

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
CITY OF NEPTUNE BEACH, FLORIDA  
SEPTEMBER 30, 2013**

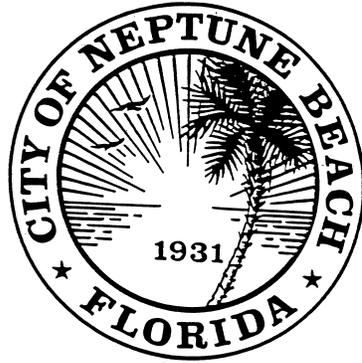


**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
CITY OF NEPTUNE BEACH, FLORIDA**

**SEPTEMBER 30, 2013**

**TABLE OF CONTENTS**

<b>Principal City Officials</b> .....	1
<b>Independent Auditors' Report</b> .....	2-3
<b>Management's Discussion and Analysis</b> .....	4-10
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Position .....	11
Statement of Activities .....	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position .....	14
Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	15
Reconciliation of the Statements of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	16
Statement of Net Position – Proprietary Funds .....	17-18
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds .....	19
Statement of Cash Flows – Proprietary Funds .....	20-21
Statement of Net Position – Fiduciary Fund .....	22
Statement of Changes in Fiduciary Net Position – Fiduciary Fund .....	23
Notes to the Financial Statements .....	24-47
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule – General Fund .....	48
Note to the Budgetary Comparison Schedule – General Fund .....	49
Schedule of Funding Progress .....	50
Schedule of Contributions from Employer and Other Contributing Entities .....	51
<b>Combining and Individual Fund Statements and Schedules</b>	
Combining Balance Sheet – Nonmajor Governmental Funds .....	52-53
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds .....	54-55
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Nonmajor Governmental Funds .....	56-65
<b>Schedule of Expenditures of the City of Jacksonville Grant Funds</b> .....	66
<b>Other Reports</b>	
<b>Additional Elements of Report Prepared in Accordance with <i>Government Auditing Standards</i>, Issued by the Comptroller General of the United States; and the <i>Rules of the Auditor General</i> of the State of Florida</b>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	67-68
Management Letter .....	69-71
Management's Response Letter to Report on Internal Control .....	72-73
Management's Response Letter .....	74



# Introductory Section

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Annual Financial Report



# City of Neptune Beach, Florida Principal Officials

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## **Elected Officials**

Harriet Pruette - Mayor

John Jolly - Vice Mayor

Richard Arthur - Councilor

Kara Tucker - Councilor

Scott Wiley – Councilor

## **City Council Appointed Officials**

James R. Jarboe - City Manager

Patrick Krechowski - City Attorney

Lisa Volpe – City Clerk

## **Appointed by City Manager/Confirmed by City Council**

David W. Sembach - Director of Public Safety

Steven L. Ramsey - Director of Finance



# Financial Section

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Annual Financial Report

## INDEPENDENT AUDITORS' REPORT

Honorable Mayor, City Councilors  
and City Manager  
City of Neptune Beach, Florida  
Neptune Beach, Florida

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 Neptune Beach, Florida, (the City), as of and for the year ended September 30, 2013, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibilities for the Financial Statements**

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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, as of September 30, 2013, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Certified Public Accountants**

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461 • FAX (352) 378-2505  
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542  
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762  
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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS  
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Honorable Mayor, City Councilors  
and City Manager  
City of Neptune Beach, Florida  
Neptune Beach, Florida

**INDEPENDENT AUDITORS' REPORT**  
*(Concluded)*

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pages 4 through 10, and other required information on pages 48 through 51 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the 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 (RSI) 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 an opinion on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual fund financial statements, and schedule of expenditures of the City of Jacksonville grant funds per Ordinance Code Chapter 118.205(e), 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 of the City. The combining and individual fund financial statements and the schedule of expenditures of the City of Jacksonville grant funds is the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Other Reports Required by Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report, dated March 10, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Purvis, Gray and Company, LLP*

March 10, 2014  
Gainesville, Florida

## **MANAGEMENT'S DISCUSSION AND ANALYSIS** (Unaudited)

As management of the City of Neptune Beach, we offer readers of the City of Neptune Beach's financial statements this narrative overview and analysis of the financial activities of the City of Neptune Beach for the fiscal year ended September 30, 2013.

### ***Financial Highlights***

- The assets of the City exceeded its liabilities at the close of fiscal year 2013 by \$13,257,589 (net position). The net position of the City increased by \$1,318,337 from the prior year total of \$11,939,252.
- At September 30, 2013, the City's governmental funds reported combined ending fund balances of \$2,865,723, an increase of \$187,747 in comparison with the prior year.
- At September 30, 2013, unassigned fund balance for the General Fund was \$2,251,251 or 52.6% of total General Fund expenditures.
- General fund revenues decreased by \$159,894 or 3.6% below the prior fiscal year due a decrease in grant receipts.
- The City's outstanding notes payable and bonded debt increased by \$1,787,576 or 26.4% during fiscal year 2013. This increase was due to new borrowings for sewer line projects.

### ***Overview of the Financial Statements***

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### ***Government-wide Financial Statements***

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes, licenses and permits, and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, and culture and recreation. The business-type activities of the City include Water and Sewer, Sanitation, and Stormwater. The government-wide financial statements can be found on pages 11 – 12 of this report.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS** *(Continued)*

### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Neptune 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 can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds

### ***Governmental Funds***

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements. 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 balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Neptune Beach maintains fourteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other thirteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Neptune Beach adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for this fund to demonstrate compliance with this budget.

### ***Proprietary Funds***

The City of Neptune Beach maintains three proprietary or enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Neptune Beach uses enterprise funds to account for its water and sewer fund, the sanitation fund, and the stormwater fund.

Proprietary funds provide the same type information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund and the Sanitation Fund, considered to be major funds of the City of Neptune Beach and the Stormwater Fund, reported as a non-major fund. The basic proprietary fund financial statements can be found on pages 17 – 21 of this report.

### ***Fiduciary Funds***

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 – 47 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's progress in funding its obligation to provide the Police Officers' pension benefits and other post employment benefits. Required supplementary information can be found on pages 48 – 51 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on the pension. Combining and individual fund statements and schedules can be found on pages 52 – 65 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, assets exceeded liabilities by \$13,257,589 at the close of the fiscal year ended September 30, 2013.

**City of Neptune Beach's Net Position**  
**September 30, 2013**  
(In Thousands)

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Current and Other Assets	\$3,206	\$2,993	\$4,634	\$1,086	\$7,840	\$4,079
Capital Assets	4,617	5,094	10,700	10,801	15,317	15,895
Total Assets	<u>7,823</u>	<u>8,087</u>	<u>15,334</u>	<u>11,887</u>	<u>23,157</u>	<u>19,974</u>
Long-term Liabilities						
Outstanding	446	679	8,691	6,567	9,137	7,246
Other Liabilities	287	337	476	452	763	789
Total Liabilities	<u>733</u>	<u>1,016</u>	<u>9,167</u>	<u>7,019</u>	<u>9,900</u>	<u>8,035</u>
Net Position						
Net Invested in Capital						
Assets	4,617	4,837	5,423	4,343	10,040	9,180
Restricted	854	612	337	341	1,191	953
Unrestricted	1,619	1,622	407	184	2,026	1,806
Total Net Position	<u>\$7,090</u>	<u>\$7,071</u>	<u>\$6,167</u>	<u>\$4,868</u>	<u>\$13,257</u>	<u>\$11,939</u>

The largest portion of the City's net position, \$10,040,072 (75.7%), reflects its investment in capital assets (e.g., land, buildings, and equipment); less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

A portion of the City's net position, \$1,190,948 (9.0%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of the net position, \$2,026,569, represents unrestricted net position. At the end of the current fiscal year, the City is able to report positive balances in total net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

Following is a summary of activities for the City during the fiscal year ended September 30, 2013 and 2012.

**City of Neptune Beach's Change in Net Position**  
(In Thousands)

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>REVENUES</b>						
<b>Program Revenues:</b>						
Charges of services	\$296	\$240	\$5,485	\$5,286	\$5,781	\$5,526
Operating grants and contributions	792	926	17	0	809	926
Capital grants and contributions	27	36	0	51	27	87
<b>General Revenues:</b>						
Property taxes	2,102	2,093	0	0	2,102	2,093
Sales and use taxes	641	612	0	0	641	612
Franchise and utility taxes	633	649	0	0	633	649
Discretionary Sales Surtax	379	360	0	0	379	360
State Revenue Sharing	172	159	0	0	172	159
Interest revenue	10	6	2	0	12	6
Miscellaneous	129	183	12	0	141	183
<b>Total Revenues</b>	<b>5,181</b>	<b>5,264</b>	<b>5,516</b>	<b>5,337</b>	<b>10,697</b>	<b>10,601</b>
<b>Expenses:</b>						
General Government	816	843	0	0	816	843
Public Safety	2,868	2,921	0	0	2,868	2,921
Public Works	1,123	923	0	0	1,123	923
Culture and Recreation	401	354	0	0	401	354
Interest on L-T debt	4	16	0	0	4	16
Water and Sewer	0	0	2,857	2,827	2,857	2,827
Sanitation	0	0	1,073	1,077	1,073	1,077
Stormwater	0	0	237	212	237	212
<b>Total Expenses</b>	<b>5,212</b>	<b>5,057</b>	<b>4,167</b>	<b>4,116</b>	<b>9,379</b>	<b>9,173</b>
Net increase (decrease) in net position before transfers	(31)	207	1,349	1,221	1,318	1,428
Transfers	50	25	(50)	(25)	0	0
Increase (decrease) in net position	19	232	1,299	1,196	1,318	1,428
Net Position – Beginning	7,071	6,839	4,868	3,672	11,939	10,511
Net Position – Ending	<b>\$7,090</b>	<b>\$7,071</b>	<b>\$6,167</b>	<b>\$4,868</b>	<b>\$13,257</b>	<b>\$11,939</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### ***Governmental Activities***

Governmental activities increased the City of Neptune Beach's net position by \$19,230 in the Governmental Funds, accounting for a 0.3% increase in governmental net position.

### ***Business-type Activities***

Business-type activities increased the City of Neptune Beach's net position by \$1,299,107, accounting for a 26.7% increase in business-type activities net position. This increase was due to increased rate charges in user fees.

### ***Overall Financial Position***

The overall financial position of the City of Neptune Beach has improved by \$1,318,337, thereby accounting for a total increase in net position of 11.0%. This was attributable to the explanations given above for Governmental activities and Business-type activities.

### ***Financial Analysis of the City's Funds***

As noted earlier the City 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 *spendable resources*. Such information is useful in assessing the City of Neptune Beach's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of fiscal year 2013, the City's governmental funds reported combined ending fund balances of \$2,865,723, an increase of \$187,747 in comparison with the prior year. This increase is consistent with the prior year.

The General Fund is the chief operating fund of the City of Neptune Beach. At the end of fiscal year 2013, unassigned fund balance of the general fund was \$2,251,251. Unreserved fund balance represents 50% of the total general fund expenditures and transfers out. The fund balance of the City's General Fund increased by \$105,744 during the current fiscal year.

Non-major Governmental Funds consisting of special revenue funds and debt service funds have a combined fund balance of \$614,472. The net increase in fund balance during the current year in Non-major governmental funds was \$82,003. This increase was largely due to transfers in from other funds.

### ***Proprietary Funds***

The City'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 Water and Sewer Fund at the end of the year amounted to \$407,351.

### ***General Fund Budgetary Highlights***

The major difference, in the amount of \$356,494, between the final budget and the actual expenditures in the General Fund was due to anticipated costs that were not incurred amongst the various departments.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

**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 amounts to \$15,317,278 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, and construction in progress. The total decrease in the City's investment in capital assets for the current fiscal year was 3.6%.

**City of Neptune Beach's Capital Assets**  
(Net of Depreciation)  
(In Thousands)

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Capital assets not being Depreciated, land, and construction in progress	\$38	\$174	\$1	\$1	\$39	\$175
Buildings and other improvements	4,218	4,463	10,699	10,800	14,917	15,263
Equipment	361	457	0	0	361	457
Total	<u>\$4,617</u>	<u>\$5,094</u>	<u>\$10,700</u>	<u>\$10,801</u>	<u>\$15,317</u>	<u>\$15,895</u>

Additional information on the City of Neptune Beach's capital assets can be found in Note 5 on pages 36 – 37 of this report.

**Long-term Debt**

At the end of fiscal year 2013, the City of Neptune Beach had total bonded debt outstanding of \$8,557,206. The City's debt represents bonds, Florida Department of Environmental Protection loans, and Bank loans secured solely by specified revenue sources (i.e., revenue bonds).

**City of Neptune Beach's Outstanding Debt**  
General Obligation, Revenue Bonds and SRF Loans  
(In Thousands)

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
General Obligation Bonds	\$0	\$257	\$0	\$0	\$0	\$257
Revenue Bonds	0	0	1,250	2,900	1,250	2,900
Sewer Line Loan	0	0	3,280	0	3,280	0
Refunding Loan	0	0	745	0	745	0
State Revolving Fund Loans	0	0	3,282	3,590	3,282	3,590
Equipment	0	0	0	23	0	23
Total	<u>\$0</u>	<u>\$257</u>	<u>\$8,557</u>	<u>\$6,513</u>	<u>\$8,557</u>	<u>\$6,770</u>

## **MANAGEMENT'S DISCUSSION AND ANALYSIS** *(Concluded)*

The City of Neptune Beach's total debt increased by \$1,787,576 (26.4%) during the current fiscal year. This increase was due to new borrowings for sewer line projects netted with normal loan payments. The new borrowings included a \$3,280,000 bank loan, completed in September, to renovate failing sewer lines in an area of the City and a bank loan in the amount of \$745,000 to refinance the Series 2001 Revenue Bonds at a lower interest rate resulting in an interest savings of approximately \$70,000 over a 3 year period. The transaction to refinance the bonds occurred in early September 2013.

Under Florida Statutes, no debt limit margin is placed on local governments.

Additional information on the City's long-term debt can be found in Note 6 on pages 37 – 40 of this report.

### ***Economic Factors and Next Year's Budgets and Rates***

The State of Florida, by constitution, does not have a state personal income tax and, therefore, the State operates primarily using sales, gasoline, and corporate income taxes. Local governments (cities, counties, and school boards) primarily rely on property and a limited array of permitted other taxes (sales, gasoline, utilities services, etc.), and fees (franchise, occupational license, etc.) for their governmental activities. There are a limited number of state-shared revenues and recurring and non-recurring (one-time) grants from both state and federal governments.

### ***Other Economic Factors***

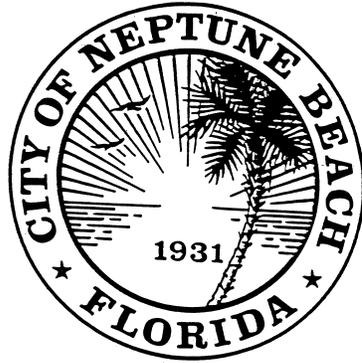
- The unemployment rate for the municipal service area is less than 6.4%. This compares favorably with the state's average unemployment rate and the national average unemployment rate.
- Inflationary trends in the region compare favorably to national indices.

### ***Budget Highlights***

- The City adopted the roll-back rate of 3.3759 mills for its Ad Valorem millage rate this budget year. The prior year rate was 3.3443 mills.

### ***Requests for Information***

This financial report is designed to provide a general overview of the City of Neptune Beach's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Neptune Beach, Finance Department Director, 116 First Street, Neptune Beach, Florida 32266.



# **Basic Financial Statements**

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Annual Financial Report

**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2013**  
**CITY OF NEPTUNE BEACH, FLORIDA**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 2,624,824	\$ 480,273	\$ 3,105,097
Equity in Pooled Investments	6,074	11,008	17,082
Accounts Receivable	7,798	521,558	529,356
Due from Other Governments	287,196	0	287,196
Internal Balances	225,021	(225,021)	0
Restricted Assets:			
Temporarily Restricted:			
Equity in Pooled Cash and Cash Equivalents	0	3,846,953	3,846,953
Net Pension Assets	54,744	0	54,744
Capital Assets:			
Land	37,861	0	37,861
Construction in Progress	0	986	986
Buildings	4,274,066	3,285,756	7,559,822
Improvements Other than Buildings	2,604,151	17,920,812	20,524,963
Equipment	3,004,123	3,024,746	6,028,869
(Accumulated Depreciation)	(5,302,753)	(13,532,470)	(18,835,223)
<b>Total Assets</b>	<u>7,823,105</u>	<u>15,334,601</u>	<u>23,157,706</u>
<b>Liabilities</b>			
Accounts Payable and Accrued Liabilities	225,084	233,456	458,540
Unearned Revenue	43,666	0	43,666
Deposits	14,786	0	14,786
Due to Other Governments	3,115	0	3,115
Compensated Absences - Current	34,600	22,200	56,800
Payable from Restricted Assets:			
Deposits	0	229,589	229,589
Accrued Interest Payable	0	12,668	12,668
Current Portion of Bonds Payable	0	165,000	165,000
Current Portion of Loans Payable	0	537,462	537,462
Noncurrent Liabilities:			
Compensated Absences - Noncurrent	333,605	92,142	425,747
Other Postemployment Benefit Obligation	78,000	20,000	98,000
Bonds Payable Long-term	0	1,085,000	1,085,000
Loans Payable Long-term	0	6,769,744	6,769,744
<b>Total Liabilities</b>	<u>732,856</u>	<u>9,167,261</u>	<u>9,900,117</u>
<b>Net Position</b>			
Net Investments in Capital Assets	4,617,448	5,422,624	10,040,072
Restricted for:			
Capital Projects	0	0	0
Debt Services	0	48,419	48,419
Renewal and Replacement	0	288,946	288,946
Pensions	54,744	0	54,744
Other Purposes	798,839	0	798,839
Unrestricted	1,619,218	407,351	2,026,569
<b>Total Net Position</b>	<u>\$ 7,090,249</u>	<u>\$ 6,167,340</u>	<u>\$ 13,257,589</u>

See accompanying notes.

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA**

Function/Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
<b>Primary Government</b>							
Governmental Activities:							
General Government	\$ 816,130	\$ 149,722	\$ 10,725	\$ 0	\$ (655,683)	\$ 0	\$ (655,683)
Public Safety	2,867,645	65,066	213,534	27,012	(2,562,033)	0	(2,562,033)
Public Works	1,123,421	0	320,380	0	(803,041)	0	(803,041)
Culture and Recreation	400,651	80,980	247,138	0	(72,533)	0	(72,533)
Interest on Long-term Debt	4,396	0	0	0	(4,396)	0	(4,396)
<b>Total Governmental Activities</b>	<b>5,212,243</b>	<b>295,768</b>	<b>791,777</b>	<b>27,012</b>	<b>(4,097,686)</b>	<b>0</b>	<b>(4,097,686)</b>
Business-type Activities:							
Water and Sewer	2,856,665	3,925,846	17,413	0	0	1,086,594	1,086,594
Sanitation	1,072,931	1,266,672	0	0	0	193,741	193,741
Storm Water Utility	237,476	292,126	0	0	0	54,650	54,650
<b>Total Business-type Activities</b>	<b>4,167,072</b>	<b>5,484,644</b>	<b>17,413</b>	<b>0</b>	<b>0</b>	<b>1,334,985</b>	<b>1,334,985</b>
<b>Total Primary Government</b>	<b>\$ 9,379,315</b>	<b>\$ 5,780,412</b>	<b>\$ 809,190</b>	<b>\$ 27,012</b>	<b>(4,097,686)</b>	<b>1,334,985</b>	<b>(2,762,701)</b>
<b>General Revenues</b>							
Taxes:							
					2,102,272	0	2,102,272
					640,743	0	640,743
					632,801	0	632,801
					172,499	0	172,499
					379,719	0	379,719
					9,902	1,832	11,734
					128,980	12,290	141,270
					50,000	(50,000)	0
					<b>4,116,916</b>	<b>(35,878)</b>	<b>4,081,038</b>
					<b>19,230</b>	<b>1,299,107</b>	<b>1,318,337</b>
					<b>7,071,019</b>	<b>4,868,233</b>	<b>11,939,252</b>
					<b>\$ 7,090,249</b>	<b>\$ 6,167,340</b>	<b>\$ 13,257,589</b>

See accompanying notes.

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA**

	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 2,049,234	\$ 575,590	\$ 2,624,824
Equity in Pooled Investments	4,792	1,282	6,074
Accounts Receivable	14	7,784	7,798
Due from Other Governments	222,392	64,804	287,196
Due from Other Funds	228,944	192,952	421,896
<b>Total Assets</b>	<b>2,505,376</b>	<b>842,412</b>	<b>3,347,788</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable and Accrued Liabilities	192,558	31,065	223,623
Due to Other Funds	0	196,875	196,875
Due to Other Governments	3,115	0	3,115
Unearned Revenue	43,666	0	43,666
Deposits	14,786	0	14,786
<b>Total Liabilities</b>	<b>254,125</b>	<b>227,940</b>	<b>482,065</b>
<b>Fund Balances</b>			
Restricted for:			
Public Safety	0	32,487	32,487
Capital Outlay	0	708,547	708,547
Other	0	57,805	57,805
Committed for:			
Public Safety	0	0	0
Unassigned	2,251,251	(184,367)	2,066,884
<b>Total Fund Balances</b>	<b>2,251,251</b>	<b>614,472</b>	<b>2,865,723</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,505,376</b>	<b>\$ 842,412</b>	<b>\$ 3,347,788</b>

See accompanying notes.

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA**

**Fund Balances - Total Governmental Funds** \$ 2,865,723

**Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:**

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

Capital Assets - Net 4,617,448

The cumulative effect of over (under) funding the actuarial required contributions to an employee benefit does not represent a financial asset or liability in the governmental funds. In the Statement of Net Position, which is presented on the accrual basis, an asset (liability) is reported since the adjustment to expense is fully recognized in the Statement of Activities.

Net Pension Asset 54,744  
Net Postemployment Benefit Obligation (78,000)

Interest on long-term debt is generally not accrued in governmental funds, but rather is recognized as an expenditure when due. (1,461)

Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.

Compensated Absences (368,205)

**Net Position of Governmental Activities** \$ 7,090,249

See accompanying notes.

**STATEMENTS OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA**

	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Taxes	\$ 2,735,073	\$ 695,431	\$ 3,430,504
Charges for Services	9,048	40,981	50,029
Licenses and Permits	140,944	0	140,944
Intergovernmental	1,280,475	43,969	1,324,444
Fines and Forfeitures	49,510	15,286	64,796
Investment Income	9,320	582	9,902
Miscellaneous	112,842	48,012	160,854
<b>Total Revenues</b>	<u>4,337,212</u>	<u>844,261</u>	<u>5,181,473</u>
<b>Expenditures</b>			
Current:			
General Government	785,167	0	785,167
Public Safety	2,720,263	21,094	2,741,357
Public Works	466,802	495,816	962,618
Culture and Recreation	216,710	142,210	358,920
Debt Services:			
Principal	0	257,109	257,109
Interest	0	4,396	4,396
Capital Outlay	90,668	36,443	127,111
<b>(Total Expenditures)</b>	<u>(4,279,610)</u>	<u>(957,068)</u>	<u>(5,236,678)</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>57,602</u>	<u>(112,807)</u>	<u>(55,205)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	321,505	466,315	787,820
Transfers (out)	(273,363)	(271,505)	(544,868)
<b>Total Other Financing Sources (Uses)</b>	<u>48,142</u>	<u>194,810</u>	<u>242,952</u>
<b>Net Changes in Fund Balances</b>	105,744	82,003	187,747
<b>Fund Balances, Beginning of Year</b>	<u>2,145,507</u>	<u>532,469</u>	<u>2,677,976</u>
<b>Fund Balances, End of Year</b>	<u>\$ 2,251,251</u>	<u>\$ 614,472</u>	<u>\$ 2,865,723</u>

See accompanying notes.

**RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA**

**Net Change in Fund Balances - Total Governmental Funds** \$ 187,747

**Amounts Reported for Governmental Activities in the Statement of  
Activities are Different Because:**

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

Expenditures for Capital Assets	\$ 127,111	
(Current Year Depreciation)	(411,019)	(283,908)

In the governmental funds, contributions made to employee benefits in excess of the actuarial required contribution amount are reported as expenditures. In the Statement of Net Position, which is presented on the accrual basis, an asset (liability) is reported since the adjustment to expense is fully recognized in the Statement of Activities.

Decrease in Net Pension Assets		(2,350)
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Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Principal Payments		257,109
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Some expenses reported in the Statement of Activities do not require use of current financial resources and, therefore, are not reported as expenditures in the funds.

Transfer of Capital Assets	(192,952)	
Change in Compensated Absences Payable	53,584	(139,368)

<b>Change in Net Position of Governmental Activities</b>		<b>\$ 19,230</b>
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See accompanying notes.

**STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 SEPTEMBER 30, 2013  
 CITY OF NEPTUNE BEACH, FLORIDA**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Water and Sewer</b>	<b>Sanitation</b>	<b>Stormwater Utility</b>	<b>Total</b>
<b>Assets</b>				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 97,312	\$ 380,758	\$ 2,203	\$ 480,273
Equity in Pooled Investments	10,143	858	7	11,008
Accounts Receivable, Net of Allowance	361,560	128,895	31,103	521,558
<b>Total Current Assets</b>	<b>469,015</b>	<b>510,511</b>	<b>33,313</b>	<b>1,012,839</b>
Noncurrent Assets:				
Equity Pooled in Cash and Cash Equivalents	3,846,953	0	0	3,846,953
Capital Assets:				
Buildings	3,285,756	0	0	3,285,756
Improvements Other than Buildings	17,876,710	0	44,102	17,920,812
Equipment	2,204,818	301,456	518,472	3,024,746
Construction in Progress	0	0	986	986
(Less Accumulated Depreciation)	(12,957,272)	(301,456)	(273,742)	(13,532,470)
<b>Total Capital Assets</b>	<b>10,410,012</b>	<b>0</b>	<b>289,818</b>	<b>10,699,830</b>
<b>Total Noncurrent Assets</b>	<b>14,256,965</b>	<b>0</b>	<b>289,818</b>	<b>14,546,783</b>
<b>Total Assets</b>	<b>14,725,980</b>	<b>510,511</b>	<b>323,131</b>	<b>15,559,622</b>

See accompanying notes.

**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2013**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Concluded)*

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Water and Sewer</b>	<b>Sanitation</b>	<b>Stormwater Utility</b>	<b>Total</b>
<b>Liabilities</b>				
Current Liabilities from Unrestricted Assets:				
Accounts Payable and Accrued Liabilities	\$ 145,353	\$ 80,396	\$ 7,707	\$ 233,456
Due to Other Funds	192,952	0	32,069	225,021
Compensated Absences	20,052	0	2,148	22,200
Total Current Liabilities Payable from Unrestricted Assets	<u>358,357</u>	<u>80,396</u>	<u>41,924</u>	<u>480,677</u>
Current Liabilities Payable from Restricted Assets:				
Deposits	229,589	0	0	229,589
Current Portion of Bonds Payable	165,000	0	0	165,000
Current Portion of Loans Payable	537,462	0	0	537,462
Accrued Interest Payable	12,668	0	0	12,668
Total Current Liabilities Payable from Restricted Assets	<u>944,719</u>	<u>0</u>	<u>0</u>	<u>944,719</u>
Noncurrent Liabilities:				
Compensated Absences	83,226	0	8,916	92,142
Bonds Payable	1,085,000	0	0	1,085,000
Loans Payable	6,769,744	0	0	6,769,744
Other Post Employment Benefits	17,418	1,786	796	20,000
Total Noncurrent Liabilities	<u>7,955,388</u>	<u>1,786</u>	<u>9,712</u>	<u>7,966,886</u>
<b>Total Liabilities</b>	<u>9,258,464</u>	<u>82,182</u>	<u>51,636</u>	<u>9,392,282</u>
<b>Net Position</b>				
Net Investment in Capital Assets	5,132,806	0	289,818	5,422,624
Restricted for:				
Debt Services	48,419	0	0	48,419
Renewal and Replacement	288,946	0	0	288,946
Unrestricted	<u>(2,655)</u>	<u>428,329</u>	<u>(18,323)</u>	<u>407,351</u>
<b>Total Net Position</b>	<u>\$ 5,467,516</u>	<u>\$ 428,329</u>	<u>\$ 271,495</u>	<u>\$ 6,167,340</u>

See accompanying notes.

**STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Water and Sewer</b>	<b>Sanitation</b>	<b>Stormwater Utility</b>	<b>Total</b>
<b>Operating Revenue</b>				
Charges for Services	\$ 3,912,106	\$ 1,266,672	\$ 292,126	\$ 5,470,904
Connection and Impact Fees	13,740	0	0	13,740
Other Income	12,290	0	0	12,290
<b>Total Operating Revenues</b>	<b>3,938,136</b>	<b>1,266,672</b>	<b>292,126</b>	<b>5,496,934</b>
<b>Operating Expenses</b>				
Personal Services	1,331,252	148,110	110,807	1,590,169
Utilities	271,978	0	7,949	279,927
Supplies and Materials	195,767	9,240	8,024	213,031
Contractual Services	154,108	891,905	16,033	1,062,046
Depreciation and Amortization	364,916	0	51,412	416,328
Repairs and Maintenance	152,236	5,412	40,304	197,952
Insurance	50,601	10,430	0	61,031
Other Operating	126,958	7,834	0	134,792
<b>(Total Operating Expenses)</b>	<b>(2,647,816)</b>	<b>(1,072,931)</b>	<b>(234,529)</b>	<b>(3,955,276)</b>
<b>Operating Income</b>	<b>1,290,320</b>	<b>193,741</b>	<b>57,597</b>	<b>1,541,658</b>
<b>Nonoperating Revenues (Expenses)</b>				
Interest Revenue	1,500	300	32	1,832
Intergovernmental Revenue	17,413	0	0	17,413
Interest/Amortization Expense	(208,849)	0	(2,947)	(211,796)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(189,936)</b>	<b>300</b>	<b>(2,915)</b>	<b>(192,551)</b>
<b>Income Before Operating Transfers</b>	<b>1,100,384</b>	<b>194,041</b>	<b>54,682</b>	<b>1,349,107</b>
<b>Capital Transfers in</b>	<b>192,952</b>	<b>0</b>	<b>0</b>	<b>192,952</b>
<b>Operating Transfers (out)</b>	<b>(242,952)</b>	<b>0</b>	<b>0</b>	<b>(242,952)</b>
<b>Change in Net Position</b>	<b>1,050,384</b>	<b>194,041</b>	<b>54,682</b>	<b>1,299,107</b>
<b>Total Net Position, Beginning of Year</b>	<b>4,417,132</b>	<b>234,288</b>	<b>216,813</b>	<b>4,868,233</b>
<b>Total Net Position, End of Year</b>	<b>\$ 5,467,516</b>	<b>\$ 428,329</b>	<b>\$ 271,495</b>	<b>\$ 6,167,340</b>

See accompanying notes.

**STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2013  
 CITY OF NEPTUNE BEACH, FLORIDA**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Water and Sewer</b>	<b>Sanitation</b>	<b>Stormwater Utility</b>	<b>Total</b>
<b>Cash Flows from Operating Activities</b>				
Cash Received from Customers	\$ 3,993,121	\$ 1,269,553	\$ 292,220	\$ 5,554,894
Cash Paid to Suppliers	(939,687)	(922,022)	(69,507)	(1,931,216)
Cash Paid to Employees	(1,307,891)	(148,110)	(110,639)	(1,566,640)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u>1,745,543</u>	<u>199,421</u>	<u>112,074</u>	<u>2,057,038</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Payments Under Interfund Loan Agreements	89,979	0	(30,999)	58,980
Transfers to Other Funds	(50,000)	0	0	(50,000)
<b>Net Cash Provided by (Used in) Noncapital Financing Activities</b>	<u>39,979</u>	<u>0</u>	<u>(30,999)</u>	<u>8,980</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Payments on Loans and Bonds	(1,903,817)	0	(22,365)	(1,926,182)
Proceeds from New Debt	4,025,000	0	0	4,025,000
Capital Grants	17,413	0	0	17,413
Interest Paid on Revenue Bonds	(184,776)	0	(2,947)	(187,723)
Acquisition and Construction of Capital Assets	(249,547)	0	(65,682)	(315,229)
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>	<u>1,704,273</u>	<u>0</u>	<u>(90,994)</u>	<u>1,613,279</u>
<b>Cash Flows from Investing Activities</b>				
Purchase of Investments	(10,143)	(858)	(7)	(11,008)
Interest Received	1,500	300	32	1,832
<b>Net Cash Provided by (Used in) Investing Activities</b>	<u>(8,643)</u>	<u>(558)</u>	<u>25</u>	<u>(9,176)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	3,481,152	198,863	(9,894)	3,670,121
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>463,113</u>	<u>181,895</u>	<u>12,097</u>	<u>657,105</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 3,944,265</u>	<u>\$ 380,758</u>	<u>\$ 2,203</u>	<u>\$ 4,327,226</u>

See accompanying notes.

**STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2013  
 CITY OF NEPTUNE BEACH, FLORIDA  
 (Concluded)**

	Business-type Activities - Enterprise Funds			
	Water and Sewer	Sanitation	Stormwater Utility	Total
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</u></b>				
Operating Income (Loss)	\$ 1,290,896	\$ 193,741	\$ 57,597	\$ 1,542,234
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Depreciation and Amortization	364,916	0	51,412	416,328
Changes in Assets - Decrease (Increase) and Liabilities - Increase (Decrease):				
Accounts Receivable	31,649	319	94	32,062
Accounts Payable	(470)	0	1,332	862
Compensated Absences	22,785	2,799	168	25,752
Prepaid Expenses	12,431	2,562	1,471	16,464
Customer Deposits	23,336	0	0	23,336
Total Adjustments	454,647	5,680	54,477	514,804
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 1,745,543</b>	<b>\$ 199,421</b>	<b>\$ 112,074</b>	<b>\$ 2,057,038</b>

See accompanying notes.

**STATEMENT OF NET POSITION  
 FIDUCIARY FUNDS  
 SEPTEMBER 30, 2013  
 CITY OF NEPTUNE BEACH, FLORIDA**

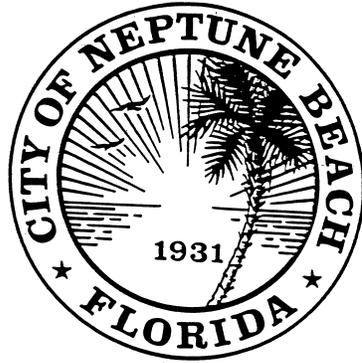
	<u>Police Officers' Plan</u>
<b>Assets</b>	
Cash and Short-term Investments	\$ 69,189
Accrued Interest Receivable	23,245
Investments:	
U.S. Government Obligations	1,739,703
Corporate Bonds	1,410,639
Common Equity Securities	4,168,186
Total Investments	<u>7,318,528</u>
<b>Total Assets</b>	<u><u>7,410,962</u></u>
 <b>Liabilities</b>	
Excess Premium Tax Liability	219,665
DROP Plan Payable	459,722
<b>Total Liabilities</b>	<u><u>679,387</u></u>
 <b>Net Position</b>	
Held in Trust for Pension Benefits	<u><u>\$ 6,731,575</u></u>

See accompanying notes.

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA**

	<u><b>Police Officers' Plan</b></u>
<b>Additions</b>	
Contributions:	
Employees	\$ 103,702
Employer	314,544
State of Florida	26,892
Total Contributions	<u>445,138</u>
Investment Income:	
Net Appreciation in Fair Value of Investments	477,422
Interest and Dividends	174,195
Miscellaneous Income	300
Total Investment Earnings	<u>651,917</u>
(Less Investment Expense)	<u>(50,289)</u>
Net Investment Earnings	<u>601,628</u>
<b>Total Additions</b>	<u>1,046,766</u>
<b>Deductions</b>	
Benefits	329,806
Refunds	20,923
Administrative Expenses	15,859
<b>(Total Deductions)</b>	<u>(366,588)</u>
<b>Change in Net Position</b>	680,178
<b>Net Position, Beginning of Year (as Restated)</b>	<u>6,051,397</u>
<b>Net Position, End of Year</b>	<u><u>\$ 6,731,575</u></u>

See accompanying notes.



# Notes to Financial Statements

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Annual Financial Report

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA**

**Note 1 - Summary of Significant Accounting Policies**

The City of Neptune Beach, Florida, (the City), was organized under Section 6 of Chapter 15356 Laws of Florida, 1931, and is currently governed as a municipal corporation under the Home Rule Charter of the City, adopted by Laws of Florida Chapter 88-481, effective October 1, 1988. The City operates under an elected mayor-council form of government under the administration of an appointed City Manager and provides the following services as authorized by its charter: Public Safety (Police, Fire, Animal Control, and Beach Patrol), Highways and Streets, Water and Sewer, Sanitation, Public Improvements, Planning, Development, and Zoning and General Administrative Services.

The financial statements of the City have been prepared in conformity with United States generally accepted accounting principles (GAAP) as applied to governmental units. The more significant of the City's accounting policies are described below.

**Reporting Entity**

The accompanying financial statements present the financial position, results of operations and cash flows of the applicable fund types governed by the City Council (City Council) of the City, the reporting entity of government for which the City Council is considered to be financially accountable. These criteria include appointing a majority of an organization's governing body and: (1) the ability of the City to impose its will on that organization or, (2) the potential for that organization to provide specific benefits to or impose specific financial burdens on the City. Other considerations are whether the organization is legally separate, whether the City holds the corporate powers of the organization, and whether there is fiscal dependency by the organization on the City. Based upon the application of these criteria, the City has no component units.

**Basic Financial Statements**

The government-wide and fund financial statements along with the notes to the financial statements comprise the basic financial statements.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. 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 net position presents information on all of the City's assets and liabilities with difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities demonstrates the degree to which direct expenses of a given function or activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. 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 activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported as general revenues.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Basic Financial Statements (Concluded)**

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

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current fiscal period. 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, other post-employment benefits and claims and judgments are recorded only when payment is due.

Taxes, intergovernmental revenue, licenses and permits, charges for services, and investment earnings associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following governmental funds:

■ **Major Governmental Fund**

The General Fund is the City's primary operation fund. It accounts for all financial resources of the general governments, except those required to be accounted for in another fund.

■ **Nonmajor Governmental Fund Types**

- Special Revenue Funds—These funds account for specific revenue sources that are restricted by law or administrative action to expenditures for specific purposes. Nonmajor special revenue funds include the Police Education Fund, Community Development Block Grant Fund, Convention Development Tax Fund, Forfeiture Proceeds Fund, Street Improvements Fund, Local Option Gas Tax Fund, Radio Communications Fund, Better Jacksonville Half-Cent Tax Fund, and Holiday Décor Fund.
- Debt Service Funds—These funds account for the resources accumulated and payments made for principal and interest on long-term general debt of governmental funds.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**  
*(Continued)*

■ **Proprietary Fund Types**

- Proprietary Funds—These funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determination of operation income and changes in net assets; financial position; and cash flow. All assets and liabilities are included on the Statement of Net Position. The City's proprietary funds are all classified as enterprise funds. The City has presented the following proprietary funds:
  - ▶ Major Proprietary Funds—The Water and Sewer Fund accounts for the activities of the City's water distribution system, sewage treatment plant, sewage pumping stations and collection systems. The Sanitation Fund accounts for the activities of the City's sanitation and recycling services.
  - ▶ Nonmajor Proprietary Funds—The City's Stormwater Utility Fund is its only nonmajor proprietary fund and it accounts for the operation and maintenance of the stormwater system.

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.

■ **Fiduciary Fund Types**

- Police Officers' Plan Fund—This fund accounts for the activities of the Police Officers' Retirement System Fund, which accumulates resources for pension and disability benefit payments to retired or disabled police.

■ **Fund Balance Classifications**

Fund Balance is reported in five components – nonspendable, restricted, committed, assigned and unassigned:

- Nonspendable Fund Balance—Amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- Restricted Fund Balance—Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions, or by enabling legislation.
- Committed Fund Balance—Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned Fund Balance—Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates authority.
- Unassigned Fund Balance—Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation (Concluded)**

■ **Fund Balance Classifications (Concluded)**

When unrestricted resources (committed, assigned and unassigned) are available for use in any governmental fund, it is the City's practice to use committed resources first, then assigned, and then unassigned as needed.

The City Council establishes (and modifies and rescinds) fund balance commitments by passage of an ordinance. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the City Council through adoption or amendment of the budget as intended for specific purposes (such as the purchase of fixed assets, construction, debt service, or other purposes).

**Budgets and Budgetary Accounting**

Annual appropriated budgets are adopted for the General and the following Special Revenue Funds: Police Education, Community Development Block Grant, Convention Development Tax, Forfeiture Proceeds, Street Improvements, Local Option Gas Tax, Radio Communications, Better Jacksonville Half-Cent Tax, Holiday Decor, and Debt Service Funds. The legally adopted budgets are prepared on a basis consistent with GAAP.

The legal level of budgetary control is at the department level. Special revenue funds are treated as departments for budgetary control purposes and are categorized into one function. With the approval of the City Manager, department heads can amend line item expenditures within a department or special revenue fund. Line item transfers must net to zero. All unencumbered appropriations lapse at fiscal year-end. Encumbered budget appropriations are carried forward into the next fiscal year's budget.

The adopted budgets are integrated into the accounting system. The Budgetary Comparison Schedule data, as presented in these financial statements for all funds with annual budgets, compares the expenditures with the final amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the Budgetary Comparison Schedule of the General and Special Revenue Funds presents actual expenditures in accordance with the accounting principles generally accepted in the United States on basis consistent with the legally adopted budgets as amended.

The individual accounts that comprise the Water and Sewer Fund, Sanitation Fund, and Stormwater Utility Fund have legally adopted annual budgets. Budget to Actual comparisons have not been presented in these financial statements as this is not required as part of the basic financial statements.

**Cash and Cash Equivalents**

Cash and cash equivalents are defined as short-term, highly-liquid investments that are both readily convertible to known amounts of cash and have an original maturity of three months or less. The cash and cash equivalents presented on the Statement of Cash Flows – Proprietary Funds are composed of restricted cash and cash equivalents. The City's cash and cash equivalents are considered to be cash on hand and demand deposits.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Investments**

The City has elected to proceed under the Alternative Investment Guidelines as set forth in Section 218.415(17) Florida Statutes. The City may invest any surplus public funds in the following:

- a. The State Board of Administration Local Government Surplus Trust Funds (SBA Investment Pool), or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act;
- b. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency;
- c. Interest bearing time deposits or savings accounts in qualified public depositories;
- d. Direct obligations of the United States Treasury.

Securities listed in paragraphs c. and d. shall be invested to provide sufficient liquidity to pay obligations as they come due.

The Local Government Surplus Funds Trust Fund was created by Act of the Florida Legislature effective October 1, 1977 (Chapter 218, Part IV, Florida Statutes), which allowed the State Board of Administration to establish a pooled investment account (SBA Investment Pool). Rules and regulations have been developed to govern the administration of the Local Government Surplus Funds Trust Fund pursuant to Section 218.409, Florida Statutes (Chapter 19-7). The Local Government Surplus Funds Trust Fund is not a registrant with the Securities and Exchange Commission (SEC); however, the governing body has adopted operating procedures consistent with the requirements for a 2a-7-like pool. The fair value of investments held by the City in the SBA Investment Pool is the same as the fair value of the pooled shares. Investments within the Police Officers' Plan Fund made through financial brokers are held with trustees and are stated at fair value as determined in an active market. The City has no investments in foreign securities at September 30, 2013.

For the investment policy governing the police retirement pension plan, the City is authorized to invest in the following:

- a. Equities traded on the national exchange or electric network. Not more than 5% of Plan's assets, at the time of purchase, shall be invested in common stock, capital stock, or convertible stock of any one issuing company, nor shall the aggregate investment in any one issuing company exceed 5% of the outstanding capital stock of the company.
- b. Fixed income investments that have a minimum rating of "A" or higher as reported by a major credit rating service; except no more than 10% of the total portfolio may be invested in securities that fall below these rating guidelines but must be rated "investment grade" or higher as reported by a major credit rating service. The value of bonds issued by a single corporation shall not exceed 10% of the total fund.
- c. Money market funds or STIF options provided by the Plan's custodian and have a minimum rating of Standards & Poor's A1 or Moody's P1.

**Receivable and Interfund Obligations**

Receivables consist of trade receivables, amounts due from other governments, and interest receivable and are recorded net of allowance for doubtful accounts. The City, as of September 30, 2013, has provided an allowance for doubtful accounts due to aged receivables in the proprietary funds that the City has reason to believe will not be collected.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Receivable and Interfund Obligations (Concluded)**

The unbilled portion of Water and Sewer, Sanitation and Stormwater Utility earned revenues accrued at year-end is based upon a proration of the October billing cycle.

Outstanding balances between funds at the end of the fiscal year are referred to as either "due to/from other funds" for the current portion of interfund loans or "advances to/from other funds" for the non-current portion. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

**Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the enterprise funds represent cash and cash equivalents set aside for debt service payments, reserve requirements, renewal and replacement expenditures, construction and repayment of deposits to utility customers.

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$750 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Where cost could not be determined from the available records, estimated historical costs were used to record the estimated value of the assets. Assets acquired by gift or bequests are recorded at their fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred, if any, during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

General infrastructure assets acquired prior to October 1, 2002, are not reported in the basic financial statements.

General infrastructure assets acquired subsequent to October 1, 2002, are included in the basic financial statements.

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

<u>Assets</u>	<u>Years</u>
Buildings	20-40
Improvements Other Than Buildings	10-40
Infrastructure	10-40
Equipment	5-20

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Bond Discounts and Issuance Costs**

Bond discounts, losses and issuance costs for proprietary funds are deferred and amortized over the term of the bonds using the straight-line method. Bond discounts and losses are presented as deferred charges and are shown as a reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred charges and reported as an asset of the City.

**Unearned Revenues**

Unearned revenues arise when assets are recognized before the revenue recognition criteria have been satisfied. On governmental fund financial statements, receivables that were not collected within the available period are recorded as unearned revenue.

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

**Compensated Absences**

City employees are entitled to certain compensated absences (personal leave) based on their length of employment. All leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported. The computed liability is in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*.

**Pension Plans**

The City accounts for its Police Officers' Retirement System (Police Officers' Plan Fund) under GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension and Note Disclosures for Defined Contribution Plans*, GASB Statement No. 27, *Accounting for Pensions by State and Local Governments*, and GASB Statement No. 50, *Pension Disclosures*. These statements require the recording of defined benefit plan investments at market value. The City records pension costs in the period salaries are earned.

General employees are enrolled in a defined contribution 401(a) pension plan. The assets, liabilities, fund equity and operations of this plan are not presented on the City's financial statements as the plan is independently administered.

**Net Position**

Net Position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (Concluded)**

**Property Taxes**

The assessment of all properties and the collection of all property taxes are made through the Property Appraiser and Tax Collector of the City of Jacksonville, Florida. General property taxes are recorded when received in cash, which approximates taxes levied, less discounts, for the current fiscal year.

Details of the tax calendar are presented below:

Lien Date	January 1
Levy Date	October 1
Installment Payments:	
1 <sup>st</sup> Installment	No Later Than June 30 <sup>th</sup>
2 <sup>nd</sup> Installment	No Later Than September 30 <sup>th</sup>
3 <sup>rd</sup> Installment	No Later Than December 31 <sup>st</sup>
4 <sup>th</sup> Installment	No Later Than March 31 <sup>st</sup>
Regular Payments:	
Discount Periods	November – February
No Discount Period	March
Delinquent Date	April 1 <sup>st</sup>

**Use of Estimates**

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note 2 - Cash Deposits and Investments**

The City maintains a cash and investment pool for all funds. Each fund's portion of this pool is included in the balance sheet account "Equity in pooled cash and cash equivalents." Interest earnings are allocated in accordance with the participating fund's relative percentage of investments.

At September 30, 2013, the cash deposits and investments included the following:

Investments Controlled by City:	
SBA Investment Pool	\$ <u>17,082</u>
<b>Total Investments Controlled by City</b>	<u>17,082</u>
Cash:	
Cash Deposits	2,983,753
Restricted Cash	3,846,953
Certificate of Deposit	119,744
Cash on Hand	<u>1,600</u>
<b>Total Cash</b>	<u>6,952,050</u>
<b>Total Cash and Investments</b>	<u>\$ 6,969,132</u>

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

**Note 2 - Cash Deposits and Investments (Continued)**

All of the City's deposits are insured by the Federal Deposit Insurance Corporation or collateralized in accordance with *Florida Security for Public Deposits Act*, (the Act). Under the Act, every qualified public depository shall deposit with the Treasurer eligible collateral having a market value equal to 50% of the average daily balance for each month that all public deposits are in excess of any applicable deposit insurance. If the public deposits exceed the total amount of the regulatory capital accounts of a bank or the regulatory net worth of a savings association, the required collateral shall have a market value equal to 125% of the deposits.

**Restricted Cash**

Restricted cash in the proprietary funds at September 30, 2013, represent monies required to be restricted for debt service and construction under terms of outstanding bond agreements, and impact fees restricted to water and sewer system uses. Restricted cash for the proprietary funds at September 30, 2013, were restricted for the following purposes:

**Proprietary Funds**

Construction Loans	\$ 3,280,000
Debt Service	48,419
Customer Deposits	229,588
Impact Fees	<u>288,946</u>
<b>Total Restricted Cash</b>	<u><u>\$ 3,846,953</u></u>

**Risk**

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

**Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City, including the Police Officers' Plan Fund, has an investment policy that states that all fixed income investments shall have a minimum rating of "A" or higher as reported by the major credit rating service, except that no more than 10% of the total portfolio may be invested in securities that fall below these rating guidelines but must be rated "investment grade" or higher as reported by the major credit rating service. The City's rated debt instruments as of September 30, 2013, were rated by Standard & Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below using Standard & Poor's rating scale.

	<u>Quality Ratings</u>				
	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>Unrated</u>
Debt Investments:					
Investments Controlled by the City:					
SBA Investment Pool	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>17,082</u>
Pension Plan Investments:					
U.S. Government	\$ 708,348	\$ 0	\$ 0	\$ 0	\$ 1,031,355
Corporate Bonds	0	141,133	519,476	669,614	80,416
Common Equity Securities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,168,186</u>
<b>Total Pension Plan Investments</b>	<u><u>\$ 708,348</u></u>	<u><u>\$ 141,133</u></u>	<u><u>\$ 519,476</u></u>	<u><u>\$ 669,614</u></u>	<u><u>\$ 5,279,957</u></u>

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

**Note 2 - Cash Deposits and Investments (Concluded)**

**Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of a failure of a counterparty, the City will not be able to recover the value of the investment or collateral securities that are in possession of an outside party.

At September 30, 2013, Police Officers' Plan Fund investments were uninsured and collateral was held by the pledging bank's trust department and was not in the City's name.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investments in a single issuer. Investments issued or explicitly guaranteed by the United States government and investments in external investment pools are excluded from the disclosure requirement.

The City's Police Officers' Plan Fund had no single investments of more than 5% of the total net assets of the Plan at September 30, 2013.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. One of the ways the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by the pension trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Investment Type:					
Investments Controlled by the City:					
SBA Investment Pool	\$ 17,082	\$ 0	\$ 17,082	\$ 0	\$ 0
<b>Total Investments Controlled by the City</b>	<u>17,082</u>	<u>0</u>	<u>17,082</u>	<u>0</u>	<u>0</u>
Pension Plan Investments:					
U.S. Government and Agency Securities	1,739,703	1,056,593	448,503	222,404	12,203
Corporate Bonds	1,410,639	30,204	862,493	452,457	65,485
Equity Securities	<u>4,168,186</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Pension Plan Investments</b>	<u>7,318,528</u>	<u>1,086,797</u>	<u>1,310,996</u>	<u>674,861</u>	<u>77,688</u>
<b>Total Investments</b>	<u>\$ 7,335,610</u>	<u>\$ 1,086,797</u>	<u>\$ 1,328,078</u>	<u>\$ 674,861</u>	<u>\$ 77,688</u>

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA  
(Continued)**

**Note 3 - Receivables and Payables**

Receivables at September 30, 2013 consist of the following:

	<u>General Fund</u>	<u>Water and Sewer</u>	<u>Sani- tation Fund</u>	<u>Storm- water Utility Fund</u>	<u>Pension Plan Trust Fund</u>	<u>Non- Major/ Other Funds</u>	<u>Total Funds</u>
<b>Receivables</b>							
Interest	\$ 0	\$ 0	\$ 0	\$ 0	23,245	\$ 0	\$ 23,245
Accounts Receivable	14	425,365	151,698	34,569	0	7,784	619,430
Intergovernmental	<u>222,392</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>64,804</u>	<u>287,196</u>
Gross Receivables	222,406	425,365	151,698	34,569	23,245	72,588	929,871
Allowance	<u>0</u>	<u>(63,805)</u>	<u>(22,803)</u>	<u>(3,466)</u>	<u>0</u>	<u>0</u>	<u>(90,074)</u>
<b>Net Receivables</b>	<u>\$ 222,406</u>	<u>\$ 361,560</u>	<u>\$ 128,895</u>	<u>\$ 31,103</u>	<u>\$ 23,245</u>	<u>\$ 72,588</u>	<u>\$ 839,797</u>

Included in accounts receivable are \$288,892 earned but not billed as of September 30, 2013.

Accounts payable and accrued liabilities at September 30, 2013, were as follows:

	<u>Vendors</u>	<u>Employees</u>	<u>Total</u>
<b>Governmental Funds</b>			
General	\$ 66,805	\$ 125,753	\$ 192,558
Nonmajor Fund	<u>18,297</u>	<u>12,768</u>	<u>31,065</u>
<b>Total Governmental Funds</b>	<u>\$ 85,102</u>	<u>\$ 138,521</u>	<u>\$ 223,623</u>
<b>Proprietary Funds</b>			
Water and Sewer	\$ 89,829	\$ 55,524	\$ 145,353
Sanitation	74,508	5,888	80,396
Stormwater Utility	<u>3,185</u>	<u>4,522</u>	<u>7,707</u>
<b>Total Proprietary Funds</b>	<u>\$ 167,522</u>	<u>\$ 65,934</u>	<u>\$ 233,456</u>

**Note 4 - Interfund Transactions**

At September 30, 2013, the City had the following due to/from other funds:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
<b>Governmental Funds</b>		
General	\$ 228,944	\$ 0
Nonmajor Governmental	<u>192,952</u>	<u>196,875</u>
<b>Total Governmental Funds</b>	<u>421,896</u>	<u>196,875</u>
<b>Proprietary Funds</b>		
Water and Sewer	0	192,952
Stormwater Utility	<u>0</u>	<u>32,069</u>
<b>Total Proprietary Funds</b>	<u>0</u>	<u>225,021</u>
<b>Total</b>	<u>\$ 421,896</u>	<u>\$ 421,896</u>

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

**Note 4 - Interfund Transactions (Concluded)**

The balance of \$225,021 due to the General Fund and Better Jacksonville Half-Cent Tax Fund results from loans to Water and Sewer, Sanitation, and Local Option Gas Tax Funds. The amount due from the Water and Sewer Fund began repayment in 2009 with the total repayment scheduled to be complete in one more year. The Sanitation Fund repayment will take approximately one year and the Local Option Gas Tax Fund repayment is expected to be repaid in two years.

Transfers from a fund of resources to the fund through which resources are to be expended are recorded as transfers and are reported as other financing sources (uses) in the governmental funds and as transfers in (out) in the proprietary funds.

Following is a summary of interfund transfers for the year ended September 30, 2013:

	<b>Transfers In</b>			<b>Total Funds</b>
	<b>General</b>	<b>Nonmajor Funds</b>	<b>Water and Sewer Fund</b>	
Nonmajor				
Governmental Funds	\$ 271,505	\$ 0	\$ 0	\$ 271,505
Water and Sewer Fund	50,000	192,952	0	242,952
General Fund	0	273,363	0	273,363
Governmental Activities	0	0	192,952	192,952
<b>Total Transfers</b>	<b>\$ 321,505</b>	<b>\$ 466,315</b>	<b>\$ 192,952</b>	<b>\$ 980,772</b>

Transfers in (out) during the fiscal year 2013, are as follows:

- \$261,505 was transferred from the Better Jacksonville Half Cent Tax Fund to the General Fund for debt service expenditures.
- \$10,000 was transferred from the Convention Development Tax Fund to the General Fund for debt service expenditures.
- \$11,858 was transferred from the General Fund to the Community Development Black Grand Fund to cover current year losses.
- \$261,505 was transferred from the General Fund to the Debt Service Fund to meet debt service requirements.
- \$50,000 was transferred from the Water and Sewer Fund to the General Fund to cover current year losses.
- \$192,952 was transferred from the Water and Sewer Fund to the Better Jacksonville Half Cent Tax Fund to repay the fund for purchases made to the water and sewer system.
- \$192,952 was transferred from the Governmental Activities to the Water and Sewer Fund to transfer system assets.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

**Note 5 - Capital Assets**

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

	<b>Balance October 1, 2012</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance September 30, 2013</b>
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ 136,362	\$ 6,151	\$ (142,513)	\$ 0
Land	<u>37,861</u>	<u>0</u>	<u>0</u>	<u>37,861</u>
Total Capital Assets, Not Being Depreciated	<u>174,223</u>	<u>6,151</u>	<u>(142,513)</u>	<u>37,861</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	4,131,553	142,513	0	4,274,066
Improvements Other Than Buildings	2,766,080	36,443	(198,372)	2,604,151
Equipment	<u>2,919,606</u>	<u>84,517</u>	<u>0</u>	<u>3,004,123</u>
Total Capital Assets, Being Depreciated	<u>9,817,239</u>	<u>263,473</u>	<u>(198,372)</u>	<u>9,882,340</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(1,187,890)	(117,945)	0	(1,305,835)
Improvements Other Than Buildings	(1,246,342)	(112,893)	5,420	(1,353,815)
Equipment	<u>(2,462,922)</u>	<u>(180,181)</u>	<u>0</u>	<u>(2,643,103)</u>
Total Accumulated Depreciation	<u>(4,897,154)</u>	<u>(411,019)</u>	<u>5,420</u>	<u>(5,302,753)</u>
Total Capital Assets, Being Depreciated, Net	<u>4,920,085</u>	<u>(147,546)</u>	<u>(192,952)</u>	<u>4,579,587</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 5,094,308</u>	<u>\$ (141,395)</u>	<u>\$ (335,465)</u>	<u>\$ 4,617,448</u>
<b>Business-type Activities</b>				
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ 986	\$ 0	\$ 0	\$ 986
Total Capital Assets, Not Being Depreciated	<u>986</u>	<u>0</u>	<u>0</u>	<u>986</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	3,285,756	0	0	3,285,756
Improvements Other Than Buildings	17,700,744	220,068	0	17,920,812
Equipment	<u>2,924,166</u>	<u>100,580</u>	<u>0</u>	<u>3,024,746</u>
Total Capital Assets, Being Depreciated	<u>23,910,666</u>	<u>320,648</u>	<u>0</u>	<u>24,231,314</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(3,285,756)	0	0	(3,285,756)
Improvements Other Than Buildings	(6,900,801)	(321,025)	0	(7,221,826)
Equipment	<u>(2,924,166)</u>	<u>(100,722)</u>	<u>0</u>	<u>(3,024,888)</u>
Total Accumulated Depreciation	<u>(13,110,723)</u>	<u>(421,747)</u>	<u>0</u>	<u>(13,532,470)</u>
Total Capital Assets, Being Depreciated, Net	<u>10,799,943</u>	<u>(101,099)</u>	<u>0</u>	<u>10,698,844</u>
<b>Business-type Activities Capital Assets, Net</b>	<u>\$ 10,800,929</u>	<u>\$ (101,099)</u>	<u>\$ 0</u>	<u>\$ 10,699,830</u>

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

**Note 5 - Capital Assets (Concluded)**

Depreciation expense was charged to functions/programs as follows:

<b>Governmental Activities</b>	
General Government	\$ 28,677
Public Safety	168,247
Transportation	168,970
Culture and Recreation	<u>45,125</u>
<b>Total Depreciation Expense – Governmental Activities</b>	<b><u>\$ 411,019</u></b>
<b>Business-type Activities</b>	
Water and Sewer	\$ 364,916
Sanitation	0
Stormwater Utility	<u>51,412</u>
<b>Total Depreciation Expense – Business-type Activities</b>	<b><u>\$ 416,328</u></b>

**Note 6 - Long-term Liabilities**

At September 30, 2013, bonds and loans payable consisted of the following:

	<u>Governmental</u>	<u>Business-type</u>
<b>Bonds</b>		
Infrastructure Surtax Revenue Bonds, Series 2010A Dated January 12, 2010, for \$1,700,000, Due in Semi-annual Installments of Principal Ranging from \$65,000 to \$95,000 with an Interest Rate of 2.6%, Final Payment Due October 1, 2020	\$ 0	\$ 1,250,000
<b>Loans</b>		
Drinking Water State Revolving Fund Construction Loan #1, Due in Semi-annual Installments of Principal and Interest of \$6,350 through August 15, 2021, Bearing an Interest Rate of 3.52%	0	87,883
Drinking Water State Revolving Fund Construction Loan #2, Due in Semi-annual Installments of Principal and Interest of \$59,050 through February 15, 2023, Bearing an Interest Rate of 3.05%	0	967,514
Clean Water State Revolving Fund Construction Loan, Due in Semi-annual Installments of Principal and Interest of \$142,402 through August 15, 2022, Bearing an Interest Rate of 3.05%	0	2,226,809
Water and Sewer Revenue Note, Series 2013A Dated September 10, 2013, for \$3,280,000, Due in Semi-annual Installments of Principal Ranging from \$5,000 to \$325,000, Bearing an Interest Rate of 3.35%, Final Payment Due October 1, 2028	0	3,280,000
Water and Sewer Revenue Note, Series 2013B Dated September 10, 2013, for \$745,000, Due in Semi annual Installments of Principle Ranging from \$80,000-\$225,000, Bearing an interest rate of 0.99%, Final Payment Due October 1, 2017	<u>0</u>	<u>745,000</u>
<b>Total</b>	<b><u>\$ 0</u></b>	<b><u>\$ 8,557,206</u></b>

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

**Note 6 - Long-term Liabilities (Continued)**

Transactions for the year ended September 30, 2013, are summarized as follows:

	<u>Balance</u> <u>October 1,</u> <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>September 30,</u> <u>2013</u>	<u>Due Within</u> <u>One Year</u>
<b>Governmental Activities</b>					
Bonds Payable:					
Capital Improvements Revenue Bonds	\$ 257,109	\$ 0	\$ (257,109)	\$ 0	\$ 0
Total Bonds Payable	257,109	0	(257,109)	0	0
Other Postemployment Benefit Obligations	78,000	0	0	78,000	0
Compensated Absences	<u>421,789</u>	<u>0</u>	<u>(53,584)</u>	<u>368,205</u>	<u>34,600</u>
<b>Governmental Activities – Long-term Liabilities</b>	<u>\$ 756,898</u>	<u>\$ 0</u>	<u>\$ (310,693)</u>	<u>\$ 446,205</u>	<u>\$ 34,600</u>
<b>Business-type Activities</b>					
Bonds Payable:					
Revenue Refunding Bonds	\$ 1,340,000	\$ 0	\$ (1,340,000)	\$ 0	\$ 0
Infrastructure Rev. Bonds, 2010(A)	1,410,000	0	(160,000)	1,250,000	165,000
Infrastructure Rev. Bonds, 2010(B)	150,000	0	(150,000)	0	0
Loans Payable:					
Drinking Water Loan #1	97,283	0	(9,400)	87,883	9,691
Drinking Water Loan #2	1,054,040	0	(86,526)	967,514	89,231
Clean Water Loan	2,438,833	0	(212,024)	2,226,809	218,540
Equipment Installment Note	22,365	0	(22,365)	0	0
Water and Sewer Line Note Series 2013A	0	3,280,000	0	3,280,000	5,000
Water and Sewer Line Note Series 2013B	0	745,000	0	745,000	215,000
Less Deferred Amounts:					
For Issuance Discounts	(9,814)	0	9,814	0	0
Loss on Bond Refunding	<u>(44,319)</u>	<u>0</u>	<u>44,319</u>	<u>0</u>	<u>0</u>
Total Bonds and Loans Payable	6,458,388	4,025,000	(1,926,182)	8,557,206	702,462
Other Postemployment Benefit Obligations					
Obligations	0	20,000	0	20,000	0
Compensated Absences	<u>108,231</u>	<u>6,111</u>	<u>0</u>	<u>114,342</u>	<u>22,200</u>
<b>Business-type Activities – Long-term Liabilities</b>	<u>\$ 6,566,619</u>	<u>\$ 4,051,111</u>	<u>\$ (1,926,182)</u>	<u>\$ 8,691,548</u>	<u>\$ 724,662</u>

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA  
(Continued)**

**Note 6 - Long-term Liabilities (Continued)**

The annual requirements to amortize the bonds and loans payable outstanding as of September 30, 2013, are summarized as follows:

**Business-type Activities**

<b>Fiscal Year Ending September 30</b>	<b>Infrastructure Surtax Revenue Bonds 2010A</b>		<b>Drinking Water State Revolving Fund Construction Loan #1</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
	2014	\$ 165,000	\$ 32,186	\$ 9,691
2015	170,000	27,731	10,036	2,665
2016	175,000	23,142	10,391	2,308
2017	180,000	18,487	10,761	1,939
2018	185,000	13,633	11,538	1,557
2019-2023	375,000	12,569	35,466	35,860
<b>Total</b>	<b>\$ 1,250,000</b>	<b>\$ 127,748</b>	<b>\$ 87,883</b>	<b>\$ 47,338</b>

<b>Fiscal Year Ending September 30</b>	<b>Drinking Water State Revolving Fund Construction Loan #2</b>		<b>Clean Water State Revolving Fund Construction Loan</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
	2014	\$ 89,231	\$ 28,868	\$ 218,540
2015	91,976	26,123	225,256	59,547
2016	94,806	23,290	232,179	52,625
2017	97,754	20,376	239,314	45,489
2018	100,730	17,369	246,669	38,135
2019-2023	493,017	38,400	1,064,851	74,365
<b>Total</b>	<b>\$ 967,514</b>	<b>\$ 154,426</b>	<b>\$ 2,226,809</b>	<b>\$ 336,425</b>

<b>Fiscal Year Ending September 30</b>	<b>Water and Sewer Line Note Series 2013A</b>		<b>Water and Sewer Line Note Series 2013B</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
	2014	\$ 5,000	\$ 116,290	\$ 215,000
2015	5,000	109,713	225,000	5,320
2016	10,000	109,545	225,000	3,070
2017	155,000	109,210	80,000	803
2018	240,000	104,017	0	0
2019-2023	1,325,000	395,750	0	0
2024-2028	1,540,000	107,671	0	0
<b>Total</b>	<b>\$ 3,280,000</b>	<b>\$ 1,052,196</b>	<b>\$ 745,000</b>	<b>\$ 17,101</b>

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA  
(Continued)**

**Note 6 - Long-term Liabilities (Concluded)**

**Business-type Activities (Concluded)**

Fiscal Year Ending September 30	Business-type Activities Totals	
	Principals	Interests
2014	\$ 702,462	\$ 254,525
2015	727,268	231,099
2016	747,376	213,980
2017	762,829	196,304
2018	783,937	174,711
2019-2023	3,293,334	556,944
2024-2028	1,540,000	107,671
<b>Total</b>	<b>\$ 8,557,206</b>	<b>\$ 1,735,234</b>

The final draw on the water construction project #1, which was funded by Drinking Water State Revolving Fund Construction Loan #1, was received on December 3, 2001. The full amount of the loan was \$174,183 and was used for water system project construction. Revenues of the Water and Sewer Fund will repay this obligation. Annual principal and interest on the loan is expected to require 1% of such revenues and is payable through 2021. At year-end, pledged future revenues totaled \$135,221, which was the amount of remaining principle and interest on the loan.

On May 7, 2001, the City was approved for a Drinking Water State Revolving Fund Construction Loan #2 for water construction project #2. The full amount of the loan was \$1,740,925 and was used for water system project construction. Revenues of the Water and Sewer Fund will repay this obligation. Annual principle and interest on the loan is expected to require 7% of such revenues and is payable through 2023. At year-end, pledged future revenues totaled \$1,121,940, which was the amount of remaining principle and interest on the loan.

On January 4, 1999, the City was approved for a Clean Water State Revolving Fund Construction Loan for sewer project construction. The full amount of the loan was \$4,428,579 and was used for sewer project construction. Revenues of the Water and Sewer Fund will repay this obligation. Annual principle and interest on the loan is expected to require 17% of such revenues and is payable through 2031. At year-end, pledged future revenues totaled \$2,563,234, which was the amount of remaining principle and interest on the loan.

On November 12, 2010, the City issued Infrastructure Surtax Revenue Bonds Series A for \$1,700,000 and Series B for \$700,000. The proceeds of the bond issue are to improve the sewage treatment plant and to replace in-ground infrastructure of the City's water and sewer utility system. Revenues of the Water and Sewer Fund will repay these bonds. Annual principle and interest on the bonds are expected to require 16% of such revenues and are payable through 2020. At year-end, pledged future revenues totaled \$1,377,748, which was the amount of remaining principle and interest on the bonds.

On September 10, 2013, the City approved the Water and Sewer Revenue Note 2013A for \$3,280,000 and 2013B for \$745,000. The proceeds of the loans will be used for improvements to the water and sewer system and refunding the 2001 Water and Sewer Bond and paying related costs. Annual principle and interest on the notes are expected to require 21% of such revenues and are payable through 2028. At year-end, pledged future revenues totaled \$5,094,297, which was the amount of remaining principle and interest on the notes.

**NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2013  
 CITY OF NEPTUNE BEACH, FLORIDA  
 (Continued)**

**Note 7 - Employee Benefits**

**Police Officers' Retirement System**

The City Police Officers' Retirement System (Police Officers' Plan Fund), a single-employer contributory defined benefit pension plan, was established pursuant to City Ordinance 1997-10, adopted September 2, 1997, by the City Council. Members of the Police Officers' Plan Fund include full-time state certified police officers. The funding method and determination of benefits payable are provided in various acts of the Florida legislature (Act), which created funds, including subsequent amendments, thereto. The statutes provide, in general, that funds are to be accumulated from employee contributions, City contributions, state appropriations and income from investment of accumulated funds. The Act also provides; should the accumulated funds at any time be insufficient to meet and pay the benefits due, the City shall supplement the Police Officers' Plan Fund by an appropriation from current funds or from any revenue which may lawfully be used for said purposes in an amount sufficient to make up the deficiency. The Police Officers' Plan Fund is administered by a five-member Board of Trustees. Investments are reported at fair value. The Police Officers' Plan Fund does not issue a stand-alone financial report.

The Police Officers' Plan Fund provides pension, death and disability benefits to its members. As stipulated by City ordinance, authority to establish and amend benefit provisions of the Police Officers' Plan Fund, along with the authority to provide for cost of living adjustments, rests with the City Council.

Police employees attaining the earlier of the age of 55 and 10 years of credited service or 25 years of credited service, are entitled to a retirement benefit equal to 2.75% times years of credited service times average final compensation (as defined by the Police Officers' Plan Fund). Employees who have attained age 50 and have completed 10 years of service are eligible for early retirement and may elect actuarially reduced benefits. Active employees who become disabled receive accrued benefits, but not less than 42% of average monthly earnings (service incurred disability). Employees who become disabled from a non-service incurrence must have 10 years credited service to receive benefits. The benefits are payable for life or until full recovery is determined by the Board of Trustees. If an employee is terminated before completion of 10 years of continuous service, employee contributions, without interest, are refunded. If an employee terminates his employment either voluntarily or by lawful discharge after the completion of at least 10 years of continuous service, but before becoming eligible for retirement under the Police Officers' Plan Fund, the employee is entitled to a deferred vested benefit.

The deferred vested benefit is based on monthly earnings and continuous service as of the termination date. There are no automatic or ad hoc post-retirement benefit increases. Current membership in the Police Officers' Plan Fund as of September 30, 2013, is as follows:

	<b>Police</b>
<b>Retirees and Beneficiaries</b>	
Currently Receiving Benefits	6
Vested Deferred	5
Deferred Retirement Option	
Program (DROP) Plan	3
<b>Active Employees</b>	13
<b>Total</b>	27

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

**Note 7 - Employee Benefits (Continued)**

**Funding Policy**

Per City ordinances, Police employees of the City are required to contribute 8% of their annual compensation to the Police Officers' Plan Fund. The payments are deducted from the employees' wages and remitted by the City to the Police Officers' Plan Fund at month-end. The City makes actuarially determined contributions to the Plan on a periodic basis.

In addition, the Police Officers' Plan Fund receives a distribution of casualty premium tax monies from the State, pursuant to State statutes. Administrative costs are funded by contributions made to the Police Officers' Plan Fund.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation.

Actuarially Determined Contribution (A)	\$ 337,992
Interest on Net Pension Asset	(4,568)
Adjustment to (A)	<u>6,918</u>
Annual Pension Cost (APC)	340,342
Contributions Made	<u>(337,992)</u>
Increase in Net Pension Obligation	2,350
Net Pension Asset, Beginning of Year	<u>(57,094)</u>
<b>Net Pension Asset, End of Year</b>	<b><u><u>\$ (54,744)</u></u></b>

The following is the funded status information for the plan as of October 1, 2013, the most recent actuarial valuation date:

(1) Actuarial Valuation Date	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Unfunded AAL (UAAL) (2)-(1)	(4) Funded Ratio (1)/(2)	(5) Covered Payroll	(6) UAAL as a % of Covered Payroll [(2)-(1)/(5)]
October 1, 2013	\$7,066,778	\$8,829,046	80.04%	\$1,005,031	175.34%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Three-Year Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
9/30/2013	\$ 340,342	99.31%	\$ 54,744
9/30/2012	330,646	99.29%	57,094
9/30/2011	301,259	98.73%	59,426

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

**Note 7 - Employee Benefits (Continued)**

**Funding Policy (Concluded)**

**Actuarial Methods and Significant Assumptions**

Actuarial Valuation Date	10/1/2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level as a percent of payroll, closed
Remaining Amortization Period	21 years as of 10/1/2013
Asset Valuation Method	4-year smoothed market value
Actuarial Assumptions:	
Investment Rate of Return	8%
Projected Salary Increases (Including Inflation at 3%)	6.50%
Cost of Living Adjustments	0.00%

**401(a) Money Purchase Plan**

The City offers its general employees a single employer Defined Contribution Plan (Defined Plan) created in accordance with Internal Revenue Code Section 401(a). The Defined Plan was established as of March 7, 1994, by adoption of the City Council through Ordinance No. 1994-4. The Defined Plan, available to all full time employees other than police, provides for an individual investment account. The Defined Plan is administered by the ICMA Retirement Corporation. The Defined Plan does not require a mandatory contribution from participants. The City is obligated to contribute 7% of gross pay for employees with less than ten years of service. Participants with at least ten years of service may elect to contribute up to 9% of gross pay, which the City is required to match. Employees are 100% vested in their personal contributions and receive 100% of investment earnings earned thereon. At September 30, 2013, 46 employees were participating in the Defined Plan.

Employees vest in the City's contribution and the related investment earnings, based on years of service as follows:

<u>Years of Service</u>	<u>Vesting Percentage</u>
Less than one	0%
One	20%
Two	40%
Three	60%
Four	80%
Five and more	100%

Employees are eligible to participate in the Defined Plan after they have been employed for six months. The minimum age for retirement withdrawals is 55. In addition, withdrawals are permitted upon termination, disability, or death of the participant.

Payroll for Covered Employees	\$ 2,557,657
Total City Payroll	3,935,806
Employer Contributions Required and Actually Made – 7% of Covered Payroll	179,036

The City has no fiduciary responsibility over the Defined Plan and does not serve in an administrative capacity or give investment advice to the participants.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

**Note 7 - Employee Benefits (Continued)**

**Other Post Employment Benefits (OPEB)**

Pursuant to Section 112.0801 of the Florida Statutes, the City is required to permit participation in the single-employer health insurance program (the Plan) by retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active participants. The Plan is not an entity unto itself and, therefore, has no separately issued financial statements.

Plan Description - The City provides postemployment benefits to all eligible individuals including lifetime medical, dental and life insurance coverage. Eligible individuals include all employees of the City who retire from the City and are participating in the City's medical program at the time of retirement. Under the medical coverage, eligible individuals also include spouses. Police members are eligible for normal retirement after attaining age 55 with 10 years of service or at any age with 25 years of service. Early retirement may be taken at any time after attaining age 50 with 10 years of service. Non-police members are eligible for normal retirement after attaining age 55 with 5 years of service.

Funding Policy - The City Council is authorized to establish benefit levels and approve actuarial assumptions used in the determination of contribution levels. The City Council establishes the contributions requirements of plan members and the City. These contributions are neither mandated nor guaranteed. The retiree contributes the premium cost each month. Spouses are also eligible for medical coverage although the retiree pays the premium cost. Retirees must pay a monthly premium as determined by the insurance carrier. The premium varies depending on whether the retiree elects single or single plus spouse. Currently, the City's subsidy to OPEB benefits is unfunded. There are no separate Trust Funds or equivalent arrangements into which the City makes contributions to advance-fund the OPEB obligations, as it does for its pension plans. The City's cost of the OPEB benefits, funded on a pay-as-you-go basis, was \$29,200 for the year ended September 30, 2013. The ultimate implicit and explicit subsidies which are provided over time are financed directly by the general assets of the City, which are invested in short-term fixed income instruments according to its current investment policy. The City selected an interest discount rate of 4.0% per annum, which is the long-range expected return on such short-term fixed income instruments, to calculate present values and costs of the OPEB. This is consistent with GASB Statement No. 45 guidance. Significant actuarial assumptions and the methods used to estimate the OPEB liability are as follows.

Valuation Date	September 30, 2013
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Dollar Payment
Amortization Period	Up to 30 Years
Assumed Rate of Return on Investments	4.0%

Assumed Cost Trend Rates:

	<b>Percent Increase</b>
Medical Trend	to 5%
Dental Trend	5%
General Inflation	2.5%

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

**Note 7 - Employee Benefits (Continued)**

**Other Post Employment Benefits (OPEB) (Continued)**

Actuarial Methods - 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. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projection 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 type of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and Plan members to that point. Actuarial calculations reflect a long-term perspective and the methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Annual OPEB Cost and Net OPEB Obligation - The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize the actuarial liabilities (or funding excess) over a period not to exceed 30 years. The City's annual OPEB cost for the fiscal year ended September 30, 2013 was \$29,200.

The City's annual OPEB cost and the net OPEB obligation for the fiscal year ended September 30, 2013 is as follows:

Annual Required City Contribution (ARC)	\$	29,300
Interest on Plan Obligation		3,100
Adjustment to ARC		<u>(3,200)</u>
Annual Plan Retiree Costs		29,200
Contributions Made		<u>(9,200)</u>
Increase in Plan Obligations		20,000
<b>Plan Obligations Beginning of Year</b>		<u>78,000</u>
<b>Plan Obligations End of Year</b>		<u>\$ 98,000</u>

The City's percentage of annual OPEB costs contributed to the Plan, and the net OPEB obligation for the fiscal year ended September 30, 2013 is as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Annual</u> <u>OPEB</u> <u>Costs</u>	<u>City</u> <u>Contribution</u>	<u>Percentage</u> <u>of Annual</u> <u>OPEB Costs</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2013	\$ 29,200	\$ 9,200	32%	\$ 98,000
2012	42,900	15,300	35%	78,000
2011	41,100	12,900	31%	50,400

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA  
(Continued)**

**Note 7 - Employee Benefits (Concluded)**

**Other Post Employment Benefits (OPEB) (Concluded)**

The 2013 contribution represented 32% of the annual required contribution. The actuarial valuation for the Plan was done as of September 30, 2013. As of September 30, 2013, the most recent actuarial valuation, the Plan was unfunded. The actuarial accrued liability for benefits was \$397,300 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$397,300. The covered payroll was \$3,028,600, and the ratio of the UAAL to the covered payroll was 13.1%.

The Schedule of Funding Progress, presented as Required Supplementary Information immediately following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Note 8 - Deferred Compensation Plan**

The City maintains for its employees a deferred compensation plan (Deferred Comp Plan) under provisions of the Internal Revenue Code Section 457. The Deferred Comp Plan, available to all fulltime employees, allows participants to defer a portion of their salary until future years. Deferred Comp Plan assets are held in trust for the exclusive benefit of participants and their beneficiaries. The City has very little administrative involvement, performs no investing function, and has no fiduciary responsibility for the Deferred Comp Plan. All amounts of compensation deferred under the Deferred Comp Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the participants and are not subject to claims of the City's creditors. Accordingly, these Deferred Comp Plan assets are not reported as a part of these financial statements.

**Note 9 - Interlocal Agreement**

In 1985, pursuant to an interlocal agreement authorized by Florida Statutes Section 163.01, the City joined with the City of Jacksonville Beach and the City of Atlantic Beach (Joint Venture) to construct and operate outfall lines and disposal facilities, together with all the lands, right-of-ways, easements, and other entitlements necessary for the construction and use thereof.

The construction of the outfall lines and disposal facilities was funded by the municipalities in the following proportions:

	<b>Percentage</b>
Atlantic Beach	33.06%
Jacksonville Beach	55.78%
Neptune Beach	11.16%
<b>Total</b>	<b>100.00%</b>

The City of Atlantic Beach provides all accounting and purchasing services for the Joint Venture. Repair and maintenance of the outfall lines and disposal of the facilities is shared by the participating municipalities in the percentages noted above. For the year ended September 30, 2013, the Joint Venture did not incur any expense for repairs or maintenance. During fiscal year 2013, the City made no contributions to the Joint Venture. The Joint Venture has no debt outstanding on applicable financial statements as of September 30, 2013.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Concluded)*

**Note 10 - Risk Management**

The City is exposed to various risks of loss related to general/professional liability, automobile liability, property damage and workers' compensation. The City purchases commercial insurance with various deductibles for different types of losses. There were no claims paid that exceeded coverage during the last three fiscal years.

The City is insured by Governmental Risk Insurance Trust (GRIT), to cover the risks of loss related to workers' compensation. The City pays GRIT premiums based on appropriate classifications and rates. The total coverage provided is \$1,000,000 bodily injury by accident, per occurrence; \$1,000,000 bodily injury by disease, per occurrence; and \$1,000,000 bodily injury by accident, injury by disease, aggregate limit. There were no claims paid that exceeded coverage in the past three fiscal years.

**Note 11 - Commitments and Contingencies**

The City of Neptune Beach and the City of Jacksonville are currently in discussions concerning the terms of an interlocal agreement with regard to the disposal of residential waste. The agreement allows Neptune Beach free tipping at the landfill until Jacksonville charges a uniform rate. The agreement contains certain criteria, that when met, would trigger the City to begin paying those tipping fees. Jacksonville asserts that under terms of the agreement, the City should have begun paying tipping fees beginning October 2011. The City's position is that the criteria have not been fully met and that no tipping fees are due at this time. Annual tipping fees are estimated to be approximately \$240,000. Based on the City's position, no provision has been made in the accompanying financial statements related to this issue.

**Note 12 - Other Disclosures**

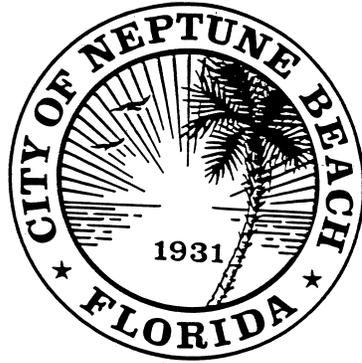
The following nonmajor governmental funds had a deficit fund balance as of September 30, 2013:

Community Development Block Grant Fund	\$ 4,809
Local Option Gas Tax Fund	179,558

**Restatement**

Beginning net position in the Statement of Changes in Fiduciary Net Position was decreased by \$469,152. \$198,162 was reduced to reflect liabilities recorded for excess state insurance receipts that are available to use for future enhancement and should be deferred until enhanced benefits are provided to Police Retirement Plan Participants. The remaining \$270,990 reduction is to recognize an annual expense for DROP benefits as they are earned or contributed to the plan rather than recording the entire multi-year expense at the time the participant exits DROP.

Net Position Held in Trust for Pension Benefits, September 30, 2012	\$ 6,520,549
Reduction	<u>(469,152)</u>
Net Position Held in Trust for Pension Benefits, September 30, 2012, as Restated	<u>\$ 6,051,397</u>



# **Required Supplementary Information**

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(Unaudited)

Annual Financial Report

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 2,767,453	\$ 2,767,453	\$ 2,735,073	\$ (32,380)
Charges for Services	10,550	10,550	9,048	(1,502)
Licenses and Permits	156,050	156,050	140,944	(15,106)
Intergovernmental	1,138,434	1,216,434	1,280,475	64,041
Fines and Forfeitures	58,800	58,800	49,510	(9,290)
Investment Income	13,050	13,050	9,320	(3,730)
Miscellaneous	104,475	104,475	112,842	8,367
<b>Total Revenues</b>	<u>4,248,812</u>	<u>4,326,812</u>	<u>4,337,212</u>	<u>10,400</u>
<b>Expenditures</b>				
Current:				
General Government	837,165	837,165	785,167	51,998
Public Safety	2,801,469	2,975,085	2,720,263	254,822
Public Works	464,998	467,498	466,802	696
Culture and Recreation	240,080	240,080	216,710	23,370
Capital Outlay	23,150	118,776	90,668	28,108
<b>(Total Expenditures)</b>	<u>(4,366,862)</u>	<u>(4,638,604)</u>	<u>(4,279,610)</u>	<u>358,994</u>
<b>Excess of Revenues Over Expenditures</b>	(118,050)	(311,792)	57,602	369,394
<b>Other Financing Sources (Uses)</b>				
Transfers in	395,000	412,616	321,505	(91,111)
Transfers (out)	(276,858)	(276,858)	(273,363)	3,495
<b>Total Other Financing Sources (Uses)</b>	<u>118,142</u>	<u>135,758</u>	<u>48,142</u>	<u>(87,616)</u>
<b>Net Change in Fund Balance</b>	92	(176,034)	105,744	281,778
<b>Fund Balances, Beginning of Year</b>	<u>1,987,276</u>	<u>1,895,276</u>	<u>2,145,507</u>	<u>250,231</u>
<b>Fund Balances, End of Year</b>	<u>\$ 1,987,368</u>	<u>\$ 1,719,242</u>	<u>\$ 2,251,251</u>	<u>\$ 532,009</u>

**NOTE TO THE BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**Note 1 - Budgetary Information**

The budget is prepared on a basis consistent with GAAP. The City maintains the legal level of budgetary control at the department level in the General Fund and at the fund level for all other funds. Total expenditures for each fund may not exceed appropriations without Council approval.

**SCHEDULE OF FUNDING PROGRESS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA**

**Police Officers' Plan Fund**

Actuarial Valuation Date 10/1	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Frozen Entry Age	(b-a) Unfunded (Overfunded) AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	(b-a)/(c) UAAL as a Percentage of Covered Payroll
2013	\$ 7,066,778	\$ 8,829,046	\$ 1,762,268	80.04%	\$ 1,005,031	175.34%
2012	6,249,702	8,219,133	1,969,431	76.04%	1,162,572	169.40%
2011	5,379,836	7,497,492	2,117,656	71.76%	1,135,648	186.47%
2010	5,357,612	7,197,966	1,840,354	74.43%	1,121,230	164.14%
2009	5,188,868	7,019,099	1,830,231	73.92%	1,162,520	157.44%
2008	4,983,373	6,635,029	1,651,656	75.11%	1,210,844	136.41%

For information regarding contribution percentage rates, assumptions, amortization method, etc. - see Note 7.

**Other Post Employment Benefits**

Actuarial Valuation Date 10/1	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded (Overfunded) AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	(b-a)/(c) UAAL as a Percentage of Covered Payroll
2013	\$ 0	\$ 397,300	\$ 397,300	0.00%	\$ 3,028,600	13.12%
2012	0	536,800	536,800	0.00%	3,064,700	17.52%
2011	0	508,500	508,500	0.00%	3,064,700	16.59%
2010	0	486,300	486,300	0.00%	3,064,700	15.87%

**SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES  
CITY OF NEPTUNE BEACH, FLORIDA  
SEPTEMBER 30, 2013**

**Police Officers' Plan Fund**

<b>Year Ended September 30</b>	<b>Annual Required Contribution</b>	<b>City Contributions</b>	<b>State Contributions</b>	<b>Percentage Contributed</b>
2013	\$ 337,992	\$ 337,992	\$ 26,892	107.96%
2012	328,314	301,422	26,892	100.00%
2011	297,426	270,533	26,892 *	100.00%
2010	271,246	244,354	26,892 *	100.00%
2009	233,932	214,398	26,892 *	103.15%
2008	218,507	193,187	26,892 *	100.72%

\* - "Frozen" per Chapter 185, Florida Statutes, as amended

\*\* - Includes additional one-time City required contribution of \$2,794

**Other Post Employment Benefits**

<b>Year Ended September 30</b>	<b>Annual Required Contribution</b>	<b>City Contributions</b>	<b>Percentage Contributed</b>
2013	\$ 29,200	\$ 9,200	31.51%
2012	42,900	15,300	35.66%
2011	41,100	12,900	31.39%
2010	39,500	17,300	43.80%



# **Combining and Individual Fund Statements And Schedules**

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Annual Financial Report

**DESCRIPTION OF NONMAJOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2013**

**Special Revenue Funds**

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

- **Police Education Fund**—This fund accounts for revenues derived from county court costs. Expenditures are used to provide criminal justice education degree programs and training courses for police department personnel.
- **Community Development Block Grant Fund**—This fund accounts for federal grants through the Jacksonville Entitlement program, which provides funding for community development and improvements for qualified populations within the City.
- **Convention Development Tax Fund**—This fund is used to account for funds received from the levy of the local tourist development tax, which are used to promote convention and tourist development. By special act of the legislature, it can also be used for capital outlay in support of lifeguards and parks.
- **Forfeiture Proceeds Fund**—This fund accounts for revenue derived from confiscated property and cash. Proceeds are used to augment police activities.
- **Street Improvement Fund**—This fund accounts for the 8<sup>th</sup> Cent Gasoline Tax. The revenue is restricted per Florida Statutes and may only be used for street construction and paving.
- **Local Option Gas Tax Fund**—This fund accounts for the City's share of county gas tax revenues. Funds may be used to support capital outlay and maintenance for local roads and drainage systems.
- **Radio Communications Fund**—This fund accounts for a portion of the revenues obtained from traffic violations. Expenditures are used to enhance public safety communications and automation.
- **Better Jacksonville Half Cent Tax Fund**—This fund accounts for the City's share of revenue obtained from the Better Jacksonville Half Cent Sales Surtax. Expenditures are used for projects to benefit all residents with respect to growth management, road improvements and construction, environmental protection and preservation, and public facilities.
- **Holiday Décor Fund**—This fund accounts for donations received from residents to be used for holiday decorations.

**Debt Service Fund**

- **Capital Improvement Revenue Bonds, Series 2003 Debt Service Fund**—This fund records principal and interest payments on the Capital Improvement Revenue Bonds Series 2003. Revenue sources include transfers from the General Fund.

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA**

	<u>Special Revenue Funds</u>				
	<u>Police Education Fund</u>	<u>Community Development Block Grant Fund</u>	<u>Convention Development Tax Fund</u>	<u>Forfeitures Proceeds Fund</u>	<u>Street Improvements Fund</u>
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 1,020	\$ 0	\$ 46,631	\$ 29,684	\$ 95,387
Equity in Pooled Investments	2	0	106	67	210
Accounts Receivable	0	7,784	0	0	0
Due from Other Funds	0	0	0	0	0
Due from Other Governments	223	0	3,000	0	4,620
<b>Total Assets</b>	<u>1,245</u>	<u>7,784</u>	<u>49,737</u>	<u>29,751</u>	<u>100,217</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable and Accrued Liabilities	550	4,809	1,682	0	11,619
Due to Other Funds	0	7,784	0	0	0
<b>Total Liabilities</b>	<u>550</u>	<u>12,593</u>	<u>1,682</u>	<u>0</u>	<u>11,619</u>
<b>Fund Balances</b>					
Restricted for:					
Public Safety	695	0	0	29,751	0
Capital Outlay	0	0	0	0	88,598
Other Purposes	0	0	48,055	0	0
Committed for:					
Public Safety	0	0	0	0	0
Unassigned	0	(4,809)	0	0	0
<b>Total Fund Balances</b>	<u>695</u>	<u>(4,809)</u>	<u>48,055</u>	<u>29,751</u>	<u>88,598</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 1,245</u>	<u>\$ 7,784</u>	<u>\$ 49,737</u>	<u>\$ 29,751</u>	<u>\$ 100,217</u>

Special Revenue Funds					Debt Service Fund	Total Nonmajor Governmental Funds
Local Options Gas Tax Fund	Radio Communications Fund	Better Jacksonville Half Cent Tax Fund	Holiday Décor Fund	Total	Capital Improvement Bond Series 2003	
\$ 0	\$ 3,712	\$ 389,428	\$ 9,728	\$ 575,590	\$ 0	\$ 575,590
0	8	867	22	1,282	0	1,282
0	0	0	0	7,784	0	7,784
0	0	192,952	0	192,952	0	192,952
19,296	963	36,702	0	64,804	0	64,804
19,296	4,683	619,949	9,750	842,412	0	842,412
9,763	2,642	0	0	31,065	0	31,065
189,091	0	0	0	196,875	0	196,875
198,854	2,642	0	0	227,940	0	227,940
0	2,041	0	0	32,487	0	32,487
0	0	619,949	0	708,547	0	708,547
0	0	0	9,750	57,805	0	57,805
0	0	0	0	0	0	0
(179,558)	0	0	0	(184,367)	0	(184,367)
(179,558)	2,041	619,949	9,750	614,472	0	614,472
\$ 19,296	\$ 4,683	\$ 619,949	\$ 9,750	\$ 842,412	\$ 0	\$ 842,412

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA**

	Special Revenue Funds				
	Police Education Fund	Community Development Block Grant Fund	Convention Development Tax Fund	Forfeitures Proceeds Fund	Street Improvements Fund
<b>Revenues</b>					
Taxes	\$ 0	\$ 0	\$ 22,773	\$ 0	\$ 61,746
Fines and Forfeitures	2,666	0	0	2,933	0
Intergovernmental Revenues	0	43,969	0	0	0
Charges for Services	0	40,981	0	0	0
Investment Income	1	0	54	32	152
Grants and Donations	0	0	0	0	0
Miscellaneous	0	40,001	0	0	0
<b>Total Revenues</b>	<u>2,667</u>	<u>124,951</u>	<u>22,827</u>	<u>2,965</u>	<u>61,898</u>
<b>Expenditures</b>					
Current:					
General Government	0	0	0	0	0
Public Safety	302	0	0	4,781	0
Public Works	0	0	0	0	126,875
Culture and Recreation	0	131,533	1,768	0	0
Debt Service:					
Principal	0	0	0	0	0
Interest	0	0	0	0	0
Capital Outlay	0	0	36,443	0	0
<b>(Total Expenditures)</b>	<u>(302)</u>	<u>(131,533)</u>	<u>(38,211)</u>	<u>(4,781)</u>	<u>(126,875)</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>2,365</u>	<u>(6,582)</u>	<u>(15,384)</u>	<u>(1,816)</u>	<u>(64,977)</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in	0	11,858	0	0	0
Transfers (out)	0	0	(10,000)	0	0
<b>Total Other Financing Sources (Uses)</b>	<u>0</u>	<u>11,858</u>	<u>(10,000)</u>	<u>0</u>	<u>0</u>
<b>Net Change in Fund Balance</b>	2,365	5,276	(25,384)	(1,816)	(64,977)
<b>Fund Balances, Beginning of Year</b>	<u>(1,670)</u>	<u>(10,085)</u>	<u>73,439</u>	<u>31,567</u>	<u>153,575</u>
<b>Fund Balances, End of Year</b>	<u>\$ 695</u>	<u>\$ (4,809)</u>	<u>\$ 48,055</u>	<u>\$ 29,751</u>	<u>\$ 88,598</u>

Special Revenue Funds					Debt Service Fund	Total Nonmajor Governmental Funds
Local Options Gas Tax Fund	Radio Communications Fund	Better Jacksonville Half Cent Tax Fund	Holiday Décor Fund	Total	Capital Improvement Bond Series 2003	
\$ 231,193	\$ 0	\$ 379,719	\$ 0	\$ 695,431	\$ 0	\$ 695,431
0	9,687	0	0	15,286	0	15,286
0	0	0	0	43,969	0	43,969
0	0	0	0	40,981	0	40,981
0	6	326	11	582	0	582
0	0	0	0	0	0	0
0	0	0	8,011	48,012	0	48,012
231,193	9,693	380,045	8,022	844,261	0	844,261
0	0	0	0	0	0	0
0	16,011	0	0	21,094	0	21,094
265,485	0	103,456	0	495,816	0	495,816
0	0	0	8,909	142,210	0	142,210
0	0	0	0	0	257,109	257,109
0	0	0	0	0	4,396	4,396
0	0	0	0	36,443	0	36,443
(265,485)	(16,011)	(103,456)	(8,909)	(695,563)	(261,505)	(957,068)
(34,292)	(6,318)	276,589	(887)	148,698	(261,505)	(112,807)
0	0	192,952	0	204,810	261,505	466,315
0	0	(261,505)	0	(271,505)	0	(271,505)
0	0	(68,553)	0	(66,695)	261,505	194,810
(34,292)	(6,318)	208,036	(887)	82,003	0	82,003
(145,266)	8,359	411,913	10,637	532,469	0	532,469
\$ (179,558)	\$ 2,041	\$ 619,949	\$ 9,750	\$ 614,472	\$ 0	\$ 614,472

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCES - BUDGET AND ACTUAL  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2013  
 CITY OF NEPTUNE BEACH, FLORIDA**

	<b>Police Education Fund</b>			<b>Variance With Final Budget Positive (Negative)</b>
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Fines and Forfeitures	\$ 6,000	\$ 6,000	\$ 2,666	\$ (3,334)
Investment Income	6	6	1	(5)
<b>Total Revenues</b>	<u>6,006</u>	<u>6,006</u>	<u>2,667</u>	<u>(3,339)</u>
<b>Expenditures</b>				
Current:				
Public Safety	7,006	7,006	302	6,704
<b>(Total Expenditures)</b>	<u>(7,006)</u>	<u>(7,006)</u>	<u>(302)</u>	<u>6,704</u>
<b>(Deficiency) Excess of Revenues (Under) Over Expenditures</b>	(1,000)	(1,000)	2,365	3,365
<b>Fund Balances, Beginning of Year</b>	<u>10,959</u>	<u>10,959</u>	<u>(1,670)</u>	<u>(12,629)</u>
<b>Fund Balances, End of Year</b>	<u>\$ 9,959</u>	<u>\$ 9,959</u>	<u>\$ 695</u>	<u>\$ (9,264)</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA  
(Continued)**

	<b>Community Development Block Grand Fund</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance With Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Intergovernmental Revenue	\$ 43,969	\$ 43,969	\$ 43,969	\$ 0
Charges for Services	0	0	40,981	40,981
Grants and Donations	41,881	41,881	0	(41,881)
Miscellaneous	0	0	40,001	40,001
<b>Total Revenues</b>	<b>85,850</b>	<b>85,850</b>	<b>124,951</b>	<b>39,101</b>
<b>Expenditures</b>				
Current:				
Culture and Recreation	97,708	97,708	131,533	(33,825)
<b>(Total Expenditures)</b>	<b>(97,708)</b>	<b>(97,708)</b>	<b>(131,533)</b>	<b>(33,825)</b>
<b>(Deficiency) Excess of Revenues (Under) Over Expenditures</b>	<b>(11,858)</b>	<b>(11,858)</b>	<b>(6,582)</b>	<b>5,276</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	11,858	11,858	11,858	0
<b>Total Other Financing Sources (Uses)</b>	<b>11,858</b>	<b>11,858</b>	<b>11,858</b>	<b>0</b>
<b>Net Change in Fund Balance</b>	<b>0</b>	<b>0</b>	<b>5,276</b>	<b>5,276</b>
<b>Fund Balances, Beginning of Year</b>	<b>9,259</b>	<b>9,259</b>	<b>(10,085)</b>	<b>(19,344)</b>
<b>Fund Balances, End of Year</b>	<b>\$ 9,259</b>	<b>\$ 9,259</b>	<b>\$ (4,809)</b>	<b>\$ (14,068)</b>

The perspective difference in the budget to actual amounts for Culture and Recreation are due to the budget netting charges for services against the related expenses of \$40,981.

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA  
(Continued)**

	<b>Convention Development Tax Fund</b>			<b>Variance With Final Budget Positive (Negative)</b>
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Taxes	\$ 18,000	\$ 18,000	\$ 22,773	\$ 4,773
Investment Income	30	30	54	24
<b>Total Revenues</b>	<u>18,030</u>	<u>18,030</u>	<u>22,827</u>	<u>4,797</u>
<b>Expenditures</b>				
Current:				
Culture and Recreation	4,850	4,850	1,768	3,082
Debt Services:				
Capital Outlay	43,180	43,180	36,443	6,737
<b>(Total Expenditures)</b>	<u>(48,030)</u>	<u>(48,030)</u>	<u>(38,211)</u>	<u>9,819</u>
<b>(Deficiency) Excess of Revenues (Under) Over Expenditures</b>	(30,000)	(30,000)	(15,384)	14,616
<b>Other Financing Sources (Uses)</b>				
Transfers (out)	(10,000)	(10,000)	(10,000)	0
<b>Total Other Financing Sources (Uses)</b>	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>0</u>
<b>Net Change in Fund Balance</b>	(40,000)	(40,000)	(25,384)	14,616
<b>Fund Balances, Beginning of Year</b>	<u>36,369</u>	<u>36,369</u>	<u>73,439</u>	<u>37,070</u>
<b>Fund Balances, End of Year</b>	<u>\$ (3,631)</u>	<u>\$ (3,631)</u>	<u>\$ 48,055</u>	<u>\$ 51,686</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCES - BUDGET AND ACTUAL  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2013  
 CITY OF NEPTUNE BEACH, FLORIDA  
 (Continued)**

	<b>Forfeiture Proceeds Fund</b>			<b>Variance With Final Budget Positive (Negative)</b>
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Fines and Forfeitures	\$ 0	\$ 0	\$ 2,933	\$ 2,933
Investment Income	30	30	32	2
<b>Total Revenues</b>	<u>30</u>	<u>30</u>	<u>2,965</u>	<u>2,935</u>
<b>Expenditures</b>				
Current:				
Public Safety	33,205	33,205	4,781	28,424
<b>(Total Expenditures)</b>	<u>(33,205)</u>	<u>(33,205)</u>	<u>(4,781)</u>	<u>28,424</u>
<b>(Deficiency) Excess of Revenues (Under) Over Expenditures</b>	(33,175)	(33,175)	(1,816)	31,359
<b>Fund Balances, Beginning of Year</b>	<u>24,385</u>	<u>24,385</u>	<u>31,567</u>	<u>7,182</u>
<b>Fund Balances, End of Year</b>	<u>\$ (8,790)</u>	<u>\$ (8,790)</u>	<u>\$ 29,751</u>	<u>\$ 38,541</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA  
(Continued)**

	<b>Street Improvements Fund</b>			<b>Variance With Final Budget Positive (Negative)</b>
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Taxes	\$ 58,587	\$ 58,587	\$ 61,746	\$ 3,159
Investment Income	70	70	152	82
<b>Total Revenues</b>	<u>58,657</u>	<u>58,657</u>	<u>61,898</u>	<u>3,241</u>
<b>Expenditures</b>				
Current:				
Public Works	84,657	184,657	126,875	57,782
<b>(Total Expenditures)</b>	<u>(84,657)</u>	<u>(184,657)</u>	<u>(126,875)</u>	<u>57,782</u>
<b>(Deficiency) of Revenues (Under) Expenditures</b>	(26,000)	(126,000)	(64,977)	61,023
<b>Fund Balances, Beginning of Year</b>	<u>93,844</u>	<u>93,844</u>	<u>153,575</u>	<u>59,731</u>
<b>Fund Balances, End of Year</b>	<u>\$ 67,844</u>	<u>\$ (32,156)</u>	<u>\$ 88,598</u>	<u>\$ 120,754</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCES - BUDGET AND ACTUAL  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2013  
 CITY OF NEPTUNE BEACH, FLORIDA  
 (Continued)**

	<u>Local Option Gas Tax Fund</u>			<b>Variance With Final Budget Positive (Negative)</b>
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Taxes	\$ 233,267	\$ 233,267	\$ 231,193	\$ (2,074)
Miscellaneous	25,000	25,000	0	(25,000)
<b>Total Revenues</b>	<u>258,267</u>	<u>258,267</u>	<u>231,193</u>	<u>(27,074)</u>
<b>Expenditures</b>				
Current:				
Public Works	273,661	273,661	265,485	8,176
<b>(Total Expenditures)</b>	<u>(273,661)</u>	<u>(273,661)</u>	<u>(265,485)</u>	<u>8,176</u>
<b>(Deficiency) of Revenues (Under) Expenditures</b>	(15,394)	(15,394)	(34,292)	(18,898)
<b>Fund Balances, Beginning of Year</b>	<u>(142,217)</u>	<u>(142,217)</u>	<u>(145,266)</u>	<u>(3,049)</u>
<b>Fund Balances, End of Year</b>	<u>\$ (157,611)</u>	<u>\$ (157,611)</u>	<u>\$ (179,558)</u>	<u>\$ (21,947)</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA  
(Continued)**

	<u>Radio Communication Fund</u>			<b>Variance With Final Budget Positive (Negative)</b>
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Fines and Forfeitures	\$ 7,500	\$ 7,500	\$ 9,687	\$ 2,187
Investment Income	9	9	6	(3)
<b>Total Revenues</b>	<u>7,509</u>	<u>7,509</u>	<u>9,693</u>	<u>2,184</u>
<b>Expenditures</b>				
Current:				
Public Safety	17,509	17,509	16,011	1,498
<b>(Total Expenditures)</b>	<u>(17,509)</u>	<u>(17,509)</u>	<u>(16,011)</u>	<u>1,498</u>
<b>(Deficiency) Excess of Revenues (Under) Over Expenditures</b>	(10,000)	(10,000)	(6,318)	3,682
<b>Fund Balances, Beginning of Year</b>	<u>14,252</u>	<u>14,252</u>	<u>8,359</u>	<u>(5,893)</u>
<b>Fund Balances, End of Year</b>	<u>\$ 4,252</u>	<u>\$ 4,252</u>	<u>\$ 2,041</u>	<u>\$ (2,211)</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA  
(Continued)**

	<b>Better Jacksonville Half-Cent Tax Fund</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance With Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Taxes	\$ 336,127	\$ 336,127	\$ 379,719	\$ 43,592
Investment Income	150	150	326	176
<b>Total Revenues</b>	<u>336,277</u>	<u>336,277</u>	<u>380,045</u>	<u>43,768</u>
<b>Expenditures</b>				
Current:				
Public Works	0	0	103,456	(103,456)
Capital Outlay	471,277	471,277	0	471,277
<b>(Total Expenditures)</b>	<u>(471,277)</u>	<u>(471,277)</u>	<u>(103,456)</u>	<u>367,821</u>
<b>(Deficiency) Excess of Revenues (Under) Over Expenditures</b>	(135,000)	(135,000)	276,589	411,589
<b>Other Financing Sources (Uses)</b>				
Transfers in	0	0	192,952	192,952
Transfers (out)	(265,000)	(265,000)	(261,505)	3,495
<b>Total Other Financing Sources (Uses)</b>	<u>(265,000)</u>	<u>(265,000)</u>	<u>(68,553)</u>	<u>196,447</u>
<b>Net Change in Fund Balance</b>	(400,000)	(400,000)	208,036	608,036
<b>Fund Balances, Beginning of Year</b>	<u>(76,570)</u>	<u>(76,570)</u>	<u>411,913</u>	<u>488,483</u>
<b>Fund Balances, End of Year</b>	<u>\$ (476,570)</u>	<u>\$ (476,570)</u>	<u>\$ 619,949</u>	<u>\$ 1,096,519</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCES - BUDGET AND ACTUAL  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2013  
 CITY OF NEPTUNE BEACH, FLORIDA  
 (Continued)**

	<b>Holiday Décor Fund</b>			<b>Variance With Final Budget Positive (Negative)</b>
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Investment Income	\$ 5	\$ 5	\$ 11	\$ 6
Miscellaneous	8,000	8,000	8,011	11
<b>Total Revenues</b>	<u>8,005</u>	<u>8,005</u>	<u>8,022</u>	<u>17</u>
<b>Expenditures</b>				
Current:				
Culture and Recreation	9,005	9,005	8,909	96
<b>(Total Expenditures)</b>	<u>(9,005)</u>	<u>(9,005)</u>	<u>(8,909)</u>	<u>96</u>
<b>(Deficiency) Excess of Revenues (Under) Over Expenditures</b>	(1,000)	(1,000)	(887)	113
<b>Fund Balances, Beginning of Year</b>	<u>(3,954)</u>	<u>8,056</u>	<u>10,637</u>	<u>2,581</u>
<b>Fund Balances, End of Year</b>	<u>\$ (4,954)</u>	<u>\$ 7,056</u>	<u>\$ 9,750</u>	<u>\$ 2,694</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA  
(Concluded)**

	<u>Capital Improvement Bonds, Series 2003</u>			<b>Variance With Final Budget Positive (Negative)</b>
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	
	<b>Original</b>	<b>Final</b>		
<b>Total Revenues</b>	\$ 0	\$ 0	\$ 0	\$ 0
<b>Expenditures</b>				
Debt Services:				
Principal	257,109	257,109	257,109	0
Interest	7,891	7,891	4,396	3,495
<b>(Total Expenditures)</b>	<u>(265,000)</u>	<u>(265,000)</u>	<u>(261,505)</u>	<u>3,495</u>
<b>(Deficiency) Excess of Revenues (Under) Over Expenditures</b>	(265,000)	(265,000)	(261,505)	3,495
<b>Other Financing Sources (Uses)</b>				
Transfers in	265,000	265,000	261,505	(3,495)
<b>Total Other Financing Sources (Uses)</b>	<u>265,000</u>	<u>265,000</u>	<u>261,505</u>	<u>(3,495)</u>
<b>Net Change in Fund Balance</b>	0	0	0	0
<b>Fund Balances, Beginning of Year</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Fund Balances, End of Year</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>



# **Schedule of Expenditures of the City of Jacksonville Grant Funds**

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Annual Financial Report

**SCHEDULE OF EXPENDITURES OF THE CITY OF JACKSONVILLE GRANT FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013  
CITY OF NEPTUNE BEACH, FLORIDA**

**Community Development Block Grant Funds  
Passed Through City of Jacksonville, Florida**

**Contract Number 6494-52  
Project Number 004604**

	<b>Approved Budget</b>	<b>Actual</b>
<b>Receipts</b>	\$ 43,969	\$ 43,969
<b>Total Receipts</b>	43,969	43,969
<b>Expenditures</b>		
Salaries/Wages	36,907	36,907
Employee Benefits	7,062	7,062
<b>(Total Expenditures)</b>	43,969	43,969
<b>(Deficiencies) of Source (Under) Expenditures</b>	\$ 0	\$ 0



# Other Reports

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Annual Financial Report

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

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

Honorable Mayor, City Councilors  
and City Manager  
City of Neptune Beach, Florida  
Neptune Beach, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Neptune Beach, Florida, (the City), as of and for the year ended September 30, 2013, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 10, 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.

**Internal Control Over Financial Reporting**

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

*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 City's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control that we consider to be a significant deficiency.

**Certified Public Accountants**

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

Honorable Mayor, City Councilors  
and City Manager  
City of Neptune Beach, Florida  
Neptune Beach, Florida

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

**Internal Control Over Financial Reporting (Concluded)**

■ **13-1 Segregation of Duties**

*Condition*—One of the tenets of sound internal control is the segregation of incompatible duties among employees. The basic premise is that in order to minimize control issues, duties should be segregated among employees so that no one individual can perform all accounting functions for a single area. During our audit, we noted that the Utility Billing Supervisor could set up new accounts, process meter readings, adjust customer accounts and take payments.

*Recommendation*—We recommend that management review the tasks and consider implementation of either preventative controls or detection controls to compensate for lack of segregation of duties. Preventative controls, which typically prevent fraud and errors from occurring and are generally preferred over detection controls as they are typically more effective, would include additional staff and removal of the Utility Billing Supervisor as a cashier. Alternative detection controls can also be implemented which would include the review of all billing adjustments by the Finance Director or other member of management to determine that they have a valid business purpose and proper supporting documentation.

■ **13-2 Journal Entries**

*Condition*—During our testing of journal entries during the audit, it was noted that entries prepared by the Finance Director are not reviewed and approved by a second individual. Failure to provide adequate support and require a secondary review of journal entries, increases the risk that errors or irregularities may go undetected.

*Recommendation*—We recommend that all journal entries be reviewed and approved by a secondary individual and the review and approval be documented with all entries.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to the management of the City in a separate letter dated March 10, 2014

**Purpose of this Report**

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

*Purvis, Gray and Company, LLP*

March 10, 2014  
Gainesville, Florida

**MANAGEMENT LETTER**

Honorable Mayor, City Councilors  
and City Manager  
City of Neptune Beach, Florida  
Neptune Beach, Florida

We have audited the financial statements of the City of Neptune Beach, Florida, (the City), as of and for the year ended September 30, 2013, and have issued our report thereon dated March 10, 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. We have issued our report on internal control over financial reporting and compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*. Disclosures in that report, which is dated March 10, 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 governs the conduct of local governmental entity audits performed in state of Florida. This letter includes the following information, which is not included in the aforementioned auditors' 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. We have determined that corrective actions were taken to address the findings noted in the preceding annual financial report.

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 the City complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)3, *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we have the following recommendations:

■ **Documentation of Fixed Asset Policies and Procedures**

It was noted during the audit, that there are no written policies and procedures for the purchase, recording and identification of capital assets or for their disposals. Documenting accounting policies and procedures and controls provides a reference and training tool for staff, helps prevent internal control erosion over time, and assists the City in assessing the sufficiency of the system of internal controls. We recommend that the City document, in a central location, its accounting policies, procedures and controls for the purchase, recording, identification and disposition of capital assets.

**Certified Public Accountants**

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

Honorable Mayor, City Councilors  
and City Manager  
City of Neptune Beach, Florida  
Neptune Beach, Florida

**MANAGEMENT LETTER**  
*(Continued)*

■ **Payroll Documentation and Review**

During the audit, it was noted that employee files do not have adequate documentation of annual salary increases that are approved by the City Manager. We recommend that supporting documentation be added to each employee file for every approved rate change.

It was also noted that there is currently no documentation of the secondary review and approval of the payroll register each pay period. Lack of secondary approval or review allows for error to occur and not be detected in a timely manner. While the City is currently performing a secondary review each pay period, we recommend that this be formally documented each pay period.

■ **Payroll Taxes**

It was noted during testing of payroll, that certain safety rebate paychecks did not withhold the proper amount of federal withholding. We recommend that management review Publication 15 from the Internal Revenue Service to determine proper withholding for all supplemental pay.

■ **Fixed Asset Transfer**

During our review of fixed assets, we noted that there were some water and sewer assets that were included in the governmental fixed asset balances. These items were purchased using the Better Jacksonville Half-cent Surtax due to shortfalls in the enterprise funds. As of September 30, 2013, we have proposed an adjustment to transfer the assets to the water and sewer fund and set up a payable and receivable for the water and sewer fund to repay the Better Jacksonville Surtax Fund for these assets.

■ **Utility Billing**

During our testing of the Utility Billing, it was noted that as early as November 2012, the ¾-inch Commercial accounts appear to have an issue with the breakdown of charges on the bills for the water consumption. The City is currently in discussion with the software vendor to resolve this matter. We recommend that management continue to monitor the billing and occasionally perform recalculation to ensure bills are calculated correctly.

■ **Other Post Employment Benefits (OPEB) Expense**

During the review of the OPEB expenses and liabilities, it was noted that the City presented all of its OPEB liability in the Governmental Funds in the September 30, 2012, financial statements. OPEB expenses should be allocated to the fund or department where the related employees work. For the year ended September 30, 2013, we have allocated the entire OPEB expense to the Business-type Activities to catch them up to the appropriate allocation.

■ **Prior Period Adjustments**

During the audit we proposed two adjustments to beginning balance equity. The first adjustment was to record a liability for DROP investments in the pension trust fund at September 30, 2013, of \$459,722. This approach recognizes an annual expense for DROP benefits as they are earned/contributed to the plan rather than record the entire multi-year expense at the time the participant exits DROP, as was the previous method used by management. The second adjustment of \$198,161 was to record excess state insurance proceeds for the Police Retirement Plan as a liability that are only available for use for future enhancements.

Honorable Mayor, City Councilors  
and City Manager  
City of Neptune Beach, Florida  
Neptune Beach, Florida

**MANAGEMENT LETTER**  
*(Concluded)*

Section 10.554(1)(i)4, *Rules of the Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

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 the management letter, unless disclosed in the notes to the financial statements. This information is disclosed in the notes to the financial statements.

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

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

*Purvis, Gray and Company, LLP*

March 10, 2014  
Gainesville, Florida

# City of **Neptune Beach**

116 First Street • Neptune Beach, Florida 32266-6140  
(904) 270-2400 • FAX (904) 270-2417 • Suncom 852-2400



March 10, 2014

Purvis Gray & Company  
222 NE 1<sup>st</sup> Street  
Gainesville, FL 32604

Thank you for the opportunity to respond to the City of Neptune Beach's Independent Auditor's Report on Internal Control dated March 10, 2014. We are pleased to present the City's response to this report.

## **Comment 13-1 Segregation of Duties**

*Condition* – One of the tenets of sound internal control is the segregation of incompatible duties among employees. It was noted that the Utility Billing Supervisor could set up new accounts, process meter readings, adjust customer accounts and take payments.

*Recommendation* – It was recommended that management review the tasks and consider implementation of either preventative controls or detection controls to compensate for lack of segregation of duties. It was also recommended that preventative controls are preferred to alleviate this situation and would require the addition of additional staff to better segregate the duties. As an alternative, detection controls could also be implemented which would include a review of all billing adjustments by the Finance Director or other member of management.

*Management Response* – This lack of segregation of duties occurred due the downsizing of the Finance Department during the economic downturn of the past few years. The City of Neptune Beach will implement the detection controls described above until such time as prevention controls, the adding of additional staff, can be achieved.

## **Comment 13-2 Journal Entries**

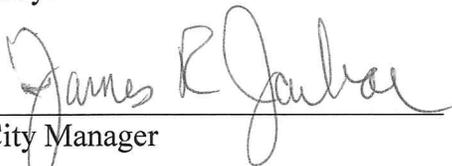
*Condition* – During the testing of journal entries it was noted that entries prepared by the Finance Director are not reviewed and approved by a second individual. Failure to provide adequate support and require a secondary review of journal entries increases the risk that errors or irregularities may go undetected.

*Recommendation* – It was recommended that all journal entries be reviewed and approved by a secondary individual and the review and approval be documented with the entry.

Purvis Gray & Company  
222 NE 1<sup>st</sup> Street  
Gainesville, FL 32604

Management Response Letter  
(Continued)

*Management Response* – Neptune Beach is a small city in which only the Finance Director has an accounting degree. This is the first time this comment was brought to the attention of the City. The City will begin having the Finance Director explain the entries made by him to a subordinate and let that individual sign off as having reviewed the entry.

  
\_\_\_\_\_  
City Manager

  
\_\_\_\_\_  
Finance Director

# City of Neptune Beach

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March 10, 2014

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Gainesville, FL 32604

## *Management Letter Responses*

### **1. Documentation of Fixed Assets**

*Response* – The City is in the process of drafting written policies and procedures for the purchase, recording and identification of capital assets to promote consistency in future transactions.

### **2. Payroll Documentation and Review**

*Response* – In the past, the City did not document, in each personnel file, across-the-board increases in pay for employees, such as cost-of-living increases. The City is making a concerted effort to ensure documentation for these events are maintained in the individual personnel files.

While the payroll for the City is currently being reviewed each pay it is not noted on the files. We will note the reviews of the payroll transactions in the future.

### **3. Payroll Taxes**

*Response* – The City understands the importance of proper withholding of Federal Income Taxes from its employees and will comply with requirements in the future.

### **4. Fixed Asset Transfer**

*Response* – At the time these water and sewer assets were purchased, the respective funds were in a deficit balance. The needed assets were purchased through the Better Jacksonville Half-cent Surtax. We agree with this adjustment that the assets should be accounted for in the correct Enterprise funds.

### **5. Utility Billing**

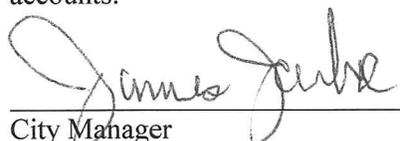
*Response* – At this time, we are working with the software vendor to rectify this problem.

### **6. Other Post Employment Benefits (OPEB) Expense**

*Response* – We agree with this method of allocating the expense.

### **7. Prior Period Adjustments**

*Response* – The City agrees with this separation of the various accounts within the Police Pension Fund included in the comment and agrees that it is a more clear way to portray the various accounts.

  
\_\_\_\_\_  
City Manager

  
\_\_\_\_\_  
Finance Director