32,318,848</u>	<u>\$ 42,253,058</u>	<u>\$ 41,173,477</u>	<u>\$ 37,355,274</u>
Business-Type Activities										
Invested in capital assets net of related debt	\$ 19,907,722	\$ 20,014,208	\$ 20,352,399	\$ 21,051,160	\$ 21,043,965	\$ 17,577,019	\$ 18,928,438	\$ 17,037,456	\$ 14,929,648	\$ 20,766,800
Restricted										
Debt service	317,444	319,139	333,522	323,430	316,153	471,441	481,023	184,711	184,933	1,087,405
System improvements	160,754	352,360	106,434	39,414	60,709	98,292	61,559	82,573	112,863	305,508
Unrestricted	7,820,602	7,652,753	8,358,417	9,011,906	8,301,545	8,276,703	6,791,840	6,859,952	8,552,169	5,918,787
Total business-type activities net position	<u>\$ 28,206,522</u>	<u>\$ 28,338,460</u>	<u>\$ 29,150,772</u>	<u>\$ 30,425,910</u>	<u>\$ 29,722,372</u>	<u>\$ 26,423,455</u>	<u>\$ 26,262,860</u>	<u>\$ 24,164,692</u>	<u>\$ 23,779,613</u>	<u>\$ 28,078,500</u>
Primary Government										
Invested in capital assets net of related debt	\$ 39,309,112	\$ 37,250,790	\$ 41,450,191	\$ 43,064,591	\$ 42,139,320	\$ 38,140,809	\$ 38,728,907	\$ 41,794,161	\$ 40,308,698	\$ 44,298,376
Restricted	3,863,089	3,860,812	3,178,795	3,265,012	3,127,299	3,257,332	3,297,029	5,097,472	4,604,244	5,887,003
Unrestricted	17,952,154	21,612,553	19,744,168	17,576,563	18,122,700	17,624,279	16,805,772	19,526,117	20,040,148	15,248,395
Total primary government net position	<u>\$ 61,124,355</u>	<u>\$ 62,724,155</u>	<u>\$ 64,373,154</u>	<u>\$ 63,906,166</u>	<u>\$ 63,389,319</u>	<u>\$ 59,022,420</u>	<u>\$ 58,831,708</u>	<u>\$ 66,417,750</u>	<u>\$ 64,953,090</u>	<u>\$ 65,433,774</u>

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information beginning in that year.

Note: Beginning in FY11, the Community Redevelopment Area was included with the Governmental Activities and the Perpetual care - expendable was reclassified from Restricted to Unrestricted

City of Fort Walton Beach, Florida
SCHEDULE 2
CHANGES IN NET POSITION
Last Ten Fiscal Years
(full accrual basis of accounting)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Expenses										
Governmental activities										
General government	\$ 5,884,025	\$ 6,935,799	\$ 4,841,926	\$ 4,563,855	\$ 5,494,094	\$ 4,625,871	\$ 5,306,003	\$ 3,765,536	\$ 4,314,050	\$ 2,662,406
Public safety	6,952,351	7,623,363	8,032,018	9,641,338	10,048,884	9,908,644	9,231,632	9,206,784	9,805,368	9,729,228
Physical environment	276,987	276,525	299,362	354,439	343,411	350,374	304,907	393,752	383,970	379,681
Transportation	1,562,995	1,678,395	1,791,455	1,943,966	2,135,639	1,672,741	1,543,310	1,570,038	1,592,150	1,631,665
Economic environment	210,649	199,284	313,153	335,185	127,355	266,132	98,996	545,242	707,603	1,090,025
Culture and recreation	2,712,947	2,754,947	2,989,900	3,115,151	3,097,289	3,028,285	2,944,221	2,677,051	2,880,815	2,715,977
Debt service interest	267,160	238,090	309,094	331,771	302,948	247,703	240,940	214,470	254,516	324,405
Total governmental activities	<u>17,867,114</u>	<u>19,706,403</u>	<u>18,576,908</u>	<u>20,285,705</u>	<u>21,549,620</u>	<u>20,099,750</u>	<u>19,670,009</u>	<u>18,372,873</u>	<u>19,938,472</u>	<u>18,533,387</u>
Business-type activities										
Utilities	4,403,421	4,938,340	5,329,682	5,859,301	5,809,192	5,474,550	6,725,349	9,162,926	7,017,160	7,644,240
Sanitation	2,738,742	2,945,209	2,888,403	3,008,205	2,609,129	2,493,357	2,466,881	2,524,994	2,741,266	3,163,638
Golf	2,596,450	2,603,460	2,631,289	2,780,632	2,547,992	2,479,804	2,203,739	2,199,453	2,012,165	2,023,186
Stormwater	-	-	-	-	-	469,421	374,951	339,543	497,211	611,962
Total business-type activities	<u>9,738,613</u>	<u>10,487,009</u>	<u>10,849,374</u>	<u>11,648,138</u>	<u>10,966,313</u>	<u>10,917,132</u>	<u>11,770,920</u>	<u>14,226,916</u>	<u>12,267,802</u>	<u>13,443,026</u>
Total primary government expenses	<u>\$ 27,605,727</u>	<u>\$ 30,193,412</u>	<u>\$ 29,426,282</u>	<u>\$ 31,933,843</u>	<u>\$ 32,515,933</u>	<u>\$ 31,016,882</u>	<u>\$ 31,440,929</u>	<u>\$ 32,599,789</u>	<u>\$ 32,206,274</u>	<u>\$ 31,976,413</u>
Program Revenues										
Governmental activities										
Charges for services										
General government	\$ 1,973,238	\$ 2,108,169	\$ 2,381,669	\$ 2,456,663	\$ 2,752,330	\$ 2,921,887	\$ 2,759,080	\$ 2,556,270	\$ 430,718	\$ 409,983
Public safety	567,601	873,041	600,259	579,365	641,941	642,364	467,835	430,017	373,855	640,271
Physical environment	345,529	302,727	342,815	316,520	348,838	286,623	289,654	394,513	439,555	404,429
Transportation	102,068	68,402	72,815	241,622	93,987	87,654	83,586	104,776	118,067	122,275
Economic environment	-	-	-	-	-	-	-	16,400	58,000	34,652
Culture and recreation	351,450	382,858	400,175	421,733	417,253	426,110	408,351	404,047	400,215	374,362
Debt service interest	-	-	-	-	-	-	-	-	-	-
Operating grants and contributions	2,541,755	3,228,819	642,631	1,266,681	903,079	1,119,033	639,370	761,643	589,253	786,652
Capital grants and contributions	56,332	261,332	373,994	233,878	50,687	88,941	731,275	351,006	156,794	80,936
Total governmental activities program revenues	<u>5,937,973</u>	<u>7,225,348</u>	<u>4,814,358</u>	<u>5,516,462</u>	<u>5,208,115</u>	<u>5,572,612</u>	<u>5,379,151</u>	<u>5,018,672</u>	<u>2,566,457</u>	<u>2,853,560</u>
Business-type activities										
Charges for services										
Utilities	5,888,862	6,279,899	6,552,526	7,006,005	6,505,297	6,403,262	6,761,654	7,608,355	7,974,601	8,623,082
Sanitation	3,244,899	3,315,188	3,374,157	3,433,172	3,446,397	3,384,375	3,345,127	3,311,744	3,313,559	3,499,559
Golf	2,275,678	2,335,114	2,621,957	2,558,253	2,380,448	2,181,988	1,934,392	2,052,501	1,776,649	1,758,709
Stormwater	-	-	-	-	-	654,346	626,903	481,854	577,706	591,196
Operating grants and contributions	-	-	-	-	39,403	-	-	118,226	-	1,071
Capital grants and contributions	100,027	198,568	95,644	1,079,034	92,872	555,698	173,370	65,496	331,609	1,871,295
Total business-type activities program revenues	<u>11,509,466</u>	<u>12,128,769</u>	<u>12,644,284</u>	<u>14,076,464</u>	<u>12,464,417</u>	<u>13,179,669</u>	<u>12,841,446</u>	<u>13,638,176</u>	<u>13,974,124</u>	<u>16,344,912</u>
Total primary government program revenues	<u>\$ 17,447,439</u>	<u>\$ 19,354,117</u>	<u>\$ 17,458,642</u>	<u>\$ 19,592,926</u>	<u>\$ 17,672,532</u>	<u>\$ 18,752,281</u>	<u>\$ 18,220,597</u>	<u>\$ 18,656,848</u>	<u>\$ 16,540,581</u>	<u>\$ 19,198,472</u>

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City of Fort Walton Beach, Florida
SCHEDULE 2
CHANGES IN NET POSITION
Last Ten Fiscal Years
(full accrual basis of accounting)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Net (Expense)/Revenue										
Governmental activities	\$(11,929,141)	\$(12,481,055)	\$(13,762,550)	\$(14,769,243)	\$(16,341,505)	\$(14,527,138)	\$(14,290,859)	\$(13,354,201)	\$(17,372,015)	\$(15,679,827)
Business-type activities	1,770,853	1,641,760	1,794,910	2,428,326	1,498,104	2,262,537	1,070,526	(588,740)	1,706,322	2,901,886
Total primary government net expense	<u>\$(10,158,288)</u>	<u>\$(10,839,295)</u>	<u>\$(11,967,640)</u>	<u>\$(12,340,917)</u>	<u>\$(14,843,401)</u>	<u>\$(12,264,601)</u>	<u>\$(13,220,333)</u>	<u>\$(13,942,941)</u>	<u>\$(15,665,693)</u>	<u>\$(12,777,941)</u>
General Revenues and Other Changes in Net Position										
Governmental activities										
Taxes										
Property taxes	\$ 3,763,976	\$ 3,913,016	\$ 4,557,414	\$ 5,180,212	\$ 5,052,903	\$ 4,631,028	\$ 4,380,221	\$ 4,482,819	\$ 4,295,068	\$ 4,175,136
Sales taxes	2,393,744	2,466,783	2,529,028	2,363,078	2,214,232	1,977,959	1,943,337	2,066,834	2,198,270	2,241,242
Utility service taxes	3,163,325	3,690,239	4,006,985	1,420,142	5,094,918	3,454,691	3,914,362	3,926,930	3,739,311	3,761,437
Tax Increments for Redevelopment district	-	-	-	-	-	-	-	1,547,609	1,386,521	1,311,101
Franchise Fees	-	-	-	-	-	-	-	-	1,876,575	1,764,733
Intergovernmental, unrestricted	619,197	877,198	889,450	845,090	740,554	709,550	712,776	825,591	809,756	818,039
Gain on sale of assets	99,587	456,675	(1,053)	477,494	2,592	2,950	795,860	16,865	16,440	37,833
Miscellaneous	100,950	46,174	37,595	56,788	61,199	54,223	492,052	96,105	154,996	106,546
Investment earnings	226,863	324,687	599,818	755,389	444,488	269,896	152,884	133,419	159,465	62,285
Special item: Impairment loss	-	-	-	-	-	-	-	-	-	(271,287)
Transfers	1,991,333	1,875,000	1,980,000	1,928,924	2,917,310	2,310,464	1,667,644	1,682,717	1,656,032	(2,145,441)
Total governmental activities	<u>12,358,975</u>	<u>13,649,772</u>	<u>14,599,237</u>	<u>13,027,117</u>	<u>16,528,196</u>	<u>13,410,761</u>	<u>14,059,136</u>	<u>14,778,889</u>	<u>16,292,434</u>	<u>11,861,624</u>
Business-type activities										
Taxes										
Utility service taxes	7,807	-	14,200	7,844	5,930	4,597	-	-	-	-
Gain on sale of assets	27,641	-	174,610	34,978	482	98,907	56,795	75,904	35,111	20,662
Miscellaneous	12,342	10,261	73,714	15,118	129,678	141,406	177,657	31,424	48,550	6,504
Investment earnings	128,808	354,915	734,878	713,872	579,578	340,155	202,071	65,961	69,622	11,107
Special item: Impairment loss	-	-	-	-	-	(3,836,055)	-	-	(588,652)	(786,713)
Transfers	(1,991,333)	(1,875,000)	(1,980,000)	(1,925,000)	(2,917,310)	(2,310,464)	(1,667,644)	(1,682,717)	(1,656,032)	2,145,441
Total business-type activities	<u>(1,814,735)</u>	<u>(1,509,824)</u>	<u>(982,598)</u>	<u>(1,153,188)</u>	<u>(2,201,642)</u>	<u>(5,561,454)</u>	<u>(1,231,121)</u>	<u>173,289</u>	<u>(2,091,401)</u>	<u>1,397,001</u>
Total primary government	<u>\$ 10,544,240</u>	<u>\$ 12,139,948</u>	<u>\$ 13,616,639</u>	<u>\$ 11,873,929</u>	<u>\$ 14,326,554</u>	<u>\$ 7,849,307</u>	<u>\$ 12,828,015</u>	<u>\$ 14,952,178</u>	<u>\$ 14,201,033</u>	<u>\$ 13,258,625</u>
Change in Net Position										
Governmental activities	\$ 429,834	\$ 1,467,862	\$ 836,687	\$(1,742,126)	\$ 186,691	\$(1,116,377)	\$(231,722)	\$ 1,424,688	\$(1,079,581)	\$(3,818,203)
Business-type activities	(43,882)	131,936	812,312	1,275,138	(703,538)	(3,298,917)	(160,595)	(2,098,168)	(385,079)	4,298,887
Total primary government	<u>\$ 385,952</u>	<u>\$ 1,599,798</u>	<u>\$ 1,648,999</u>	<u>\$(466,988)</u>	<u>\$(516,847)</u>	<u>\$(4,415,294)</u>	<u>\$(392,317)</u>	<u>\$(673,480)</u>	<u>\$(1,464,660)</u>	<u>\$ 480,684</u>

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information beginning in that year.

Note: Beginning in FY11, the Community Redevelopment Area was included with the Governmental Activities

Note: Beginning in FY12, Franchise Fees were reported as General Revenues - in prior years they were included in General Government - charges for services

Note: Beginning in FY13, Cost Allocations were reported as expense reductions in General Government - in prior years they were reported as transfers.

City of Fort Walton Beach, Florida
SCHEDULE 3
FUND BALANCES - GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Fund										
Reserved	\$ 957,768	\$ 4,756,085	\$ 539,749	\$ 701,829	\$ 509,080	\$ 482,179	\$ 499,384	\$ -	\$ -	\$ -
Unreserved	10,179,527	10,022,750	11,129,373	12,161,545	9,367,864	9,709,202	9,314,142	-	-	-
Nonspendable	-	-	-	-	-	-	-	3,032,726	2,857,963	254,229
Restricted	-	-	-	-	-	-	-	234,768	194,193	7,868,522
Committed	-	-	-	-	-	-	-	5,219,706	5,040,585	5,501,353
Assigned	-	-	-	-	-	-	-	1,537,572	354,999	1,301,385
Unassigned	-	-	-	-	-	-	-	1,189,562	1,611,120	788,076
Total general fund	<u>\$ 11,137,295</u>	<u>\$ 14,778,835</u>	<u>\$ 11,669,122</u>	<u>\$ 12,863,374</u>	<u>\$ 9,876,944</u>	<u>\$ 10,191,381</u>	<u>\$ 9,813,526</u>	<u>\$ 11,214,334</u>	<u>\$ 10,058,860</u>	<u>\$ 15,713,565</u>
All Other Governmental Funds										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,117	\$ 12,783	\$ -	\$ -	\$ -
Unreserved, reported in										
Capital projects	685,174	700,975	241,114	56,550		8,751	-	-	-	-
Debt service	92,153	92,544	92,788	92,730	91,713	91,713	92,880	-	-	-
Special revenue funds	1,789,633	1,862,308	1,933,979	2,095,772	2,153,440	2,073,850	2,158,878	-	-	-
Nonspendable	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	4,595,420	4,112,255	4,316,961
Committed	-	-	-	-	-	-	-	1,929,448	1,959,836	2,035,225
Assigned	-	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	(306)	(302)	(2,745)
Total all other governmental funds	<u>\$ 2,566,960</u>	<u>\$ 2,655,827</u>	<u>\$ 2,267,881</u>	<u>\$ 2,245,052</u>	<u>\$ 2,245,153</u>	<u>\$ 2,224,431</u>	<u>\$ 2,264,541</u>	<u>\$ 6,524,562</u>	<u>\$ 6,071,789</u>	<u>\$ 6,349,441</u>

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information beginning in that year.

Note: The City implemented GASB 54 in FY11 and the Community Redevelopment Districted was included with All Other Governmental Funds

City of Fort Walton Beach, Florida
SCHEDULE 4
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues										
Taxes	\$ 9,102,668	\$ 9,872,190	\$ 11,086,466	\$ 10,804,833	\$ 9,039,398	\$ 9,160,133	\$ 9,414,513	\$ 10,438,481	\$ 10,065,983	\$ 9,901,157
Licenses, permits, and fees	358,675	706,345	517,728	496,614	2,225,224	2,320,683	2,406,916	2,428,621	2,142,995	2,221,406
Intergovernmental	4,990,501	6,261,885	3,836,216	3,661,644	2,914,162	2,950,179	3,502,904	3,358,615	3,291,693	3,400,876
Charges for services	933,006	848,651	900,170	911,026	1,216,687	1,132,681	907,476	911,405	969,560	1,065,316
Fines and forfeits	305,851	329,038	247,329	247,493	268,415	387,449	204,849	151,616	142,936	241,923
Miscellaneous	637,460	1,052,422	850,248	3,588,708	1,211,662	1,020,342	1,370,077	817,975	537,975	431,625
Total Revenues	16,328,161	19,070,531	17,438,157	19,710,318	16,875,548	16,971,467	17,806,735	18,106,713	17,151,142	17,262,303
Expenditures										
General governmental services	5,722,625	6,737,331	4,646,594	4,355,885	5,306,276	4,419,077	5,095,790	3,699,506	3,899,740	2,514,734
Public safety	6,497,304	7,124,082	7,750,191	9,170,719	9,614,744	9,379,319	8,872,424	8,676,620	9,154,002	9,066,246
Physical environment	211,388	211,178	233,942	276,086	278,273	283,460	250,691	306,365	295,459	311,684
Transportation	1,183,153	1,284,018	1,364,414	1,550,204	1,750,680	1,316,954	1,207,449	994,272	966,050	1,012,387
Economic environment	210,649	199,284	313,153	335,185	127,355	266,132	98,996	493,526	652,086	1,032,659
Culture and recreation	2,250,304	2,277,069	2,503,469	2,636,387	2,698,993	2,582,642	2,535,682	2,233,104	2,383,239	2,267,141
Capital outlay	1,402,355	1,558,462	5,612,616	1,457,758	652,734	520,722	1,335,369	1,561,057	2,609,203	1,282,142
Debt service										
Principal	145,097	195,722	194,675	355,459	2,052,797	168,949	175,629	198,699	211,683	4,540,488
Interest and other costs	265,769	274,122	307,334	330,136	297,335	246,774	240,093	236,268	243,959	203,347
Total expenditures	17,888,644	19,861,268	22,926,388	20,467,819	22,779,187	19,184,029	19,812,123	18,399,417	20,415,421	22,230,828
Excess of revenue over (under) expenditures	(1,560,483)	(790,737)	(5,488,231)	(757,501)	(5,903,639)	(2,212,562)	(2,005,388)	(292,704)	(3,264,279)	(4,968,525)
Other Financing Sources (Uses)										
Transfers in	2,516,798	2,376,403	2,618,738	2,644,727	5,367,633	3,191,822	2,342,226	2,296,944	2,284,416	673,836
Transfers out	(525,465)	(501,403)	(638,738)	(715,802)	(2,450,323)	(685,545)	(674,583)	(614,227)	(628,384)	(2,819,277)
Insurance recoveries	-	299,145	-	-	-	-	-	-	-	-
Lease proceeds	143,698	299,948	-	-	-	-	-	-	-	103,784
Debt issuance	-	2,039,191	-	-	-	-	-	739,805	-	12,942,539
Contributions from others	40,929	7,860	10,572	-	-	-	-	-	-	-
Total other financing sources (uses)	2,175,960	4,521,144	1,990,572	1,928,925	2,917,310	2,506,277	1,667,643	2,422,522	1,656,032	10,900,882
Net change in fund balance	\$ 615,477	\$ 3,730,407	\$ (3,497,659)	\$ 1,171,424	\$ (2,986,329)	\$ 293,715	\$ (337,745)	\$ 2,129,818	\$ (1,608,247)	\$ 5,932,357
Debt service as a percentage of noncapital expenditures	2.49%	2.57%	2.90%	3.61%	10.62%	2.23%	2.25%	2.58%	2.56%	22.65%

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information beginning in that year.

Note: Beginning in FY11, the Community Redevelopment Area was included with the Governmental Funds

City of Fort Walton Beach, Florida
SCHEDULE 5
REVENUES AND OTHER SOURCES ⁽¹⁾
Last Ten Fiscal Years
Unaudited

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Licenses, fees, and Permits</u>	<u>Intergovernmental Revenues</u>	<u>Charges for Services</u>	<u>Fines and Forfeitures</u>	<u>Interest and Other Revenues</u>	<u>Other Financing Sources</u>	<u>TOTAL</u>
2013	\$9,901,157	\$2,221,406	\$3,400,876	\$1,065,316	\$241,923	\$431,625	\$13,720,159	\$30,982,462
2012	10,065,983	2,142,995	3,291,693	969,560	142,936	537,975	2,284,416	19,435,558
2011	10,438,481	2,428,621	3,358,615	911,405	151,616	817,975	2,296,944	20,403,657
2010	9,414,513	2,406,916	3,502,904	907,476	204,849	1,370,077	2,342,226	20,148,961
2009	9,160,133	2,320,683	2,950,179	1,132,681	387,449	1,020,342	3,191,822	20,163,289
2008	9,039,398	2,225,224	2,914,162	1,216,687	268,415	1,211,662	5,367,633	22,243,181
2007	10,804,833	496,614	3,661,644	911,026	247,493	3,588,708	2,644,727	22,355,044
2006	11,086,466	517,727	3,836,216	900,170	247,329	860,820	2,618,738	20,067,466
2005	10,379,692	706,345	6,699,651	848,651	329,038	1,387,243	4,715,542	25,066,162
2004	9,506,835	358,675	5,514,537	933,006	305,851	653,600	2,701,425	19,973,929

⁽¹⁾ Includes General Fund, LETFs, CDBG Fund, FBC Fund, CRA Fund, Debt Service Fund, Capital Projects Fund, and Beal Memorial Fund

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information beginning in that year.

City of Fort Walton Beach, Florida
SCHEDULE 6
ASSESSED VALUE OF TAXABLE PROPERTY ⁽¹⁾
Last Ten Fiscal Years
Unaudited

Tax Year	Real Property	Personal Property	Total Assessed Value	Exemptions	Assessed Value for Operations	Total Direct Tax Rate
2013	\$ 1,451,775,552	\$ 118,155,863	\$ 1,569,931,415	\$ 442,204,485	\$ 1,127,726,930	5.7697
2012	1,445,327,759	120,653,616	1,565,981,375	446,565,401	1,119,415,974	4.5383
2011	1,478,072,570	126,412,302	1,604,484,872	452,378,818	1,152,106,054	4.5383
2010	1,550,325,157	129,348,680	1,679,673,837	469,933,333	1,209,740,504	4.5383
2009	1,864,657,624	148,104,763	2,012,762,387	476,888,476	1,309,056,015	4.1986
2008	2,046,319,844	147,625,998	2,193,945,842	816,366,365	1,377,579,477	4.1986
2007	2,100,890,582	148,394,292	2,249,284,874	777,377,988	1,471,906,886	4.1986
2006	1,980,162,078	137,191,649	2,117,353,727	761,995,075	1,355,358,652	4.6458
2005	1,518,656,395	129,244,507	1,647,900,902	548,237,161	1,099,663,741	4.9700
2004	1,194,748,692	123,444,654	1,318,193,346	400,213,897	917,979,449	4.9700

⁽¹⁾ Florida State Law requires all property to be assessed at current fair market.
The January 2013 assessment is the basis for Fiscal Year 2013-14 tax revenues.

Source: Okaloosa County Property Appraiser

City of Fort Walton Beach, Florida
SCHEDULE 7
PROPERTY TAX RATES PER \$1,000 OF TAXABLE VALUE - ALL DIRECT AND OVERLAPPING
GOVERNMENTS ⁽¹⁾
Last Ten Fiscal Years
Unaudited

City of Fort Walton Beach Direct Rate			Overlapping Rates*			
Fiscal Year	Basic Rate	Total Direct Rate	Okaloosa County	Okaloosa County School Board	Northwest Florida Water Management	Total Overlapping Rates
2013	5.7697	5.7697	3.4308	7.5510	0.0400	11.0218
2012	4.5383	4.5383	3.2899	7.4760	0.0400	10.8059
2011	4.5383	4.5383	3.2899	7.7690	0.0400	11.0989
2010	4.5383	4.5383	3.2899	7.5340	0.0450	10.8689
2009	4.1986	4.1986	3.2899	7.6390	0.0450	10.9739
2008	4.1986	4.1986	3.2995	7.6240	0.0450	10.9685
2007	4.1986	4.1986	3.3443	7.6390	0.0450	11.0283
2006	4.6458	4.6458	3.6500	7.7860	0.0500	11.4860
2005	4.9700	4.9700	4.2500	8.0630	0.0500	12.3630
2004	4.9700	4.9700	4.2500	8.2940	0.0500	12.5940

⁽¹⁾ As of levy date, November 1 of each year listed.

The 2013 millage rate is the basis for Fiscal Year 2013-14 tax revenues.

* Overlapping rates are those of local and county governments that apply to property owners within the City of Fort Walton Beach

Source: Okaloosa County Tax Collector

City of Fort Walton Beach, Florida
SCHEDULE 8
PRINCIPAL TAXPAYERS
Unaudited

<u>Taxpayer</u>	<u>2013</u>			<u>2004</u>		
	<u>Total Assessed Value</u>	<u>Percentage</u>	<u>Rank</u>	<u>Total Assessed Value</u>	<u>Percentage</u>	<u>Rank</u>
Gulf Power Co.	\$ 17,394,520	1.54%	1	\$ 14,327,675	1.56%	2
DRS Training & Control Systems	14,955,171	1.33%	2	4,967,997	0.54%	7
Suso 2 Uptown, LP	14,233,565	1.26%	3	10,180,490	1.11%	3
Cox Communications Gulf Coast, LLC	7,108,180	0.63%	4			
Fort Walton Machining, Inc.	6,742,312	0.60%	5			
Presidio Developers, LLC	6,081,000	0.54%	6			
BLC Westwood, LLC	6,034,454	0.54%	7			
Embarq Corp.	5,592,401	0.50%	8			
HSU Paul S & Majes	4,969,909	0.44%	9			
DDRM Shoppes at Paradise Pointe, LLC	4,420,321	0.39%	10			
Sprint Florida, Inc.				22,563,122	2.46%	1
Aero Technical Service				9,670,506	1.05%	4
American Senior Living of FWB				8,039,951	0.88%	5
Inland Southeast Paradise Point				5,009,660	0.55%	6
Home Depot USA, Inc.				4,749,285	0.52%	8
Emerald Coast Housing Corp.				4,635,287	0.50%	9
Mariner Plaza Realty Assoc.				4,592,717	0.50%	10
Total Taxable Assessed Value of Principal Taxpayers	<u>87,531,833</u>	<u>7.76%</u>		<u>88,736,690</u>	<u>9.67%</u>	
Total Taxable Assessed Value of Other Taxpayers	<u>1,040,195,097</u>	<u>92.24%</u>		<u>829,242,759</u>	<u>90.33%</u>	
Total Taxable Assessed Value	<u><u>\$1,127,726,930</u></u>	<u><u>100.00%</u></u>		<u><u>\$ 917,979,449</u></u>	<u><u>100.00%</u></u>	

⁽¹⁾ The 2013 tax roll is the basis for Fiscal Year 2013-14 tax revenues.

Source: Okaloosa County Property Appraiser

City of Fort Walton Beach, Florida
SCHEDULE 9
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years
Unaudited

<u>Tax Year</u>	<u>Total Tax Levy ⁽¹⁾</u>	<u>Amount of Current Taxes Collected</u>	<u>Percent of Current Taxes Collected</u>	<u>Amount of Delinquent Taxes Collected</u>	<u>Total Collected for the Year</u>	<u>Ratio of Total Taxes Collected to Current Levy</u>	<u>Amount of Delinquent Taxes</u>	<u>Ratio of Delinquent Taxes to Current Levy</u>
2013	The 2013 tax levy is the basis for Fiscal Year 2013-14 tax revenues.							
2012	\$ 5,096,206	\$ 4,880,002	95.8%	\$ 50,880	\$ 4,930,882	96.8%	\$ 10,265	0.2%
2011	5,251,483	5,050,661	96.2%	38,067	5,088,728	96.9%	19,826	0.4%
2010	5,519,832	5,309,040	96.2%	78,863	5,387,903	97.6%	11,576	0.2%
2009	5,523,136	5,280,090	95.6%	45,233	5,325,323	96.4%	59,371	1.1%
2008	5,814,307	5,606,480	96.4%	25,515	5,631,996	96.9%	22,112	0.4%
2007	6,215,424	5,976,218	96.2%	23,448	5,999,666	96.5%	16,699	0.3%
2006	6,317,712	6,085,783	96.3%	17,701	6,103,484	96.6%	17,752	0.3%
2005	5,481,001	5,271,070	96.2%	23,903	5,294,973	96.6%	17,072	0.3%
2004	4,577,392	4,408,022	96.3%	16,643	4,424,665	96.7%	15,383	0.3%
2003	4,305,962	4,151,604	96.4%	16,263	4,167,867	96.8%	11,174	0.3%

⁽¹⁾ Includes discount taken for early payment of taxes (maximum of 4%).

Source: Okaloosa County Tax Collector

City of Fort Walton Beach, Florida
SCHEDULE 10
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years
Unaudited

Fiscal Year	Governmental Activities				Business Activities					Total Primary Government	Percentage of Personal Income ⁽¹⁾	Per Capita ⁽²⁾
	General Obligation Bonds	Lease Payable	Revenue Notes	Revenue Bonds	General Obligation Bonds	Lease Payable	Revenue Notes	State Revolving Loans	Revenue Bonds			
2013	\$ -	\$ 101,696	\$ 13,535,936	\$ -	\$ -	\$ -	\$73,533	\$ 7,068,522	\$ 10,035,000	\$ 30,814,687	0.36%	1,521.26
2012	-	-	661,796	4,470,000	-	13,458	61,221	-	10,315,000	15,521,475	0.20%	768.62
2011	-	-	728,480	4,615,000	-	66,118	76,586	-	10,585,000	16,071,184	0.21%	822.73
2010	-	47,374	-	4,755,000	-	141,737	-	-	14,005,000	18,949,111	0.26%	930.93
2009	-	93,003	-	4,885,000	-	226,886	-	-	14,740,000	19,944,889	0.28%	964.69
2008	-	197,509	-	5,010,000	-	584,170	-	-	15,300,000	21,091,679	0.31%	1,008.30
2007	-	260,306	-	7,000,000	-	479,246	-	-	15,835,000	23,574,552	0.35%	1,122.17
2006	-	320,764	-	7,295,000	-	614,203	-	-	16,345,000	24,574,967	0.37%	1,176.85
2005	-	400,433	-	7,410,000	-	447,370	-	-	16,830,000	25,087,803	0.39%	1,209.93
2004	-	186,213	-	5,475,000	-	594,046	-	-	6,385,000	12,640,259	0.21%	613.04

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information beginning in that year.

⁽¹⁾ See Schedule 15 for personal income data.

⁽²⁾ See Schedule 15 for population data.

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

City of Fort Walton Beach, Florida
SCHEDULE 11
RATIO OF NET GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years
Unaudited

<u>Fiscal Year</u>	<u>Governmental Activities</u>	<u>Percentage of Actual Taxable Value of Property ⁽¹⁾</u>	<u>General Obligation Bonds</u>	<u>Per Capita ⁽²⁾</u>
2013	\$ -	0.00%	-	\$ -
2012	-	0.00%	-	-
2011	-	0.00%	-	-
2010	-	0.00%	-	-
2009	-	0.00%	-	-
2008	-	0.00%	-	-
2007	-	0.00%	-	-
2006	-	0.00%	-	-
2005	-	0.00%	-	-
2004	-	0.00%	-	-
2003	-	0.00%	-	-

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information beginning in that year.

⁽¹⁾ See Schedule 6 for property value data.

⁽²⁾ See Schedule 15 for population data.

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

City of Fort Walton Beach, Florida
SCHEDULE 12
PLEDGED REVENUE COVERAGE
SCHEDULE OF REVENUE BOND COVERAGE
Last Ten Fiscal Years
Unaudited

Fiscal Year	Non-Ad Valorem Revenues ⁽¹⁾	Average Non-Ad Valorem Revenues Avail. for Debt Service	Debt Service Requirements ⁽²⁾			
			Principal	Interest	Total	Coverage
2013	\$ 26,338,776	\$ 25,803,342	\$ 364,156	460,197	\$ 824,353	31.30
2012	\$ 25,267,908	\$ 25,556,504	\$ 497,049	697,060	\$1,194,109	21.40
2011	25,845,100	26,274,792	468,935	695,713	1,164,648	22.56
2010	26,704,483	26,355,374	510,000	874,423	1,384,423	19.04
2009	26,006,265	28,208,317	340,000	889,985	1,229,985	22.93
2008	30,410,368	31,235,238	325,000	904,730	1,229,730	25.40
2007	32,060,108	30,760,329	315,000	918,699	1,233,699	24.93
2006	29,460,549	31,084,778	300,000	931,488	1,231,488	25.24
2005	32,709,007	29,841,670	285,000	552,986	837,986	35.61
2004	26,974,332	26,011,445	275,000	492,124	767,124	33.91

⁽¹⁾ Non-Ad Valorem Revenues of General Fund, Capital Projects Fund, other governmental funds, and proprietary funds.

⁽²⁾ Combined Debt Service requirements for Capital Improvement Revenue Note Series 2013 & 2013A, Utility System Revenue Bond, Series 2005, and 2011 Revenue Notes. See Financial Statement Notes for detail.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information beginning in that year.

City of Fort Walton Beach, Florida
SCHEDULE 13
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
Unaudited

<u>Governmental Unit</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to Fort Walton Beach</u>	<u>Amount Applicable to Fort Walton Beach</u>
Overlapping Debt			
Okaloosa County			
Revenue Bonds	\$ 29,192,000 (1)	10.84%	(3) \$ 3,164,014
Okaloosa County School District			
Certificates of Participation	\$ 53,576,000	31.11%	(2) \$ 16,668,089
Subtotal: Overlapping Debt	<u>\$ 82,768,000</u>		<u>\$ 19,832,103</u>
Direct Debt			
City of Fort Walton Beach Revenue Notes	\$ 661,796	100.00%	\$ 661,796
City of Fort Walton Beach Revenue Bonds	\$ 4,470,000	100.00%	\$ 4,470,000
Subtotal: Direct Debt	<u>\$ 5,131,796</u>		<u>\$ 5,131,796</u>
Total Direct and Overlapping Debt	<u><u>\$ 87,899,796</u></u>		<u><u>\$ 24,963,900</u></u>

Source: Okaloosa County, Okaloosa County School Board

- (1) Clerk of Courts financial statements not available for FY 2012-2013, number estimated from FY 2011-2012 information.
(2) Calculation based on total schools in Okaloosa County School District versus schools in Fort Walton Beach.
(3) Calculation based on total population in Okaloosa County versus population in Fort Walton Beach.

City of Fort Walton Beach, Florida
SCHEDULE 14
MAJOR EMPLOYERS
Unaudited

<u>Employer</u>	<u>Product</u>	<u>2013</u>			<u>2004</u>		
		<u>Employees</u>	<u>Percentage of Total Employment</u>	<u>Ranking</u>	<u>Employees</u>	<u>Percentage of Total Employment</u>	<u>Ranking</u>
USAF - Eglin ⁽¹⁾	Air Force Development Test Center	19,101	19.66%	1	20,000	21.95%	1
USAF - Hurlburt ⁽²⁾	Air Force Special Ops Command	10,055	10.35%	2	8,734	9.59%	2
Okaloosa County School District	Education Services	3,417	3.52%	3	3,718	4.08%	3
Jacobs Technology - TEAS Group	Military Technical Support	1,483	1.53%	4			
Okaloosa County ⁽³⁾	Local Government Services	1,378	1.42%	5	1,360	1.49%	4
Fort Walton Beach Medical Center	Medical Services	1,250	1.29%	6	975	1.07%	6
Northwest Florida State College	Education Services	1,152	1.19%	7			
L-3 Cresview Aerospace	Military Technical Support	1,064	1.09%	8			
Lockheed Martin Corporation	Military Technical Support	800	0.82%	9			
InDyne Inc	Military Technical Support	800	0.82%	10			
ResortQuest	Property Management		0.00%		1,300	1.43%	5
DRS Training and Control Systems	Defense Electronics		0.00%		747	0.82%	9
BAE Systems Technical Services	Military Technical Support		0.00%		900	0.99%	8
North Okaloosa Medical Center	Medical Services		0.00%		625	0.69%	10
State of Florida	State Government Services		0.00%		966	1.06%	7
		<u>40,500</u>	43.03%		<u>39,325</u>	45.57%	

⁽¹⁾Includes military, civilian, and contractor personnel; a portion of contractor personnel may be duplicated with private sector employees also listed here.

⁽²⁾Includes military and civilian personnel.

⁽³⁾Includes County Commission, Clerk of Court, Property Appraiser, Sheriff, Supervisor of Elections, and Tax Collector.

Source: Personnel Department of each employer

City of Fort Walton Beach, Florida
SCHEDULE 15
MISCELLANEOUS DEMOGRAPHICAL STATISTICS
Last Ten Fiscal Years
Unaudited

Fiscal Year	Fort Walton Beach Population	Okaloosa County Population	FWB as a % of the County	Personal Income (thousands of dollars)	Per Capita Personal Income	Unemployment Rate
2013	20,256	186,887	10.84%	\$ 8,546,210	\$ 44,960	4.7%
2012	20,194	185,803	10.87%	7,913,960	43,132	6.0%
2011	19,534	180,280	10.84%	7,497,082	42,007	7.3%
2010	20,355	195,346	10.42%	7,369,683	41,050	8.0%
2009	20,675	196,237	10.54%	7,090,979	39,158	7.2%
2008	20,918	197,597	10.59%	6,861,716	37,497	4.8%
2007	21,008	196,540	10.69%	6,781,908	37,423	2.9%
2006	20,882	192,672	10.84%	6,761,736	36,529	2.4%
2005	20,735	188,939	10.97%	6,360,148	34,755	2.9%
2004	20,619	185,778	11.10%	5,982,411	33,068	3.4%

OKALOOSA COUNTY EDUCATION

		FY 2013	FY 2012	FY 2011
Schools:	Grades K-5	18	18	18
	Grades 6-8	7	7	7
	Grades 9-12	4	4	4
	PK-12 / Charter / Alternate	2 / 4 / 10	2 / 4 / 10	2 / 4 / 10
	Grades K-8	1	1	1
	Vocational / Technical	1	1	1
	Exceptional Children	2	2	2
	Students:	Grades K-5	14,197	13,509
	Grades 6-8	6,698	6,546	6,046
	Grades 9-12	8,917	8,954	8,381
	Adult Students	310	288	280
	Exceptional Children	3,995	4,037	4,031
Personnel:	Instructional (Classroom)	1,888	1,844	1,896
	Non-Instructional	868	933	941

Source: Office of Economic & Demographic Research, FL Research & Economic Information Database, Okaloosa County School Board

City of Fort Walton Beach, Florida
SCHEDULE 16
FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION/PROGRAM
Last Ten Fiscal Years
Unaudited

	Full-Time Equivalent Employees as of September 30									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
General Government										
City Manager	2.00	2.00	2.00	2.00	2.00	3.00	4.00	3.00	3.00	3.00
Administrative Services	3.00	3.00	3.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Risk Management	-	-	-	1.00	1.00	-	-	-	-	-
Information Technology	2.00	2.00	2.00	2.75	2.75	3.00	4.00	4.00	4.00	4.00
City Clerk	2.50	2.50	2.50	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Finance	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.75	8.00	9.00
Purchasing	2.50	2.50	2.50	2.50	2.00	5.00	5.00	5.00	5.00	5.00
Public Safety										
Police	59.99	70.99	67.99	67.59	68.05	74.05	73.17	72.95	72.95	74.95
Fire	37.00	37.00	37.00	38.00	38.00	39.00	39.00	39.00	33.00	33.00
Recreation & Cultural Services										
Administration	13.45	13.67	13.81	15.93	17.19	32.09	32.64	34.04	34.04	34.04
Parks Maintenance	10.00	11.00	11.00	11.00	11.90	-	-	-	-	-
Right-of-Way Maintenance	1.00	1.00	1.00	7.00	8.00	9.00	9.00	9.00	9.00	10.00
Senior Citizens Center	1.85	1.85	1.85	1.85	1.85	2.38	2.58	2.58	2.58	3.08
Library	8.02	8.02	8.10	9.90	9.90	10.60	11.10	11.10	11.10	11.10
Museum	3.60	3.60	2.60	3.85	4.98	5.18	6.01	7.01	7.01	7.01
Cemetery	3.00	3.00	3.00	3.00	3.50	3.50	3.50	3.00	3.00	3.00
Engineering Services										
Administration	5.00	5.00	5.00	6.00	6.00	7.00	7.00	8.00	10.00	10.00
Planning & Zoning	1.00	1.00	1.00	1.00	-	4.00	4.00	5.00	5.00	5.00
Building & Permitting	4.00	3.70	3.00	3.00	3.00	6.00	6.00	4.00	4.00	4.00
Code Enforcement	2.00	2.00	2.00	2.00	2.00	-	-	-	-	-
Fleet Maintenance	9.00	8.75	8.75	10.00	11.00	12.00	12.00	12.00	13.00	13.00
Facilities Maintenance	8.00	8.00	8.00	11.00	11.00	10.00	11.00	11.00	11.00	11.00
Streets Maintenance	5.50	5.50	5.50	6.50	6.50	14.50	13.50	15.00	15.00	15.00
Community Development Block Grant	0.48	0.48	0.48	0.48	0.48	0.48	1.48	1.48	1.48	1.48
Community Redevelopment Agency	3.00	3.00	3.00	1.00	1.00	1.00	1.75	1.75	1.00	1.00
Utility (Water/Sewer) Enterprise										
Administration	7.00	7.00	6.75	1.00	2.00	6.00	5.00	5.00	-	-
Customer Service	5.50	5.50	5.50	7.50	7.50	8.00	9.00	9.00	8.00	8.00
Water Operations	9.00	9.00	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Sewer Operations	-	-	-	2.00	11.00	11.00	13.00	13.00	16.00	16.00
Water Distribution	5.00	5.00	5.00	6.00	6.00	6.00	7.00	7.00	6.00	6.00
Sewer Collections	13.00	12.00	12.00	11.00	11.00	11.00	12.00	11.00	11.00	11.00
Sanitation Enterprise										
Solid Waste	19.00	19.00	18.75	19.62	19.87	21.00	21.00	21.00	22.00	22.00
Recycling	-	-	-	-	-	-	4.00	4.00	4.00	4.00
Golf Enterprise										
Golf Club	14.26	14.26	14.26	14.26	31.01	36.51	36.56	36.56	36.36	37.56
Golf Grounds Maintenance	15.75	15.75	15.75	15.75	-	-	-	-	-	-
Stormwater Enterprise										
Stormwater	6.00	6.00	6.00	7.00	8.00	-	-	-	-	-
Total	289.40	300.07	296.09	312.48	329.48	362.29	375.29	377.22	370.52	376.22

Source: City of Fort Walton Beach Adopted Budget for the relevant year.

City of Fort Walton Beach, Florida
SCHEDULE 17
PERMITS, LICENSES AND RECREATION FACILITIES
Last Ten Fiscal Years
Unaudited

MISCELLANEOUS PERMITS

<u>Year</u>	<u>Mechanical</u>	<u>Electrical</u>	<u>Gas</u>	<u>Plumbing</u>	<u>Water & Sewer</u>
2013	148	188	121	82	26
2012	148	168	102	100	39
2011	249	255	74	159	18
2010	212	290	87	154	27
2009	142	285	52	158	16
2008	168	298	97	178	20
2007	177	340	109	157	30
2006	202	473	126	235	32
2005	152	438	103	162	37
2004	163	396	61	182	53

BUSINESS TAX RECEIPTS ISSUED (formerly referred to as occupational licenses)

<u>Year</u>	<u>Number Sold</u>
2013	2,087
2012	1,947
2011	2,269
2010	2,311
2009	2,364
2008	2,426
2007	2,499
2006	2,483
2005	2,496
2004	2,391

MUNICIPAL RECREATIONAL FACILITIES

2 18-hole Golf Courses	1 Library
1 18-hole Disc Golf Course	4 Museums
1 Auditorium	23 Playgrounds
6 Baseball-Softball Facilities	1 Racquetball Court Facility
1 BMX/Skateboard Facility	3 Recreation Centers
5 Boat Ramps	1 Soccer Field Facilities
5 Exercise/Walking Tracks	4 Tennis Court Facilities
1 Fairgrounds	7 Undeveloped Parks
1 Football Stadium	4 Waterfront Parks

Sources: City of Fort Walton Beach Customer Service, Building & Permitting, and Recreation departments.

Note: Change in facility totals due to the demolition of Hendrick Recreation Center and Athletic Fields.

City of Fort Walton Beach, Florida
SCHEDULE 18
ELECTIONS - OKALOOSA COUNTY VOTER REGISTRATION

Pct	Place Name	Registered Voters				
		Total	Dems	Reps	NPA	Other
01	BAKER	2,006	383	1,382	222	19
02	BLACKMON	606	142	402	58	4
03	MILLIGAN	1,147	232	709	182	24
04	HOLT	1,090	239	658	175	18
05	LAUREL HILL	953	266	512	161	14
06	GARDEN CITY	2,608	523	1,631	421	33
07	DORCAS	1,341	291	776	253	21
08	HONEY CREEK	3,598	861	2,073	612	52
09	YELLOW RIVER	3,385	707	2,048	583	47
10	WEST WRIGHT	5,280	1,280	2,774	1,109	117
11	EAST CRESTVIEW	6,908	1,498	3,804	1,471	135
12	WEST CRESTVIEW	836	478	195	157	6
13	NORTH CRESTVIEW	3,246	719	1,943	540	44
14	WEST NICEVILLE	2,408	470	1,413	482	43
15	VALPARAISO	2,758	505	1,644	553	56
16	SHALIMAR	2,676	610	1,483	522	61
17	CENTRAL WRIGHT	2,993	791	1,441	704	57
18	OCEAN CITY	2,286	577	1,176	488	45
19*	EAST FWB	1,335	436	573	302	24
20	WEST DESTIN	2,245	430	1,311	452	52
21	MARY ESTHER	2,476	554	1,445	428	49
22*	S CENTRAL FWB	1,842	591	865	354	32
23	EGLIN AFB	486	100	218	157	11
24*	WEST FWB	2,602	750	1,285	516	51
25	N CENTRAL NICEVILLE	1,658	333	1,023	278	24
26	SEMINOLE	2,361	350	1,609	355	47
27	CINCO BAYOU	264	60	139	62	3
28*	GARNIERS	341	62	231	42	6
29*	GOLF COURSE	2,005	318	1,344	311	32
30	OKALOOSA ISLAND	1,299	203	768	295	33
31	LONGWOOD	1,748	271	1,240	212	25
32*	FERRY PARK	2,245	447	1,374	382	42
33	ROCKY BAYOU	4,064	498	2,963	553	50
34	FLOROSA	3,196	740	1,658	727	71
35	NORTH DESTIN	2,711	341	1,765	561	44
36	SOUTH NICEVILLE	2,306	358	1,561	334	53
37	LAKE LORRAINE	2,646	355	1,840	402	49
38	NORTHGATE	2,053	478	1,152	380	43
39	EAST WRIGHT	2,226	568	1,186	434	38
40	SOUTH BLUEWATER	2,778	330	1,999	409	40
41*	N CENTRAL FWB	1,281	229	834	197	21
42*	NEW HEIGHTS	2,103	664	949	449	41
43	S CENTRAL NICEVILLE	2,031	424	1,198	372	37
44	CENTRAL DESTIN	1,613	312	884	389	28
45	SOUTH CRESTVIEW	4,099	915	2,161	951	72
46	NORTH BLUEWATER	4,122	536	2,829	685	72
47	WYNNEHAVEN BEACH	1,695	365	856	430	44
48*	WESTWOOD RETIREMENT	142	37	95	10	0
49	EAST DESTIN	2,705	349	1,870	447	39
50	SOUTH DESTIN	2,827	381	1,904	486	56
51	AIRPORT ROAD	1,591	261	1,030	281	19
52	LIVE OAK	3,183	647	1,820	660	56
	Countywide Total	118,404	24,265	70,043	21,996	2,100
*City Precinct	City Total	11,854	2,995	6,522	2,130	207

Source: Okaloosa County Supervisor of Elections

City of Fort Walton Beach, Florida
SCHEDULE 19
SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS
Last Ten Fiscal Years
Unaudited

Fiscal Year	Assessments⁽¹⁾	Assessments Collected or Released	Ratio of Collections to Amount Assessed	Total Outstanding Current and Delinquent Assessment
2013	\$ -	\$ 5,302	\$ -	\$ 119,704
2012	-	12,779	-	125,006
2011	-	5,986	-	137,785
2010	-	19,801	-	143,771
2009	-	6,528	-	163,572
2008	-	7,511	-	170,100
2007	218,730	72,576	33.18%	177,610
2006	0.00	1,965	-	31,456
2005	0.00	50,257	-	33,421
2004	0.00	37,510	-	83,678

⁽¹⁾Assessments are payable over a 20 year period.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

City of Fort Walton Beach, Florida
SCHEDULE 20
MAJOR REVENUE SOURCES
Last Ten Fiscal Years
Unaudited

Fiscal Year	Property Taxes	% of Total Revenues	Other Taxes/ Franchise Fees	% of Total Revenues	Sewer Fees	% of Total Revenues	Sanitation Fees	% of Total Revenues	Water Fees	% of Total Revenues	Golf Fees	% of Total Revenues
2013	\$ 5,486,237	17.3%	\$ 6,355,549	20.1%	\$ 4,949,525	15.7%	\$ 3,499,459	11.1%	\$ 3,078,174	9.7%	\$ 1,591,423	5.0%
2012	\$ 5,681,589	18.5%	\$ 6,482,596	21.1%	\$ 4,839,764	15.8%	\$ 3,313,559	10.8%	\$ 3,052,071	9.9%	\$ 1,656,721	5.4%
2011	\$ 6,030,428	19.2%	\$ 6,673,824	21.2%	\$ 4,631,992	14.7%	\$ 3,307,993	10.5%	\$ 2,753,590	8.8%	\$ 1,954,589	6.2%
2010	5,332,480	17.5%	6,645,189	21.8%	4,154,795	13.6%	3,335,342	10.9%	2,379,913	7.8%	1,914,053	6.3%
2009	5,629,812	19.0%	6,425,482	21.7%	3,943,722	13.3%	3,363,185	11.4%	2,245,512	7.6%	2,164,174	7.4%
2008	6,021,743	20.6%	5,706,534	19.5%	3,984,282	13.6%	3,441,588	11.8%	2,271,327	7.8%	2,365,739	8.1%
2007	6,123,749	15.7%	5,645,463	14.5%	4,162,172	10.7%	3,427,925	8.8%	2,492,378	6.4%	2,441,793	6.3%
2006	5,303,877	14.9%	6,544,881	18.4%	3,932,591	11.1%	3,369,729	9.5%	2,360,766	6.6%	2,500,736	7.0%
2005	4,421,852	11.8%	5,957,840	15.8%	3,727,073	9.9%	3,311,508	8.8%	2,179,849	5.8%	2,224,935	5.9%
2004	4,166,452	13.1%	4,983,270	15.7%	3,544,738	11.2%	3,240,131	10.2%	689,910	2.2%	2,173,351	6.9%

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information beginning in that year.

City of Fort Walton Beach, Florida
SCHEDULE 21
WATER AND WASTEWATER SERVICE RATES
Unaudited

Monthly Water Rates ^(1,2)	Residential		Commercial		Number of Meters
	Inside	Outside ⁽³⁾	Inside	Outside ⁽³⁾	
Lifeline Rate ⁽⁴⁾	\$8.30	\$10.37	\$8.30	\$10.37	
Monthly Base Charge ⁽⁵⁾ , Meter Size:					
3/4"	\$8.30	\$10.37	\$8.30	\$10.37	8,677
1.0"	\$8.30	\$10.37	\$8.30	\$10.37	333
1.5"	\$11.29	\$14.11	\$11.29	\$14.11	107
2.0"	\$19.17	\$23.96	\$19.17	\$23.96	216
3.0"	\$29.22	\$36.52	\$29.22	\$36.52	14
4.0"	\$36.52	\$45.65	\$36.52	\$45.65	19
6.0"	\$58.10	\$72.62	\$58.10	\$72.62	0
8.0" or 10.0"	\$87.07	\$108.83	\$87.07	\$108.83	1
Multi-Residential, Addtl per Unit	\$6.14	\$7.67	\$8.30	\$10.37	
					9,367
			Residential Customers ⁽⁶⁾		8,170
			Commercial Customers ⁽⁶⁾		1,109
			Total Customers		9,279

Gallorage Rate (per 1,000 gallons per unit)	<u>Inside</u>	<u>Outside</u>
Block 1 (0 - 2,000)	Included in monthly base charge	
Block 2 (2,001 - 4,000)	\$2.48	\$3.10
Block 3 (4,001 - 8,000)	\$3.03	\$3.78
Block 4 (8,001 +)	\$4.54	\$5.67

Monthly Wastewater Rates ⁽²⁾	Residential	Commercial
Lifeline Rate ⁽⁴⁾	\$18.20	
Monthly Base Charge	\$18.20	\$21.84
Gallorage Rate (per 1,000 gallons per unit) ⁽⁵⁾		
Block 1 (0 - 2,000)	Included in monthly base charge	
Block 2 (2,001 +)	\$5.72	\$6.86

⁽¹⁾Irrigation customers subject to water rates as outlined herein

⁽²⁾Monthly Base Charge is per Unit. Residential Single Family and Commercial count as 1 unit.
Multi-Family and Multi-Commercial are billed according to meter size and unit count.

⁽³⁾Outside City surcharge of 25% for water.

⁽⁴⁾Single family residence with less than 2,000 gallons per month

⁽⁵⁾Residential service capped at 16,000 gallons per unit

⁽⁶⁾Billed in September

Source: City of Fort Walton Beach Comprehensive Fee Schedule

City of Fort Walton Beach, Florida
SCHEDULE 22
SANITATION AND RECYCLING SERVICE RATES
Unaudited

<u>Basic Garbage Rates</u>	<u>Garbage</u>	<u>Tipping</u>	<u>Total</u>
Residential			
One Container	\$ 10.60	\$ 6.45	\$ 17.05
Two Containers	21.20	12.80	34.00
Residential Dumpsters, Individual Meters	10.60	6.45	17.05
Commercial			
One Container	28.60	7.25	35.85
Two Containers	57.20	14.55	71.75
Shared Dumpster (minimum charge)	28.60	7.25	35.85
<u>Garbage and Trash Collection</u>	<u>Garbage</u>	<u>Tipping</u>	<u>Total</u>
2 Cubic Yards			
2 times per week	\$ 60.70	\$ 52.40	\$ 113.10
3 times per week	91.05	78.50	169.55
4 times per week	121.45	104.55	226.00
5 times per week	151.75	130.70	282.45
6 times per week	182.10	156.80	338.90
4 Cubic Yards			
2 times per week	85.70	104.55	190.25
3 times per week	128.55	156.80	285.35
4 times per week	171.40	209.05	380.45
5 times per week	214.25	261.30	475.55
6 times per week	257.10	313.55	570.65
6 Cubic Yards			
2 times per week	112.50	156.80	269.30
3 times per week	168.75	235.20	403.95
4 times per week	224.95	313.55	538.50
5 times per week	281.20	391.90	673.10
6 times per week	337.45	470.35	807.80
8 Cubic Yards			
2 times per week	135.70	209.05	344.75
3 times per week	203.55	313.55	517.10
4 times per week	271.40	418.05	689.45
5 times per week	339.25	522.60	861.85
6 times per week	407.10	627.05	1,034.15
Compactor Commercial Rate x 3 x Bulk Container(s)			
<u>Commercial Recycling</u>	<u>Garbage</u>	<u>Tipping</u>	<u>Total</u>
4 Cubic Yards			
2 times per week	112.70	-	112.70
3 times per week	169.00	-	169.00
4 times per week	225.35	-	225.35
5 times per week	281.70	-	281.70
6 Cubic Yards			
2 times per week	169.00	-	169.00
3 times per week	253.50	-	253.50
4 times per week	338.00	-	338.00
5 times per week	422.50	-	422.50
8 Cubic Yards			
2 times per week	225.35	-	225.35
3 times per week	338.00	-	338.00
4 times per week	450.70	-	450.70
5 times per week	563.35	-	563.35
Contaminated Load Fee (per dump)			
4 CY	20.00	31.20	51.20
6 CY	20.00	56.10	76.10
8CY	20.00	87.20	107.20

Source: City of Fort Walton Beach Comprehensive Fee Schedule

City of Fort Walton Beach, Florida
SCHEDULE 23
OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Function	Unaudited Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Public Safety										
Police										
Arrests	867	1,042	1,265	1,773	2,298	2,526	2,201	1,916	1,708	1,801
Traffic citations	3,413	3,773	3,246	6,207	6,430	7,211	5,171	5,399	5,633	7,138
Fire										
Emergency medical responses	3,231	3,197	3,041	2,791	2,645	2,484	2,567	2,441	1,671	1,605
Fire responses	1,277	1,288	1,224	1,158	477	479	517	335	403	143
Inspections	800	758	1,431	2,040	2,863	3,277	3,319	2,605	1,658	1,876
Code Enforcement										
Code violations	2,118	2,158	2,456	2,426	2,513	2,108	1,793	1,914	1,674	1,632
Engineering Services										
Building permits issued	n/a	n/a	n/a	n/a	1,429	1,582	1,710	2,341	3,151	1,907
Residential building permits issued	1,095	697	588	630	n/a	n/a	n/a	n/a	n/a	n/a
Commercial building permits issued	457	164	284	380	n/a	n/a	n/a	n/a	n/a	n/a
Value of permits (in millions)	n/a	n/a	n/a	n/a	\$46.20	\$37.40	\$28.70	\$31.10	\$61.70	\$20.80
Value of residential permits (in millions)	\$14.659	\$9.100	\$10.067	\$7.108	n/a	n/a	n/a	n/a	n/a	n/a
Value of commercial permits (in millions)	\$22.659	\$9.200	\$7.276	\$7.094	n/a	n/a	n/a	n/a	n/a	n/a
Street resurfacing (lane miles)	-	1.70	2.25	5.71	1.53	0.78	0.46	2.25	3.55	3.17
Pot holes (hours spent repairing)	813	989	1,014	617	1,257	1,476	1,022	713	861	613
Sanitation										
Refuse collected (tons)	24,059	25,374	25,332	25,676	25,485	27,873	28,374	28,446	34,378	28,813
Recyclables collected (tons)	615	375	251	161	150	112	367	400	385	417
Culture and Recreation										
Parks and Recreation										
Recreation program participants ⁽³⁾	n/a	92,267	106,486	103,121	116,565	118,890	125,697	120,329	86,312	79,991
Recreation program registrations	571	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Adult athletic participants ⁽³⁾	n/a	6,728	9,003	10,009	11,406	14,591	14,669	14,239	1,155	968
Adult athletic registrations	467	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Youth athletic participants ⁽³⁾	n/a	14,548	13,038	12,525	14,211	15,570	14,418	14,254	1,674	1,327
Youth athletic registrations	1,253	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Skate/tennis park participants ⁽⁴⁾	n/a	13,114	18,291	15,297	18,480	24,100	29,088	29,396	24,741	24,670
Library										
Circulation volume	142,888	139,196	126,146	135,314	142,148	137,002	126,271	124,489	118,368	116,883
Museum										
Number of visitors/participants ⁽¹⁾	22,901	21,480	28,200	39,935	47,700	45,168	28,916	30,144	31,531	35,598
Water System										
New connections	26	39	18	27	16	20	30	32	37	53
Water customers	9,279	8,846	8,804	8,795	8,741	8,927	8,996	8,966	8,984	8,928
Water produced (million gallons)	855	868	899	897	943	963	1,071	1,127	1,046	1,047
Wastewater System										
Wastewater treated (million gallons) ⁽²⁾	-	-	-	381	769	916	796	839	1,164	935

⁽¹⁾Decline in 2011 primarily in outreach numbers; reducing outreach to be more in line with in-house service numbers at the suggestion of City Council

⁽²⁾Wastewater treatment transferred to County in March 2010

⁽³⁾FY 2012-2013 total participants was changed to total registrations

⁽⁴⁾FY 2012-2013 numbers were not required to be collected for the BMX Park or the Tennis Center

Source: City of Fort Walton Beach Performance Measures.

City of Fort Walton Beach, Florida
SCHEDULE 24
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years
Unaudited

Function/Program	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Public Safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Sworn Officers	43	51	48	49	49	55	53	52	N/A	N/A
Engineering Services										
Miles of roads	93.12	93.06	92.65 ⁽²⁾	112.76	112.76 ⁽¹⁾	99.35	98.50	98.50	98.50	98.50
Miles of sidewalks	64.05	63.93	62.80	62.11	61.35	61.32	60.92	60.82	N/A	N/A
Signs fabricated and installed	785	935	976	910	1,110	1,223	1,481	1,412	1,509	894
Culture and Recreation										
Parks and Recreation										
Recreational Amenities	117 ⁽⁴⁾	122	122	122 ⁽³⁾	91	90	90	89	82	89
Parks (acres)	180.26	180.26	180.26	180.26	180.26	180.26	180.26	173.58	143.55	144.44
Library										
Inventoried collection	74,649	74,448	72,873	74,317	73,641	71,006	69,061	68,064	67,517	59,843
Water and Sewer System										
Potable water lines (miles)	145.9 ⁽⁵⁾	118.63	118.57	118.52	118.10	118.09	118.09	115.95	115.69	115.54
Sanitary sewer lines (miles)	118.76	118.76	118.76	118.77	118.77	118.77	118.77	118.77	118.64	118.64
Reuse water lines (miles)	7.14	3.82	3.82	3.82	4.14	4.14	4.14	4.14	2.19	2.19
Potable Water Elevated Storage Tank Capacity: 1 ⁽⁶⁾ tank 200,000 gal; 1 tank 750,000 gal; 2 tanks 500,000 gal										
Potable Water Ground Storage Tank Capacity: 1 tank 135,000 gal; 1 tank 250,000 gal; 1 tank 1,000,000 gal										
Pumping Capacity of Potable Water Wells: 9.231 million gallons per day										
Sanitary Sewer Ground Storage Tank Capacity: 4,000,000 gal										
Reuse Water Elevated Storage Tank Capacity: 1 tank 200,000 gal										
Reuse Water Ground Storage Tank Capacity: 1 tank 1,000,000 gal										
Stormwater System										
Storm drains (miles)	42.01	41.64	41.64 ⁽²⁾	45.70	45.66 ⁽¹⁾	34.73	34.73	34.73	N/A	N/A

⁽¹⁾ FY 2009 Increase due to better data with GIS system and methodology change for calculation.

⁽²⁾ FY 2011 Adjustment to only include City-maintained roads and stormwater pipe (collector, culvert, french drain)

⁽³⁾ FY 2010 Adjustment due to re-evaluation of how amenities are counted.

⁽⁴⁾ Decrease due to demolition of the Rec Center and fields.

⁽⁵⁾ Increase due to better data output from GIS system.

⁽⁶⁾ One elevated tank with 200,000 gallon capacity was converted to reuse water.

N/A: Not available.

Source: City of Fort Walton Beach Performance Measures.

City of Fort Walton Beach, Florida
SCHEDULE 25
INSURANCE COVERAGE
September 30, 2011
Unaudited

Effective Dates	Company	Policy Number	Agent, Broker, or Company Rep.	Type	Amount	Location
10/12/13 to 10/12/14	Wright National	1150113370	Fisher-Brown Agency	Flood	\$ 402,700 B \$ 16,300 C	4th Avenue & Carson Chester Pruitt Building
10/12/13 to 10/12/14	Wright National	1150113362	Fisher-Brown Agency	Flood	\$ 402,700 B \$ 23,500 C	50 Ferry Road Docie Bass Recreation Building
10/12/13 to 10/12/14	Wright National	1150113371	Fisher-Brown Agency	Flood	\$ 402,700 B \$ 84,500 C	14 Robinwood Drive SW Sanitation Building
12/06/13 to 12/06/14	Wright National	1150167295	Fisher-Brown Agency	Flood	\$ 500,000 B \$ 500,000 C	#7 Hollywood Boulevard Police Department
10/12/13 to 10/12/14	Wright National	1150113360	Fisher-Brown Agency	Flood	\$ 500,000 B \$ 260,100 C	#5 Hollywood Boulevard Fire Department
10/12/13 to 10/12/14	Wright National	1150113366	Fisher-Brown Agency	Flood	\$ 366,100 B \$ 31,100 C	Memorial Parkway Senior Citizens Building
10/12/13 to 10/12/14	Wright National	1150113367	Fisher-Brown Agency	Flood	\$ 402,700 B \$ 128,200 C	107 Miracle Strip Parkway Auditorium
10/12/13 to 10/12/14	Wright National	1150113368	Fisher-Brown Agency	Flood	\$ 402,700 B \$ 382,900 C	107 Miracle Strip Parkway City Hall
10/12/13 to 10/12/14	Wright National	1150113361	Fisher-Brown Agency	Flood	\$ 177,300 B \$ 16,300 C	107 Miracle Strip Parkway Council Chamber
10/12/13 to 10/12/14	Wright National	1150113365	Fisher-Brown Agency	Flood	\$ 402,700 B \$ 382,900 C	107 Miracle Strip Parkway Annex Building
10/12/13 to 10/12/14	Wright National	1150113363	Fisher-Brown Agency	Flood	\$ 389,700 B \$ 16,300 C	107 Miracle Strip Parkway Utility Building

Continued...

City of Fort Walton Beach, Florida
SCHEDULE 25
INSURANCE COVERAGE
September 30, 2011
Unaudited

<u>Effective Dates</u>	<u>Company</u>	<u>Policy Number</u>	<u>Agent, Broker, or Company Rep.</u>	<u>Type</u>	<u>Amount</u>	<u>Location</u>
10/12/13 to 10/12/14	Wright National	1150113369	Fisher-Brown Agency	Flood	\$ 402,700 B \$ 51,200 C	141 Miracle Strip Parkway City Museum
10/12/13 to 10/12/14	Wright National	1150113364	Fisher-Brown Agency	Flood	\$ 324,200 B 7,900 C	22 McGriff Street Child Care Facility
12/02/13 to 12/02/14	Wright National	1150164378	Fisher-Brown Agency	Flood	\$ 38,500 B	338 Miracle Strip Parkway Restroom, East of Pavillion Liza Jackson Park
12/02/13 to 12/02/14	Wright National	1150164379	Fisher-Brown Agency	Flood	\$ 38,500 B	338 Miracle Strip Parkway Restroom Near Ditch Liza Jackson Park
05/17/13 to 05/17/14	Wright National	1150342974	Fisher-Brown Agency	Flood	\$ 98,300 B	55 Ferry Road Boy Scout Hut
07/23/13 to 07/23/14	Wright National	1150518779	Fisher-Brown Agency	Flood	\$ 266,200 B \$ 33,600 C	18 Robinwood Drive Pump Station #1
06/23/13 to 06/23/14	Wright National	1150458831	Fisher-Brown Agency	Flood	\$ 55,000 B	168 Coral Drive SW City Hall Ball Field Restrooms
10/01/13 to 10/01/14	Indian Harbor Ins. Co.	PEC002924704	Public Risk Insurance Agency	Petroleum Liability	\$ 1,000,000/inc \$ 1,000,000/agg	Golf Course, Police, City Shop, Fuel Station
10/01/13 to 10/01/14	PGIT	PKFL1046200313-09	Public Risk Insurance Agency	Inland Marine	\$ 555,260 \$ 250,000 \$ 2,033,411 \$ 603,740 \$ 250,000 \$ 238,361 \$ 321,638 \$ 255,211	Fine Arts Rented, Borrowed, Leased Equipment Contractor's Mobile Equipment EDP/Minicomputer/Word Processor Valuable Papers Other Inland Marine Emergency Svcs Portable Equipment Communication Equipment

Continued...

City of Fort Walton Beach, Florida
SCHEDULE 25
INSURANCE COVERAGE
September 30, 2011
Unaudited

Effective Dates	Company	Policy Number	Agent, Broker, or Company Rep.	Type	Amount	Location
09/16/13 to 09/16/14	Hartford	21BSBDB7459	Fisher-Brown Agency	Public Official Bond	\$ 50,000	Finance Director
04/18/13 to 04/18/14	Hartford	21BSBDB7454	Fisher-Brown Agency	Public Official Bond	\$ 50,000	Customer Service Administrator, Finance Department
10/01/13 to 10/01/14	PGIT	PKFL1046200313-09	Public Risk Insurance Agency	Auto	\$ 100,000 \$ 1,000,000	Uninsured Motorist CSL Liability
10/01/13 to 10/01/14	PGIT	PKFL1046200313-09	Public Risk Insurance Agency	Forgery Alteration	\$ 250,000	
10/01/13 to 10/01/14	PGIT	PKFL1046200313-09	Public Risk Insurance Agency	Money & Securities	\$ 10,000	
10/01/13 to 10/01/14	PGIT	PKFL1046200313-09	Public Risk Insurance Agency	Crime	\$ 250,000	Public Employees Blanket Fidelity Bond
10/01/13 to 10/01/14	PGIT	PKFL1046200313-09	Public Risk Insurance Agency	General Liability	\$ 1,000,000	Occurance Aggregate
10/01/13 to 10/01/14	PGIT	PKFL1046200313-09	Public Risk Insurance Agency	Property	\$ 45,451,357	Blank Real & Personal Property
10/01/13 to 10/01/14	PGIT	PKFL1046200313-09	Public Risk Insurance Agency	Property	\$ 500,000 500,000	Business Income Additional Expense
10/01/13 to 10/01/14	PGIT	WC-FL1046200313-04	Public Risk Insurance Agency	Worker's Comp	\$ 1,000,000 \$ 1,000,000	Accident Disease
10/01/13 to 10/01/14	PGIT	PKFL1046200313-09	Public Risk Insurance Agency	Public Officials Empl. Practice	\$ 5,000,000 5,000,000	

Continued...

City of Fort Walton Beach, Florida
SCHEDULE 25
INSURANCE COVERAGE
September 30, 2011
Unaudited

<u>Effective Dates</u>	<u>Company</u>	<u>Policy Number</u>	<u>Agent, Broker, or Company Rep.</u>	<u>Type</u>	<u>Amount</u>	<u>Location</u>
10/01/13 to 10/01/15	Federal Insurance	9906-62-32	LB Bryan & Co.	AD&D	\$ 59,695	Occupational Death
					\$ 59,695	Response to Emergency
					\$ 179,085	Unlawful/Unintentional
10/01/13 to 10/01/14	PGIT	PKFL1046200313-09	Public Risk Insurance Agency	Boiler & Machinery	\$ 45,451,357	
05/01/13 to 05/01/14	Travelers	105927344	Fisher-Brown Agency	Fiduciary	\$ 2,000,000	Retirement Fund for General Liability Employees and Fire

Source: City of Fort Walton Beach Risk Management Department

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IV. COMPLIANCE SECTION

- **COMPLIANCE MATTERS**
- **MANAGEMENT LETTERS**
- **RESPONSES TO THE MANAGEMENT LETTER**

City of Fort Walton Beach, Florida
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
Year Ended September 30, 2013

State Agency Pass-Through Entity State Project	CSFA Number	Contract/Grant Number	Expenditures
Florida Department of Environmental Protection			
Direct Program			
Wastewater Treatment Facility Construction	37.077	WW284100	\$ 10,529,441
Florida Department of Community Affairs			
Direct Program			
Disaster Funding Agreement - Hurricane Isaac	97.036	13IS3S015601551	455
Florida Executive Office of the Governor			
Direct Program			
Infrastructure Grant Agreement	31.003	DIG1113	<u>194,876</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u>\$ 10,724,772</u>

The accompanying notes are an
integral part of this schedule.

City of Fort Walton Beach, Florida
NOTES TO SCHEDULE OF EXPENDITURES OF
STATE FINANCIAL ASSISTANCE
Year Ended September 30, 2013

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of State Financial Assistance includes the state grant activity of the City of Fort Walton Beach, Florida, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements described in Chapter 10.550, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Honorable Mayor and City Council Members
City of Fort Walton Beach, Florida

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

We have audited, 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, the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fort Walton Beach, Florida, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Fort Walton Beach, Florida's basic financial statements and have issued our report thereon dated March 3, 2014.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Fort Walton Beach, Florida's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fort Walton Beach, Florida'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fort Walton Beach, Florida'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*.

Honorable Mayor and City Council Members
City of Fort Walton Beach, Florida
Internal Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on
an Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards* (Continued)

Purpose of this Report

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

We noted certain matters that we reported to the City of Fort Walton Beach, Florida in a separate letter dated March 3, 2014.

Warren Averett, LLC

Fort Walton Beach, Florida
March 3, 2014

Honorable Mayor and City Council Members
City of Fort Walton Beach, Florida

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH CHAPTER 10.550, *RULES OF THE
AUDITOR GENERAL***

Report on Compliance for Each Major State Project

We have audited City of Fort Walton Beach, Florida's compliance with the types of compliance requirements described in the Florida Department of Financial Services' State Projects Compliance Supplement that could have a direct and material effect on each of City of Fort Walton Beach, Florida's major state projects for the year ended September 30, 2013. City of Fort Walton Beach, Florida's major state projects are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Fort Walton Beach, Florida's major state projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Chapter 10.550, *Rules of the Auditor General*. Those standards and Chapter 10.550 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about City of Fort Walton Beach, Florida's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state project. However, our audit does not provide a legal determination of City of Fort Walton Beach, Florida's compliance.

Opinion on Each Major State Project

In our opinion, City of Fort Walton Beach, Florida complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state projects for the year ended September 30, 2013.

Honorable Mayor and City Council Members
City of Fort Walton Beach, Florida
Independent Auditor's Report on Compliance for
Each Major Project and on Internal Control Over
Compliance Required by Chapter 10.550,
Rules of the Auditor General (Continued)

Report on Internal Control Over Compliance

Management of City of Fort Walton Beach, Florida is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Fort Walton Beach, Florida's internal control over compliance with the types of requirements that could have a direct and material effect on each major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state project and to test and report on internal control over compliance in accordance with Chapter 10.550, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Fort Walton Beach, Florida's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.550. Accordingly, this report is not suitable for any other purpose.

Warren Averett, LLC

Fort Walton Beach, Florida
March 3, 2014

City of Fort Walton Beach, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2013

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None Reported
- Noncompliance material to financial statements noted? _____ Yes X No

State Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with Chapter 10.550? _____ Yes X No

Identification of major project:

CFDA Number	Name of State Project
37.077	Wastewater Treatment Facility Construction

Dollar threshold used to distinguish between type A and type B programs _____ \$300,000

- Auditee qualified as low-risk auditee? _____ Yes X No

II. FINANCIAL STATEMENT FINDINGS

The results of our audit of the City of Fort Walton Beach, Florida did not disclose any findings required to be reported under Chapter 10.550, *Rules of the Auditor General*.

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Honorable Mayor and City Council Members
City of Fort Walton Beach, Florida

MANAGEMENT LETTER

We have audited the financial statements of the City of Fort Walton Beach, Florida, as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated March 3, 2014.

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, and Chapter 10,550, *Rules of the Florida Auditor General*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditor's Report on Compliance With Requirements Applicable to Each Major State Project and on Internal Control over Compliance in Accordance with Chapter 10,550, *Rules of the Florida Auditor General*; and the Schedule of Findings and Questioned Costs. Disclosures in this report, which are dated March 3, 2014, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10,550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedules:

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial report. Corrective actions have been taken or are in progress to address findings and recommendations made in the preceding annual financial audit report. (please see status under the heading "Prior Year Comments")

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City of Fort Walton Beach, Florida, complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)3., *Rules of Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)4., *Rules of 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.

Section 10.554(1)(i)5., *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. The City of Fort Walton Beach, Florida, was established as a municipality by a Special Act of the Florida Legislature in 1937. The City's original charter was enacted as Chapter 18539, Laws of Florida.

The present charter was enacted in 1953 as Chapter 29093, Laws of Florida. The City of Fort Walton Beach, Florida, had one component unit within its reporting entity. The Fort Walton Beach Community Redevelopment Agency was created pursuant to provisions of Chapter 163, Part III, Florida Statutes. This action, adopted by Resolution Number 77-38, also outlines the rights, powers, duties, privileges, and immunities invested in the governing body. City ordinance 1262, adopted on September 27, 1994, gave the City Council the authority to appoint an independent Board of Commissioners in place of the City Council effective January 1, 1995.

During 1992, the Florida Department of Community Affairs determined that the Fort Walton Beach Housing Authority was a dependent special district of the City of Fort Walton Beach, Florida. Utilizing the standards set forth in GASB 61, the Fort Walton Beach Housing Authority was not considered as having met sufficient criteria for inclusion within the City's audited financial statements for the year ended September 30, 2013. As a result, the Fort Walton Beach Housing Authority is not included in the City's annual financial report.

During 2011, the Fort Walton Beach Community Redevelopment Agency (the Agency) became a blended component unit of the City. The City's council members serve as board members of the Agency. The Agency's governing body is the same as the governing body of the City and the Agency provides services specifically to the Community Redevelopment Area of the City. Due to the nature and significance of the Agency's relationship with the City, exclusion of the Agency's financial operations would render the City's financial statements incomplete or misleading.

Section 10.554(1)(i)6., a., *Rules of the Auditor General*, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City of Fort Walton Beach, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)6.b., *Rules of the Auditor General*, requires that we determine whether the annual financial report for the City of Fort Walton Beach, Florida, for the fiscal year ended September 30, 2013, 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, 2013. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)6.c., and 10.556(7), *Rules of the Auditor General*, we applied financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. Our assessment was performed as of September 30, 2013.

PRIOR YEAR COMMENTS

2012-MC-01: DEFINED BENEFIT PENSION PLANS

Prior Year Comment Summarized

In June, 2012 the GASB adopted two statements, GASB 67 – *Financial Reporting for Pension Plans, an amendment of GASB 25* and GASB 68 – *Accounting and Financial Reporting for Pensions, an amendment of GASB 27*. The provisions of the Statement 68 will be effective for the year ended September 30, 2015. This statement will require the recognition of the net pension liability in the full accrual financial statements which represents the total pension liability less the fiduciary net position of the pension plan which is currently presented in the supplementary information as the unfunded AAL (Actuarial Accrued Liability).

The City of Fort Walton Beach, Florida has funded 100% of the actuarially required contributions of the three defined benefit pension plans over the last ten year period. However the overall funded status of each plan has declined over the same time period. If the City, as the plans' sponsor, were to adopt the provisions of GASB early, the effect is consequential.

We recommend the City of Fort Walton Beach, Florida as the plans sponsor review alternatives as it related to the existing benefit structure in an effort to stabilize current and future pension costs and liability while providing benefits that meet the objectives of employees covered by the plans.

Status

The City Council, acting as the Board of Trustees for the General Employees' Pension Plan, recently agreed to expand its Investment Policy to allow for a larger diversity in its portfolio and to respond to the changing economic environment. At the fiscal 2013-14 strategic planning session, alternative structures for the Plan will be presented for implementation during the fiscal year 2014-15 budget process.

2012-MC-02: GOLF ENTERPRISE FUND

Prior Year Comment Summarized

The Golf Fund reported a net loss of approximately \$265,000 for the year ended September 30, 2012 and has deficit unrestricted net position of approximately \$99,000 at September 30, 2012. The fund generated positive cash flow from operating activities of approximately \$110,000 in FY 12; however that is not sufficient to cover the fund's debt payments to creditors and the advance repayment to the General Fund.

We recommended that City management continue to closely monitor the fiscal operations of the Golf Fund. If the fund continues operating at a loss, the City should consider temporarily suspending the repayments of the general fund advance or make additional budget transfers to eliminate the deficit fund balance.

Status

Effective October 1, 2014, the City opted to combine the Golf Enterprise Fund with the City's General Fund operations, recognizing that self-sustainability was not a viable option in the Golf Fund's current state.

CURRENT YEAR COMMENTS (CONTINUED)

2012-MC-03: ANTI-FRAUD PROGRAM

Prior year comment summarized

The City maintains a strong ethical culture and positive environment to deter fraud and promote ethical behavior. None the less, fraud can occur in any entity and the City would benefit by formally reviewing its fraud prevention, detection and reaction programs on an annual basis.

We recommended City Council and senior management would strengthen its anti-fraud program with the adoption of the following:

- Periodic documented fraud risk assessments
- A written fraud response plan
- Training for City employees on warning signs of fraud and what to do if they suspect fraud is occurring
- Implementation of a whistleblower policy

Status

While there have been no reported incidents of ethics or fraud violations at the City of Fort Walton Beach, the Senior Management team is being proactive in reviewing all policies and procedures and drafting a new Code of Ethics for both City Council and its employees. The City continues to research the various anti-fraud programs throughout the State and is currently implementing a fraud hotline. This will be the first step in the development of an anti-fraud program that is customized to the City of Fort Walton Beach.

2012-MC-04: ENTERPRISE RISK MANAGEMENT

Prior year comment summarized

The City of Fort Walton Beach, Florida has not formally documented management's identification of strategic, operational and financial risks and the related monitoring of the risks identified.

We recommended documenting enterprise risk assessments as they will provide additional assurances that key business processes have appropriate control activities in place. The assessment and documentation will help management identify control gaps, strengthen existing controls, and remove redundancies where applicable.

Status

The City recently completed its review of the Hurricane Response Plan and continues to make adjustments and revisions to its Continuity of Operations Plan. Effective with the fiscal year 2013-14 budget, both five- and ten-year replacement programs for Fleet and IT were adopted.

Honorable Mayor and City Council Members
City of Fort Walton Beach, Florida
Management Letter (Continued)

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

We greatly appreciate the assistance and cooperation extended us during our audit.

Warren Averett, LLC

Fort Walton Beach, Florida
March 3, 2014

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