

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), for the year ended September 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our communication letter to you dated December 1, 2014. Professional standards also require that we communicate to you the following information related to our audit:

### **Significant Audit Findings**

#### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period. The following new accounting pronouncements were adopted during the year ended September 30, 2014.

- Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities; and recognized, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.
- The City also implemented GASB Statement No. 67, *Financial Reporting for Pension Plans; an Amendment of GASB Statement No. 25*. This Statement replaces the requirements of Statements No. 25 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. This Statement requires additional disclosures regarding the City's pension plans and specifies the required approach to measuring the net pension liability.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

#### **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  
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309  
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

### **Significant Audit Findings** *(Continued)*

#### **Qualitative Aspects of Accounting Practices** *(Concluded)*

- Management's estimate of depreciation and accumulated depreciation, which is based on the useful lives determined by asset type.
- Management's estimate of the allowance for uncollectible accounts, which is based on historical trends and analysis of the collectability of individual accounts.
- Management's estimate of pension contributions and the other Post Employment Benefits Obligation, which is based on actuarial assumptions and estimates.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

- The disclosure in Note 11 that discusses commitments and contingencies related to a potential liability to the City of Jacksonville for tipping fees beginning in October 2011.

The financial statement disclosures are neutral, consistent, and clear.

#### **Difficulties Encountered in Performing the Audit**

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

#### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the opinion unit's financial statements taken as a whole.

#### **Disagreements with Management**

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

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated March 18, 2015.

#### **Management Consultations with Other Independent Accountants**

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

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

**Significant Audit Findings (Concluded)**

**Other Audit Findings or Issues**

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

**Other Matters**

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

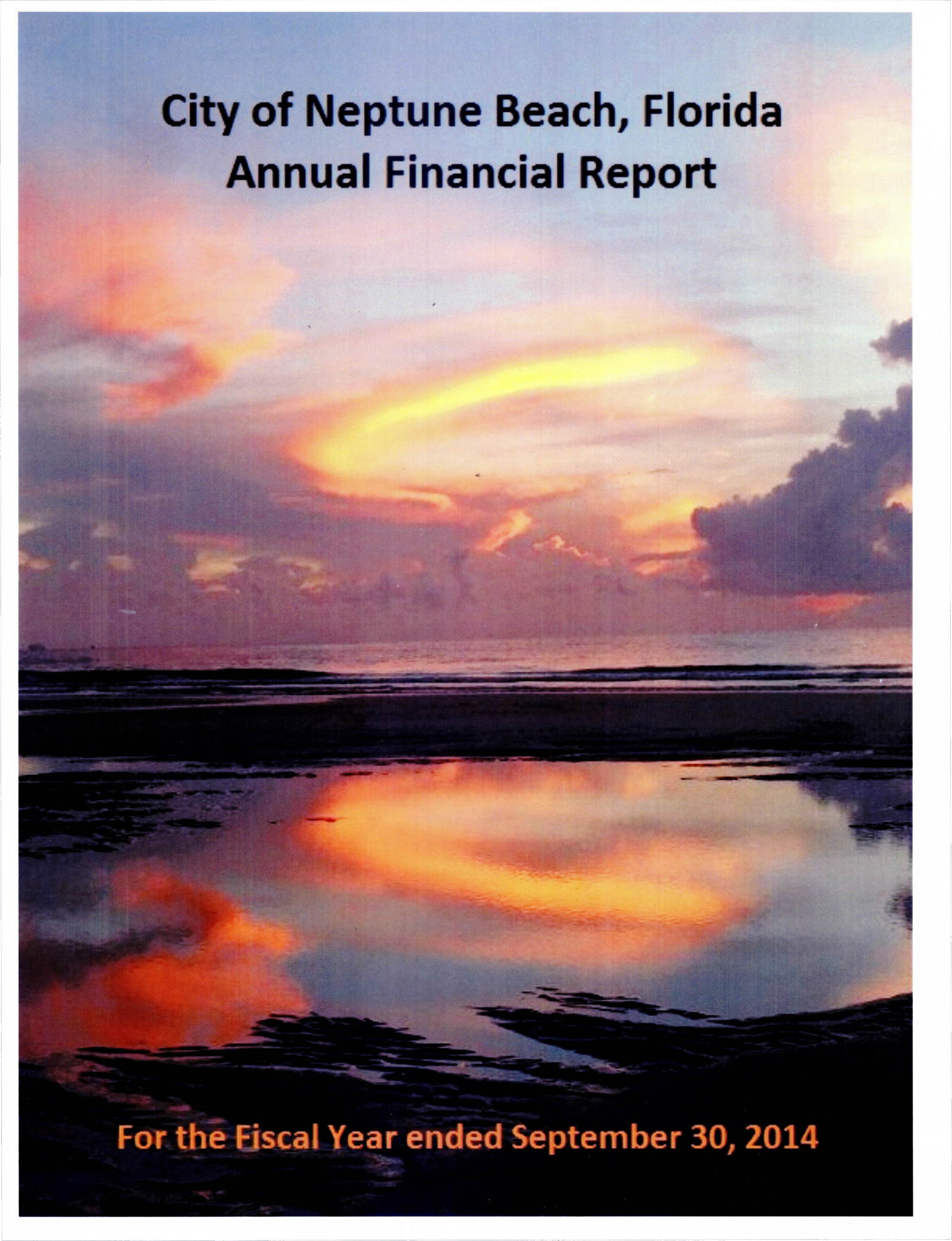
*Other Items of Significance*

On February 2, 2015, the auditors for USF Affiliate Services, Inc. an entity which includes Salem Trust Company (STC), issued an adverse opinion on STC's internal controls for the year ended June 30, 2014. STC is the custodian of the City's police pension trust fund investments. In their report, the auditors concluded that many of STC's internal controls, designed to ensure that its client's investment transactions were processed accurately and timely, were not operating effectively during that period. The auditors noted that numerous errors had incurred in the processing of client data. Accordingly, we recommend that the City perform a review of its pension investment transactions during the year, to determine if any errors existed requiring further resolution.

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

*Purvis, Gray and Company, LLP*

March 18, 2015  
Gainesville, Florida



# **City of Neptune Beach, Florida Annual Financial Report**

**For the Fiscal Year ended September 30, 2014**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
CITY OF NEPTUNE BEACH, FLORIDA  
SEPTEMBER 30, 2014**



**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
CITY OF NEPTUNE BEACH, FLORIDA  
SEPTEMBER 30, 2014**

**TABLE OF CONTENTS**

<b>Principal City Officials .....</b>	<b>1</b>
<b>Independent Auditors' Report .....</b>	<b>2-3</b>
<b>Management's Discussion and Analysis.....</b>	<b>4-10</b>
<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 Financial Statements .....	24-49
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule – General Fund.....	50
Note to the Budgetary Comparison Schedule – General Fund .....	51
Schedule of Funding Progress – Police Officer's Pension Plan Fund .....	52
Schedule of Contributions from Employer and Other Contributing Entities – Police Officer's Pension Plan Fund.....	53
Schedule of Changes in Net Pension Liability and Related Ratios .....	54
Schedule of Contributions .....	55
Schedule of Investment Returns .....	56
Schedule of Funding Progress – Other Post Employment Benefits .....	57
Schedule of Contributions from Employer and Other Contributing Entities – Other Post Employment Benefits .....	58

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
CITY OF NEPTUNE BEACH, FLORIDA  
SEPTEMBER 30, 2014**

**TABLE OF CONTENTS  
(Concluded)**

**Combining and Individual Fund Statements and Schedules**

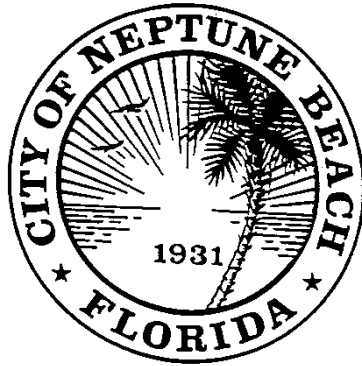
Combining Balance Sheet – Nonmajor Governmental Funds .....	59-60
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.....	61-62
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Nonmajor Governmental Funds .....	63-71

<b>Schedule of Expenditures of the City of Jacksonville Grant Funds .....</b>	<b>72</b>
---	-----------

**Other Reports**

**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 <i>Government Auditing Standards</i> .....	73-74
Independent Accountants' Report on Compliance with Section 218.415, Florida Statutes.....	75
Management Letter.....	76-78
Management Letter Response .....	79



# Introductory Section

---

Annual Financial Report



# City of Neptune Beach, Florida

## Principal Officials

---

### Elected Officials

Harriet Pruette - Mayor

Richard Arthur - Vice Mayor

John Jolly - Councilor

Kara Tucker - Councilor

Scott Wiley - Councilor

### City Council Appointed Officials

James R. Jarboe - City Manager

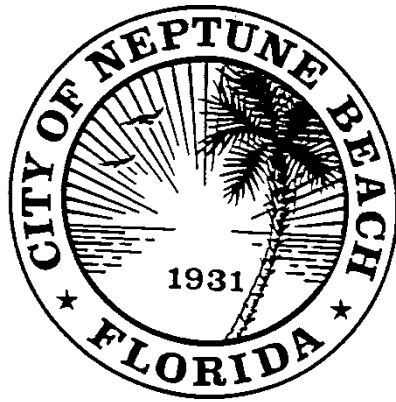
Patrick Krechowski - City Attorney

Karla Strait - 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

---

Annual Financial Report

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Neptune Beach, Florida, (the City), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's 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, 2014, 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  
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309  
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 and required supplementary information as listed in the table of contents 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 basic financial statements. 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 18, 2015 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.



March 18, 2015  
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, 2014.

### ***Financial Highlights***

- The assets of the City exceeded its liabilities at the close of fiscal year 2014 by \$14,379,489 (net position). The net position of the City increased by \$1,121,900 from the prior year total of \$13,257,589.
- At September 30, 2014, the City's governmental funds reported combined ending fund balances of \$3,020,898, an increase of \$155,175 in comparison with the prior year.
- At September 30, 2014, unassigned fund balance for the General Fund was \$2,374,837 or 53.8 % of total General Fund expenditures.
- General fund revenues increased by \$89,437 or 2.1% above the prior fiscal year due to an increase in operating receipts.
- The City's outstanding notes payable and bonded debt decreased by \$702,462 or 8.2% during fiscal year 2014. This decrease was due to normal debt payments made during the fiscal year.

### ***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 ten 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 nine 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 - 49 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 50-58 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 59-71 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 \$14,379,489 at the close of the fiscal year ended September 30, 2014.

#### City of Neptune Beach's Net Position

September 30, 2014

(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 3,345	\$ 3,206	\$ 5,005	\$ 4,634	\$ 8,350	\$ 7,840
Capital Assets	4,357	4,617	11,035	10,700	15,392	15,317
Total Assets	7,702	7,823	16,040	15,334	23,742	23,157
Long-term Liabilities						
Outstanding	439	446	8,023	8,691	8,462	9,137
Other Liabilities	272	287	629	476	901	763
Total Liabilities	711	733	8,652	9,167	9,363	9,900
Net Position:						
Net Investment in						
Capital Assets	4,357	4,617	5,980	5,423	10,337	10,040
Restricted	852	854	372	337	1,224	1,191
Unrestricted	1,782	1,619	1,036	407	2,818	2,026
Total Net Position	\$ 6,991	\$ 7,090	\$ 7,388	\$ 6,167	\$ 14,379	\$ 13,257

The largest portion of the City's net position \$10,336,856 (71.9%) 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)

**Government-wide Financial Analysis (Concluded)**

A portion of the City's net position, \$1,224,153 (8.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of the net position, \$2,818,480 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, 2014 and 2013:

**City of Neptune Beach's Change in Net Position**  
**September 30, 2014**  
(In Thousands)

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 382	\$ 296	\$ 5,526	\$ 5,485	\$ 5,908	\$ 5,781
Operating Grants and Contributions	799	792	0	17	799	809
Capital Grants and Contributions	32	27	0	0	32	27
General Revenues:						
Property Taxes	2,079	2,102	0	0	2,079	2,102
Sales and Use Taxes	673	641	0	0	673	641
Franchise and Utility Taxes	634	633	0	0	634	633
Discretionary Sales Surtax	400	379	0	0	400	379
State Revenue Sharing	169	172	0	0	169	172
Interest Revenue	4	10	3	2	7	12
Miscellaneous	212	129	6	12	218	141
<b>Total Revenues</b>	<b>5,384</b>	<b>5,181</b>	<b>5,535</b>	<b>5,516</b>	<b>10,919</b>	<b>10,697</b>
<b>Expenses</b>						
General Government	852	816	0	0	852	816
Public Safety	2,988	2,868	0	0	2,988	2,868
Public Works	1,286	1,123	0	0	1,286	1,123
Culture and Recreation	407	401	0	0	407	401
Interest on Long-term Debt	0	4	0	0	0	4
Water and Sewer	0	0	2,909	2,857	2,909	2,857
Sanitation	0	0	1,086	1,073	1,086	1,073
Stormwater	0	0	269	237	269	237
<b>Total Expenses</b>	<b>5,533</b>	<b>5,212</b>	<b>4,264</b>	<b>4,167</b>	<b>9,797</b>	<b>9,379</b>
<b>Net Increase (Decrease) in Net Position Before Transfers</b>	<b>(149)</b>	<b>(31)</b>	<b>1,271</b>	<b>1,349</b>	<b>1,122</b>	<b>1,318</b>
<b>Transfers</b>	<b>50</b>	<b>50</b>	<b>(50)</b>	<b>(50)</b>	<b>0</b>	<b>0</b>
<b>Increase (Decrease) in Net Position</b>	<b>(99)</b>	<b>19</b>	<b>1,221</b>	<b>1,299</b>	<b>1,122</b>	<b>1,318</b>
<b>Net Position - Beginning</b>	<b>7,090</b>	<b>7,071</b>	<b>6,167</b>	<b>4,868</b>	<b>13,257</b>	<b>11,939</b>
<b>Net Position - Ending</b>	<b>\$ 6,991</b>	<b>\$ 7,090</b>	<b>\$ 7,388</b>	<b>\$ 6,167</b>	<b>\$ 14,379</b>	<b>\$ 13,257</b>

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

### ***Governmental Activities***

Governmental activities decreased the City of Neptune Beach's net position by \$99,142 in the Governmental Funds, accounting for a 1.4% decrease in governmental net position. This decrease was budgeted by the City.

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

Business-type activities increased the City of Neptune Beach's net position by \$1,221,042 accounting for a 19.8% 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 \$1,121,900 thereby accounting for a total increase in net position of 8.5%. 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 2014, the City's governmental funds reported combined ending fund balances of \$3,020,898, an increase of \$155,175 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 2014, unassigned fund balance of the general fund was \$2,374,837. Unreserved fund balance represents 53.6% of the total general fund expenditures and transfers out. The fund balance of the City's General Fund increased by \$123,586 during the current fiscal year.

Non-major Governmental Funds consisting of special revenue funds have a combined fund balance of \$646,061. The net increase in fund balance during the current year in non-major governmental funds was \$31,589. This increase was largely due to increased receipts in the Better Jacksonville Fund.

### ***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 in the Proprietary Funds at the end of the year amounted to \$1,036,237.

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

The major difference in the amount of \$177,396 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, 2014 amounts to \$15,392,184 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was 0.5%.

**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>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Capital Assets Not Being Depreciated Land and Construction in Progress	\$ 38	\$ 38	\$ 555	\$ 1	\$ 593	\$ 39
Buildings and Other Improvements	4,016	4,218	10,446	10,699	14,462	14,917
Equipment	303	361	34	0	337	361
<b>Total</b>	<b>\$ 4,357</b>	<b>\$ 4,617</b>	<b>\$ 11,035</b>	<b>\$ 10,700</b>	<b>\$ 15,392</b>	<b>\$ 15,317</b>

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 2014, the City of Neptune Beach had total bonded debt outstanding of \$7,854,744. 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 Capital Assets**

**General Obligation, Revenue Bonds, and SRF Loans**

(In Thousands)

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Revenue Bonds	\$ 0	\$ 0	\$ 1,085	\$ 1,250	\$ 1,085	\$ 1,250
Sewer Line Loan	0	0	3,275	3,280	3,275	3,280
Refunding Loan	0	0	530	745	530	745
State Revolving Fund Loans	0	0	2,965	3,282	2,965	3,282
<b>Total</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 7,855</b>	<b>\$ 8,557</b>	<b>\$ 7,855</b>	<b>\$ 8,557</b>

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### ***(Concluded)***

#### ***Capital Asset and Debt Administration (Concluded)***

##### ***Long-term Debt (Concluded)***

The City of Neptune Beach's total debt decreased by \$702,462 (8.2%) during the current fiscal year. This decrease was due to normal debt payments made during the fiscal year.

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 38-41 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***

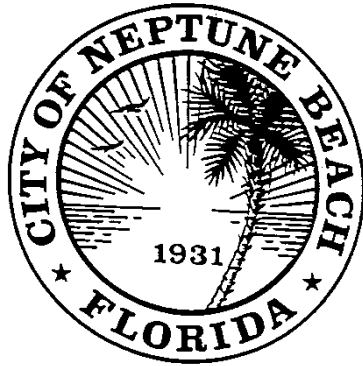
- The unemployment rate for the municipal service area is 5.8%. This compares favorably with the state's average unemployment rate and the national average unemployment rate.
- Inflationary trends in the region compare favorably to national indices.

##### ***Budget Highlights***

- The City adopted the roll back rate of 3.3756 mills for its Ad Valorem millage rate this budget year. The prior year rate was 3.3759 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**

---

Annual Financial Report

**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 2,943,607	\$ 1,027,479	\$ 3,971,086
Equity in Pooled Investments	6,477	10,651	17,128
Accounts Receivable	5,961	526,044	532,005
Due from Other Governments	288,852	0	288,852
Prepaid Expenses	47,699	20,336	68,035
Restricted Assets:			
Temporarily Restricted:			
Equity in Pooled Cash and Cash Equivalents	0	3,420,338	3,420,338
Net Pension Assets	52,489	0	52,489
Capital Assets:			
Land	37,861	0	37,861
Construction in Progress	0	555,316	555,316
Buildings	4,274,066	3,285,756	7,559,822
Improvements Other than Buildings	2,625,099	17,991,899	20,616,998
Equipment	2,923,316	3,172,935	6,096,251
(Accumulated Depreciation)	(5,503,552)	(13,970,512)	(19,474,064)
<b>Total Assets</b>	<b>7,701,875</b>	<b>16,040,242</b>	<b>23,742,117</b>
<b>Liabilities</b>			
Accounts Payable and Accrued Liabilities	205,475	368,468	573,943
Unearned Revenue	40,266	0	40,266
Deposits	21,961	0	21,961
Due to Other Governments	3,996	0	3,996
Compensated Absences - Current	43,945	20,740	64,685
Payable from Restricted Assets:			
Deposits	0	249,190	249,190
Accrued Interest Payable	0	11,442	11,442
Current Portion of Bonds Payable	0	170,000	170,000
Current Portion of Loans Payable	0	557,268	557,268
Noncurrent Liabilities:			
Compensated Absences - Noncurrent	317,125	109,676	426,801
Other Postemployment Benefit Obligation	78,000	37,600	115,600
Bonds Payable Long-term	0	915,000	915,000
Loans Payable Long-term	0	6,212,476	6,212,476
<b>Total Liabilities</b>	<b>710,768</b>	<b>8,651,860</b>	<b>9,362,628</b>
<b>Net Position</b>			
Net Investment in Capital Assets	4,356,790	5,980,066	10,336,856
Restricted for:			
Capital Projects	722,642	0	722,642
Debt Service	0	54,618	54,618
Renewal and Replacement	0	317,461	317,461
Pensions	52,489	0	52,489
Other Purposes	76,943	0	76,943
Unrestricted	1,782,243	1,036,237	2,818,480
<b>Total Net Position</b>	<b>\$ 6,991,107</b>	<b>\$ 7,388,382</b>	<b>\$ 14,379,489</b>

See accompanying notes.

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2014  
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	\$ 852,147	\$ 207,743	\$ 10,884	\$ 0	\$ (633,520)	\$ 0	\$ (633,520)
Public Safety	2,988,036	89,199	201,276	31,594	(2,665,967)	0	(2,665,967)
Public Works	1,286,311	0	331,311	0	(955,000)	0	(955,000)
Culture and Recreation	406,825	85,154	255,713	0	(65,958)	0	(65,958)
<b>Total Governmental Activities</b>	<b>5,533,319</b>	<b>382,096</b>	<b>799,184</b>	<b>31,594</b>	<b>(4,320,445)</b>	<b>0</b>	<b>(4,320,445)</b>
Business-type Activities:							
Water and Sewer	2,908,856	3,989,876	0	0	0	1,081,020	1,081,020
Sanitation	1,085,569	1,245,824	0	0	0	160,255	160,255
Storm Water Utility	269,286	290,479	0	0	0	21,193	21,193
<b>Total Business-type Activities</b>	<b>4,263,711</b>	<b>5,526,179</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,262,468</b>	<b>1,262,468</b>
<b>Total Primary Government</b>	<b>\$ 9,797,030</b>	<b>\$ 5,908,275</b>	<b>\$ 799,184</b>	<b>\$ 31,594</b>	<b>(4,320,445)</b>	<b>1,262,468</b>	<b>(3,057,977)</b>
<b>General Revenues</b>							
Taxes:							
Property Taxes					2,079,176	0	2,079,176
Sales and Use Taxes					672,785	0	672,785
Franchise and Utility Taxes					634,380	0	634,380
State Revenue Sharing					168,816	0	168,816
Discretionary Sales Surtax					400,521	0	400,521
Interest Revenue					3,978	2,633	6,611
Miscellaneous					146,045	5,941	151,986
Gain of Sale of Fixed Assets					65,602	0	65,602
<b>Transfers</b>					50,000	(50,000)	0
<b>Total General Revenues and Transfers</b>					<b>4,221,303</b>	<b>(41,426)</b>	<b>4,179,877</b>
<b>Change in Net Position</b>					<b>(99,142)</b>	<b>1,221,042</b>	<b>1,121,900</b>
<b>Net Position, Beginning of Year</b>					<b>7,090,249</b>	<b>6,167,340</b>	<b>13,257,589</b>
<b>Net Position, End of Year</b>					<b>\$ 6,991,107</b>	<b>\$ 7,388,382</b>	<b>\$ 14,379,489</b>

See accompanying notes.

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2014**  
**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	\$ 2,155,191	\$ 788,416	\$ 2,943,607
Equity in Pooled Investments	4,836	1,641	6,477
Accounts Receivable	0	5,961	5,961
Due from Other Governments	217,305	71,547	288,852
Due from Other Funds	168,386	0	168,386
Prepaid Items	45,477	2,222	47,699
<b>Total Assets</b>	<u>2,591,195</u>	<u>869,787</u>	<u>3,460,982</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable and Accrued Liabilities	150,135	55,340	205,475
Due to Other Funds	0	168,386	168,386
Due to Other Governments	3,996	0	3,996
Unearned Revenue	40,266	0	40,266
Deposits	21,961	0	21,961
<b>Total Liabilities</b>	<u>216,358</u>	<u>223,726</u>	<u>440,084</u>
<b>Fund Balances</b>			
Restricted for:			
Public Safety	0	34,792	34,792
Capital Outlay	0	722,642	722,642
Other	0	42,151	42,151
Unassigned	2,374,837	(153,524)	2,221,313
<b>Total Fund Balances</b>	<u>2,374,837</u>	<u>646,061</u>	<u>3,020,898</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 2,591,195</u>	<u>\$ 869,787</u>	<u>\$ 3,460,982</u>

See accompanying notes.

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2014  
CITY OF NEPTUNE BEACH, FLORIDA**

<b>Fund Balances - Total Governmental Funds</b>	\$ 3,020,898
---	--------------

**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	4,356,790
----------------------	-----------

The cumulative effect of over (under) funding the actuarial required contributions to an employee benefit plan 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	52,489
Net Postemployment Benefit Obligation	(78,000)

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	<u>(361,070)</u>
----------------------	------------------

<b>Net Position of Governmental Activities</b>	<u><u>\$ 6,991,107</u></u>
--	----------------------------

See accompanying notes.

**STATEMENTS OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014  
CITY OF NEPTUNE BEACH, FLORIDA**

	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Taxes	\$ 2,713,556	\$ 669,291	\$ 3,382,847
Charges for Services	11,321	49,251	60,572
Licenses and Permits	196,584	0	196,584
Intergovernmental	1,307,412	104,199	1,411,611
Fines and Forfeitures	64,297	24,740	89,037
Investment Income	3,436	542	3,978
Miscellaneous	130,043	43,903	173,946
<b>Total Revenues</b>	<u>4,426,649</u>	<u>891,926</u>	<u>5,318,575</u>
<b>Expenditures</b>			
Current:			
General Government	814,283	0	814,283
Public Safety	2,848,478	22,466	2,870,944
Public Works	476,480	654,531	1,131,011
Culture and Recreation	203,895	155,368	359,263
Capital Outlay	73,671	29,830	103,501
<b>(Total Expenditures)</b>	<u>(4,416,807)</u>	<u>(862,195)</u>	<u>(5,279,002)</u>
<b>Excess of Revenues Over Expenditures</b>	<u>9,842</u>	<u>29,731</u>	<u>39,573</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds on Sale of Capital Assets	65,602	0	65,602
Transfers in	60,000	11,858	71,858
Transfers (out)	(11,858)	(10,000)	(21,858)
<b>Total Other Financing Sources (Uses)</b>	<u>113,744</u>	<u>1,858</u>	<u>115,602</u>
<b>Net Changes in Fund Balances</b>	123,586	31,589	155,175
<b>Fund Balances, Beginning of Year</b>	<u>2,251,251</u>	<u>614,472</u>	<u>2,865,723</u>
<b>Fund Balances, End of Year</b>	<u>\$ 2,374,837</u>	<u>\$ 646,061</u>	<u>\$ 3,020,898</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, 2014  
CITY OF NEPTUNE BEACH, FLORIDA**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	155,175
---	----	---------

**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	\$ 104,962	
(Current Year Depreciation)	<u>(364,159)</u>	(259,197)

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	(2,255)
--------------------------------	---------

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:

Change in Compensated Absences Payable	<u>7,135</u>
--	--------------

<b>Change in Net Position of Governmental Activities</b>	\$	<u><u>(99,142)</u></u>
--	----	------------------------

See accompanying notes.

**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2014**  
**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	\$ 459,204	\$ 543,689	\$ 24,586	\$ 1,027,479
Equity in Pooled Investments	9,426	1,166	59	10,651
Accounts Receivable, Net of Allowance	368,998	125,430	31,616	526,044
Prepaid Expenses	15,631	2,980	1,725	20,336
Total Current Assets	853,259	673,265	57,986	1,584,510
Noncurrent Assets:				
Equity in Pooled Restricted Cash and Cash Equivalents	3,420,338	0	0	3,420,338
Capital Assets:				
Buildings	3,285,756	0	0	3,285,756
Improvements Other than Buildings	17,947,797	0	44,102	17,991,899
Equipment	2,319,381	301,456	552,098	3,172,935
Construction in Progress	554,330	0	986	555,316
(Less Accumulated Depreciation)	(13,334,936)	(301,456)	(334,120)	(13,970,512)
Total Capital Assets	10,772,328	0	263,066	11,035,394
Total Noncurrent Assets	14,192,666	0	263,066	14,455,732
<b>Total Assets</b>	<b>15,045,925</b>	<b>673,265</b>	<b>321,052</b>	<b>16,040,242</b>

See accompanying notes.

**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2014**  
**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	\$ 273,250	\$ 81,017	\$ 14,201	\$ 368,468
Compensated Absences	18,666	0	2,074	20,740
Total Current Liabilities Payable from Unrestricted Assets	291,916	81,017	16,275	389,208
Current Liabilities Payable from Restricted Assets:				
Deposits	249,190	0	0	249,190
Current Portion of Bonds Payable	170,000	0	0	170,000
Current Portion of Loans Payable	557,268	0	0	557,268
Accrued Interest Payable	11,442	0	0	11,442
Total Current Liabilities Payable from Restricted Assets	987,900	0	0	987,900
Noncurrent Liabilities:				
Compensated Absences	100,158	0	9,518	109,676
Bonds Payable	915,000	0	0	915,000
Loans Payable	6,212,476	0	0	6,212,476
Other Post Employment Benefits	31,766	3,286	2,548	37,600
Total Noncurrent Liabilities	7,259,400	3,286	12,066	7,274,752
<b>Total Liabilities</b>	<b>8,539,216</b>	<b>84,303</b>	<b>28,341</b>	<b>8,651,860</b>
<b>Net Position</b>				
Net Investment in Capital Assets	5,717,000	0	263,066	5,980,066
Restricted for:				
Debt Service	54,618	0	0	54,618
Renewal and Replacement	317,461	0	0	317,461
Unrestricted	417,630	588,962	29,645	1,036,237
<b>Total Net Position</b>	<b>\$ 6,506,709</b>	<b>\$ 588,962</b>	<b>\$ 292,711</b>	<b>\$ 7,388,382</b>

See accompanying notes.

**STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014  
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	\$ 3,961,588	\$ 1,245,824	\$ 290,479	\$ 5,497,891
Connection and Impact Fees	28,288	0	0	28,288
Other Income	5,941	0	0	5,941
<b>Total Operating Revenues</b>	<b>3,995,817</b>	<b>1,245,824</b>	<b>290,479</b>	<b>5,532,120</b>
<b>Operating Expenses</b>				
Personal Services	1,435,688	154,819	116,618	1,707,125
Utilities	271,200	0	8,666	279,866
Supplies and Materials	170,317	8,870	8,071	187,258
Contractual Services	153,878	894,824	34,587	1,083,289
Depreciation and Amortization	377,664	0	60,378	438,042
Repairs and Maintenance	170,754	6,698	39,860	217,312
Insurance	59,572	11,358	0	70,930
Other Operating	16,586	9,000	0	25,586
<b>(Total Operating Expenses)</b>	<b>(2,655,659)</b>	<b>(1,085,569)</b>	<b>(268,180)</b>	<b>(4,009,408)</b>
<b>Operating Income</b>	<b>1,340,158</b>	<b>160,255</b>	<b>22,299</b>	<b>1,522,712</b>
<b>Nonoperating Revenues (Expenses)</b>				
Interest Revenue	2,232	378	23	2,633
Interest/Amortization Expense	(253,197)	0	(1,106)	(254,303)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(250,965)</b>	<b>378</b>	<b>(1,083)</b>	<b>(251,670)</b>
<b>Income Before Operating Transfers</b>	<b>1,089,193</b>	<b>160,633</b>	<b>21,216</b>	<b>1,271,042</b>
<b>Operating Transfers (out)</b>	<b>(50,000)</b>	<b>0</b>	<b>0</b>	<b>(50,000)</b>
<b>Change in Net Position</b>	<b>1,039,193</b>	<b>160,633</b>	<b>21,216</b>	<b>1,221,042</b>
<b>Total Net Position, Beginning of Year</b>	<b>5,467,516</b>	<b>428,329</b>	<b>271,495</b>	<b>6,167,340</b>
<b>Total Net Position, End of Year</b>	<b>\$ 6,506,709</b>	<b>\$ 588,962</b>	<b>\$ 292,711</b>	<b>\$ 7,388,382</b>

See accompanying notes.

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**  
**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	\$ 4,007,980	\$ 1,246,309	\$ 289,966	\$ 5,544,255
Cash Paid to Suppliers	(698,587)	(928,629)	(84,663)	(1,711,879)
Cash Paid to Employees	(1,436,828)	(154,819)	(116,090)	(1,707,737)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>1,872,565</b>	<b>162,861</b>	<b>89,213</b>	<b>2,124,639</b>
<b>Cash Flows from Noncapital Financing Activities</b>				
Payments Under Interfund Loan Agreements	(192,952)	0	(32,069)	(225,021)
Transfers to Other Funds	(50,000)	0	0	(50,000)
<b>Net Cash Provided by (Used in) Noncapital Financing Activities</b>	<b>(242,952)</b>	<b>0</b>	<b>(32,069)</b>	<b>(275,021)</b>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Payments on Loans and Bonds	(702,462)	0	0	(702,462)
Interest Paid on Revenue Bonds	(254,423)	0	(1,106)	(255,529)
Acquisition and Construction of Capital Assets	(739,980)	0	(33,626)	(773,606)
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>	<b>(1,696,865)</b>	<b>0</b>	<b>(34,732)</b>	<b>(1,731,597)</b>
<b>Cash Flows from Investing Activities</b>				
Purchase of Investments	297	(308)	(52)	(63)
Interest Received	2,232	378	23	2,633
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>2,529</b>	<b>70</b>	<b>(29)</b>	<b>2,570</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(64,723)</b>	<b>162,931</b>	<b>22,383</b>	<b>120,591</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>3,944,265</b>	<b>380,758</b>	<b>2,203</b>	<b>4,327,226</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 3,879,542</b>	<b>\$ 543,689</b>	<b>\$ 24,586</b>	<b>\$ 4,447,817</b>

See accompanying notes.

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**  
**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)</u></b>				
<b><u>to Net Cash Provided by (Used in)</u></b>				
<b><u>Operating Activities</u></b>				
Operating Income (Loss)	\$ 1,340,158	\$ 160,255	\$ 22,299	\$ 1,522,712
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Depreciation and Amortization	377,664	0	60,378	438,042
Changes in Assets - Decrease (Increase) and Liabilities - Increase (Decrease):				
Accounts Receivable	(7,438)	3,465	(513)	(4,486)
Accounts Payable	159,507	2,121	8,246	169,874
Compensated Absences	(1,296)	0	528	(768)
Prepaid Expenses	(15,631)	(2,980)	(1,725)	(20,336)
Customer Deposits	19,601	0	0	19,601
Total Adjustments	532,407	2,606	66,914	601,927
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 1,872,565</b>	<b>\$ 162,861</b>	<b>\$ 89,213</b>	<b>\$ 2,124,639</b>

See accompanying notes.

**STATEMENT OF NET POSITION  
FIDUCIARY FUND  
SEPTEMBER 30, 2014  
CITY OF NEPTUNE BEACH, FLORIDA**

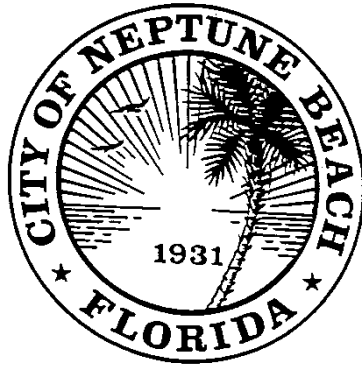
	<b>Police Officers' Plan</b>
<b>Assets</b>	
Cash and Short-term Investments	\$ 82,498
Accrued Interest Receivable	31,803
Investments:	
U.S. Government Obligations	974,889
Corporate Bonds	2,674,856
Common Equity Securities	4,383,949
Total Investments	<u>8,033,694</u>
<b>Total Assets</b>	<u><u>8,147,995</u></u>
<b>Liabilities</b>	
Excess Premium Tax Liability	<u>245,668</u>
<b>Total Liabilities</b>	<u><u>245,668</u></u>
<b>Net Position</b>	
Held in Trust for Pension Benefits	<u><u>\$ 7,902,327</u></u>

See accompanying notes.

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2014  
CITY OF NEPTUNE BEACH, FLORIDA**

	<b>Police Officers' Plan</b>
<b>Additions</b>	
Contributions:	
Employees	\$ 101,569
Employer	350,219
State of Florida	26,892
Total Contributions	<u>478,680</u>
Investment Income:	
Net Appreciation in Fair Value of Investments	623,724
Interest and Dividends	189,601
Miscellaneous Income	10
Total Investment Earnings	<u>813,335</u>
(Less Investment Expense)	<u>(66,662)</u>
Net Investment Earnings	<u>746,673</u>
<b>Total Additions</b>	<u>1,225,353</u>
<b>Deductions</b>	
Benefit Payments	203,637
Lump Sum DROP Distributions	288,331
Refunds	9,230
Administrative Expenses	<u>13,125</u>
<b>(Total Deductions)</b>	<u>(514,323)</u>
<b>Change in Net Position</b>	711,030
<b>Net Position, Beginning of Year (as Restated)</b>	<u>7,191,297</u>
<b>Net Position, End of Year</b>	<u><u>\$ 7,902,327</u></u>

See accompanying notes.



# Notes to Financial Statements

---

Annual Financial Report

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**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. The City has also considered all other potential organizations for which the nature and significance of their relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. 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.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

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

**Basic Financial Statements (Concluded)**

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.

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 government, except those required to be accounted for in another fund.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

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

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

■ **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.

■ **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 position; 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.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**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)**

- 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.

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

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

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

**Budgets and Budgetary Accounting (Concluded)**

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.

**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; and
- 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.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

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

**Investments (Concluded)**

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, 2014.

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, 2014, 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.

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".

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

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

**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

**Unearned Revenue**

Governmental funds and business-type funds defer revenue recognition in connection with resources that have been received, but not yet earned.

**Deferred Inflows of Resources**

Deferred inflows of resources reported on applicable governmental fund types represent revenues which are measurable but not available in accordance with modified accrual basis of accounting. The deferred inflows will be recognized as revenue in the fiscal year they are earned or become available.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

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

**Long-term Obligations**

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business type activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the bond premium or discount. Bond issuance costs are expensed when incurred, with the exception of bond insurance, which is amortized over the term of the related debt.

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, while discounts on debt issuances are reported as other financing uses. 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.

**Pension Plans**

The City defined benefit plan investments are recorded at market value, and it is the City's policy to record 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 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.

**New Accounting Pronouncements**

During the year, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities; and recognized, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

The City also implemented GASB Statement No. 67, *Financial Reporting for Pension Plans; an Amendment of GASB Statement No. 25*. This Statement replaces the requirements of Statements No. 25 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. This Statement requires additional disclosures regarding the City's pension plans and specifies the required approach to measuring the net pension liability.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**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, 2014, the cash deposits and investments included the following:

Investments Controlled by City:	
SBA Investment Pool	\$ 17,128
<b>Total Investments Controlled by City</b>	<u>17,128</u>
Cash:	
Cash Deposits	3,932,120
Restricted Cash	3,420,338
Certificate of Deposit	119,864
Cash on Hand	<u>1,600</u>
<b>Total Cash</b>	<u>7,473,922</u>
<b>Total Cash and Investments</b>	<u>\$ 7,491,050</u>

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

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

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

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, 2014, 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, 2014, were restricted for the following purposes:

**Proprietary Funds**

Construction Loans	\$ 2,799,416
Debt Service	54,618
Customer Deposits	248,843
Impact Fees	<u>317,461</u>
<b>Total Restricted Cash</b>	<b><u>\$ 3,420,338</u></b>

**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, 2014, 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.

		<b>QUALITY RATINGS</b>							
		<b>AA+</b>	<b>A+</b>	<b>A</b>	<b>A-</b>	<b>BBB+</b>	<b>BBB</b>	<b>BBB-</b>	<b>Unrated</b>
Debit Investments:									
Investments Controlled									
by the City:									
SBA Investment Pool	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 17,128
Pension Plan Investments:									
U. S. Government	\$ 90,528	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 884,361
Corporate Bonds	141,400	74,690	238,746	726,153	128,565	90,202	250,007		1,025,093
Common Equity Securities	0	0	0	0	0	0	0	0	4,383,949
<b>Total Pension Plan</b>									
<b>Investments</b>	<b>\$ 231,928</b>	<b>\$74,690</b>	<b>\$ 238,746</b>	<b>\$ 726,153</b>	<b>\$ 128,565</b>	<b>\$ 90,202</b>	<b>\$ 250,007</b>		<b>\$6,293,403</b>

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**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, 2014, 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, 2014.

**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>Investment Maturities (in Years)</u>				
	<u>Fair Value</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	\$ 17,128	\$ 0	\$ 17,128	\$ 0	\$ 0
<b>Total Investments</b>					
<b>Controlled by the City</b>	<u>17,128</u>	<u>0</u>	<u>17,128</u>	<u>0</u>	<u>0</u>
Pension Plan Investments:					
U.S. Government and					
Agency Securities	974,889	15,189	595,111	347,555	17,034
Corporate Bonds	2,674,856	1,122,816	1,068,185	483,855	0
Equity Securities	<u>4,383,949</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Pension Plan</b>					
<b>Investments</b>	<u>8,033,694</u>	<u>1,138,005</u>	<u>1,663,296</u>	<u>831,410</u>	<u>17,034</u>
<b>Total Investments</b>	<u>\$ 8,050,822</u>	<u>\$ 1,138,005</u>	<u>\$ 1,680,424</u>	<u>\$ 831,410</u>	<u>\$ 17,034</u>

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

**Note 3 - Receivables and Payables**

Receivables at September 30, 2014, 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	\$ 14	\$ 0	\$ 0	\$ 0	\$ 31,803	\$ 0	\$ 31,817
Accounts Receivable	0	434,731	147,564	35,129	0	5,961	623,385
Intergovernmental	217,291	0	0	0	0	71,547	288,838
Gross Receivables	217,305	434,731	147,564	35,129	31,803	77,508	944,040
Allowance	0	(65,733)	(22,134)	(3,513)	0	0	(91,380)
<b>Net Receivables</b>	<u>\$ 217,305</u>	<u>\$ 368,998</u>	<u>\$ 125,430</u>	<u>\$ 31,616</u>	<u>\$ 31,803</u>	<u>\$ 77,508</u>	<u>\$ 852,660</u>

Included in accounts receivable are \$273,874 earned but not billed as of September 30, 2014.

Accounts payable and accrued liabilities at September 30, 2014, were as follows:

	<u>Vendors</u>	<u>Employees</u>	<u>Total</u>
<b>Governmental Funds</b>			
General	\$ 85,058	\$ 65,077	\$ 150,135
Nonmajor Fund	44,233	11,107	55,340
<b>Total Governmental Funds</b>	<u>\$ 129,291</u>	<u>\$ 76,184</u>	<u>\$ 205,475</u>
<b>Proprietary Funds</b>			
Water and Sewer	\$ 208,562	\$ 64,688	\$ 273,250
Sanitation	74,120	6,897	81,017
Stormwater Utility	8,919	5,282	14,201
<b>Total Proprietary Funds</b>	<u>\$ 291,601</u>	<u>\$ 76,867</u>	<u>\$ 368,468</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	\$ 168,386	\$ 0
Nonmajor Governmental	0	168,386
<b>Total Governmental Funds</b>	<u>\$ 168,386</u>	<u>\$ 168,386</u>

The purpose of the interfund receivables and payables is to provide temporary loans for cash flow needs.

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.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

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

Following is a summary of interfund transfers for the year ended September 30, 2014:

	<b>Transfers In</b>		
	<b>General</b>	<b>Nonmajor Funds</b>	<b>Total Funds</b>
<b>Transfers Out</b>			
Nonmajor			
Governmental Funds	\$ 10,000	\$ 0	\$ 10,000
Water and Sewer Fund	50,000	0	50,000
General Fund	0	11,858	11,858
<b>Total Transfers Out</b>	<u>\$ 60,000</u>	<u>\$ 11,858</u>	<u>\$ 71,858</u>

Transfers in (out) during the fiscal year 2014, are as follows:

- \$10,000 was transferred from the Convention Development Tax Fund to the General Fund to cover expenses paid for by the general fund.
- \$11,858 was transferred from the General Fund to the Community Development Block Grant Fund to provide additional funding for expenses in excess of revenues.
- \$50,000 was transferred from the Water and Sewer Fund to the General Fund to support the governmental activities.

**Note 5 - Capital Assets**

Capital asset activity for the fiscal year ended September 30, 2014, is as follows:

	<b>Balance October 1, 2013</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance September 30, 2014</b>
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated:				
Land	\$ 37,861	\$ 0	\$ 0	\$ 37,861
Total Capital Assets, Not Being Depreciated	<u>37,861</u>	<u>0</u>	<u>0</u>	<u>37,861</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	4,274,066	0	0	4,274,066
Improvements Other Than Buildings	2,604,151	20,948	0	2,625,099
Equipment	<u>3,004,123</u>	<u>82,553</u>	<u>(163,360)</u>	<u>2,923,316</u>
Total Capital Assets, Being Depreciated	<u>9,882,340</u>	<u>103,501</u>	<u>(163,360)</u>	<u>9,822,481</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(1,305,835)	(125,071)	0	(1,430,906)
Improvements Other Than Buildings	(1,353,815)	(98,499)	0	(1,452,314)
Equipment	<u>(2,643,103)</u>	<u>(140,589)</u>	<u>163,360</u>	<u>(2,620,332)</u>
Total Accumulated Depreciation	<u>(5,302,753)</u>	<u>(364,159)</u>	<u>163,360</u>	<u>(5,503,552)</u>
Total Capital Assets, Being Depreciated, Net	<u>4,579,587</u>	<u>(260,658)</u>	<u>0</u>	<u>4,318,929</u>
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 4,617,448</u>	<u>\$ (260,658)</u>	<u>\$ 0</u>	<u>\$ 4,356,790</u>

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

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

	Balance October 1, 2013	Increases	Decreases	Balance September 30, 2014
<b>Business-type Activities</b>				
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ 986	\$ 554,330	\$ 0	\$ 555,316
Total Capital Assets, Not Being Depreciated	986	554,330	0	555,316
Capital Assets, Being Depreciated:				
Buildings and Improvements	3,285,756	0	0	3,285,756
Improvements Other Than Buildings	17,920,812	71,087	0	17,991,899
Equipment	3,024,746	148,189	0	3,172,935
Total Capital Assets, Being Depreciated	24,231,314	219,276	0	24,450,590
Less Accumulated Depreciation for:				
Buildings and Improvements	(3,285,756)	0	0	(3,285,756)
Improvements Other Than Buildings	(7,221,826)	(324,538)	0	(7,546,364)
Equipment	(3,024,888)	(113,504)	0	(3,138,392)
Total Accumulated Depreciation	(13,532,470)	(438,042)	0	(13,970,512)
Total Capital Assets, Being Depreciated, Net	10,698,844	(218,766)	0	10,480,078
<b>Business-type Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 10,699,830</u>	<u>\$ 335,564</u>	<u>\$ 0</u>	<u>\$ 11,035,394</u>

Depreciation expense was charged to functions/programs as follows:

<b>Governmental Activities</b>	
General Government	\$ 35,803
Public Safety	130,812
Transportation	154,658
Culture and Recreation	42,886
<b>Total Depreciation Expense – Governmental Activities</b>	<u>\$ 364,159</u>
<b>Business-type Activities</b>	
Water and Sewer	\$ 377,664
Sanitation	0
Stormwater Utility	60,378
<b>Total Depreciation Expense – Business-type Activities</b>	<u>\$ 438,042</u>

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

**Note 6 - Long-term Liabilities**

At September 30, 2014, 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	\$ 1,085,000
<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	78,192
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	878,283
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	2,008,269
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	3,275,000
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	0	530,000
<b>Total</b>	<u>\$ 0</u>	<u>\$ 7,854,744</u>

Transactions for the year ended September 30, 2014, are summarized as follows:

	<u>Balance October 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2014</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
Other Postemployment Benefit Obligations	\$ 78,000	\$ 0	\$ 0	\$ 78,000	\$ 0
Compensated Absences	<u>368,205</u>	<u>36,810</u>	<u>(43,945)</u>	<u>361,070</u>	<u>43,945</u>
<b>Governmental Activities – Long-term Liabilities</b>	<u>\$ 446,205</u>	<u>\$ 36,810</u>	<u>\$ (43,945)</u>	<u>\$ 439,070</u>	<u>\$ 43,945</u>

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

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

	<u>Balance October 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2014</u>	<u>Due Within One Year</u>
<b>Business-type Activities</b>					
Bonds Payable:					
Infrastructure Rev. Bonds, 2010(A)	\$ 1,250,000	\$ 0	\$ (165,000)	\$ 1,085,000	\$ 170,000
Loans Payable:					
Drinking Water Loan #1	87,883	0	(9,691)	78,192	10,036
Drinking Water Loan #2	967,514	0	(89,231)	878,283	91,976
Clean Water Loan	2,226,809	0	(218,540)	2,008,269	225,256
Water and Sewer Line Note Series 2013A	3,280,000	0	(5,000)	3,275,000	5,000
Water and Sewer Line Note Series 2013B	<u>745,000</u>	<u>0</u>	<u>(215,000)</u>	<u>530,000</u>	<u>225,000</u>
Total Bonds and Loans Payable	8,557,206	0	(702,462)	7,854,744	727,268
Other Postemployment Benefit					
Obligations	20,000	17,600	0	37,600	0
Compensated Absences	<u>114,342</u>	<u>36,815</u>	<u>(20,741)</u>	<u>130,416</u>	<u>20,740</u>
<b>Business-type Activities – Long-term Liabilities</b>	<u>\$ 8,691,548</u>	<u>\$ 54,415</u>	<u>\$ (723,203)</u>	<u>\$ 8,022,760</u>	<u>\$ 748,008</u>

The annual requirements to amortize the bonds and loans payable outstanding as of September 30, 2014, are summarized as follows:

**Business-type Activities**

<u>Fiscal Year Ending September 30</u>	<u>Infrastructure Surtax Revenue Bonds 2010A</u>		<u>Drinking Water State Revolving Fund Construction Loan #1</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 170,000	\$ 14,431	\$ 10,036	\$ 2,665
2016	175,000	25,470	10,391	2,308
2017	180,000	20,815	10,761	1,939
2018	185,000	16,093	11,143	1,557
2019	185,000	11,172	11,539	1,162
2020-2021	<u>190,000</u>	<u>7,581</u>	<u>24,322</u>	<u>1,079</u>
<b>Total</b>	<u>\$ 1,085,000</u>	<u>\$ 95,562</u>	<u>\$ 78,192</u>	<u>\$ 10,710</u>

<u>Fiscal Year Ending September 30</u>	<u>Drinking Water State Revolving Fund Construction Loan #2</u>		<u>Clean Water State Revolving Fund Construction Loan</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 91,976	\$ 26,123	\$ 225,256	\$ 59,547
2016	94,806	23,293	232,179	52,625
2017	97,754	20,376	239,314	45,489
2018	100,730	17,369	246,669	38,135
2019	103,830	14,269	254,250	30,554
2020-2024	<u>389,187</u>	<u>24,131</u>	<u>810,601</u>	<u>43,811</u>
<b>Total</b>	<u>\$ 878,283</u>	<u>\$ 125,561</u>	<u>\$ 2,008,269</u>	<u>\$ 270,161</u>

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

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

**Business-type Activities (Continued)**

<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>
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	250,000	95,978	0	0
2020-2024	1,365,000	349,405	0	0
2025-2029	1,250,000	106,027	0	0
<b>Total</b>	<b>\$ 3,275,000</b>	<b>\$ 983,895</b>	<b>\$ 530,000</b>	<b>\$ 9,193</b>

<b>Fiscal Year Ending September 30</b>	<b>Business-type Activities Totals</b>	
	<b>Principals</b>	<b>Interests</b>
2015	\$ 727,268	\$ 217,799
2016	747,376	216,311
2017	762,829	198,632
2018	783,542	177,171
2019	804,619	153,135
2020-2024	2,779,110	426,007
2025-2029	1,250,000	106,027
<b>Total</b>	<b>\$ 7,854,744</b>	<b>\$ 1,495,082</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 \$88,902, 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 \$1,003,844, 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 16% of such revenues and is payable through 2022. At year-end, pledged future revenues totaled \$2,278,430, which was the amount of remaining principle and interest on the loan.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

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

**Business-type Activities (Concluded)**

On November 12, 2010, the City issued Infrastructure Surtax Revenue Bonds Series A for \$1,700,000. 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. The bonds are secured from the infrastructure surtax. Annual principle and interest on the bonds are expected to require 49% of such revenues and are payable through 2020. However, revenues of the Water and Sewer Fund will repay these bonds. At year-end, pledged future revenues totaled \$1,180,562, 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 20% of such revenues and are payable through 2028. At year-end, pledged future revenues totaled \$4,798,088, which was the amount of remaining principle and interest on the notes.

**Note 7 - Employee Benefits**

***Police Officers' Retirement System***

**Plan Description**

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 Plan is administered by a Board of Trustees comprised of two council appointees, two members of the department elected by the membership, and a fifth member elected by the other four and appointed by the council. Investments are reported at fair value. The Police Officers' Plan Fund does not issue a stand-alone financial report. Current membership in the Police Officers' Plan Fund as of October 1, 2013, the date of the latest actuarial valuation, is as follows:

	<u>Police</u>
<b>Retirees and Beneficiaries</b>	
Inactive Plan Members or Beneficiaries	
Currently Receiving Benefits	9
Inactive Plan Members Entitled to but	
not yet Receiving Benefits	5
Active Plan Members	<u>13</u>
<b>Total Retirees and Beneficiaries</b>	<u><u>27</u></u>

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

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

***Police Officers' Retirement System (Continued)***

**Plan Benefits**

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.

The Police Plan includes a deferred retirement option program (DROP) under which members eligible for normal retirement may have their monthly pension benefit credited to an account while continuing to be actively employed for up to five years. As of September 30, 2014, Police Plan net pension included \$458,056 of DROP account balances.

**Contributions**

The City is required to contribute at an actuarially determined rate (33.32% of valuation payroll for the year ended September 30, 2014). City Contributions to the Plan were \$322,145 for the year ended September 30, 2014. Plan members are required to contribute 8% of their annual covered salary.

**Plan Investments**

The Board of Trustees is responsible for establishing and amending the Plans' investment policies. The Plan's current investment policy gives the Board discretion to allocate assets with assistance of the Plan's investment consultant. The Board has established the following asset allocation targets for the total fund: (1) Domestic Equities target is 45% with a suggested range of 35% - 55% using the S&P 500 benchmark index; (2) international equities target is 10% with a suggested range of 5% - 25% using the MSCI-EAFE benchmark index; and (3) broad market fixed income has a target of 45% with suggested ranges of 35% - 55% using the Barclays intermediate aggregate bond index as a benchmark index. The Plan did not hold investments in any one organization that represents 5% or more of the Plan's net position. The money-weighted rate of return on Plan investments, net of investment related expenses, was 9.98% for the year ended September 30, 2014.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

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

***Police Officers' Retirement System (Concluded)***  
**Net Pension Liability**

**Police Retirement Plan**

Total Pension Liability	\$ 9,184,116
Plan Net Position	<u>(8,087,622)</u>
Net Pension Liability	<u>\$ 1,096,494</u>

Plan Net Position as a Percentage of Total Pension Liability	88.06%
---	--------

Plan net position reported on the Statement of Net Position - Fiduciary Fund differs due to recording of excess premium tax liability and omission of prepaid City contribution included in actuarial analysis.

**Actuarial Assumptions**

The total pension liability was determined by actuarial valuation as of October 1, 2013, updated to September 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary Increases	6.50%
Investment Rate of Return, including inflation	8.0%
Mortality	RP-2000 Combined Health Participant Mortality Table for males and females with no projection

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plans investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return for each major asset class included in the pension plans' target asset allocation as of September 30, 2014, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	45%	7.5%
International Equity	10%	8.5%
Broad Market Fixed Income	45%	2.5%

***Discount Rate***

The discount rate used to measure the total pension liability was 8%.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

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

**Actuarial Assumptions (Concluded)**

*Discount Rate (Concluded)*

The projected cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of the City, calculated using the discount rate of 8.00%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	<b>1% Decrease (7%)</b>	<b>Current Discount Rate (8%)</b>	<b>1% Increase (9%)</b>
Net Pension Liability	\$ 2,088,917	\$ 1,096,494	\$ 331,685

**Three-Year Trend Information**

<b>Fiscal Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Asset</b>
9/30/2014	\$ 324,400	99.30%	\$ 52,489
9/30/2013	340,342	99.31%	54,744
9/30/2012	330,646	99.29%	57,094

**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, 2014, 46 employees were participating in the Defined Plan.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

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

**401(a) Money Purchase Plan (Concluded)**

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	\$ 2,674,932
Total City Payroll	3,996,967
Employer Contributions Required and Actually Made – 7% of Covered Payroll	187,245

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.

**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.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

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

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

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 \$30,300 for the year ended September 30, 2014. 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, 2014
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%

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.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

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

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

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, 2014, was \$30,300.

The City's annual OPEB cost and the net OPEB obligation for the fiscal year ended September 30, 2014, is as follows:

Annual Required City Contribution (ARC)	\$ 30,400
Interest on Plan Obligation	3,900
Adjustment to ARC	<u>(4,000)</u>
Annual Plan Retiree Costs	30,300
Contributions Made	<u>(12,700)</u>
Increase in Plan Obligations	17,600
<b>Plan Obligations, Beginning of Year</b>	<u>98,000</u>
<b>Plan Obligations, End of Year</b>	<u><u>\$ 115,600</u></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, 2014, is as follows:

<b>Year Ending September 30</b>	<b>Annual OPEB Costs</b>	<b>City Contribution</b>	<b>Percentage of Annual OPEB Costs Contributed</b>	<b>Net OPEB Obligation</b>
2014	\$ 30,300	\$ 12,700	42%	\$ 115,600
2013	29,200	9,200	32%	98,000
2012	42,900	15,300	35%	78,000

The 2014 contribution represented 42% 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 \$417,400 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$417,400. The covered payroll was \$3,028,600, and the ratio of the UAAL to the covered payroll was 13.8%.

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.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Continued)*

**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 full-time 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:

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

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, 2014, the Joint Venture did not incur any expense for repairs or maintenance. During fiscal year 2014, the City made no contributions to the Joint Venture. The Joint Venture has no debt outstanding on applicable financial statements as of September 30, 2014.

**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.

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
**CITY OF NEPTUNE BEACH, FLORIDA**  
*(Concluded)*

**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 tippage 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 tippage 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**

**Deficit Fund Balance**

The following nonmajor governmental funds had a deficit fund balance as of September 30, 2014:

Community Development Block Grant Fund	\$ 3,022
Local Option Gas Tax Fund	150,502

**Budget**

During the year, the Community Development Block Grant had an excess of expenditures over the related budget of \$41,150. The grant revenues and expenditures exceeded original expectations and resulted in no negative impact on the fund balance of the fund.

**Restatement**

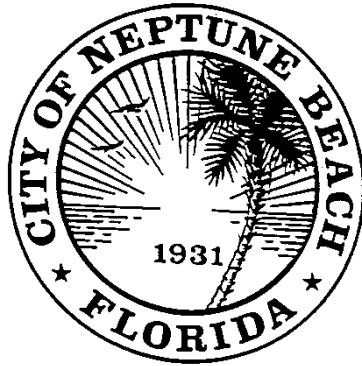
Beginning Net Position in the Statement of Changes in Fiduciary Net Position was increased by \$459,721 as a result of removing the obligation for DROP benefits as required under GASB 67, *Financial Reporting for Pension Plans*, which the City adopted effective October 1, 2013.

**Net Position Held in Trust for Pension**

<b>Benefits, September 30, 2013</b>	\$ 6,731,575
Increase	<u>459,722</u>
Net Position Held in Trust for Pension	
Benefits, September 30, 2013, as Restated	<u><u>\$ 7,191,297</u></u>

**Note 13 - Subsequent Events**

During fiscal year ending September 30, 2015, the City will be required to implement GASB Statement No. 68 *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. This statement will require the City to record the unfunded pension liability of the City's pension plan. The City is still evaluating the impact the adoption of this accounting pronouncement will have on its financial statements.



# **Required Supplementary Information**

---

(Unaudited)

Annual Financial Report

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2014  
CITY OF NEPTUNE BEACH, FLORIDA**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance With</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
				<b>Positive</b>
				<b>(Negative)</b>
<b>Revenues</b>				
Taxes	\$ 2,752,245	\$ 2,752,245	\$ 2,713,556	\$ (38,689)
Charges for Services	10,350	10,350	11,321	971
Licenses and Permits	164,750	164,750	196,584	31,834
Intergovernmental	1,213,950	1,297,950	1,307,412	9,462
Fines and Forfeitures	58,900	58,900	64,297	5,397
Investment Income	13,045	13,045	3,436	(9,609)
Miscellaneous	104,475	114,475	130,043	15,568
<b>Total Revenues</b>	<b>4,317,715</b>	<b>4,411,715</b>	<b>4,426,649</b>	<b>14,934</b>
<b>Expenditures</b>				
Current:				
Mayor and Council	30,435	30,435	31,093	(658)
City Manager	105,620	105,620	102,827	2,793
Finance Department	116,629	116,629	113,767	2,862
City Attorney	75,790	75,790	71,941	3,849
Building Department	238,952	238,952	232,614	6,338
City Clerk	157,905	163,605	152,963	10,642
Non-Departmental	145,705	145,705	117,081	28,624
Police Department	2,830,549	2,935,444	2,861,730	73,714
Animal Control Division	58,205	58,205	52,416	5,789
Public Works Department	471,533	483,283	476,480	6,803
Lifeguards/Beach Cleanup	240,535	240,535	203,895	36,640
<b>(Total Expenditures)</b>	<b>(4,471,858)</b>	<b>(4,594,203)</b>	<b>(4,416,807)</b>	<b>177,396</b>
<b>Excess of Revenues Over Expenditures</b>	<b>(154,143)</b>	<b>(182,488)</b>	<b>9,842</b>	<b>192,330</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds of Sale of Capital Assets	0	0	65,602	65,602
Transfers in	60,000	60,000	60,000	0
Transfers (out)	(11,858)	(11,858)	(11,858)	0
<b>Total Other Financing Sources (Uses)</b>	<b>48,142</b>	<b>48,142</b>	<b>113,744</b>	<b>65,602</b>
<b>Net Change in Fund Balance</b>	<b>(106,001)</b>	<b>(134,346)</b>	<b>123,586</b>	<b>257,932</b>
<b>Fund Balances, Beginning of Year</b>	<b>115,078</b>	<b>143,423</b>	<b>2,251,251</b>	<b>2,107,828</b>
<b>Fund Balances, End of Year</b>	<b>\$ 9,077</b>	<b>\$ 9,077</b>	<b>\$ 2,374,837</b>	<b>\$ 2,365,760</b>

**NOTE TO THE BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**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, 2014  
CITY OF NEPTUNE BEACH, FLORIDA**

**Police Officers' Pension Plan Fund**

<b>Actuarial Valuation Date 10/1</b>	<b>(a) Actuarial Value of Assets</b>	<b>(b) Actuarial Liability (AAL) Frozen Entry Age</b>	<b>(b-a) Unfunded (Overfunded) AAL (UAAL)</b>	<b>(a/b) Funded Ratio</b>	<b>(c) Covered Payroll</b>	<b>(b-a)/(c) UAAL as a Percentage of Covered Payroll</b>
2014	\$ 7,659,603	\$ 9,385,969	\$ 1,726,366	81.61%	\$ 926,206	186.39%
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%

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

**SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES  
CITY OF NEPTUNE BEACH, FLORIDA  
SEPTEMBER 30, 2014**

**Police Officers' Pension 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>
2014	\$ 322,146	\$ 322,145	\$ 26,892	108.35%
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%

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

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014  
CITY OF NEPTUNE BEACH, FLORIDA**

	<b>September 30, 2014</b>
<b>Total Pension Liability</b>	
Service Cost	\$ 200,463
Interest	680,670
Changes in Excess State Money	26,003
Differences Between Expected and Actual Experience	
Changes of Assumptions	
Benefit Payments, Including Refunds of Member Contributions	
Employee Contributions	(501,198)
Net Change in Total Pension Liability	405,938
Total Pension Liability - Beginning	8,778,178
Total Pension Liability - Ending (a)	9,184,116
 <b>Plan Fiduciary Net Position</b>	
Contributions - Employer	295,253
Contributions - State	52,895
Contributions - Employee	101,569
Net Investment Income	746,595
Benefit Payments, Including Refunds of Employee Contributions	(501,198)
Administrative Expense	(13,046)
Other	0
Net Change in Plan Fiduciary Net Position	682,068
Plan Fiduciary Net Position - Beginning	7,405,554
Plan Fiduciary Net Position - Ending (b)	8,087,622
 <b>Net Pension Liability - Ending (a) - (b)</b>	 <b>\$ 1,096,494</b>
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	  88.06%
 Covered Employee Payroll	 <b>\$ 966,824</b>
Net Pension Liability as a Percentage of Covered Employee Payroll	 113.41%

Additional years will be added to this schedule annually until 10 years of data is presented.

**SCHEDULE OF CONTRIBUTIONS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014  
CITY OF NEPTUNE BEACH, FLORIDA**

	<b>September 30, 2014</b>
Actuarially Determined Contribution	
Contributions in Relation to the Actuarially	\$ 322,145
Determined Contributions	322,145
Contribution Deficiency (Excess)	<u>\$ 0</u>
Covered Employee Payroll	<u>\$ 966,824</u>
Contributions as a Percentage of	
Covered Employee Payroll	33.32%

**Notes to Schedule**

Valuation Date 10/1/2012

Actuarially determined contribution rates are calculated as of October 1, two years prior to the end of the fiscal year in which contributions are reported.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method:	Entry Age Normal Actuarial Cost Method
Amortization Method:	Level Percentage of Pay, Closed
Remaining Amortization Period:	29 Years (as of 10/1/2012)
Asset Valuation Method:	Each year, the prior Actuarial Value of Assets is brought forward utilizing the historical geometric 4-year average Market Value return. It is possible that over time this technique will produce an insignificant bias above or below Market Value.
Inflation:	3% Per Year
Salary Increases:	6.5% per year until the assumed retirement age. Projected salary at retirement is increased individually based on accumulated sick and annual leave payouts (previously 20%) to account for non-regular compensation.
Interest Rate:	8.0% per year compounded annually, net of investment related expenses.
Payroll Increase:	3.3% per year for amortization of the UAAL.
Normal Retirement:	Earlier of : (1) Age 55 and 10 years of Credited Service, or (2) 25 years of Credited Service, regardless of age. Also, any Member who has reached Normal Retirement is assumed to continue employment for one additional year.
Early Retirement:	Commencing with the earliest Early Retirement age (50), Members are assumed to retire with an immediate subsidized benefit at the rate of 5% per year.
Termination Rate:	See Table Below
Disability Rate:	See Table Below. 75% of disablements are assumed to be service related.
Mortality Rate:	RP-2000 Table with no projection - Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements. (Disabled lives set forward 5 years.)
Other Information:	Termination and Disability Rate Table:

Age	Percent Terminating During the Year	Percent Becoming Disabled During the Year
20	6.00%	0.03%
30	5.00%	0.04%
40	2.60%	0.07%
50	0.80%	0.18%

**SCHEDULE OF INVESTMENT RETURNS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014  
CITY OF NEPTUNE BEACH, FLORIDA**

	<b>September 30, 2014</b>
Annual Money - Weighted Rate of Return	
Net of Investment Expense	9.98%

Additional years will be added to this schedule annually until 10 years of data is presented.

**SCHEDULE OF FUNDING PROGRESS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014  
CITY OF NEPTUNE BEACH, FLORIDA**

**Other Post Employment Benefits**

<b>Actuarial Valuation Date October 1,</b>	<b>(a) Actuarial Value of Assets</b>	<b>(b) Actuarial Accrued Liability (AAL) Entry Age</b>	<b>(b-a) Unfunded (Overfunded) AAL (UAAL)</b>	<b>(a/b) Funded Ratio</b>	<b>(c) Covered Payroll</b>	<b>(b-a)/(c) UAAL as a Percentage of Covered Payroll</b>
2014	\$ 0	\$ 417,400	\$ 417,400	0.00%	\$ 3,028,600	13.78%
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  
FOR THE YEAR ENDED SEPTEMBER 30, 2014  
CITY OF NEPTUNE BEACH, FLORIDA**

**Other Post Employment Benefits**

<b>Year Ended September 30,</b>	<b>Annual Required Contribution</b>	<b>City Contributions</b>	<b>Percentage Contributed</b>
2014	\$ 30,300	\$ 12,700	41.91%
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**

---

Annual Financial Report

**DESCRIPTION OF NONMAJOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2014**

**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.

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2014  
CITY OF NEPTUNE BEACH, FLORIDA**

	<b>Special Revenue Funds</b>			
	<b>Police Education Fund</b>	<b>Community Development Block Grant Fund</b>	<b>Convention Development Tax Fund</b>	<b>Forfeitures Proceeds Fund</b>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 2,741	\$ 0	\$ 52,925	\$ 37,273
Equity in Pooled Investments	6	0	112	78
Accounts Receivable	0	5,961	0	0
Due from Other Governments	362	0	3,839	0
Prepays	0	2,222	0	0
<b>Total Assets</b>	<b>3,109</b>	<b>8,183</b>	<b>56,876</b>	<b>37,351</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable and Accrued Liabilities	1,067	7,802	20,966	5,789
Due to Other Funds	0	3,403	0	0
<b>Total Liabilities</b>	<b>1,067</b>	<b>11,205</b>	<b>20,966</b>	<b>5,789</b>
<b>Fund Balances</b>				
Restricted for:				
Public Safety	2,042	0	0	31,562
Capital Outlay	0	0	0	0
Other Purposes	0	0	35,910	0
Unassigned	0	(3,022)	0	0
<b>Total Fund Balances</b>	<b>2,042</b>	<b>(3,022)</b>	<b>35,910</b>	<b>31,562</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,109</b>	<b>\$ 8,183</b>	<b>\$ 56,876</b>	<b>\$ 37,351</b>

Special Revenue Funds					Total Nonmajor Governmental Funds
Street Improvements Fund	Local Options Gas Tax Fund	Radio Communi- cations Fund	Better Jacksonville Half-cent Tax Fund	Holiday Décor Fund	
\$ 108,362	\$ 0	\$ 241	\$ 580,646	\$ 6,228	\$ 788,416
227	0	0	1,205	13	1,641
0	0	0	0	0	5,961
4,594	22,259	947	39,546	0	71,547
0	0	0	0	0	2,222
<u>113,183</u>	<u>22,259</u>	<u>1,188</u>	<u>621,397</u>	<u>6,241</u>	<u>869,787</u>
11,938	7,778	0	0	0	55,340
0	164,983	0	0	0	168,386
<u>11,938</u>	<u>172,761</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>223,726</u>
0	0	1,188	0	0	34,792
101,245	0	0	621,397	0	722,642
0	0	0	0	6,241	42,151
0	(150,502)	0	0	0	(153,524)
<u>101,245</u>	<u>(150,502)</u>	<u>1,188</u>	<u>621,397</u>	<u>6,241</u>	<u>646,061</u>
<u>\$ 113,183</u>	<u>\$ 22,259</u>	<u>\$ 1,188</u>	<u>\$ 621,397</u>	<u>\$ 6,241</u>	<u>\$ 869,787</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014  
CITY OF NEPTUNE BEACH, FLORIDA**

	Special Revenue Funds			
	Police Education Fund	Community Development Block Grant Fund	Convention Development Tax Fund	Forfeitures Proceeds Fund
<b>Revenues</b>				
Taxes	\$ 0	\$ 0	\$ 29,749	\$ 0
Fines and Forfeitures	4,068	0	0	7,638
Intergovernmental Revenues	0	46,521	0	0
Charges for Services	0	49,251	0	0
Investment Income	2	0	43	29
Miscellaneous	0	35,903	0	0
<b>Total Revenues</b>	<u>4,070</u>	<u>131,675</u>	<u>29,792</u>	<u>7,667</u>
<b>Expenditures</b>				
Current:				
General Government	0	0	0	0
Public Safety	2,723	0	0	5,856
Public Works	0	0	0	0
Culture and Recreation	0	141,746	2,107	0
Capital Outlay	0	0	29,830	0
<b>(Total Expenditures)</b>	<u>(2,723)</u>	<u>(141,746)</u>	<u>(31,937)</u>	<u>(5,856)</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>1,347</u>	<u>(10,071)</u>	<u>(2,145)</u>	<u>1,811</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	0	11,858	0	0
Transfers (out)	0	0	(10,000)	0
<b>Total Other Financing Sources (Uses)</b>	<u>0</u>	<u>11,858</u>	<u>(10,000)</u>	<u>0</u>
<b>Net Change in Fund Balance</b>	<u>1,347</u>	<u>1,787</u>	<u>(12,145)</u>	<u>1,811</u>
<b>Fund Balances, Beginning of Year</b>	<u>695</u>	<u>(4,809)</u>	<u>48,055</u>	<u>29,751</u>
<b>Fund Balances, End of Year</b>	<u>\$ 2,042</u>	<u>\$ (3,022)</u>	<u>\$ 35,910</u>	<u>\$ 31,562</u>

Special Revenue Funds					
Street Improvements Fund	Local Options Gas Tax Fund	Radio Commun- ications Fund	Better Jacksonville Half-cent Tax Fund	Holiday Décor Fund	Total Nonmajor Governmental Funds
\$ 0	\$ 239,021	\$ 0	\$ 400,521	\$ 0	\$ 669,291
0	0	13,034	0	0	24,740
57,678	0	0	0	0	104,199
0	0	0	0	0	49,251
83	0	0	379	6	542
0	0	0	0	8,000	43,903
57,761	239,021	13,034	400,900	8,006	891,926
0	0	0	0	0	0
0	0	13,887	0	0	22,466
45,114	209,965	0	399,452	0	654,531
0	0	0	0	11,515	155,368
0	0	0	0	0	29,830
(45,114)	(209,965)	(13,887)	(399,452)	(11,515)	(862,195)
12,647	29,056	(853)	1,448	(3,509)	29,731
0	0	0	0	0	11,858
0	0	0	0	0	(10,000)
0	0	0	0	0	1,858
12,647	29,056	(853)	1,448	(3,509)	31,589
88,598	(179,558)	2,041	619,949	9,750	614,472
\$ 101,245	\$ (150,502)	\$ 1,188	\$ 621,397	\$ 6,241	\$ 646,061

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014  
CITY OF NEPTUNE BEACH, FLORIDA**

	Police Education Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Fines and Forfeitures	\$          2,650	\$          2,650	\$          4,068	\$          1,418
Investment Income	2	2	2	0
Total Revenues	<u>2,652</u>	<u>2,652</u>	<u>4,070</u>	<u>1,418</u>
Expenditures				
Current:				
Public Safety	<u>2,652</u>	<u>2,652</u>	<u>2,723</u>	<u>(71)</u>
(Total Expenditures)	<u>(2,652)</u>	<u>(2,652)</u>	<u>(2,723)</u>	<u>(71)</u>
Excess of Revenues Over Expenditures	0	0	1,347	1,347
Fund Balances, Beginning of Year	<u>0</u>	<u>0</u>	<u>695</u>	<u>695</u>
Fund Balances, End of Year	<u>\$          0</u>	<u>\$          0</u>	<u>\$          2,042</u>	<u>\$          2,042</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014  
CITY OF NEPTUNE BEACH, FLORIDA  
(Continued)**

	<b>Community Development Block Grant 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>				
Intergovernmental Revenue	\$ 43,969	\$ 43,969	\$ 46,521	\$ 2,552
Charges for Services	0	0	49,251	49,251
Miscellaneous	44,769	44,769	35,903	(8,866)
<b>Total Revenues</b>	<u>88,738</u>	<u>88,738</u>	<u>131,675</u>	<u>42,937</u>
<b>Expenditures</b>				
Current:				
Culture and Recreation	100,596	100,596	141,746	(41,150)
<b>(Total Expenditures)</b>	<u>(100,596)</u>	<u>(100,596)</u>	<u>(141,746)</u>	<u>(41,150)</u>
<b>(Deficiency) of Revenues (Under) Expenditures</b>	(11,858)	(11,858)	(10,071)	1,787
<b>Other Financing Sources (Uses)</b>				
Transfers in	11,858	11,858	11,858	0
<b>Total Other Financing Sources (Uses)</b>	<u>11,858</u>	<u>11,858</u>	<u>11,858</u>	<u>0</u>
<b>Net Change in Fund Balance</b>	0	0	1,787	1,787
<b>Fund Balances, Beginning of Year</b>	<u>0</u>	<u>0</u>	<u>(4,809)</u>	<u>(4,809)</u>
<b>Fund Balances, End of Year</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (3,022)</u>	<u>\$ (3,022)</u>

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 \$49,251.

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014  
CITY OF NEPTUNE BEACH, FLORIDA  
(Continued)**

	Convention Development Tax Fund			Variance With
	Budgeted Amounts		Actual	Final Budget
	Original	Final	Amounts	Positive
				(Negative)
<b>Revenues</b>				
Taxes	\$ 19,000	\$ 19,000	\$ 29,749	\$ 10,749
Investment Income	30	30	43	13
<b>Total Revenues</b>	<u>19,030</u>	<u>19,030</u>	<u>29,792</u>	<u>10,762</u>
<b>Expenditures</b>				
Current:				
Culture and Recreation	4,850	4,850	2,107	2,743
Debt Services:				
Capital Outlay	<u>43,500</u>	<u>43,500</u>	<u>29,830</u>	<u>13,670</u>
<b>(Total Expenditures)</b>	<u>(48,350)</u>	<u>(48,350)</u>	<u>(31,937)</u>	<u>16,413</u>
<b>(Deficiency) of Revenues</b>				
<b>(Under) Expenditures</b>	(29,320)	(29,320)	(2,145)	27,175
<b>Other Financing Sources (Uses)</b>				
Transfers (out)	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>0</u>
<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>	(39,320)	(39,320)	(12,145)	27,175
<b>Fund Balances, Beginning of Year</b>	<u>40,000</u>	<u>40,000</u>	<u>48,055</u>	<u>8,055</u>
<b>Fund Balances, End of Year</b>	<u>\$ 680</u>	<u>\$ 680</u>	<u>\$ 35,910</u>	<u>\$ 35,230</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014  
CITY OF NEPTUNE BEACH, FLORIDA  
(Continued)**

	Forfeiture Proceeds Fund			Variance With Final Budget
	Budgeted Amounts		Actual Amounts	Positive (Negative)
	Original	Final		
Revenues				
Fines and Forfeitures	\$          0	\$          0	\$      7,638	\$          7,638
Investment Income	25	25	29	4
Total Revenues	25	25	7,667	7,642
Expenditures				
Current:				
Public Safety	28,025	28,025	5,856	22,169
(Total Expenditures)	(28,025)	(28,025)	(5,856)	22,169
Excess of Revenues Over Expenditures	(28,000)	(28,000)	1,811	29,811
Fund Balances, Beginning of Year	28,000	28,000	29,751	1,751
Fund Balances, End of Year	\$          0	\$          0	\$      31,562	\$          31,562

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014  
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>				
Intergovernmental Revenue	\$ 60,339	\$ 60,339	\$ 57,678	\$ (2,661)
Investment Income	85	85	83	(2)
<b>Total Revenues</b>	<u>60,424</u>	<u>60,424</u>	<u>57,761</u>	<u>(2,663)</u>
<b>Expenditures</b>				
Current:				
Public Works	<u>86,424</u>	<u>86,424</u>	<u>45,114</u>	<u>41,310</u>
<b>(Total Expenditures)</b>	<u>(86,424)</u>	<u>(86,424)</u>	<u>(45,114)</u>	<u>41,310</u>
<b>Excess of Revenues Over Expenditures</b>	(26,000)	(26,000)	12,647	38,647
<b>Fund Balances, Beginning of Year</b>	<u>26,000</u>	<u>26,000</u>	<u>88,598</u>	<u>62,598</u>
<b>Fund Balances, End of Year</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 101,245</u>	<u>\$ 101,245</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014  
CITY OF NEPTUNE BEACH, FLORIDA  
(Continued)**

	<b>Local Option Gas Tax Fund</b>			<b>Variance With</b>
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Positive</b>
				<b>(Negative)</b>
<b>Revenues</b>				
Taxes	\$ 226,969	\$ 226,969	\$ 239,021	\$ 12,052
Miscellaneous	25,000	25,000	0	(25,000)
<b>Total Revenues</b>	<u>251,969</u>	<u>251,969</u>	<u>239,021</u>	<u>(12,948)</u>
<b>Expenditures</b>				
Current:				
Public Works	251,969	251,969	209,965	42,004
<b>(Total Expenditures)</b>	<u>(251,969)</u>	<u>(251,969)</u>	<u>(209,965)</u>	<u>42,004</u>
<b>Excess of Revenues Over</b>				
<b>Expenditures</b>	0	0	29,056	29,056
<b>Fund Balances, Beginning of Year</b>	<u>0</u>	<u>0</u>	<u>(179,558)</u>	<u>(179,558)</u>
<b>Fund Balances, End of Year</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (150,502)</u>	<u>\$ (150,502)</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014  
CITY OF NEPTUNE BEACH, FLORIDA  
(Continued)**

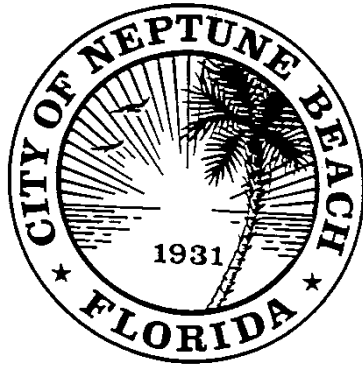
	<b>Radio Communication Fund</b>			<b>Variance With Final Budget Positive (Negative)</b>
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Fines and Forfeitures	\$ 8,950	\$ 8,950	\$ 13,034	\$ 4,084
Investment Income	8	8	0	(8)
<b>Total Revenues</b>	<u>8,958</u>	<u>8,958</u>	<u>13,034</u>	<u>4,076</u>
<b>Expenditures</b>				
Current:				
Public Safety	<u>14,800</u>	<u>14,800</u>	<u>13,887</u>	<u>913</u>
<b>(Total Expenditures)</b>	<u>(14,800)</u>	<u>(14,800)</u>	<u>(13,887)</u>	<u>913</u>
<b>(Deficiency) of Revenues</b>				
<b>(Under) Expenditures</b>	(5,842)	(5,842)	(853)	4,989
<b>Fund Balances, Beginning of Year</b>	<u>5,842</u>	<u>5,842</u>	<u>2,041</u>	<u>(3,801)</u>
<b>Fund Balances, End of Year</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,188</u>	<u>\$ 1,188</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014  
CITY OF NEPTUNE BEACH, FLORIDA  
(Continued)**

	<b>Better Jacksonville Half-Cent Tax Fund</b>			<b>Variance With</b>
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Positive</b>
				<b>(Negative)</b>
<b>Revenues</b>				
Taxes	\$ 355,219	\$ 355,219	\$ 400,521	\$ 45,302
Investment Income	200	200	379	179
<b>Total Revenues</b>	<u>355,419</u>	<u>355,419</u>	<u>400,900</u>	<u>45,481</u>
<b>Expenditures</b>				
Capital Outlay	505,419	505,419	399,452	105,967
<b>(Total Expenditures)</b>	<u>(505,419)</u>	<u>(505,419)</u>	<u>(399,452)</u>	<u>105,967</u>
<b>Excess of Revenues Over</b>				
<b>Expenditures</b>	(150,000)	(150,000)	1,448	151,448
<b>Fund Balances, Beginning of Year</b>	<u>150,000</u>	<u>150,000</u>	<u>619,949</u>	<u>469,949</u>
<b>Fund Balances, End of Year</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 621,397</u>	<u>\$ 621,397</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014  
CITY OF NEPTUNE BEACH, FLORIDA  
(Concluded)**

	<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	\$ 6	\$ 6	\$ 6	\$ 0
Miscellaneous	8,000	8,000	8,000	0
<b>Total Revenues</b>	<u>8,006</u>	<u>8,006</u>	<u>8,006</u>	<u>0</u>
<b>Expenditures</b>				
Current:				
Culture and Recreation	12,006	12,006	11,515	491
<b>(Total Expenditures)</b>	<u>(12,006)</u>	<u>(12,006)</u>	<u>(11,515)</u>	<u>491</u>
<b>Excess of Revenues Over Expenditures</b>	(4,000)	(4,000)	(3,509)	491
<b>Fund Balances, Beginning of Year</b>	<u>4,000</u>	<u>4,000</u>	<u>9,750</u>	<u>5,750</u>
<b>Fund Balances, End of Year</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,241</u>	<u>\$ 6,241</u>



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

---

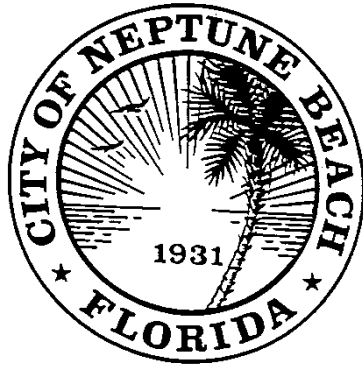
Annual Financial Report

**SCHEDULE OF EXPENDITURES OF THE CITY OF JACKSONVILLE GRANT FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014  
CITY OF NEPTUNE BEACH, FLORIDA**

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

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

	<u>Approved Budget</u>	<u>Actual</u>
<b>Receipts</b>	\$ 46,521	\$ 46,521
<b>Total Receipts</b>	<u>46,521</u>	<u>46,521</u>
<b>Expenditures</b>		
Salaries/Wages	37,689	37,689
Employee Benefits	<u>8,832</u>	<u>8,832</u>
<b>(Total Expenditures)</b>	<u>46,521</u>	<u>46,521</u>
<b>(Deficiencies) of Source (Under) Expenditures</b>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>



## Other Reports

---

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, 2014, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 18, 2015. 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.

**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  
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309  
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)**

**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 instance of noncompliance or other matters that is 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 18, 2015.

**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 18, 2015  
Gainesville, Florida

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

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

We have examined the City of Neptune Beach, Florida's (the City) compliance with Section 218.415, Florida Statutes, as of and for the year ended September 30, 2014, as required by Section 10.556(10)(a), *Rules of the Auditor General*. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

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

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2014.

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

*Purvis, Gray and Company, LLP*

March 18, 2015  
Gainesville, Florida

**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  
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309  
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

## MANAGEMENT LETTER

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

### Report on the Financial Statements

We have audited the financial statements of the City of Neptune Beach, Florida, (the City), as of and for the year ended September 30, 2014, and have issued our report thereon dated March 18, 2015.

### Auditors' Responsibility

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

### Other Reports

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 18, 2015, 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 the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' reports or schedules.

### Prior Audit Findings

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.

### Official Title and Legal Authority

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

### 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  
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309  
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

## **MANAGEMENT LETTER** *(Continued)*

### **Financial Condition**

Section 10.554(1)(i)5.(a)., *Rules of the Auditor General*, requires that we report the results of our determination as to whether or not the City has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.(c). and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

### **Annual Financial Report**

Section 10.554(1)(i)5.(b)., *Rules of the Auditor General*, requires that we report the results of our determination as to whether the annual financial report for the City for the fiscal year ended September 30, 2014, 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, 2014. In connection with our audit, we determined that these two reports were in agreement.

### **Special District Component Units**

Section 10.554(1)(i)5.(d)., *Rules of the Auditor General*, requires that we determine whether or not a special district that is a component unit of a county, municipality, or special district, provided the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. In connection with our audit, we determined that there were no special district component units that were required to be reported in accordance with Section 218.39(3)(b), Florida Statutes.

### **Other Matters**

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we have the following recommendations:

#### ■ **Water Utility Line Loss**

As part of our procedures for the 2013 and 2014 audits, we calculated the line loss of the City's water utility based upon gallons billed to customer versus gallons pumped from the water treatment plant. The line loss calculated for the fiscal years were 31% and 36% for 2013 and 2014, respectively. In 2013, the United States Environmental Protection Agency reported that average unaccounted for line loss in water systems was 16%.

In June 2014, the City identified approximately 380 meters that have zero reads which may indicate broken meters. Based upon a typical usage pattern for residential service, those meters may account for approximately 3% of the calculated line loss, indicating that unaccounted for line loss may remain well above industry norms even after these meters are replaced. Broken and slow moving meters result in under-billing for water services to some customers and higher water utility rates.

We recommend the City continue to study possible causes of unaccounted for water usage and implement a more aggressive meter testing and replacement program.

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

**MANAGEMENT LETTER**  
*(Concluded)*

**Other Matters (Concluded)**

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

**Purpose of this Letter**

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, the Commissioners, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

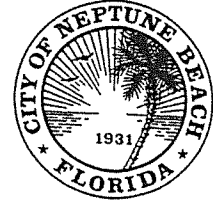
We wish to take this opportunity to thank you and your staff for the cooperation and courtesies extended to us during the course of our audit. Please let us know if you have any questions or comments concerning this letter, our accompanying reports, or other matters.

*Purvis, Gray and Company, LLP*

March 18, 2015  
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 18, 2015

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

## ***Management Letter Response***

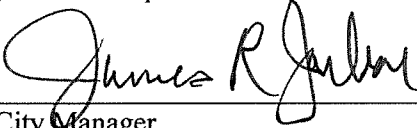
### **1. Water Utility Line Loss**

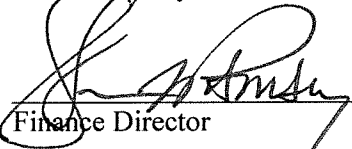
*Response* – Since this matter was pointed out by the auditors, the City is utilizing all methods to try and correct this type of line loss. In addition to the 380 meters with zero reads we have located approximately 800 water meters that are in excess of 15 years old and are in the process of changing out these meters as well. At this time we have changed out approximately 350 meters, including two 4" meters. This appears to amount to a decrease in line loss of approximately 8% per the numbers generated so far. After these meters are changed out a replacement program will be set up.

Also, after further investigation and talks with experts in this area we have discovered two other contributors to the line loss problem. The main meter at the water plant that measures water produced is recording more gallons than are actually being produced due to turbulence from a "T" in the line that was not known to City personnel. Per testing done by the City Engineer, through the use of a "strap-on" meter, this could account for as much as 12% of the water loss. We have ordered and are in the process of installing a new meter in a straight portion of line that will measure the flow more accurately.

The other major contributor to the line loss is the fact that the City has 16.5 miles of line that are at least 50 years old. These lines are made of a combination of cast, HDPE and AC pipe and per the City Engineer lines of these materials and age will "seep" a substantial amount of water in the surrounding area at a rate that is virtually undetectable by leak detection methods currently in use. Also due to the make-up of the soil these leaks would not be noticeable above ground.

The City intends to begin replacement of these pipes in the future. This project will take several years to complete due to the cost involved and the size of our system.

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

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